

From: Mark Dance, Cabinet Member Economic Development
David Smith, Director for Economic Development

To: Cabinet – 15 July 2019

Subject: No Use Empty (NUE) - Update and continuation of the initiative

Decision No: 19/00046

Classification: **Unrestricted**

Past pathway of paper: Growth, Economic Development and Communities Cabinet committee - 26 June 2019

Future pathway of paper: For decision by Leader and Cabinet Member for Health Reform

Summary: 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. In addition to this NUE is helping to deliver increased Council Tax receipts and collection of Business Rates. 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.

The purpose of the report was to provide Growth, Economic Development and Communities Cabinet Committee (GEDCCC) with an update on the initiative, its future plans and to seek support for the continuation of the initiative, including authority to bid for additional sources of funding which will help contribute to accelerating the delivery of good quality housing in the County. Approval was also sought to ensure the appropriate delegations of authority are in place to satisfy Governance requirements. Following discussion Members of GEDCC endorsed the report and the decision for the Leader and Cabinet Member for Health Reform to:

a) agree to the continuation of the NUE initiative as approved in the Budget Book 2019-20 to at least 2021-22 with a further update to be provided at that time; and

b) agree that authority be delegated to the Director of Economic Development for the NUE initiative to take appropriate actions including, but not limited to, KCC entering into legal agreements (loan agreements, legal charges, personal guarantees, equity loans, joint ventures, deed of priority, deed of postponement), consider and approve requests which may require KCC consent and discharge of legal charges, recovery of loans through legal action, as necessary to implement this decision.

Recommendation:

Cabinet is asked to note and discuss the contents of the report.

1. Introduction

- 1.1 Kent County Council (KCC) launched its 'No Use Empty' (NUE) campaign in 2005 as part of its Public Sector Service Agreement (PSA2) targets, to examine better ways of delivering services, and particularly at working more effectively with district councils. The primary aim of the initiative is to improve the physical urban environment in Kent by bringing long empty properties (defined as empty for over 6 months) back into use as quality housing accommodation.
- 1.2 The initiative originally focused on the following districts: Thanet, Dover, Folkestone and Hythe (Shepway) and Swale, as research found the majority of empty properties (over 3,000) were located in these areas. Additionally, 19 of the 20 most deprived wards are also located within these same areas. In January 2008, due to the success of the initiative, KCC expanded NUE to include all 12 Kent district councils.
- 1.3 NUE is now firmly established as the longest running and most effective empty property initiative in the country winning several awards. In May 2018 NUE won the UK Housing Award for Regeneration.

2. Achievements

- 2.1 NUE has a proven track record returning 5,911 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 17,223 vacant dwellings in Kent (KCC area) and a further 3,393 vacant dwellings in Medway. Within this total were 5,028 long-term vacant dwellings in Kent and 1,114 in Medway. On average NUE is returning 500 long term properties back into use per year.

3. Finance

- 3.1 NUE was launched with an initial investment of £5m - a mixture of prudential borrowing and re-investment of the PSA2 reward grant.
- 3.2 The Loan Scheme operates as a recycling loan fund and provides working capital funding to help owners/small developers refurbish/convert empty homes or redundant commercial buildings to provide good quality residential accommodation.
- 3.3 To date, NUE has awarded £27m in short term secured loans and has levered in £29m from the public/private sectors, giving a total investment of £56m across Kent. All loans are subject to a risk assessment and secured as a 1st or 2nd charge and offered over a 2-3-year period. The loans are offered interest free to first time applicants.

- 3.4 The investment to date has funded 972 new homes of which 696 are classified as new homes. These units will generate new Council Tax receipts worth approximately £700,000 per year.
- 3.5 The average renovation cost to return one unit to occupation is £57,800 with KCC investment being £27,700 per unit.
- 3.6 The following is a summary of the NUE initiative as described at Section 4 of the Budget Book 2019-20 approved 14 February 2019.

Capital Investments Plans 2019-20 TO 2021-22 BY YEAR				Cash Limits			
Ref	Project	Total Cost of Scheme	Prior Years Spend	2019-20	2020-21	2021-22	Later Years
		£000s	£000s	£000s	£000s	£000s	£000s
5	Kent Empty Property Initiative – No Use Empty (NUE)	30,991	24,157	2,536	2,064	2,173	61
6	NUE Rented Affordable Homes	3,216	1,608	1,538	70		
	Total	34,207	25,765	4,074	2,134	2,173	61

- 3.7 The total value of the Cash Limits from 2019-20 to later years is £8.4m which will be used to support loan fund activity. This includes the original KCC investment, an additional £2.2m which was approved in 2017-18, £750,000 funds secured from Homes and Communities Agency (HCA - included within Ref 6 above) and £450,000 from income generated which is being used to provide for potential defaults.
- 3.8 The revenue costs to support NUE are £150k. These are included in the overall revenue allocated to Economic Development (Budget Book 2019-20 Page 48, line ref 70). NUE charge an administration fee for processing loan applications. The income is used to fund work undertaken by Invicta Law for the provision of services associated with the production of loan documentation. This falls under the overarching service level agreements between KCC and Invicta Law.
- 3.9 The NUE initiative does not procure the services to bring the empty properties back into use. All payments are in the form of a loan to the empty property owner.

4. How NUE has evolved

- 4.1 The success of NUE is based on planning, dedicating resources, monitoring outcomes, adjusting delivery models to reflect current market conditions,

providing financial assistance to owners by offering short term secured loans with repayments recycled for new loans.

- 4.2 NUE remains innovative and has taken advantage of funding opportunities as they have arisen to offer different loan products, deliver more homes and to test demand to bring vacant commercial properties back into use.
- 4.3 **Affordable Homes Project.** Homes and Communities Agency (HCA) awarded £750,000 to KCC for NUE to deliver an affordable homes scheme (2012-2015). Using NUE funds as match 42 affordable units in Dover, Folkestone, Hythe and Sittingbourne were delivered.
- 4.4 Interest free loans were offered over a 5-year period and provided to owners of larger sized properties who agreed to let the homes at 80% of the market rental value. There is a requirement for the HCA funding loaned to be repaid to KCC and for NUE to recycle into a similar scheme. These loans are due to be repaid during 2019-20.
- 4.5 **Top Up Loans.** NUE administer top up loans on behalf of the respective councils (Dover, Folkestone and Hythe and Tunbridge Wells) and are re-cycled in the same way as the NUE loan fund. An additional £15,000 per unit is available.
- 4.6 Since 2016, Folkestone & Hythe District Council have provided £300,000 per year (totalling £1.2m to date) recognising that some of the larger properties merit additional funds to return them back into use.
- 4.7 Tunbridge Wells have allocated £100,000 for use as top-up loans.
- 4.8 Dover District Council allocated £300,000 in 2018 for top up loans specifically targeted at empty properties in wards which are adjacent to or close to the new St. James Retail and Leisure development in the town centre. A further allocation of £300,000 is confirmed for 2019-20.
- 4.9 **Interest bearing loans.** Interest free loans remain available to those that participate in the initiative. However, since 2017 if a previous applicant returns to the NUE scheme with a further application for funding then this will be offered but interest applied. Going forward there is also an opportunity for NUE to provide interest bearing loans on larger projects which are now presenting themselves for consideration.
- 4.10 **Live Margate.** NUE was allocated £2m in 2018 from the Live Margate project to specifically bring long term empty properties back into use. To date £1.7m has been allocated to fund 48 units in the intervention area. There is a target of 66 units to be achieved. With the help of NUE the target is expected to be achieved if not bettered during 2020.
- 4.11 **NUE Commercial.** In 2018-19 KCC were awarded £1m Growing Places Fund (GPF). The project aims to return long term empty commercial properties back

into use for residential, alternative commercial or mixed-use purposes. It has a specific focus on town centres (particularly coastal areas of Kent).

4.12 The project builds on the NUE residential model providing short term secured loans. There is a requirement to return 8 commercial units back into use and provide a total of 28 residential units by March 2022.

4.13 To date there are contracts in place for projects in Dover, Folkestone and Margate which will deliver 8 commercial units and 23 residential units on completion.

5. Proposals for NUE Going Forward

5.1 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.

5.2 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.

5.3 £8.4m could bring back into use a further 336 properties, but with further leverage and contributions more of the 5,028 current vacant dwellings could be tackled. This would maximise the availability of housing stock for the residents of Kent and maximise council tax and business rates receipts.

5.4 Taking account of NUE's success, it is proposed that the NUE scheme continues as follows:

5.4.1 **NUE main loan scheme.** Continue to offer interest free loans to first time applicants. To grow the loan book for provision of interest-bearing loans which will generate income to further cover operational costs.

5.4.2 **Top Up Loans.** The combination of NUE loans and 'Top Ups' are designed to help developers to bridge the gap between pre/post refurbishment values by providing a loan which takes account of costs of works, which banks and other lenders will not do. Without this joined up approach these properties would have remained empty. NUE will continue to encourage the other districts to identify funds which could be used in the initiative.

5.4.3 **NUE Commercial 2019-20.** Projects will be identified for the final £500,000 from the GPF Given the healthy start in 2018-19 NUE are confident that the target to return 8 commercial units back into use and the creation of 28 residential units by March 2022 will be achieved.

5.4.4 **Live Margate.** NUE could deliver 15 more units in Margate based on remaining funds available.

- 5.4.5 **Medway Council.** Medway council do not have a scheme such as NUE but have 1,114 long term empty properties. KCC's Strategic Programme Manager has met with senior Medway officers to explore the potential of providing a service from KCC which would be mutually beneficial.
- 5.4.6 **Future High Streets Funding.** KCC is supporting all districts that have submitted an Expression of Interest to the government. NUE is active in several town centres and there is merit in working with those districts that are successful in their bid(s).
- 5.4.7 **EU Funding.** There is an opportunity to apply for EU funding from a final call for projects in the Interreg 2 Seas area (September 2019). A private company in France and an inter-municipal association in Belgium have jointly approached NUE to see if it would participate in a project called 'Back2Use' which looks at making better use of empty/under used properties. An expression of interest has been submitted by France which has received positive feedback. The project would cover the period December 2019 to September 2022.

6. Equalities implications

- 6.1 An Equality Impact Assessment has been completed for the No Use Empty (NUE) project. This has been confirmed by the Diversity and Equalities team at Kent County Council as compliant and published on KCC's internal website (June 2017) and will be reviewed December 2019.

7. Governance

- 7.1 The governance arrangements for NUE have not radically changed since the original Cabinet decision taken to approve and launch the initiative in 2005.
- 7.2 The initiative was specifically audited in 2012/13 with and was included in the wider the Divisional Governance Audit Review for Economic Development 2017/18 with no specific recommendations for change identified.
- 7.3 There is a robust application process in place. This includes:
- Confirmation with local authority as to whether planning is required, and planning must be in place (if applicable) before any loans are awarded.
 - Projects must adhere to the decent homes standard and have correct certifications in place to comply with any building regulation requirements.
 - Proof of ownership
 - Identity of owners
 - Insolvency and bankruptcy checks
 - Quotes for works
 - Proof of additional funds
 - Independent RICS valuation(s)
 - Security for loan

- 7.4 The project is monitored by KCC and district officers (frequency is dependent on size of project/loan).
- 7.5 It is recognised that there may be occasion to instruct Legal Service to recover a loan. Should this arise a summary with actions and key dates is presented to Head of Service by the Strategic Programme Manager to seek approval from the Director of Economic Development to progress should recovery be required.

Conclusions

- 7.6 NUE has a proven track record and has been recognised nationally for its contribution in bringing long term empty properties back into use. It has won awards, featured in local and national press, numerous BBC and Channel 4 programmes and recognised by a number of organisations including the Scottish Government, Welsh Government and the Empty Homes Agency.
- 7.7 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.

8	Recommendation(s):
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| 8.1 | Cabinet is asked to note and discuss the contents of the report |
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9. Background Documents

Council Tax Data – Table 615

<https://www.gov.uk/government/statistical-data-sets/live-tables-on-dwelling-stock-including-vacants>

EQIA

<https://democracy.kent.gov.uk/ecSDDisplay.aspx?NAME=SD5647&ID=5647&sch=doc>

10. Contact details

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