

<b>Report to Accountability Board</b>	<b>Forward Plan reference number:</b> FP/AB/131
<b>Date of Accountability Board Meeting:</b>	<b>23<sup>rd</sup> February 2018</b>
<b>Date of report:</b>	<b>18<sup>th</sup> January 2018</b>
<b>Title of report:</b>	<b>Growing Places Fund award to No Use Empty</b>
<b>Report by:</b>	<b>Amy Beckett, SELEP Programme Manager</b> <b>Rhiannon Mort, SELEP Capital Programme Manager</b>
<b>Enquiries to:</b>	Rhiannon.mort@essex.gov.uk

## **1. Purpose of report**

- 1.1 The purpose of this report is for the Accountability Board (the Board) to consider the award of a Growing Places Fund (GPF) Loan to the No Use Empty Commercial Property Programme (the Project).

## **2. Recommendations**

- 2.1 The Board is asked to:

- 2.1.1 **Approve** the award of £1m GPF by way of a loan to enable the delivery of the Project identified in the Business Case and which has been assessed as presenting very high value for money with high certainty of achieving this, on the basis that it is repaid by 31<sup>st</sup> March 2022.

## **3. No Use Empty Commercial Property Project**

- 3.1 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.
- 3.2 The primary aim of the initiative was to improve the physical urban environment in Kent by bringing long-term empty properties (defined as empty for over 6 months) back into use as quality housing accommodation.
- 3.3 The initiative originally focused on the following districts: Thanet, Dover, Shepway and Swale, as research found the majority of empty properties (over 3,000) were located here. In January 2008, due to the success of the scheme KCC expanded the initiative to include all 12 Kent district councils.
- 3.4 NUE scheme has a proven track record returning more than 5,000 empty homes back into use across Kent to the decent homes standard. NUE has attracted £23m leverage for an investment of £17m (recycled loans) to date.

- 3.5 The Project to be funded using the GPF loan funding is for the No Use Empty Commercial Property scheme, which will run alongside the residential part of the NUE residential scheme.
- 3.6 The Project aims to return long-term empty commercial properties to use, for residential, alternative commercial or mixed-use purposes. In particular, it will focus on town centres (particularly in coastal areas of Kent), where secondary retail and other commercial areas have been significantly impacted by changing consumer demand and have often been neglected as a result of larger regeneration schemes.
- 3.7 By bringing empty commercial properties back into use, the Project will:
  - 3.7.1 Support economic growth through new commercial activity: attracting new business rates, and creating and safeguarding jobs;
  - 3.7.2 Increase the number of new homes available as a result of mixed use development: generating new council tax receipts and attracting Government New Homes Bonus; and
  - 3.7.3 Support wider regeneration, in particular assisting in the vitality and viability of existing commercial areas, improving the quality of the local environment, complementing wider regeneration activities and support community safety and cohesion.
- 3.8 The Project will achieve these objectives by providing short-term secured loans (up to 3 years) to bring long-term empty commercial properties back into use, using the management and systems that are already in place for the existing NUE scheme.
- 3.9 Whilst the existing NUE scheme is primarily focused on empty residential properties, it has provided loans for a number of successful mixed commercial/residential projects: this has demonstrated the demand for and the potential of a further scheme focused on commercial premises.
- 3.10 The Project will be managed by KCC, who will manage the application process for each individual commercial property and ensure that the relevant financial checks are completed.

#### **4. Project Cost and Funding**

- 4.1 As the list of individual commercial properties to be bought back into use has not yet been identified, the total project cost cannot be confirmed at this time. However, based on the experience from delivering the existing programme, the Project is expected to cost around £2.650m.
- 4.2 Subject to the Board approving the GPF loan award to the Project, the processes will commence to identify the individual properties to be developed through the Project.

- 4.3 Following the initial launch of the Project, follow up work will be undertaken to identify any further properties which can be supported through the Project and to maximise the GPF investment, in line with the funding profile set out in Table 1 below.
- 4.4 The remaining funding contributions will include £0.3m from KCC to cover the cost of delivering the programme and an estimated £1.350m from the private sector through each property owner's contribution to the Project. These private sector contributions will be confirmed at the point of application to KCC.
- 4.5 As such, the expected funding profile is set out in Table 1 below.

**Table 1 No Use Empty Funding profile (£m)**

Source	2017/18	2018/19	2019/20	2020/21	Total
GPF (public)		0.500	0.500		1.000
Kent County Council		0.150	0.150		0.300
Private Sector fund (TBC)		0.675	0.675		1.350
<b>TOTAL</b>	<b>0.000</b>	<b>1.325</b>	<b>1.325</b>		<b>2.650</b>

- 4.6 To meet with SELEP's criteria for GPF loan award, the programme must demonstrate that at least a 30% local funding contribution towards the delivery of the Project.
- 4.7 As the private sector local funding contribution will be confirmed through the process of applications being submitted to KCC, the exact amount of private sector match has not yet been confirmed.
- 4.8 Based on KCC's experience of operating the NUE residential scheme, it is anticipated that a £1.35m private sector contribution will be achieved, as set out in Table 1 above. However, as the £1.35m private sector funding contribution has not yet been secured, the confirmed £0.3m contribution to the Project by KCC provides the match funding required to comply with GPF eligibility criteria.
- 4.9 The GPF repayment schedule is shown in Table 2 below. If the Board approves the award of £1m GPF to the Project, the repayment schedule will also be included in the loan agreement between the SELEP Accountable Body and KCC.
- 4.10 KCC will enter into loan agreements with the property owners to set out the required repayment schedule. Based on experience from the NUE residential scheme, it is expected that following the property refurbishment and the property having been brought back into use, the property owners will re-finance the property to raise the capital for loan repayments.

- 4.11 The existing NUE residential scheme has a proven track record and has operated a recycling loan fund for more than 10 years. It has successfully recovered £10.6m of loans.
- 4.12 The legal charge documents which have been developed for the NUIE residential scheme gives Kent County Council the right to take control and sell the property if there is no repayment, but this action has not been required to date.

**Table 2 No Use Empty GPF repayment schedule (£m)**

	2018/19	2019/20	2020/21	2021/22	2022/23	Total
GPF repayment			£0.5m	£0.5m		£1m

## **5. No Use Empty Outcome of ITE review**

- 5.1 The assessment of the Business Case for the Project confirms that the project demonstrates high value for money with high certainty of value for money.
- 5.2 The economic appraisal has been conducted based on the expected land value uplift to be achieved through the LGF investment. A very high Benefit Cost Ratio (BCR) has been calculated for the project at 4.05:1.
- 5.3 The ITE has stated that there is a clear strategic rationale for the scheme and the schedule and procedure for payback of the loan demonstrates that contribution to a revolving fund is secure. The quantifiable benefits of the scheme support a good economic case for the scheme and the wider impact of bringing back into use long term empty units strengthens the Value for Money case.
- 5.4 The review also confirms that proportionate and sensible economic appraisal modelling has been carried out. This has demonstrated that the project represents high value for money.

## **6. Project Compliance with SELEP Assurance Framework**

- 6.1 Table 3 below considers the assessment of the Business Case against the requirements of the SELEP Assurance Framework.
- 6.2 The assessment confirms the compliance of the project with SELEP's Assurance Framework.

**Table 3 SELEP Secretariat assessment against the requirements of the SELEP Assurance Framework**

<b>Requirement of the Assurance Framework to approve the project</b>	<b>Compliance</b>	<b>Evidence in the Business Case</b>
A clear rationale for the interventions linked with the strategic objectives identified in the Strategic Economic Plan		The Project is aligned to SELEP's objectives, including supporting the economy of coastal communities, job creation and economic growth.
Clearly defined outputs and anticipated outcomes, with clear additionality, ensuring that factors such as displacement and deadweight have been taken into account		<p>It is estimated that, based on the experience of delivering the NUE residential scheme, the Project will enable the delivery of 28 new homes and 18 new jobs.</p> <p>The economic appraisal has given consideration to displacement, leakage and deadweight.</p>
Considers deliverability and risks appropriately, along with appropriate mitigating action (the costs of which must be clearly understood)		<p>The Business Case sets out clear development phases for the project.</p> <p>A risk register, along with risk owners and mitigation measures, have been included as part of the Business Case. A contingency has been included in the project cost breakdown.</p>
A Benefit Cost Ratio of at least 2:1 or comply with one of the two Value for Money exemptions		The Project demonstrates a very high BCR of 4.05:1, for the cost of GPF investment relative to the project benefits (using the SELEP BCR assessment spreadsheet). This is higher than the original BCR included in the main Business Case of 2.53:1 (which presented high value for money).

## **7. Financial Implications (Accountable Body comments)**

- 7.1 Currently the take-up of the project is unknown. Provision should be made for KCC to return funds to SELEP if all monies aren't allocated and under contract by 31<sup>st</sup> March 2020. If the allocation phase of the Project is allowed to extend that would necessarily extend the repayment profile that would potentially create a risk to the viability of the fund.

## **8. Legal Implications (Accountable Body comments)**

- 8.1 The Accountable Body will have in place a loan agreement with KCC which will provide for the repayment schedule set out in Table 2. Any changes to the Project or the repayment schedule will require further approval by the Board.

## **9. Staffing and other resource implications (Accountable Body comments)**

- 9.1 There are no staffing or other resource implications arising from this decision.

## **10. Equality and Diversity implication**

- 10.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when a public sector body makes decisions it must have regard to the need to:
- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act
  - (b) Advance equality of opportunity between people who share a protected characteristic and those who do not.
  - (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.
- 10.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation.
- 10.3 In the course of the development of the project business case, the delivery of the Project and their ongoing commitment to equality and diversity, the promoting local authority will ensure that any equality implications are considered as part of their decision making process and were possible identify mitigating factors where an impact against any of the protected characteristics has been identified.

## **11. List of Appendices**

- 11.1 Appendix 1 - Report of the Independent Technical Evaluator (As attached to Agenda Item 5).

## **12. List of Background Papers**

- 12.1 Business Case for No Use Empty

**(Any request for any background papers listed here should be made to the person named at the front of the report who will be able to help with any enquiries)**

Role	Date
<p data-bbox="188 230 600 268"><b>Accountable Body sign off</b></p> <p data-bbox="188 342 367 376">Lorna Norris</p> <p data-bbox="188 416 596 450">(On behalf of Margaret Lee)</p>	<p data-bbox="1152 342 1279 376">14/02/18</p>