
REPORT TO THE MEETING OF THE EXECUTIVE 7 OCTOBER 2020**PORTFOLIO: ENTERPRISE****REPORT FROM: ASSISTANT DIRECTOR, PLACE AND ENVIRONMENT****SUBJECT: NO USE EMPTY SCHEME****1 DECISION BEING RECOMMENDED**

- 1.1 To ratify the Council's agreement to participate in a "No Use Empty" scheme across South Essex authorities, subject to a joint bid for 'Getting Building Fund' financing from the South East Local Enterprise Partnership (SELEP) being successful.
- 1.2 To agree that the Council can invest up to £17,000 in match funding towards loans to develop suitable empty properties identified within the Rochford district area. The monies will be held by Southend Borough Council (as the accountable body for the scheme) and will be subject to the governance arrangements set out in the body of this report.

2 REASONS FOR RECOMMENDATION

- 2.1 The No Use Empty scheme is a new match funding opportunity which would bring vacant commercial premises within the district back into a beneficial use that generates a range of economic and social benefits for our local communities and businesses. The Council's support and investment into the scheme is considered to strongly align with its wider economic objectives and priorities.

3 SALIENT INFORMATIONIntroduction

- 3.1 The Getting Building Fund (GBF) was announced by Government earlier in 2020 to deliver jobs, skills and infrastructure across the country. This investment is being targeted in areas facing the biggest economic challenges as a result of the COVID-19 pandemic. It is supporting the delivery of shovel-ready infrastructure projects, agreed with Mayors and Local Enterprise Partnerships to boost economic growth and fuel local recovery and jobs.
- 3.2 Rochford District falls within the area of the South East Local Enterprise Partnership (SELEP) which administers the GBF on behalf of south-eastern local authorities.
- 3.3 A business case has been submitted to SELEP to introduce a "No Use Empty" scheme in South Essex, covering the six authority areas of Rochford, Basildon, Brentwood, Castle Point, Southend-on-Sea and Thurrock. The business case seeks up to £1.2m in funding from SELEP through the GBF,

with a total of £100,000 being provided in match funding by the local authorities. Should the case be successful, the Council would therefore be expected to contribute up to £17,000 of match funding, subject to suitable properties being identified within the Rochford District. The Council will not be required to provide funding towards properties outside the district area.

- 3.4 The No Use Empty scheme (the “Scheme”) is a partnership approach to providing direct, rapid and targeted intervention in the local property market, returning empty properties back into use for residential and commercial use, particularly supporting communities in urban and coastal areas that have become ‘stuck’. A similar scheme has been operating successfully in Kent for many years.
- 3.5 The primary purpose of the Scheme would be to return long-term empty commercial properties in south east Essex back into use, for residential, alternative commercial or a mixed-use purpose. The Scheme would focus on premises that have been impacted by changing consumer demand and which may contribute to larger regeneration schemes.
- 3.6 By bringing these empty commercial premises back into use, the Scheme will:
- Support economic growth through new commercial activity, attracting new business rates and creating and safeguarding jobs;
 - Increase the number of new homes available as a result of mixed-use development, generating new council tax receipts; and
 - Support wider regeneration objectives, in particular 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
- 3.7 The above objectives are considered to be particularly important to support the post-COVID recovery of the local and sub-regional economies. There is a risk that prominent commercial premises could become vacant as a result of any prolonged economic downturn, whilst existing vacant premises could find it challenging to find an occupier. The Scheme is designed to support these premises being brought back into use.
- 3.8 The Scheme would achieve this by providing short term targeted and secured loans (up to 3 years) to bring long term empty commercial premises back into use. While the ground work and project identification will be completed by local authorities in South Essex, the project will also make use of the management and systems that are already being successfully implemented in the existing NUE scheme in Kent.

Benefits of the Scheme

- 3.9 Excessive and long term empty offices and retail units are evidence of local market failure: high risks and uncertain returns discourage commercial

investors and the presence of dilapidated and empty properties impacts negatively on neighbouring occupiers and the wider environment. Typically, the greatest negative impact is in 'secondary' retail areas, where floor space exceeds demand. Intervention is required to bring properties into alternative use and to break the negative cycle of declining demand, rising dilapidations and rising risks and costs.

- 3.10 The Scheme contributes to the delivery of objectives at the national, SELEP, sub-regional and local level, specifically:
- 3.11 The Scheme contributes towards priorities set out in Rochford District Council's Business Plan 2020-2023 through providing opportunities to support new and existing businesses and ensuring commercial activity has social benefits, in addition to enabling our communities to create new employment opportunities.
- 3.12 The 2017 Economic Growth Strategy expands on this, with the Scheme having the potential to specifically support new inward investment through working with landowners and developers to identify regeneration opportunities and unlock more difficult sites. It also aligns with Core Strategy policies to protect existing key employment sites, direct regeneration and investment in Rochford, Rayleigh and Hockley town centres and to encourage opportunities for rural diversification.
- 3.13 During the current COVID-19 pandemic, it has become increasingly important to consider the role the Council can play in supporting the local economy to survive the short term impacts of the pandemic and to lay the foundations for long term recovery, growth and transformation. The emerging Economic Recovery Plan is likely to highlight the importance of harnessing the Council's role as an agent of change by making targeted interventions in the local economy where doing so would provide wider benefits to the community and businesses. The Scheme is considered to align strongly with these objectives, particularly given the pandemic is likely to exacerbate the number of potential vacant premises that could benefit from the scheme.
- 3.14 Recent dialogue with stakeholders on the future of the district's town centres is also relevant, with additional means for regenerating the physical environment and repurposing properties having the potential to encourage new investment and uses into our town centres.

Practicalities of the Scheme

- 3.15 The Scheme, if introduced in South Essex, would seek to mirror the existing successful scheme in Kent as far as is possible. This will include appointing Kent County Council through a Service Level Agreement (SLA) to manage aspects of the Scheme on behalf of the South Essex local authorities. The loan product that would be offered requires minimal modifications to the wording of the existing scheme already operated in Kent.

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- 3.16 Individual local authorities will be expected to identify potential sites in their area. Those wishing to benefit from the Scheme will need to apply. Applications under the Scheme will be reviewed by Kent County Council under their existing frameworks, with the final decision whether to award a loan under the Scheme made by the local authorities within which the premises are located.
- 3.17 Potential premises which might be eligible for the Scheme are yet to be identified. Based on an average loan of c.£100,000 from the Kent Scheme, it is expected that around 10-15 premises across South Essex could benefit from the Scheme in its first phase. This is likely to be 2-3 premises per authority area.
- 3.18 No projects will be progressed unless there is support from the respective district authority. Similarly, each authority's match funding will only be used if there are projects within that authority area. Therefore should no suitable premises be found in a local authority area, or that local authority determines that it wishes not to award to any of the premises that come forward, that authority's investment into the Scheme will not be required / would be returned. The Council's investment would not be used to cross-subsidise projects in other authority areas.
- 3.19 To guarantee certainty, all potential projects will be subject to confirmation with the local authority as to whether planning or other permissions are required for any envisaged change of use of buildings or premises under the Scheme. A loan will not be awarded where planning permission is not already in place for these works.
- 3.20 Additional checks will be carried out by the NUE team as part of the overall assessment process for proof of ownership, identity of owners, bankruptcy and insolvency checks. This information will be evidenced and summarised by the programme manager for the approval of the appropriate local authority.
- 3.21 Each project under South Essex NUE will be subjected to the same procedures and systems which have been successfully operated by the Kent NUE team for several years. No projects are approved if their application fails the risk assessment process. The work the Kent NUE team undertakes is to ensure that projects are fully funded and are viable.
- 3.22 Kent NUE has a proven track record and has operated a recycling loan fund for more than 10 years. It has successfully recovered £17m of loans. South Essex NUE has negotiated an SLA with KCC so that this expertise can be brought to our scheme ensuring a robust application and assessment process. South Essex NUE will, like Kent, offer secured loans with GBF funds which will be repayable on an agreed date written into the Loan Facility Agreement between Kent County Council and the property owner.

- 3.23 In terms of bad debt, based on the existing Kent NUE initiative the default rate has been below 1%. 'Buying in' KCC expertise to help administer the South Essex NUE should ensure similar robustness.

Governance Arrangements

- 3.24 If successful, it is envisaged that the GBF loan agreement will be between SELEP and Southend Borough Council (acting as accountable body on behalf of the South Essex authorities).
- 3.25 The Place Capital Programme Manager at Southend Borough Council will act as Project Manager responsible for co-ordinating day to day delivery, stakeholder management and communication. He will report to the Project Team which will meet monthly and comprises membership from Rochford, Basildon, Brentwood, Castle Point, Southend-on-Sea and Thurrock Councils and Kent County Council. Opportunity South Essex (the federated body of SELEP for South Essex) will provide the secretariat function and will have day-to-day responsibility for all aspects of project delivery.
- 3.26 The Project Team will report on a quarterly basis to the South Essex Economic Development Managers ("EDM") Group. The membership of the EDM Group is comprised of Economic Development Leads from each of the Councils and the Programme Director. The purpose of this EDM Group is to make practical decisions, have strategic oversight and monitor spend and performance. Members of the EDM Group will report to OSE Partnership Board and Southend Borough Council in its capacity as Accountable Body. Any issues in relation to delivery of the Scheme are first raised and discussed at the Project Team level, before being escalated if required to the EDM Group. Issues that still cannot be resolved at this level or requests for approval that require it can be taken to the OSE Partnership Board.

Timescales and dependencies

- 3.27 Should the business case be successful in attracting funding through the GBF, the following timescales for delivery would apply.

Project development stages completed to date			
Task	Description	Outputs achieved	Timescale
GBF application	Expression of interest and inclusion in SELEP submission.	Provisional allocation subject to business case.	4 August 2020
GBF business case	Submission of GBF business case	Business case prepared and submitted.	11 September 2020
Project development stages to be completed			

Task	Description	Timescale
ITE Assessment	Completion of Gate 1 assessment	25 September 2020
Business case submission	Updated business case submission	9 October 2020
Funding decision	SELEP to inform OSE/SBC of funding decision.	November 2020
Site identification	Identify 4-5 potential sites to take forward with GBF funds. Investigative work: Authorities to identify potential projects to take forward and have at least one to include as at launch of fund. Using local intelligence and networks we will identify developers and owners who have previously discussed or highlighted schemes which return empty commercial space back into use.	January 2021
<u>South Essex NUE launch</u>	Launch of OSE NUE – once decision known	January 2021
<u>Groundwork and site identification</u>	Encourage more sites – follow up work after the launch to maximise potential to draw on GBF funds	Ongoing to January 2022 or when loan fund is fully allocated
<u>Assessment of applications</u>	Consideration and assessment of applications throughout life of South Essex NUE.	Ongoing to January 2022 or when loan fund is fully allocated
<u>Evaluation</u>	Evaluation of project	In line with SELEP M&E requirements
<u>Loan repayments</u>	Repayment of loans by developers	March 2025
<u>Project close</u>		March 2025
<u>Introduction of rolling loan fund</u>	The repaid GBF will be recycled to support further projects.	April 2025

- 3.28 Should the business case be successful, the Council would be expected to contribute an equal proportion of the match funding subject to the triggers set out earlier in this report. This contribution is expected to be c.£17,000 and would be returned at the end of the project.

4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 The Council is not obliged to participate in the South Essex NUE scheme; however, not participating would forego the benefits identified throughout this report. There are no alternative schemes available.

5 RISK IMPLICATIONS

- 5.1 As with any loan scheme, there is a small risk that the Council may not receive its investment back. However, appropriate mechanisms would be put in place, including project management support from Kent County Council, which has operated a similar scheme successfully for over 10 years (with a default rate of below 1%), which will reduce this risk notably.
- 5.2 The Council's investment in the scheme will only be triggered should one or more projects be identified in the District and approved by the Council. Should no projects be identified in the District within the lifetime of the project, the Council's investment will not be required.
- 5.3 All individual loans will be subject to a project-based risk assessment. Projects that bear unacceptable risks will not be awarded a loan.

6 CRIME AND DISORDER IMPLICATIONS

- 6.1 Whilst not one of the primary objectives of the project, by bringing empty commercial buildings back into use, there may be an incidental reduction in the amount of anti-social behaviour associated with unsecure vacant premises.

7 RESOURCE IMPLICATIONS

- 7.1 The Council's 2020/21 Capital and Treasury Management allows for such an investment to be undertaken as set out in paragraphs 11.6 to 11.7 which states:

Loans to subsidiaries, local enterprises and third parties may be considered, as part of a wider strategy for local economic growth, even though they may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity.

Such loans will be considered when all of the following criteria are satisfied:

- The loan is given towards expenditure which would, if incurred by the Council, be capital expenditure;
- The purpose for which the loan is given is consistent with the Council's corporate / strategic objectives and priorities;
- Due diligence is carried out that confirms the Council's legal powers to make the loan and that assesses the risk of loss over the loan term;

- A formal loan agreement is put in place which stipulates the loan period, repayment terms and loan rate (which will be set at a level that seeks to mitigate any perceived risks of a loss being charged to the General Fund, and takes appropriate account of state aid rules) and any other terms that will protect the Council from loss.

- 7.2 Under the terms of the proposed scheme the above criteria will be met and it is therefore consistent with the Council's strategy. It should be noted that Southend Borough Council will be the accountable body for the scheme and therefore the Council will not be making any loans directly itself; however, the substance of the proposed transactions remains the same with Rochford passing the agreed funding contribution to Southend Borough Council to invest on its behalf, subject to the governance arrangements set out in the report.
- 7.3 The monies invested will be loans, not grants, and are anticipated to be repaid within 3 years. New funding is not required to be identified for the scheme, instead existing cash balances will be utilised to invest any contribution the Council makes, up to the proposed amount of £17,000. An assessment of the likelihood of the loans being repaid will be made as part of the preparation of the Council's annual accounts, with an appropriate bad debt provision being made as required, in line with accounting rules and regulations. As set out in the body of the report the risk of default on the loans, based on the experience of the similar scheme in Kent, is deemed to be low at below 1% and therefore falls within the Council's risk appetite, when weighing this up against the wider anticipated economic benefits within the district.
- 7.4 It is felt that the scheme represents good value for money to the Council who will only be required to fund 7.7% of any loan made, with the remaining 93.3% being funded from the GBF and a number of positive economic benefits anticipated from the scheme across the district.

8 LEGAL IMPLICATIONS

- 8.1 Any failure to repay a loan may lead to legal proceedings to recover the monies. Recovery of the money will be decided on a case by case basis.

9 EQUALITY AND DIVERSITY IMPLICATIONS

- 9.1 An Equality Impact Assessment has been completed and found there to be no impacts (either positive or negative) on protected groups as defined under the Equality Act 2010.

I confirm that the above recommendation does not depart from Council policy and that appropriate consideration has been given to any budgetary and legal implications.

LT Lead Officer Signature: _____



Assistant Director, Place and Environment

Background Papers:-

None.

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If you would like this report in large print, Braille or another language please contact 01702 318111.