

This report will be published on 19 September 2017
Partial exemption
Applies to Appendices A & E

Folkestone

Hythe & Romney Marsh
Shepway District Council



Report Number **C/17/37**

To: Cabinet
Date: 27 September 2017
Status: Non-Key Decision
Corporate Director: Susan Priest Corporate Director - Strategic Development
Cabinet Member: Councillor David Monk, Councillor Alan Ewart-James

SUBJECT: Proposed Acquisition Former Gasworks Site, Ship Street, Folkestone.

SUMMARY:

This report seeks authority to acquire the former gasworks site in Ship Street, Folkestone (East Folkestone Ward) for the provision of 85 homes. The derelict site is at the centre of a residential area but has remained of no interest to private sector developers owing to the complexities for its re-development and associated costs. The site will therefore remain derelict for the foreseeable future unless the Council acts.

The scheme requires significant investment in remediating the land which would make the scheme unviable for the Council too. However, there is now an opportunity to apply for Housing Infrastructure Fund (HIF) monies towards these abnormal costs under its Marginal Viability Fund (MVF) to make the development feasible financially for the Council. Authority is therefore sought to apply for MVF grant.

The re-development of this site will make a major contribution to the regeneration of East Folkestone, provide 85 homes towards the Council's housing targets, increase Council tax revenues and act as a catalyst for further regeneration with the site, once developed, being a nominated location for further investment under the Great Places scheme being undertaken by the Creative Foundation.

The proposal is not one that will generate a substantial commercial return for the Council and there is a risk that there could be a degree of loss. However, the proposal is a opportunity to secure significant regeneration benefits and meet the Councils aims of generating new jobs and enabling new homes, including affordable homes to be built.

REASONS FOR RECOMMENDATIONS:

Cabinet is asked to agree the recommendations set out below because:

- a) The project will accelerate the supply of housing and contribute to boosting the appearance of the District to progress the Council's 'More Homes' and 'Appearance Matters' corporate objectives;
- b) Authority is required to make the MVF grant application by the deadline of 28th September 2017;
- c) The MVF grant makes acquisition of the site financially viable to bring forward the development of 85 new homes to help meet Council housing targets in an area of Folkestone requiring significant regeneration;
- d) Subject to the award of a MVF grant, authority is required to further develop the housing scheme for future consideration by the Cabinet;
- e) Development of the site will attract added value from other regeneration programmes such as 'Great Places' and 'Community Led Local Development (CLLD)';
- f) The recommendations below have resource and financial implications for the Council.

RECOMMENDATIONS:

- 1. To receive and note report C/17/37.**
- 2. That Cabinet authorises the Head of Strategic Development Projects to complete and submit an application to the HIF MVF to cover the costs of abnormal works**
- 3. If the application is successful, and in consultation with the Leader of Council :**
 - a. complete the purchase of the former gasworks site, Ship Street, Folkestone based on the terms set out in Appendix A**
 - b. authorise officers to complete the remaining pre-development work and prepare draft planning proposals for consideration at a future Cabinet, and agree to allocate the sum of £230,000 from the Corporate Development Fund budget to meet that expenditure.**
- 4. If the application is unsuccessful, the purchase be deferred pending further work by officers on the scheme's financial viability, which will be subject to a future report to Cabinet.**

1. Background

The proposals for the former gasworks in Ship Street, Folkestone makes feasible the regeneration of a brownfield site to infill and improve the appearance of a residential area to encourage future private sector investment in a deprived part of the town.

The Ship Street site comprises a former gasworks located in East Folkestone. The gasworks closed in 1956 and the structures were demolished between 1960 and 1964, with the gasholders remaining for storage purposes until their demolition and removal in 2001.

For decades, the Council has sought the development of this site for residential use but it has not attracted private investment. Consequently, the site was included in a list of potential HRA sites to be pursued that was approved by Cabinet in July 2015 (Report C/15/16) and included in the HRA “pipeline of sites” approved by Cabinet in April 2017 (Report C/16/120).

2. Corporate Plan delivery

The proposed development will make a significant contribution to delivering the Council’s corporate strategy with particular regard to:

- “More homes”, through the construction of between 80 and 100 new homes including affordable homes;
- ‘Appearance Matters’ through replacing a derelict brownfield site with housing to provide a major uplift to a regeneration priority area and added creativity through the Great Places project;
- ‘More jobs’ through providing opportunities for local businesses to tender for building works and associated construction jobs;
- ‘Achieving Stability’ through optimising financial benefit from the scheme; and
- ‘Health Matters’ through the provision of new housing that contributes to the wellbeing and cohesiveness of communities.

The multiplier effect and broader impact from bringing forward this site should not be underestimated. Securing the necessary investment and developing the site will provide a positive signal to the market. Improving this area which has high levels of deprivation will act as a catalyst for the regeneration of the surrounding area.

3. Regeneration Benefits

The former gas works is the largest derelict site within the town that has a capacity to significantly contribute towards the Council’s housing targets and the regeneration of the town.

The former gas works site is located at the centre of this regeneration area which has formed the geography to apply for Government/European funding as a ‘Community Led Local Development’ area (CLLD). Using Lower Super Output Areas (statistical areas smaller than wards), the CLLD area displays the following characteristics:

- most of the area is within the top 20% most deprived areas in the country;
- 68% of households are amongst the top 20% most deprived in the country; and

- unemployment rate is twice the rate for Kent and Medway and higher than the UK rate.

The development of the former gas works site would be a major step to arresting the deprivation indicators by providing a visible and positive change through replacing a derelict site with modern housing. The development is expected to create some 300 year-long construction jobs. Developing this site will create new opportunities to provide a significant boost to the regeneration area and Folkestone overall.

4. Adding Value

A small part of the former gasworks is currently being used by the Creative Foundation (CF), under licence from the owners, in order to display an installation for the Triennial. For the longer term, the CF (and other East Kent partners from the Kent Transformation Board - Turner Contemporary and Canterbury City Council), has been awarded a Great Place Project grant from the Heritage Lottery Fund & Arts Council England. The project is called Pioneering Places: East Kent and it seeks to:

- Create exemplary places through connecting people, heritage and creativity;
- Create models that impact on future planning development structures;
- Pioneer, test and evaluate four distinct ways of developing create places, exploring and animating heritage to inspire artists and community;
- Develop new models of community consultation; inspire active citizenship, create a meaningful legacy; and
- Unite arts, heritage, public sector, education organisations and the wider community to understand and influence place-making.

There are a number of sub-projects across the participating areas of Canterbury, Thanet, Dover and Shepway each led by a local partner. The CF is proposing that, due to its rich industrial history and the proposed new use of the site for housing, Ship Street becomes the focus for the Folkestone project. It is proposed that the public engagement and historic investigation will be catalogued and kept as part of the Folkestone Artworks archive which is cared for by the CF and is available for research purposes and used occasionally for public display.

Should the site be acquired, SDC will continue to support the CF in engaging members of the local community in this interesting project which will generate additional value and promote community cohesion in this regeneration area over the coming years.

4. Feasibility

A concept design for the 1.5 ha (3.8 acres) site has been prepared to help assess planning matters and viability (Appendix D).

In 2009 the site was part remediated by the owners through the removal of contamination and structures to a standard of fitness for residential development subject to some qualifications. The estimated abnormal costs likely to be incurred in developing the site have been appraised in an Interim Feasibility Report which is summarised in Appendix E and these costs will be tested further as preliminary work progresses. Further feasibility work has been undertaken by the Council and in summary the conclusions are:

- **Planning:** The site is allocated for residential development in the Shepway District Local Plan 2006 and supported by, “The Old Gas Works Site Ship Street Folkestone Supplementary Planning Document”. The planning policy is very clear and consultations with Shepway District Council planning officers and with Kent County Council Highways officers have confirmed the Concept Design (Appendix D) which proposes 85 units is acceptable in principle. Potentially more units may be possible on the site.
- **Legal:** The land is in two ownerships National Grid Property Holdings Limited (NGPH) and SGN Commercial Services Limited (SGN) (see Appendix C). The two parties have collaborated to ensure that the site can be purchased as a whole via the GRID. There are no legal constraints preventing the redevelopment of the site as a whole. The purchase terms are set out in Appendix A.
- **Abnormal Costs:** despite the remediation work undertaken by the current owners, there remain costs to deal with sub-surface structures and perimeter walls, as well as contamination costs - which have been costed at £2,384,113.

There is no technical reason why the site can't be successfully and safely redeveloped, but as in all former gasworks sites there are significant risks that contamination or ground conditions may be worse than anticipated. However, specialist advice has been taken as part of our initial due diligence work and the financial viability model includes prudent provision for such contingencies.

6. Financial Viability

The financial viability has been assessed with the assistance of Savills (Valuers), Betteridge and Milsom (Quantity Surveyors) and IDOM Merebrooks (Remediation Engineers) and these findings are summarised in the Financial Appraisal at Appendix E.

Whilst the HRA Affordable Homes element (30% of the proposed 85 units) of the scheme could be financed by the Council within the parameters of the HRA business plan (payback within 30 years and cost pm²) the remaining, private, element of the scheme is not financially viable because of the abnormal costs associated with bringing the site forward.

Recently, the Department for Communities & Local Government (DCLG) announced its HIF MVF grant programme for local authorities, which could cover the site's abnormal remediation costs to make the scheme financially viable. The deadline to

apply to the fund is 28th September 2017. The application is via an online portal: a summary of the questions and answers is given in Appendix F. Successful applicants will be announced early in the New Year and are expected to be able to spend grant swiftly thereafter.

The proposal, therefore, is to apply to the fund now and if successful buy the site under the terms set out in Appendix A whilst detailing the proposed development further. A further report on the planning, procurement and delivery would be submitted to a future meeting of the Cabinet for approval.

7. Cost of Purchase

It has taken over two years to agree a proposition with the two land owners: a significant reason for the extended timescales was because the landowner changed their Agents mid-way through negotiations.

The negotiated position is for the Council purchase of the site to be shared between the GF at 70% and HRA at 30%. The Council would accept full liability for environmental risk. A summary of the purchase cost and other terms appears in exempt Appendix A and are considered to be acceptable given the risks and proposed timetable for construction.

8. Financial & Resource Considerations

Acquisition: If the acquisition is supported then the sum paid will be as shown in Appendix A. This cost can be met by monies within the Corporate Development Fund and the Housing Revenue Account to be apportioned dependent on the number of affordable homes that will form part of the mix of housing. This will be determined as the plans develop but the working assumption is that 30% affordable homes are achievable.

Pre-development costs: This includes the costs of preparing a detailed planning application including a range of specialist studies. It also includes advice on how best to maximize value through different disposal options. This cost is anticipated to be in the order of £230,000 and, as above, can be met from the Corporate Development Fund and the Housing Revenue Account to be apportioned as per the housing mix.

Construction Costs: The construction of the affordable homes will be met from the HRA account and this was approved in principle by Cabinet in April 2017 (Report C/16/120). It will be necessary to keep under review the full impact on the HRA Business Plan. Other construction costs for the non-affordable homes element will be dependent on how the private housing is delivered and this will be subject of a further report to Cabinet.

Corporate Development Projects Capital Budget: The preliminary development costs of £230,000 and site acquisition cost is within the approved budget.

9. Next Steps & future Cabinet decisions

A key condition of the HIF MVF grant is deliverability: the money must all be spent by March 2021 for an application to be eligible. The table below sets out an initial estimated timetable and steps to complete the remediation:

Task Name	Duration	Start	Finish
Ship Street – Next Steps			
Grant Application	1 day	28/09/17	28/09/17
Grant confirmed	5 mons	29/09/17	15/02/18
Exchange	1 day	16/02/18	16/02/18
Completion	2 mons	19/02/18	13/04/18
Planning & Procurement Preparation	5 mons	16/04/18	31/08/18
Cabinet	1 day	03/09/18	03/09/18
Submit Planning	1 day	04/09/18	04/09/18
Determine Planning	9 mons	05/09/18	14/05/19
Procurement	8 mons	04/09/18	15/04/19
Appoint Contractor	1 day	15/05/19	15/05/19
Preliminaries	3 mons	16/05/19	07/08/19
Remediation	9 mons	08/08/19	15/04/20

If there are no delays, the remediation will be completed by the deadline for the MVF. Procurement can be undertaken in parallel with planning determination although the contract would not be awarded until a planning consent was gained.

10. Risk Management Issues

A detailed Risk Register is kept and regularly updated by Officers – a summary of the perceived risks is as follows:

Perceived risk	Seriousness	Likelihood	Preventative action
Planning – scheme refused	Medium	Low	Maintain dialogue with LPA, residential development supported in the 2006 Local Plan
Planning – Local Objections	Medium	Medium	The Planning Application will involve local consultation, but it is anticipated that residential development of a long neglected site in an area of high housing need will generate support
Market Viability	High	Medium	Continue to adapt project to reduce cost and maximize value
Unanticipated costs due to contamination and abnormal ground conditions not covered by grant	High	Medium	The previous owners have undertaken most of the site remediation and we have commissioned additional reports to assess what remains. There can be no certainty until we commence construction and so have included substantial contingencies in the construction costs and will maintain specialist advice
Grant application unsuccessful	Low	Medium	The pot is limited and HCA have given priority to schemes that can spend – ie deliver – “straight away”
Site not bought, owners seek alternative buyers	Medium	Low	Buy the site
Site not bought by SDC, owners leave site empty and unused	Low	High	Buy the site.

11. Legal and Financial Comments

11.1 Legal Officer’s Comments (David Kelly)

There are no legal implications arising directly out of this report although legal advice (in addition to that which is already being given in relation to the acquisition of the property) may be required in the future in order to implement the project approved by Cabinet, including whether the Council has the statutory authority to implement the scheme.

11.2 Finance Officer's Comments (Lee Walker)

The key financial implications are outlined in section 6 of the main report. Capital resources are available from within the existing approved General Fund and Housing Revenue Account capital programmes to meet the acquisition and pre development costs. The financial implications for the delivery of both the affordable homes and market housing is to be subject to a separate report to Cabinet in the future.

12. Contact Officer and Background Documents

Councilors with any questions arising out of this report should contact the following officers prior to the meeting:

Andy Jarrett – Head of Strategic Development Projects,
andy.jarrett@shepway.gov.uk , 01303 853

Brendan McGowan – Project Manager,
brendan.mcgowan@shepway.gov.uk, 01303 853379

13. Appendices

Appendix A – Terms of proposed purchase - RESTRICTED

Appendix B – Site Location Plan

Appendix C – Plan indicating current land ownerships

Appendix D – Plan showing Concept Design for Development

Appendix E – Summary of Financial Appraisal- RESTRICTED

Appendix F – HIF MVF Grant Application Questions