

This Report will be made public on 13 September 2022



Report Number **C/22/38**

**To:** Cabinet  
**Date:** 21<sup>st</sup> September 2022  
**Status:** Key Decision  
**Responsible Officer:** Andy Blaszkwicz, Director – Housing & Operations, Simon Baxter - Chief Officer - Development  
**Cabinet Member:** Councillor David Monk, Leader of the Council, Councillor David Godfrey – Cabinet Member for Housing and Special Projects, Councillor John Collier – Cabinet Member for Property Management and Grounds Maintenance

**SUBJECT: SHIP STREET DEVELOPMENT – NEXT STEPS**

**SUMMARY:** This report updates Members on the work that has been undertaken since the acquisition of the former gas works site at Ship Street, East Folkestone, and seeks authority to proceed with the next steps to deliver a mixed tenure housing led development.

**REASONS FOR RECOMMENDATIONS:**

Cabinet formally approved the purchase of the Ship Street site in October 2019 (report no. C/19/30). The purchase was concluded in March 2021. Since then, a number of activities have taken place to further understand the site and the views of the local community and stakeholders. The report sets out details of the evolving brief and next steps to bring forward the Housing led regeneration of the site and seeks Cabinet authority to proceed.

**RECOMMENDATIONS:**

1. To receive and note report C/22/38.
2. To note the works carried out to date.
3. To note the funding agreed with Homes England, Market, Partners and Places (MPP) Resource Funding to assist with the master planning of the scheme.
4. To note that Officers have applied for grant funding from One Public Estate (Brown Field Land Remediation Fund) and may seek further funding from Homes England's Infrastructure Delivery Fund and the Affordable Homes Fund.
5. To provide delegated authority to the Director, Housing & Operations in consultation with the Leader of the Council, The Cabinet Member for Housing & Special Projects and the Cabinet Member for Property Management and Grounds Maintenance to negotiate and agree to

receive Homes England's Affordable Homes grants, Infrastructure Delivery Grant and One Public Estates Brownfield Land Remediation Fund to support the remediation of the land.

6. To note that officers will procure and evaluate tenders from the Homes England Multi-Disciplinary framework for a Design led team to develop the design of the scheme to RIBA stage 3 (and submit a planning application).
7. To provide delegated authority to the Director, Housing & Operations in consultation with the Leader of the Council, The Cabinet Member for Housing & Special Projects and the Cabinet Member for Property Management and Grounds Maintenance to award the contract to the winning tenderer for the scheme design and planning submission.
8. To agree that Officers submit a report to Full Council requesting an additional £350K to supplement the existing capital budget of £230k to be met from capital receipts, together with the £60K received from Homes England, to pay the professional fees associated with the scheme design and planning application and submission.
9. To bring forward a further report on the proposed development of the site after planning permission has been granted.

## **1. BACKGROUND**

- 1.1 The former Gas Works site at Ship Street has been largely derelict since the late 1960's with some 'meanwhile' uses. With no market intervention the Council stepped in to buy this key regeneration site in East Folkestone. Formal approval was obtained from Cabinet in October 2019 (report no. C/19/30) with the purchase concluding in March 2021.
- 1.2 The Ship Street site is approximately 1.54 hectares and is allocated land for residential purposes under the FHDC Local Plan UA7 2020.
- 1.3 The site was purchased for £400K with a 70/30 split between the General Fund (70%) and the HRA (30%).
- 1.4 Development of the site contributes to all four of the service ambitions in the Council's Corporate Plan 2021-30, 'Creating Tomorrow Together', but most notably – 'Quality Homes and Infrastructure'.
- 1.1 Informal discussions with the Local Planning Authority suggest an urban density scheme of 150+ homes would be acceptable. In accordance with the current policies a minimum of 22% would be affordable Council housing.

## **2. RECENT WORK**

- 2.1 Capacity studies have been undertaken to investigate density / layout / public realm.
- 2.2 Early market engagement showed interest but also a clear need to de-risk site.
- 2.3 Site maintenance has been undertaken to minimise future ecological risks.
- 2.4 Positive discussions and bids have been made relating to potential gap / Infrastructure funding with Homes England and One Public Estate.
- 2.5 More than 120+ residents attended a public engagement event with positive feedback supporting housing led regeneration on the site.
- 2.6 A structural condition survey of the retaining walls surrounding the site has been completed.
- 2.7 Extensive soil and site investigation works have been undertaken and costed.
- 2.8 A market intelligence report on the detail of future homes has been completed.
- 2.9 There has been continued engagement with key stakeholders.

## **3. REGENERATION MARKET INTELLIGENCE**

- 3.1 In May 2021 FHDC advertised via the KCC Portal and an advert in Estates Gazette for a Joint Venture (JV) partner. Whilst there were reviews of the opportunity from 38 organisations working in property development, only one proposal was received which did not match the criteria set by the competition.
- 3.2 The Ship Street redevelopment has a number of challenges and constraints. In addition to scheme risk items like inflation, market conditions, sales risk and macro-economic issues we also have specific issues such as the relatively low value local house prices, ground remediation, substantial retaining walls and the work they require as well as the challenging topography of the site.
- 3.3 Council officers have had high level discussions with a number of Property Developers and Partnership development businesses in order to gauge interest in a JV arrangement and in the site specifically. Informal dialogue has taken place with six parties expressing interest in the Folkestone & Hythe area.
- 3.4 Four of these would be interested in partnering with the council in a Joint Venture type arrangement however all parties spoken to require:
- The land to be remediated ready for development or the Council to take financial and legal responsibility for resolving this.
  - The site to have a value, or at least not a negative value, when considered in development terms.
  - Ideally the scheme to have a sufficient number of market sale homes c.100+ in order to make their involvement and investment worthwhile from a return on capital perspective.
  - Two of the parties said it was not of sufficient size for them to actively pursue, however they might reconsider once the Project Brief once was issued.
- 3.5 Early capacity studies looked to deliver a scheme of 80-150 homes along with other non-residential land uses. If we chose to have just the required 22% affordable housing policy that would be between 18-33 affordable homes leaving 62-117 homes for market sale.  
If, we seek to deliver more than the policy compliant 22% affordable housing, then the number of market homes reduces further.
- 3.6 If the Council choose to progress a scheme with little or no market sale housing then we may not necessarily need a Developer Partner, rather we could directly deliver the scheme ourselves. This would be a significant financial undertaking and would need a considered view on market risk, capacity and relevant skills and expertise within the Council to set up and deliver the scheme correctly as a good client and also by sourcing, engaging and contracting with a contractor to deliver the scheme to our preferred specification.
- 3.7 By doing this alone we would retain full design and scheme control however we also take the full risk for managing the costs and securing the income

levels we have assumed in our feasibilities. There are alternatives that will need to be considered.

- 3.8 A further report will be brought to Cabinet in due course to further consider development delivery options taking into consideration a range of factors.

#### 4. TENURE MIX – OPTIMISING THE SITE

- 4.1 **Possible Tenure Options:** Officers have concentrated their efforts on financially appraising 4 differing tenure mixes of homes on the Ship Street site. Each of the four scenarios has been considered in financial terms and in order to provide economic outcomes for the benefit of comparison and to choose a preferred way forward.

- 4.2 The choice of the tenure on Ship Sheet, along with the quantum of homes assumed, will dictate the level of interest we receive from the private developers we're seeking as a partner. It will also lead us to finalise the Project Brief in a particular way that relates to the way we hope to deliver the scheme and for whom.

- 4.3 The scenarios have been appraised on the basis of 150 homes and also 175 homes. They are:

**Scenario 1: Council Optimised Mix.** This is a scheme that has no market sale but does include 20% of the homes as Market Rented.

30% Affordable Council Rented Homes  
50% Shared Ownership Homes  
20% Market Rented Homes

**Scenario 2: Half affordable & half market housing.** This is an even split of homes for private sale and affordable housing comprising of both Council rented and shared ownership homes.

50% Market Sale Homes  
30% Affordable Council Rented Homes  
20% Shared Ownership Homes

**Scenario 3: Fully Affordable Mix.** A scheme wholly of affordable housing broken down into shared ownership and affordable Council rented homes.

40% Affordable Rented Homes  
60% Shared Ownership Homes

**Scenario 4: Maximised market mix.** This scheme has the minimum amount of affordable housing permissible under the F&HDC adopted planning policy at 22%. The remainder of homes are mainly market sale with some market rented housing that could remain within the council's ownership.

22% Affordable (70% AR & 30% S/O)

60% Market Sale Homes  
18% Market Rented Homes

#### 4.4 Summary Table

<b>Ship Street - Tenure Scenarios</b>	<b>Council Housing (Affordable Rent-LHA)</b>	<b>Shared Owner ship</b>	<b>Market Rent</b>	<b>Market Sale</b>	<b>Total</b>
One	30%	50%	20%		100%
Two	30%	20%		50%	100%
Three	40%	60%			100%
Four(Policy Comp)	15%	7%	18%	60%	100%

4.5 The financial modelling on all of these scenarios produces at least a break even financial outcome, assuming we are successful in our bids for remediation and housing grant funding. The payback period on each of them ranges between 40 and 60 years.

4.6 At this stage it is not proposed to definitively recommend or commit to a particular tenure mix. There are competing desirable outputs which will be discussed more widely prior to arriving at a recommendation. For example whilst Scenario 3 on these assumptions is the most financially beneficial and delivers a 100% affordable housing, it may not be eligible for one of the funding streams we are seeking to access to carry out the remediation. Scenario 4 is the least attractive principally because it assumes no affordable housing grant and sales income is based on current market values in the area – a private house builder might well assume substantially better values than those used in our model.

## 5. PROJECT BRIEF/DEVELOPMENT OBJECTIVES

- 5.1 To provide at least 150 homes to NDSS space standards.
- 5.2 To design energy efficient homes using a fabric first starting point to support FHDC's aspiration towards Net Zero Carbon by 2050.
- 5.3 To provide at least a policy compliant level (22%) of affordable housing as part of the development to help meet the needs of local people.
- 5.4 To have regard in respect of buildability and viability of the site's historic usage as an industrial site.
- 5.5 To create a development which promotes safe walking and cycling linkages between Folkestone Central train station and the town centre.
- 5.6 To encourage through design, a transport strategy that promotes cycling, walking and use of public transport as its starting point.
- 5.7 To add to the cultural development of the town and build on the town's aspirations to be a creative destination through architectural expression

in for example public realm, wayfinding and events.

- 5.8 To consider encouragement for arts and the creative sector and the feasibility of the creation of live/work or workspace type approaches on a part of the development.
- 5.9 To consider providing creative sector/small maker/commercial space on a part of the development.

## **6. REMEDIATION & RETAINING WALLS**

- 6.1 Previous site remedial works were carried out by National Grid to alleviate the company of its statutory responsibilities to decontaminate the site in 2009/10. This consisted of the removal of the most hazardous material and a capping layer placed over the site.
- 6.2 Additional site investigation works commissioned by the Council in 2022 have been carried out to assess the gap between those works already carried out by National Grid, and what works are still required to make the site suitable for residential development.
- 6.3 The additional survey work has informed a remediation plan for the site which will be developed further once the scheme design has evolved and we have a full understanding of building placement and site levels.
- 6.4 Remediation will involve the following:
  - Clean cover in areas of soft landscaping
  - Vapour protection measures in buildings
  - Upgraded water pipes
  - The use of impermeable surfaces (including below landscaping)
- 6.5 The site is currently enclosed by significant retaining walls. Officers commissioned Structural Engineers to review the 2015 wall condition report and completed a new survey:
  - The general conclusion is the walls are 'generally performing satisfactorily'
  - Defects like filling collapsed arches, vegetation removal, weathering and pointing are estimated at a cost of c.£800,000
  - This doesn't include having any major alterations to the walls
  - Works to walls will be prioritised in areas that are clearly seen once the scheme design is understood
  - Network Rail have confirmed ownership of the walls adjacent to the railway line

## **7. EXTERNAL FUNDING**

- 7.1 Officers have had regular engagement with different departments from One Public Estate and Homes England both of whom ultimately report to DLUHC.

- 7.2 One Public Estate administer the Brownfield Land Release Fund (BLRF). The Council has had previous success with this fund with awards for two of our key development sites. The recent round of funding opened in July 2022 with a very tight submission deadline of August 19<sup>th</sup> 2022. Officers submitted a bid for £3.55M. The outcome of this submission is expected in November/December this year. A condition of the funding is that the Council must be in contract for the remediation contract by 31<sup>st</sup> March 2023. If the Council is successful in this funding round officers will prepare a tender for the remediation works so that the Council can comply with this condition. Works would then be able to commence after 1<sup>st</sup> April 2023. If this is not achievable, we may need to bid in a further round which is expected early next year.
- 7.3 Homes England have two relevant grant funds that are applicable to the Ship Street scheme.
- Infrastructure Delivery Fund
  - Affordable Homes Fund
- 7.4 Infrastructure Delivery Fund: This can be applied for where schemes have a viability gap to help bring the scheme forward. Discussions have taken place with Homes England which have been of a highly positive nature. Officers will consider an application to this grant fund once the outcome of the application to the BLRF is known.
- 7.5 Affordable Homes Fund: This fund is available as a subsidy for providing a higher percentage of affordable homes than is required by local planning policy. Local planning policy states that 22% of homes should be affordable (either affordable rent or shared ownership). Therefore if the Council provides more than 22% we will be able to claim grant on the additionality. Should the Council develop a scheme that provides more than 22% affordable housing officers will prepare a submission to this fund. Again, early engagement has been very positive.
- 7.6 During conversations with Homes England a further grant has been offered from the Market, Partners and Places (MPP) Resource Funding. £60K has been secured towards the scheme design costs and officers are currently working through funding agreement.

## **8. DESIGN TEAM AND REMEDIATION CONTRACTOR PROCUREMENT**

- 8.1 It is clear that public funding is needed to remediate the site. The optimum means to secure that funding and produce a methodology and plan to effect the remediation, is by making a planning application for a residential led scheme. By doing so the Council can retain control of this critical housing led regeneration project and de-risk the site to attract (if desired or applicable) a commercial partner it is proposed that the Council will appoint a design team to develop the scheme to RIBA stage 3 and submit a full planning application.
- 8.2 It is proposed that the Council procures a design led team via the Homes England Multi-Disciplinary framework.

- 8.3 In parallel with this the Council will work up a specification and tender document to undertake the remediation of the site suitable for housing led redevelopment.
- 8.4 The requirements and methodologies of the remediation strategy will be a combination of the groundworks specification, the scheme design (which will set required ground levels) and the technical requirements identified in the remediation surveys already completed.
- 8.5 The planning application process will engage members of the public and statutory consultees such as the Environment Agency and Southern Water, to participate in setting quality standards for the site remediation. This will de-risk the development from a planning and delivery perspective.
- 8.6 Discussions with potential funders, in particular Homes England will continue to take place to secure funding for the land remediation costs.
- 8.7 Soft market testing with potential developers will continue to be explored throughout the design and remediation period.

## **9. BUDGET AND FUNDING**

- 9.1 Financial modelling shows that the total scheme cost estimate (based on 150 homes) is in the region of £41M - £43M including abnormal land and remediation costs.
- 9.2 This includes retaining wall budget of £800K and a soil remediation budget of £2.2M (best estimate at this point). We have also budgeted £800K for public realm as this is a key regeneration project. Therefore, the abnormal and public realm costs are estimated at c.£3.8m at this point in time.
- 9.3 The expected income the Council could generate from 150 finished homes and 4 commercial units is between £36M - £40M depending on tenure mix and assumed sales values and grant contributions.
- 9.4 If the Council secure funding to wholly cover the cost of land remediation the land would have a neutral or positive residual value.
- 9.5 The estimated cost of the professional fees to appoint the design team including the associated consultants to get us to RIBA stage 3 and submit a planning application are c.£500K.
- 9.6 Cabinet have previously agreed a budget for Ship Street of £230K. Approximately £120K of this has been spent on site investigation works, wall surveys, site management, consultants, initial capacity studies and a resident engagement event. This leaves approximately £110K of available budget.
- 9.7 As referred to in paragraph 7.6 Homes England have offered funding of £60K towards the design development of the scheme. They have also indicated that they may be willing to provide further funding for RIBA stage 3, but not until the new financial year.

- 9.8 Cabinet is asked to approve that Officers request further funding of £350K from Full Council to cover the additional sums required for the design team and planning submission and a small contingency, to be split 70% to the General Fund (£245K) and 30% to the HRA (£105K) in line with the original site acquisition. The £350K can be met from capital receipts earmarked for the General Fund and HRA respectively.
- 9.9 Budget for the remediation of the site will be sought from external funders as outlined above and will be built into the capital programme through the usual budget setting process.

## 10. PLANNING

- 10.1 An Architect led multi-disciplinary team will be procured and appointed to develop a design in accordance with the development objectives and take it through the planning process, to achieve a consent. The appointment will initially be to RIBA stage 2 (Concept Design), with continuing appointment to stage 3 assuming satisfactory performance.
- 10.2 A functional separation agreement will be put in place as the Council will be both developer and Local Planning Authority.

## 11. TIMELINE

Event	Date/Target Date
Report to Cabinet on design brief and next steps	21 <sup>st</sup> September 22
Architect procurement / appointment	1 <sup>st</sup> November 22
Brownfield Land Remediation Fund outcome	November 22
Remediation Tender Invitation Documentation	Oct-22- May 23
Planning Submission	June 23
Resolution to Grant Planning	September 23
Market assessment & Engagement – Next Steps	Oct 23-Jan 24
Start on Site	Spring 2024

## 12. NEXT STEPS

- 12.1 Having a residential led planning consent in place and a remediated site will give the Council options as to how the regeneration is implemented.
- 12.2 A further report will be brought to Cabinet in due course to consider how the scheme is developed post planning and consider optimal tenure mixes.

## 13. RISK MANAGEMENT ISSUES

Perceived risk	Seriousness	Likelihood	Preventative action
Remediation costs escalate	Medium	Low	Extensive site survey work has been undertaken. Architects will design scheme

			accordingly. Active engagement with Homes England and OPE for funding. Seek further grants and / or retender the work
Fee tenders are higher than estimated	Medium	Low	Delay appointment. No contract will be let without there being an adequate budget

## **14. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS**

### **14.1 Legal Officer's Comments (AK):**

There are no legal implications arising directly from this report. Legal services will have oversight of any funding agreements where any grants are awarded. Procurement Officers will be involved in the tendering and award of the Architect contract through the Homes England Framework.

### **14.2 Finance Officer's Comments (LW):**

Section 9 of the report outlines the key financial implications regarding the £350k budget being requested to allow the planning application to be submitted and this has been prepared in consultation with Financial Services. The £60k Homes England grant will also need including in the updated budget for Full Council to approve. A further report will be made to Cabinet regarding the development of the site and Financial Services will be involved with this.

### **14.3 Diversities and Equalities Implications (AB):**

There are no diversity or equality implications arising from the report.

### **14.4 Environmental Implications (AT):**

The proposal would have a positive impact on emissions from travel, as it makes use of a brownfield, urban site that would be connected to footpaths, cycling and public transport routes, a short distance from Folkestone town centre and local shops and services on Black Bull Road, as well as employment sites at Park Farm, Highfield and Bowles Well Gardens Industrial Estates.

Emissions from the construction and the operation of the homes would be determined by the detailed design of the buildings but would need to meet local plan policies and Building Regulations.

The proposal would have a positive impact on pollution, in remediating a contaminated site to a higher standard than the initial remediation already undertaken by National Grid, making it suitable for residential use.

The proposal has the potential for a positive impact on biodiversity, following local plan policies for biodiversity net gain, but the extent of the impact will be dependent on the detailed design of the scheme.

## **15. CONTACT OFFICERS AND BACKGROUND DOCUMENTS**

Councillors with any questions arising out of this report should contact the following officer prior to the meeting.

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The following background documents have been relied upon in the preparation of this report:

**Appendices: None**