

This Report will be made public on 9 July 2024

Report Number **C/24/18**

**To:** Cabinet  
**Date:** 17<sup>th</sup> July 2024  
**Status:** Key Decision  
**Cabinet Member:** Cllr Speakman – Cabinet Member for Assets and Operations  
Cllr Holgate – Cabinet Member for Place Plan, Heritage, Tourism and District Economy  
**Responsible Officers:** Andy Blaszkowicz – Director of Housing and Operations  
Ewan Green- Director of Strategy and Resource  
Rod Lean – Chief Officer of Place & Growth

**SUBJECT:** UPDATE ON FOLCA 1 MEDICAL CENTRE, LUF FUNDED WORKS & CONSIDERATION OF DISPOSAL OF CURRENT CIVIC CENTRE SITE.

**SUMMARY:**

This report provides an update on the new Medical Centre proposed in Folkestone Town Centre in the Folca 1 building owned by the council. It explains why it is now deemed an unviable location and suggests an alternative adjacent location in Folca 2. The report also updates members on the LUF funded work relating to Folca 2 and the emerging proposed occupancy mix.

The report also requests authorisation to explore alternative options for Folca 1 with the outcomes of that work presented to members later in 2024/25.

Lastly the report provides an overview of the current civic offices and seeks approval to explore its disposal to facilitate part-occupancy of the Folca 2 building, with the outcomes of that work presented to members later in 2024/25.

**REASONS FOR RECOMMENDATIONS:**

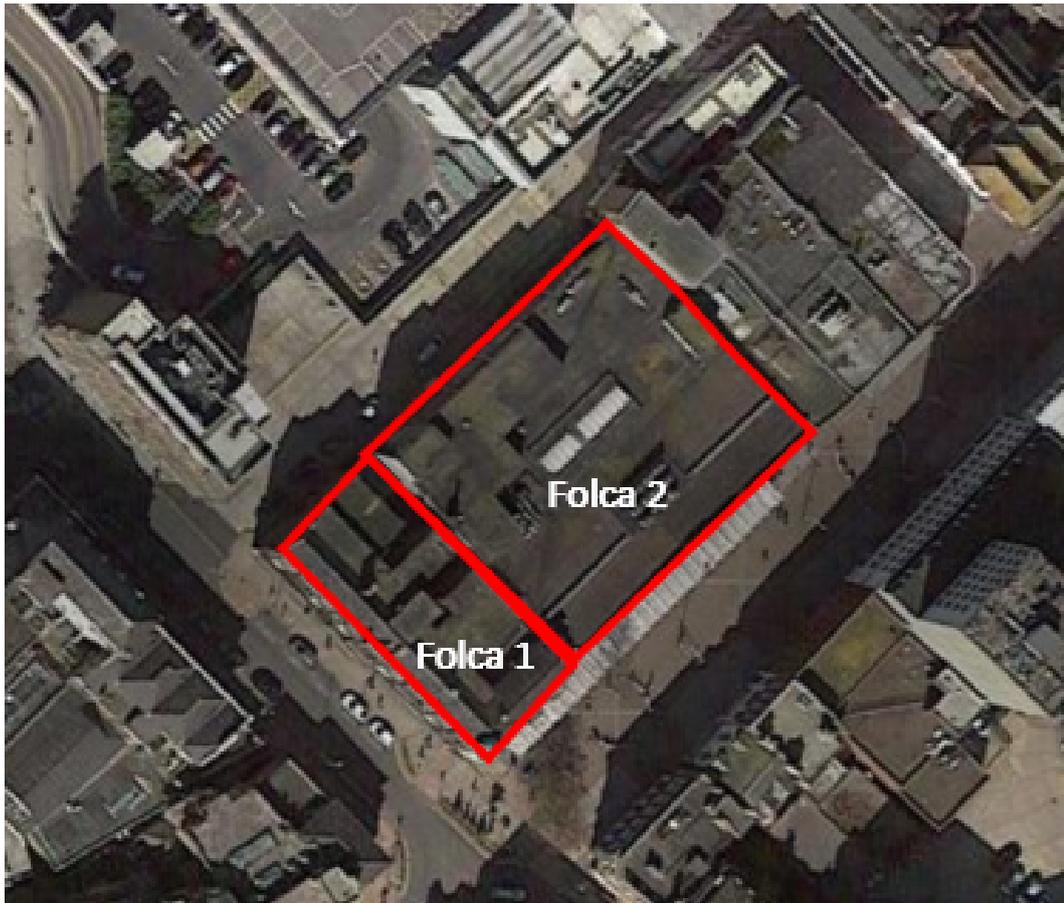
The Folca project is at a critical stage and Cabinet authorisations are required to continue. The NHS has confirmed that locating the medical centre in Folca 1 as previously supported by Cabinet is no longer financially viable for them. Members are asked to authorise officers to explore alternative options so that the LUF funded works can continue.

## **RECOMMENDATIONS:**

- 1. To receive and note report C/24/08.**
- 2. To note that the Medical Centre proposed for Folca 1 is not financially viable for the NHS.**
- 3. To approve exploring the option for a Medical Centre to be located within Folca 2.**
- 4. To authorise officers to consider options regarding the future of Folca 1 and return to Cabinet later in 2024/25.**
- 5. To agree that essential work to the envelope of the Folca 2 building funded by LUF commences.**
- 6. To authorise officers to explore the disposal of the existing Civic Centre site, reporting back to Cabinet in due course.**
- 7. To note the Folca 2 business case and financial modelling will be presented to Cabinet later in 2024/25.**

## 1. BACKGROUND

- 1.1 The former Debenhams store (c.79,000sqft) in Folkestone town centre was acquired by the Council in 2020 following its closure and renamed, after a range of suggestions were made by local residents, as 'Folca'.
- 1.2 The Council's rationale for the purchase of Folca was to control a key anchor asset in the town centre with the aim of helping to drive regeneration and reactivate a dilapidated area of the town.
- 1.3 The Council set a clear vision for Folca, which was:
  - A. To create uses within the former Debenhams store which will help bring vitality for Folkestone town centre.
  - B. To accommodate a new Health Centre which will bring modern, state of the art facilities, help improve health care provision for the district, and help act as a magnet for footfall in the town centre.
  - C. To help revitalise the town centre through links and improvements with Bouverie Place and improve the sense of place.
  - D. To help make Folkestone a more attractive place to live, work and visit, so retaining local spend in the town and attracting more visitors.
  - E. To develop an attractive building which builds on the town's history and is of a high-quality design, improving the urban aesthetic of the town.
- 1.4 The property is formed of two main parts, the original red bricked Edwardian element which fronts Bouverie Place and around to part of Sandgate Road, (i.e. Folca 1) and the later, much larger art deco extension with frontage directly onto Sandgate Road (i.e. Folca 2). See diagram 1 below.



*Diagram 1 – Folca 1 & 2 plan*

### 1.5 **Folca 1**

In September 2021, Cabinet approved proposed Heads of Terms for phase one to bring forward the delivery of a Medical Centre by Premier Primarycare Ltd (report [C/21/33](#)) within the Edwardian footprint, known as Folca 1. This decision identified that the intended £1m capital receipt from the Folca 1 disposal would be used as the match funding required under the LUF bid. Officers have been working closely with the Folkestone medical practices that would be moving into the new facility and the NHS for funding. The NHS have now confirmed that the medical centre as originally conceived is not financially viable in Folca 1, so other options need to be explored to retain a new Medical Centre aspiration within the town centre.

### 1.6 **Folca 2**

In March 2022, The Council recommissioned Colliers to build on previous work undertaken to create a research and viability report including financial models on different development scenarios. All the scenarios required financial assistance to make them viable from a development perspective. The 'renovation' scenario had the lowest gap funding requirement (est. £2.48M) and could enable the Folca 2 site to become a future income generating asset (subject to final design and occupancy) if that gap funding could be found. The Levelling Up programme had a criterion around

unlocking unviable dilapidated vacant town centre buildings which this proposition met. This option was duly incorporated into the overall Levelling Up bid 'Folkestone a Brighter Future' (submitted August 2022). The bid was subsequently successful.

- 1.7 In tandem with the LUF work which is aimed at ensuring the Folca 2 building is watertight and ready for the next phase of occupancy, council officers have been exploring options for a public / private sector, mixed use occupancy strategy for the building in order to address the vision and strategic intention outlined in section 1.

## **2. CURRENT STATUS OF FOLCA PROGRAMME**

### **2.1 Folca 1 Medical Centre**

- 2.1.1 As Cabinet is aware, a key rationale for purchasing Folca was the aspiration to house a much-needed modern medical facility in Folkestone town centre. The new Medical Centre would amalgamate the two Manor Road and Guildhall Street GP practices, to enable them to have a shared brand-new facility (in Folca 1) to accommodate their increased patient numbers and replace their outdated and deteriorating current premises. Offering a range of medical services from one location was the original vision.

- 2.1.2 The GP's and the NHS have been working on the proposition to create a viable project that works for all parties. This work unfortunately coincided with the economic crisis following the autumn budget of 2022 and other national and international contributing factors, which has resulted in higher interest rates and material costs leading to a destabilisation in the financial markets. In late November 2023 the NHS and GP's were informed by their project development team, that based on the escalation of build costs, higher financing rates, the deterioration in market valuations of primary care projects and other key factors that Folca 1 as a Medical Centre is unviable. Since then the council's project team has been exploring alternatives explained in section 2.2.

### **2.2 Medical Centre proposal within Folca 2**

- 2.2.1 Following the NHS decision not to progress the new Medical Centre in Folca 1, the GP's project team approached the council to ask if Folca 2 could be explored allowing them to rework and reduce the cost appraisal. It was felt that the construction costs would be considerably less based on a 'fit out' basis on a smaller footprint, compared to the proposed Folca 1 option which included a wider range of facilities and consequently had high construction costs thus requiring significantly more capital investment. This was also supported by the NHS as an option worth exploring. FHDC officers are now seeking members' approval to further explore this option.

## 2.3 Folca 1 current position without the Medical Centre

- 2.3.1 Folca 1 was originally allocated to be the Medical Centre as outlined above in section 2.1 and no alternatives were developed due to the overwhelming desire of council to facilitate much improved healthcare facilities in the town centre.
- 2.3.2 However, the council now needs to understand what feasible alternative options are available for the Folca 1 building. Some limited work has been carried out already looking at headline alternative options however, there is more work to do, and this will be presented back to Cabinet later in 2024/25.
- 2.3.3 A full condition survey of Folca 1 was carried out by Pellings LLP in August 2023. The conclusion of this work deemed the building to be in extremely poor condition with an estimated cost in excess of £3.8m just to bring the building back to a watertight shell and core condition. This therefore creates a significant cost pressure and increased financial risk for any occupier or developer when considering future uses for the building in their supporting business case.
- 2.3.4 Another key issue regarding the Medical Centre not going into Folca 1, is the impact on the LUF project match funding profile, where FHDC are obligated to provide a 10% match against the overall LUF budget of £21,990,910 which amounts to £2,199,091. Cabinet agreed this match funding would be made up of several council budgets with circa £1m allocated from the Folca 1 Medical Centre capital receipt. Details can be seen in the Council report of July 2022 (report [A/22/15](#)) which was subsequently factored into the relevant budget decisions made by Full Council. As a reminder, the agreed funding package is set out in the table below.

Source	Current £ as Agreed by Council (27 July 2022)
F&H High Street Fund (Reserve)	450,000
Community Infrastructure Levy	350,000
Capital Receipt (Folca 1 Lease Premium)	1,000,000
Economic Development Reserve	399,901
	<b>£2,199,901</b>

- 2.3.5 The loss of the £1m capital receipt from the disposal of Folca 1 to the NHS will need to be replaced. As set out above in section 2.3 officers will explore options for Folca 1 and report back to Cabinet later in the year. It is critical that Folca 1 provides either a substantial capital receipt or a significant

ongoing revenue stream to enable the delivery of a viable business case for Folca 2 and make up the necessary match funding element for the wider project.

## **2.4 Folca 2 LUF project update**

2.4.1 Following the successful LUF bid outlined in paragraph 1.6, Pellings LLP (Integrated design, property and construction consultants) were appointed in November 2022 to advise and deliver the Folca 2 element of the LUF project (£2.48 million). This commission was broken down into 3 stages:

- Oversee the survey and investigative works and produce a report recommending the best use of the LUF money. (This stage is complete.)
- Development of a schedule of works and prepare the necessary tender documents to procure contractors for the separation and partial refurbishment. (Complete, awaiting confirmation re future occupancy of the building).
- To assist in the procurement of contractors to deliver the refurbishment, and act as Clerk of Works providing management and oversight of the completion of the refurbishment, (awaiting previous stage to complete).

2.4.2 The Pellings report regarding best use of the LUF funding recommended repairing the roof and windows and partial strip out of the defunct services (to note: all of this proposed work is dependent upon the tender return prices). This work however has currently been paused due to the uncertainty regarding the location of the Medical Centre and pending the outcome of the occupancy mix work and business case.

2.4.3 For the Folca 2 element of the LUF work to proceed, a decision regarding the future of the site is now required. This is to minimise the chance of abortive works and costs on the site and to ensure those works that are undertaken best fit the proposed future usage of the site. It is time critical for members to make a decision now on the council's willingness to see the Medical Centre being located in Folca 2.

2.4.4 Furthermore, there are tight deadlines associated with the LUF programme and DLUHC mandate that the funds must be spent, and the work completed by March 2025. However, we have had recent confirmation from DLUHC that they have helpfully re-baselined our completion date to the end of September 2025.

2.4.5 Members are asked to agree to progress the LUF funded works to the Folca 2 building over the coming months to ensure that the tight deadlines for investment of the grant monies are met.

## **2.5 Existing Civic Centre site**

- 2.5.1 As part of the council's overall estates strategy, officers are currently at the very early stages of exploring options for the re-location of its council civic centre offices and the potential re-development of the existing site on Castle Hill Avenue in Folkestone in order to facilitate part-occupancy of Folca 2.
- 2.5.2 The existing Civic Centre is a 9-storey building built in the 1960s. Currently the building is requiring an investment of circa £2.9 million over the next 10 years to ensure it is fit for purpose, compliant and safe for occupancy. Some of the building is currently tenanted, some space remains vacant, and since covid the council has adopted an agile way of working which has reduced the amount of office space required for back-office council functions with the change in space requirements leading to reduced operating costs.
- 2.5.3 The intention is for the capital receipt gained from its future disposal to be set against any future borrowing required for the Folca 2 development, or other priority capital schemes, to make the business case viable.
- 2.5.4 The recommended strategy for members' endorsement is to seek 'Pre-App' advice from the Local Planning Authority and to test the market for interest in the site's disposal. The outcome of this work will be reported back to cabinet for review and decision with any disposal being carefully timed to allow council operations to continue uninterrupted. Council's elsewhere in Kent have, for example, continued to use their building once sold whilst the incoming developer progresses its planning application and while the council identifies locations for its own services.
- 2.5.5 Further to this, wider consideration will be given to all stakeholders including commercial tenants who will be kept informed periodically of progress. Any potential disposal will consider their current lease arrangements. Officers will also work closely with our Civic Centre tenants to explore commercial occupancy potentially in Folca or more widely in Folkestone Town Centre.

## **2.6 Folca 2 Business Case update**

- 2.6.1 In tandem with the LUF work which is aimed at ensuring that the Folca 2 building is watertight and ready for the next phase of occupancy, council officers were asked by members in February 2023 (Report [C/22/86](#)) to explore relocating some council services from the current civic offices into Folca 2, to create a public sector and commercial mixed use occupancy hub. The aim, to bring back vibrancy into the town centre.
- 2.6.2 To enable this work to progress officers structured a project team comprising of two specialist commissions along with support from council officers. These are as follows:

- Carver Haggard Architect: To provide a design concept for the building and the potential occupancy mix.
- Turley, Economic Impact specialist: To provide the economic business case to demonstrate the Gross Value Added (GVA) for the proposed scheme.
- Inhouse financial services: To build a financial business case to ensure that it is viable.

All three commissions are working in tandem with each other to draw out the optimum occupation strategy and ensure the project is financially viable.

2.6.3 Kent County Council have been carrying out a review of their own assets within Folkestone and have approached F&H DC about the potential use of some space in Folca 2 for some of their services. Dialogue has been ongoing and will form part of the occupancy viability strategy.

2.6.4 Officers will continue to explore which F&H DC services are appropriate to move into the Folca 2 building in the town centre. This is thought likely to be customer-facing front line services so that these are accessible to residents and other service users. The refurbishment of the prime town centre site for council back-office functions is not, at this stage, considered to be the preferred option but members will be kept advised as the full business case and viability for Folca 2 is prepared.

2.6.5 In line with the vision and strategic intent outlined in section 1, officers are also considering other uses for the space, such as leisure and commercial activities to bring greater vibrancy and utility for residents.

2.6.6 The Medical Centre (pending Cabinet approval) will now be included within the mix of potential occupants for Folca 2 and the overall strategy and business case will be reported back to Cabinet for decision later in 2024/25.

### 3 RISK MANAGEMENT ISSUES

3.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
Match Funding for LUF from the Folca 1 site is not available	High	High	Officers to explore options for Folca 1 to provide capital receipt or significant revenue income stream. Potential alternative sources of funding considered.
Financial model is not viable and therefore the	High	Medium	Exploring all options and occupancy mixes to maximise revenue

development of Folca 2 does not progress			to service capital borrowing and phase the project accordingly.
New Medical Centre facility not provided in Folkestone Town Centre	High	Medium	Explore potential of Medical Centre located in Folca 2.

#### **4 LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS**

##### **4.1 Legal Officer's Comments (EC):**

There are no direct legal implications as a result of this report but as advised by legal the Radnor Estate has the benefit of a restrictive covenant on the Civic Centre, not to use the property otherwise than as public offices and buildings for the functions as a local authority. Legal will be on hand for any further advice needed if you decide to proceed.

##### **4.2 Finance Officer's Comments (JS):**

As noted at paragraph 2.3.4 and 2.3.5 there is a risk around the composition of the LUF match funding as originally planned with the loss of the £1m capital receipt from the sale of Folca 1 to the NHS. Officers will explore options for the future use of Folca 1 and report back to members to ensure that suitable future uses will provide a capital receipt or substantial revenue income stream to make up the match funding required for the wider LUF project.

For awareness, there is currently a budget of £10m in the general fund medium-term capital programme ('GF MTCP') from 25/26 for Folca 2 which is funded by prudential borrowing; this is for the future completion of the Folca 2 project and does not impact on the structural work required mentioned in the main body of this report. It is anticipated that the capital receipt from the disposal of the Civic Centre will be used to reduce the borrowing amount. Updates to the GF MTCP will be required and form part of the Folca 2 business case report due to come back to Cabinet later in 24/25.

##### **4.3 Diversities and Equalities Implications (GE):**

There are no diversity and equalities implications arising directly from this report.

##### **4.4 Environmental Implications: (OF):**

There are no climate implications arising from this report.

## **5 CONTACT OFFICERS AND BACKGROUND DOCUMENTS**

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

5.2 Rod Lean – Chief Officer Place & Growth

Telephone: 01303853301

Email: [rod.lean@folkestone-hythe.go.uk](mailto:rod.lean@folkestone-hythe.go.uk)

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

None.

5.4 **Appendices:**

None.