

Folca 2 – Update and Business Case

Overview & Scrutiny Committee
27 May 2025



Background

- **May 2020** - Acquired by Council
- **March 2022** - Consultant commissioned to assess viability
- **January 2023** - LUF bid successful for phase 1 works
- **October 2023** - Architect commissioned
- **July 2024** - Approval to explore a medical centre in Folca 2
- **December 2024** - Economic appraisal commissioned
- **March 2025** - Public Sector Decarbonisation Scheme (PSDS) bid successful
- **April 2025** - Procurement strategy developed



Overview of Cabinet Report

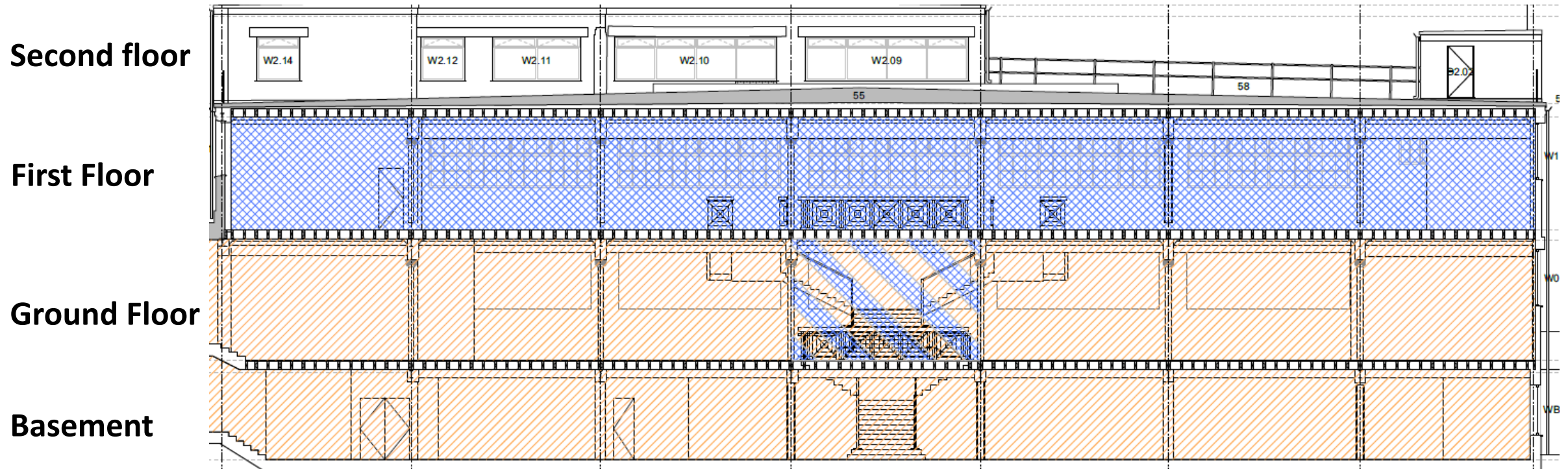
Report sets out the following updates since last Cabinet report ([C/24/18](#) - July 2024)

- Status of the medical centre
- Levelling Up Fund (LUF) works progress
- Occupation Strategy and Business Case
- Recommended option with appended business case

Medical Centre Update

- Folca 1 – Deemed non-viable option by NHS Integrated Care Board (ICB)
- Folca 2 – Option explored to include a medical centre
- Folca 2 – Schedule of Accommodation agreed by NHS ICB and GPs
- Financial model and viability assessed by the Council

Medical Centre Cross Section



To note: Medical centre on 1st floor and 2nd floor

Phase 1 (LUF) - Update

- Remedial work - £2.2m
- Funded by the MHCLG “Folkestone – A Brighter Future” Levelling Up Fund
- Scope of work
 - To weatherproof the building
 - To separate Folca 1 and Folca 2
 - To help facilitate Phase 2
- Programme
 - Tender: Aug. 25 – Nov. 25
 - Contractor appointment and mobilisation: Nov. 25 – Dec. 25
 - Construction stage: Jan. 26 – June 26
- Deadline for LUF expenditure – March 2027

Public Sector Decarbonisation Scheme (PSDS)

- Fund's objective: To reduce direct carbon emissions from public sector buildings
- Grant approved: £1.44m
- Scope of work:
 - Low carbon heating system
 - Building fabric improvement
 - Energy efficiency measures
- Impact to Folca 2 business case:
 - Decreases borrowing requirement by £1.44m
 - Estimated annual interest savings: £64k
- Benefits:
 - Energy consumption savings - £86.5k per annum
 - Carbon emissions reduction - 103,000 kgCO₂ per annum

Occupation Strategy & Business Case

- Consultant Commissioned to Review Options
- Social and Economic Assessment
- Environmental Assessment
- Commercial Review
- Incorporation of Medical Centre
- Financial Modelling and Viability Assessment

Recommended Option

To redevelop Folca 2 into a medical centre and commercial units

- Combining mixed-use commercial with a medical centre
- Mixed-use commercial on the ground and basement levels
- Medical centre occupying the 1st Floor and part of the second floor
- Current cost estimate - £13.2m

Project Cost Estimate

Associated work	Cost	Additional Comments
Phase 1 LUF Works	£2.2m	Remedial work incl. fees and contingency
Phase 2 Construction Costs and Contingency	£11m	Complete construction incl. fees and contingency
Cost Estimate	£13.2m	



Project Finance Plan

Associated work	Funding source	Funding	Status	Additional Comments
Cost estimate		£13.2m		
Phase 1	Levelling-Up Fund	£2.2m	Approved	Remedial phase
Decarbonisation	Public Sector Decarbonisation Scheme	£1.4m	Approved	
Phase 2 incl. Medical	FHDC	£9.6m	Work in progress	FHDC Capital – Inclusive of all direct costs (fees etc) Repayment option being explored with NHS
Total Budget		£13.2m		As per agreed Medium Term Capital Plan
Folca 1	Capital receipt (estimated value)	██████	Work in progress	Capital receipt reduces borrowing
Civic Centre	Capital receipt (estimated value)	██████	Work in progress	Capital receipt reduces borrowing Principles agreed – Cabinet report C/24/18

Medical Centre Finance Options

The NHS ICB have 2 models which they are considering to finance the scheme.

Market value rental option





- Approved NHS ICB market rent (TBA) over the period of the lease (50 Years)
- Pressure on FHDC revenue budget for longer period of time
- Business case break even point 27 Years

Section 2 Contract (NHS 2006 Act)





- Full cost recovery including associated costs for the medical centre borrowing
- Pressure on FHDC revenue budget for a shorter period of time
- Business case break even point over 6 years
- Payments cover finance costs until full cost recovery then peppercorn rent

Financial Models





Model 1: Section 2 (NHS Act 2006)

	
	
Cumulative Breakeven Year	Year 6

Model 2: Market value rental option

	
	
Cumulative Breakeven Year	Year 27

Model 3: Full Mixed Commercial

	
	
Cumulative Breakeven Year	Year 7

To Note : Surplus based on 50% occupancy for the mixed commercial

To Note : All models are based on a standard 50 year term

Benefits of Recommended Option

- Vacant building in key town centre location brought back into positive use
- Increased footfall into town centre
- Attract and retain new medical staff
- 2100sqm created of commercial space on ground floor and basement
- 23,000 registered patients
- 21 new jobs created - Medical centre
- C. 80 new jobs - Commercial units (based on 100% occupancy)

Benefits of Recommended Option

- FHDC economy - £4.6m GVA (Construction phase – 18months)
- South East's economy - £6.2m GVA (Construction phase – 18months)
- FHDC economy - £4.9m GVA annually (Operational phase)
- South East's economy - £7.4m GVA annually (Operational phase)
- Energy consumption savings - £86.5k per annum
- Carbon emissions reduction - 103,000 kgCO₂ per annum

Folca 2 – High Level Financial Risks Summary

Risk Description	Risk Response Strategy	Response Strategy	Contingency Plan	Risk Probability	Risk Impact
Budget overrun, resulting in additional funding required, impacting the overall viability of the financial model	Contingency	De-risk through detailed due diligence on building and robust financial management scenario planning	10% contingency + Value Engineering (VE)	Moderate	High
NHS ICB rental agreement not secured until lease agreement signed (RIBA 4), impacting the financial business case	Mitigation	Working with QS to model accurate budget estimates; Having flexibility in the financial model term.	Full Mixed Commercial Model	Low	Very High
Medical centre - Non signing of lease agreement following RIBA stage 4, resulting in abortive design costs to reach to RIBA Stage 4 (£420k)	Mitigation	Seek contribution towards design costs from NHS ICB	Full Mixed Commercial Model	Low	Very High
Global economy and external factors, resulting in increase in interest rates or increase in material fees, impacting the viability of the business case	Mitigation	If the business case becomes unviable, the project will be reassessed	10% contingency + VE	Moderate	Very High

Next Steps & Programme

- Cabinet - 11 June
- Develop scheme to RIBA stage 4 (Design pack ready for tender) pending authorisation
- Programme
 - Design: June 25 - July 26
 - Tender: July 26 - Dec. 26
 - Construction stage: Jan. 27 - June 28

Conclusion

- 3 viable redevelopment options for the Folca 2 building
- Financial models include appropriate level of contingency and are based on conservative income generation figures
- On-going positive working relationship with the NHS ICB to deliver the improved medical centre aspiration
- Continuous work to de-risk the project on-going
- The recommended option is considered the most favourable position for the Council, and meets the overall objectives for the Folca 2 building

Cabinet Report Recommendations

1. To receive and note report C/24/XX.
2. To note progress made in relation to delivery of the phase 1 remedial works as part of the Levelling Up Fund project Folkestone: A Brighter Future.
3. To agree the recommended redevelopment option proposed for Folca 2 as set out in section 3.5 of the report.
4. To agree to delegate authority to the Directors of Housing & Operations and Strategy & Resources, to undertake all actions required to procure and deliver the redevelopment of Folca 2 as set out in section 3.5 of the report.
5. To note the acceptance of the grant offer of £1.44M from the Public Sector Decarbonisation Scheme (PSDS) fund and note the carbon reduction benefits this will secure.
6. To note the projected savings on capital borrowing and revenue as a result of the PSDS fund.
7. To acknowledge the risks and mitigation strategy associated with delivery of this project.

Cabinet Report Recommendations

7. To agree to delegate authority to the Director of Housing & Operations, in consultation with the Section 151 Officer, and Cabinet Member for Assets and Local Government Reorganisation to progress and complete all legal agreements required to bring forward the recommended proposal.
8. To note that progress in delivery of the redevelopment of Folca 2 will be reported through the Council's Performance Framework.
9. To note that, should there be any significant deviation in the business case viability, the project will be referred back to the relevant Cabinet Members.

Questions