

By: Mark Dance, Cabinet Member for Economic Development
Barbara Cooper, Corporate Director – Growth Environment and Transport

To: Growth, Economic Development and Communities Cabinet Committee - 1 December 2015

Subject: Folkestone Seafront Regeneration: Local Growth Fund Grant

Classification: Unrestricted

Past pathway of paper: None

Future pathway of paper: None

Electoral Division: All Divisions in Shepway (Elham Valley, Folkestone North East, Folkestone South, Folkestone West, Hythe and Romney Marsh)

Summary

As part of the South East Local Enterprise Partnership's Local Growth Fund allocation, the Government has indicatively allocated £5.1 million to deliver capital works in support of the regeneration of Folkestone Seafront. This grant is subject to the completion of a full business case and the confirmation of funding by the Government.

Should the Government confirm its funding, it is proposed that Kent County Council will act as the accountable body for the grant, which it will transfer through a subordinate grant agreement to the developers of the Folkestone Seafront scheme.

This report explains the project for which grant funding is sought, sets out KCC's role and outlines the process that will be followed to secure the funding. It seeks the support of the Cabinet Committee for KCC to accept Government grant funding and transfer it to the developers, subject to approval of a full business case.

Recommendation:

The Growth, Economic Development and Communities Cabinet Committee is asked to consider and endorse or make recommendations on the decision to be taken by the Cabinet Member for Economic Development, to agree that the Council shall (subject to the completion of a full business case, satisfactory appraisal by an Independent Technical Evaluator and approval by the South East Local Enterprise Partnership Accountability Board):

- i. Accept Government grant funding of up to £5.1 million capital to deliver a programme of regeneration works at Folkestone Seafront;

- ii. Enter into a subordinate grant agreement with a private sector organisation for the delivery of the programme; and
- iii. Delegate to the Director of Economic Development the authority to conclude arrangements to secure the recovery of administration costs associated with KCC's management of the grant agreement.

1. Introduction: The Folkestone Seafront project

- 1.1. Folkestone's prospects for regeneration and growth have been greatly enhanced by improved transport connections via High Speed One and by significant private and public investment in the town's public realm and cultural infrastructure. Building on this, the redevelopment of Folkestone Seafront will provide a high-quality, mixed use development, consisting of up to 1,000 homes and around 10,000 sq m of commercial floorspace, as well as new sports and leisure facilities and public space.
- 1.2. The spatial strategy for Folkestone Seafront is set out in Shepway District Council's adopted Core Strategy Local Plan and the project is recognised as a priority investment within the South East Local Enterprise Partnership's Strategic Economic Plan. Following a master plan developed in 2009, an outline planning application for the development was submitted by Folkestone Harbour Group and was approved in January 2015¹.

2. Proposal for grant funding

- 2.1. While the development will be largely privately financed, there is a high level of upfront investment required in infrastructure and site preparation works. The Development Viability Assessment completed in November 2014 stated that it would not be possible through normal market channels to raise the funding for this investment.
- 2.2. Last year, Folkestone Harbour Group submitted an expression of interest to the South East LEP for funding from the Government's Local Growth Fund. This resulted in the following indicative allocation:

2016/17:	£4.0 million
2017/18:	£1.1 million
<u>Total:</u>	<u>£5.1 million</u>

- 2.3. Specifically, it was proposed that this funding would be used for:

¹ Planning Application Y12/0897/SH

- a) Beach reinforcement, agreed with the Environment Agency as part of the flood risk assessment process and required as part of the planning conditions for site development;
- b) Raising site levels, again agreed as part of the flood risk assessment process;
- c) Upgrades to utilities; and
- d) Environmental improvements to Marine Parade, as the principal access route into the development.

3. Process for securing funding

- 3.1. At this stage, there is no confirmation of Local Growth Fund allocations for projects starting in 2016/17 or beyond, including the Folkestone Seafront project. It is anticipated that confirmation of 2016/17 funding will follow the Autumn Statement.
- 3.2. Assuming that the Government confirms funding for 2016/17, LGF funds will be paid to Essex County Council as the accountable body for the South East LEP. In order to release the funding for Folkestone Seafront, the developers are required to prepare a full business case, which will be considered by the Independent Technical Evaluator acting on behalf of the LEP. In considering the business case, the Independent Technical Evaluator will take into account the deliverability of the project, its value for money and the compliance of grant funding with state aid regulations.
- 3.3. If the Independent Technical Evaluator is satisfied with the outcome of the evaluation, the project will be reported to the South East LEP's Accountability Board (a Joint Committee of the six county and unitary authorities in the LEP area, including KCC). The Accountability Board will determine whether funds should be released.
- 3.4. The developers are currently preparing the business case and it is anticipated that it will be reported to the Accountability Board in February for determination.

4. Kent County Council's role

- 4.1. All LGF funds are distributed from Essex County Council as the LEP's overall accountable body to each county and unitary authority. Where projects are not delivered by the authority itself, it is anticipated that the authority will put in place a grant agreement with the final beneficiary.
- 4.2. In the case of the Folkestone Seafront project, the final beneficiary will be the developer. Provided that the project is satisfactorily appraised by the

Independent Technical Evaluator, and approved by the Accountability Board, it is envisaged that KCC will receive LGF funds, transfer them via a grant agreement with the developer and monitor delivery on behalf of the LEP.

5. Implications

Financial

- 5.1. There is no KCC contribution proposed to this project. However, KCC will be accountable for up to £5.1 million in Government funds to be delivered by a third party. There will be administration costs incurred in the management of the grant agreement; these will be recovered from the developer.

Legal

- 5.2. The proposed grant may constitute state aid. This will be assessed through the full business case. The developer is advised to seek independent state aid advice, and KCC will be satisfied with the state aid compliance of any grant before an agreement is entered into.

Equalities

- 5.3. An Equalities Impact Assessment has not yet been carried out. This will be required as part of the full business case, and will be the responsibility of the developer.

6. Recommendation:

The Growth, Economic Development and Communities Cabinet Committee is asked to consider and endorse or make recommendations on the decision to be taken by the Cabinet Member for Economic Development, to agree that the Council shall (subject to the completion of a full business case, satisfactory appraisal by an Independent Technical Evaluator and approval by the South East Local Enterprise Partnership Accountability Board):

- i. Accept Government grant funding of up to £5.1 million capital to deliver a programme of regeneration works at Folkestone Seafront;
- ii. Enter into a subordinate grant agreement with a private sector organisation for the delivery of the programme; and
- iii. Delegate to the Director of Economic Development the authority to conclude arrangements to secure the recovery of administration costs associated with KCC's management of the grant agreement.

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5 November 2015

Annexes:

Annex 1: Risk analysis

Annex 2: Draft Record of Decision

Relevant documents:

Shepway District Council (2013), Shepway Core Strategy Local Plan, Policy SS6 (Folkestone Seafront), p.65. Available at:

http://www.shepway.gov.uk/media/1811/Core-Strategy-Local-Plan-2013/pdf/Core_Strategy_Local_Plan_2013_v2.pdf

Shepway District Council (2015), Outline Planning Application Y12/0897/SH.

Available at <http://searchplanapps.shepway.gov.uk/online-applications/applicationDetails.do?activeTab=details&keyVal=MB9H81NZ01N00>

Folkestone Seafront master plan. Available at www.folkestoneseafront.com, and relevant documentation available at <http://www.shepway.gov.uk/planning-policy/local-plan/evidence-base>

South East LEP (2014), Strategic Economic Plan. Available at www.southeastlep.com

Annex 1: Risk analysis

Inherent				Residual			
Risk	Impact	Likelihood	Total (I*L)	Mitigation	Impact	Likelihood	Total (I*L)
Non-compliance with state aid rules, resulting in non-viability of grant assistance or clawback of grant.	5	4	20	Consideration by ITE. Developer to seek state aid advice Project divisible into discrete elements	5	3	15
Failure to secure planning permission, resulting in delay	5	2	10	Outline planning secured. Strong engagement with Shepway District Council throughout	5	1	5
Failure to demonstrate additionality and value for money of public sector support, resulting in failure to secure grant	5	3	15	Project divisible into discrete elements	5	2	10
Inability of developer to complete project due to market conditions or inability to secure commercial funding	4	3	12	Strong track record of delivery by final beneficiary. Final beneficiary credit checks and risk analysis before grant agreement concluded/	4	2	8
Delays in procurement and preliminary studies leading to risk of underspend	4	4	20	Main consultants (Buro Happold) appointed. Preliminary study costs excluded from scope of grant	3	2	6

Inherent				Residual			
Risk	Impact	Likelihood	Total (I*L)	Mitigation	Impact	Likelihood	Total (I*L)
Delay in concluding business case and approval leading to delay in project start	4	5	20	Early engagement with ITE and project lead.	4	3	12
Failure to agree conditions of grant agreement between KCC and developer	3	3	9	Draft grant agreement already shared; ongoing dialogue	3	1	3
Government decision not to commit funds in 2016/17	5	4	20	Dialogue with Government via LEP Alternative sources of funding/ phasing alternatives sought	5	3	15

KENT COUNTY COUNCIL – PROPOSED RECORD OF DECISION

DECISION TAKEN BY

Mark Dance – Cabinet Member for Economic Development

DECISION NO.

15/00085

Unrestricted

Folkestone Seafront Regeneration: Local Growth Fund grant

Decision:

As Cabinet Member for Economic Development, I agree that Kent County Council (subject to the completion of a full business case, satisfactory appraisal by an Independent Technical Evaluator and approval by the South East Local Enterprise Partnership Accountability Board), shall:

1. Accept Government grant funding of up to £5.1 million capital to deliver a programme of regeneration works at Folkestone Seafront;
2. Enter into a subordinate grant agreement with a private sector organisation for the delivery of the programme; and
3. Delegate to the Director of Economic Development the authority to conclude arrangements to secure the recovery of administration costs associated with KCC's management of the grant agreement.

Reason(s) for decision

The decision is required so that funding may be secured from the Local Growth Fund for the development of Folkestone Seafront. This will deliver housing and commercial growth in Folkestone and will support the town's wider regeneration

Cabinet Committee recommendations and other consultation

To be added following Growth, Economic Development and Communities Cabinet Committee on 1 December 2015

Any alternatives considered:

As part of the business case development, alternative sources of funding for each element of the project will be considered.

Alternative arrangements for the management of the LGF grant have also been considered. In particular, it would be possible for Essex County Council as the accountable body for the South East LEP to directly contract with the developer. This would mean that KCC would bear no risk. However, the federal model that the LEP operates ensures that there is stronger local oversight and accountability.

Any interest declared when the decision was taken and any dispensation granted by the Proper Officer:

None

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signed

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date