

Folkestone Seafront Development Project

SELEP Funding Full Business Case

034029

29 January 2016

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1 Project Summary

1.1 Project Description

This Business Case relates to the redevelopment of Folkestone's harbour and seafront, to provide a comprehensive mixed use development comprising of 746 dwellings (C3), up to 5,000 square metres of commercial floorspace including A1, A3, A4, A5, B1, D1 and D2 uses as well as sea sports and beach sports facilities. Improvements to the beaches, pedestrian and cycle routes and accessibility into, within and out of the seafront and harbour, together with associated parking are also included in the plans.

The redevelopment of Folkestone's harbour and seafront offers a unique opportunity to bring forward a high quality mixed-use development project, in a prominent location on the South Coast that is less than an hour from London St Pancras via high speed rail services. The outline planning permission for the site allows for the development of up to 1,000 residential units, a mix of commercial floorspace totalling 5,000 sq.m. as well as place-making and value enhancing complementary facilities including sea sports and beach sports facilities and a network of high quality public spaces.

The ambition is to re-establish this historic location as a suitably vibrant seafront quarter for Folkestone. A revitalised, dynamic harbour area will be created through the provision of a mix of leisure and residential uses. It is intended that the seafront will become a place to live and work with high quality residential accommodation and a mix of leisure and entertainment facilities offering a coastal setting with an enticing blend of sports, arts and recreation attractions. As such, the development offers a unique investment opportunity whereby the overall quality of the development, its location (rail links from Folkestone to London) and the mix of uses proposed has the potential to greatly enhance the sales and rental values associated with the scheme and therefore the financial return to an investor.

Furthermore, this development project presents an opportunity to reinforce and successfully embed adjacent regeneration activities – particularly the nearby Creative Quarter – which is already helping to re-position Folkestone as an attractive and entrepreneurial visitor destination. This new focus on creating a vibrant seafront is further enhanced through ongoing major investment in a public fountain, two highly acclaimed restaurants, a sea sports centre and soon to include a beach sports facility.

Work has also been completed on a £3.5m upgrade to the harbour arm to bring it back into the public domain. These values are further enhanced by the presence of the neighbouring Folkestone Coastal Park and Creative Quarter alongside preparations for the fourth instalment of the international art festival - the Folkestone Triennial – to be hosted in and around the harbour area in 2017.

This is not a simple volume house building exercise; it requires the creation of a high quality destination and in addition comes with a high level of infrastructure costs. This application for funding covers a series of necessary and/or highly desirable enabling infrastructure improvements that have major direct public impacts and which will unlock the full development scheme quickly, thus releasing the full range of its potential socio-economic benefits.

The LGF funds requested would go towards essential flood defence works to both raise the level of the site, and reinforce the existing sea defence - the shingle beach - thus unlocking the project to move towards detailed planning stage. In addition, funding is required to complete the development of the public access route from the northern side of the harbour, across the disused railway viaduct, swing bridge and through the old Folkestone Harbour station, enabling a route to the future development and to the already-refurbished Harbour Arm to be fully opened up to safe, public access.

The funding request therefore covers the following elements:

- Beach nourishment: £1.37m
- Site levels raising for flood defence purposes: £2.32m
- Link from town to Harbour Arm (minimum works required): £1.4m
- Total = £5,100,000¹

1.2 Summary Details

Project name	Folkestone Seafront Development
Project type	Residential-led mixed-use development with public realm improvement
Location	Folkestone
Local authority area and postcode location	Shepway District, Kent County Postcode: CT20 1QQ
Lead applicant	Folkestone Harbour (GP) Limited
Total project value	£337 million
SELEP funding request, including type (e.g. LGF, GPF etc.)	<ul style="list-style-type: none"> • Beach nourishment: £1.37m • Site levels raising for flood defence purposes: £2.32m • Link from town to Harbour Arm (minimum works required): £1.4m • Total £5.1m
Rationale for SELEP request	Project viability gap removal, public good and positive externality benefits of enabling infrastructure works.
Other funding sources	Privately funded project, no other significant public or private contributors
Delivery partners	Privately delivered project
Start date	2016
Practical completion date	2027
Project development stage	Inception, option selection, feasibility, detailed design, implementation
Proposed completion of outputs	2027

1.3 Terminology

In the remainder of this document, the term 'scheme' is used to denote the Folkestone Seafront 'development scheme' i.e. the full development project specifically in the Folkestone Harbour area. The three components of enabling infrastructure (the subject of this funding bid) are referred to as such separately.

The development project therefore involves delivery of a residential-led, mixed-use development scheme in the Folkestone Harbour area, underpinned by three components of enabling infrastructure (the subject of the bid). While this project constitutes a fundamental component of, and a catalyst for, the wider regeneration of the town, it should be considered as a specific development project only, not a district-wide regeneration initiative.

¹ As per initial outline bid for funding

2 Strategic Case

2.1 Strategic Context

The scale of the Folkestone Seafront development project requires a significant level of infrastructure and construction investment with returns that will be generated over the long term. As is common with projects of this nature, there are some uncertainties over the investment returns as the project involves a high level of upfront investment in infrastructure and site preparation works. The development will be phased over a timescale of eleven years and the project will be implemented in the context of a market that could still become relatively fragile and where new benchmarks of quality in design, construction and public realm are being promoted by the landowner. Other comparable schemes have typically required significant levels of public sector investment in order to achieve financial viability and have sometimes stalled where this has not been forthcoming.

Several precedents exist for public support for this type of project. One comparable scheme is located in Rugeley town centre. In this case, the proposed flood defence scheme is funded by the Stoke-on-Trent and Staffordshire LEP². The scheme will protect areas at risk from flooding allowing business, leisure and housing development to take place in areas previously avoided for construction. In addition, the project will see more than 100 existing homes and business premises protected by the construction of a 370-metre long embankment along Western Springs Road. The LEP will provide £1.29 million from the Local Growth Fund. The public funding essentially unlocks the development and underpins a series of wider public benefits. This scheme is widely supported locally and will contribute to Rugeley's future economic growth.

The £5.1m grant sought here towards the upfront costs - beach nourishment, site levels raising for flood defence purposes, and the link from the town to the Harbour Arm - will significantly remove a number of uncertainties. It will enable detailed planning and Phase 1 of the development to go ahead quickly and the scheme overall to be accelerated as a result. As such, significant wider economic and social benefits will be generated. These benefits arise not only from the delivery of much needed new housing, but also the provision of high-quality and publicly accessible new open spaces as well as a new visitor and leisure assets. The project will fully underpin the regeneration of Folkestone seafront, harbour and adjacent locations, yielding a major new economic asset for the town and enabling other nearby development opportunities to move forward via 'spill-over' effects that arise from an improved urban environment.

2.1.1 Addressing SELEP Objectives & Priorities

The redevelopment of Folkestone seafront and harbour has been agreed previously by the East Kent Regeneration Board, as one of the 12 priority investments for East Kent (as referenced in 'Open for Growth: the East Kent Growth Plan'). The proposals for Folkestone seafront will help deliver key objectives in the South East LEP Strategic Economic Plan (SEP). This plan sets out jobs and housing targets as priorities and a programme of investment aimed at building on the region's economic strengths and re-balancing its economy. Increasing the pace of housing construction and completion is a key strategic objective, the achievement of which will yield significant social and economic benefits. The Plan also highlights the importance of the visitor economy to the coastal areas and the opportunities to build on the LEP area's particular strengths in the creative, cultural and media sectors.

² <http://www.stokestaffslep.org.uk/lep-backs-rugeley-flood-defence-scheme/>

The South East Growth Deal³ agreed with government also gives priority to much needed jobs and homes and is intended to act as a spur to the revival of the area's coastal towns. The SEP highlights that investment in Folkestone seafront and harbour will de-risk the first phase of the scheme, and would accelerate the start of the development on site.

Shepway District's Core Strategy⁴ describes Folkestone town centre as being at the heart of East Kent's economic and cultural life, with a rejuvenated seafront able to support a town centre vibrant with new offices and public open spaces. A strategic allocation for the seafront sets out policies which prioritise the substantial opportunities available, providing a unique opportunity for the town to reconnect with the coast and reinvent and invigorate itself as a place to live, work and visit. The Core Strategy highlights that enabling infrastructure upgrades will need to be provided to improve connections from the seafront to the heart of the town centre lying above.

The proposed Folkestone Seafront development scheme will help deliver the strategic objectives of the SELEP Strategic Economic Plan by accelerating the delivery of jobs and homes and through securing the comprehensive regeneration of one of East Kent's key identified strategic sites.

2.1.2 Contributing to Local Priorities

The Folkestone Seafront development is of strategic importance to East Kent and Folkestone. It will be a transformational regeneration of the seafront and harbour which has experienced many years of physical and economic decline. Through multiplier effects, the economic and social benefits will be realised across a much wider area as new residences are occupied and new businesses form, bringing increased expenditure to the local economy.

Shepway Council's **Corporate Plan**⁵ sets out a clear vision: "Prosperous and ambitious - Working for more jobs and homes in an attractive district". To achieve this vision, the Council sets out 5 strategic objectives:

- Boost the local economy and increase job opportunities
- More homes – a key action is to specifically provide space for new homes within Shepway
- Listening to local people
- Support an attractive and vibrant place to live – key actions include providing public spaces which are clean and well maintained; and, enhancing the district's tourism offer
- Deliver value for money

The re-development of Folkestone's seafront and harbour area is clearly in line with these objectives and will facilitate the Council's ability to achieve positive change in the district.

Shepway Council's **Economic Development Strategy**⁶ highlights the opportunities that exist to build on the characteristics of the area including its coastline and local creative and cultural assets. It highlights the need to strengthen the offer in Folkestone town centre and the risks of falling behind competing town centres if it does not do so. Enhancing the retail and entertainment offer of Shepway's towns – and Folkestone in particular - will be an important part of this.

³ <https://www.gov.uk/government/publications/south-east-growth-deal>

⁴ http://consult.shepway.gov.uk/events/13437/1266486_accessible.pdf

⁵ http://www.shepway.gov.uk/media/1527/Corporate-Plan-2013-18/pdf/Corporate_Plan_2013-18.pdf

⁶ http://www.shepway.gov.uk/media/1697/Shepway-Economic-Development-Strategy-Final/pdf/Shepway_Economic_Development_Strategy_Final.pdf

The Economic Development Strategy states: *"Shepway's towns and coast are major economic drivers for the district, important for attracting visitors to the area and inward investment. We need to continue to invest heavily in these in the future. We recognise that the tourism sector offers real opportunities for growth in many of our towns and coastal area and we will consider how better to capture economic growth opportunities, including continuing to enhance the attractiveness of our areas."*

A further key priority of the Economic Development Strategy is to "boost the local economy and increase job opportunities" through the development of an environmentally sustainable and vibrant local economy. As with many coastal towns within the South East of England, there are numerous issues associated with the decline of traditional tourism and an inability of these towns to re-position themselves effectively enough for newer service and knowledge based industries. Folkestone has had some successes however, particularly related to tourism management services and financial services. The Harbour area has historically hosted both fishing and ferry services, but since the withdrawal of the Sealink and P&O ferry services in 2000, and with the completion of the Channel Tunnel Rail Link, the area has been very under-utilised and environmentally neglected.

Socio-economic challenges remain for Folkestone. Although there has been growth in the numbers of jobs in the town and wider district, these have been generally in lower paid and lower skilled occupations. The Economic Development Strategy identifies a deficit of much needed opportunities and workers in the knowledge economy.

One of the main priorities for 2016 is to consider how to improve connectivity in Folkestone between the town and seafront, including through the Coastal Park HLF project. Also, consideration will be given to how to enhance and develop Folkestone as an internationally recognised tourist destination, including measures to properly inform visitors to Folkestone and the other towns. Areas of poor physical connectivity will be identified and funding sources will be explored to improve vehicular, pedestrian and public transport connections.

This proposal for the re-development of Folkestone seafront and harbour is very well aligned to both regional and local economic priorities. A re-vitalised seafront and harbour district will provide housing and new job opportunities, the combination of which will yield major benefits to a significant catchment population. In addition, the proposed scheme includes very important environmental and flood defence measures that will directly contribute to the District's stated objectives of re-positioning Folkestone as a destination of choice based on its current and emerging assets.

2.1.3 Local Planning Policy

The Folkestone Seafront development proposal is supported by and consistent with Policy SS6 of the adopted Shepway Core Strategy Local Plan (NPPF compliant). Resolution to grant planning permission (Planning Application Y12/0897/SH) was made by the Full Council on 31st July 2013.

The details of the Section 106 agreement have been agreed by both sides. The planning application was accompanied by a comprehensive Masterplan prepared by Farrells, and supported by the local community. The application also sets out in detail the development parameters and design guidelines for the individual plots making up the scheme.

An original plan by Foster & Partners was much more infrastructure-heavy and was more susceptible to market changes. The current plan by Farrells has been developed so that individual phases can be built out in isolation to accommodate any market variability.

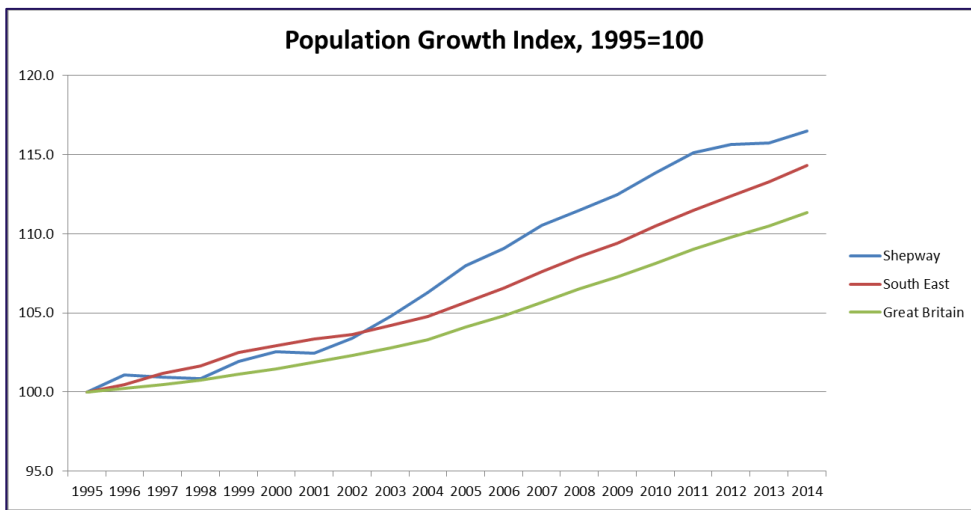
2.1.4 Socio-economic Context

There are a number of specific socio-economic challenges for Folkestone and the wider Shepway district that the proposed development scheme will help to address.

Population Growth

As Figure 2.1 below shows, the population of Shepway has been increasing over recent years.

Figure 2.1: Population Growth



Source: ONS Population estimates

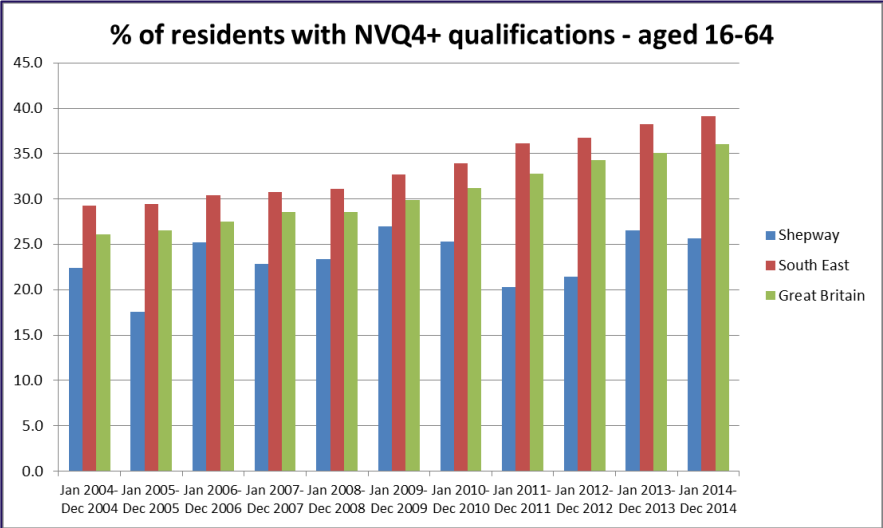
Over the last 10 years or so, Shepway district has experienced significant population change: the residential population has increased by approximately 12% since 2002 – a significant increase by historic standards. The rate of population growth in Shepway is in fact higher than both the South East region and the country as a whole. There is clearly therefore a pressing need for new housing to be developed and brought onto the market quickly in response to demand.

The Folkestone Seafront proposal will provide at least 740 new, high quality residential units and will help to strengthen the local property market. The provision of new housing will have both private, personal benefits to home owners, as well as a wider social impact as the town is better able to offer a range of property types that will help support a rising population and to retain residents in the town centre area.

Higher Level Occupations and Qualifications

Folkestone and wider Shepway district have struggled to retain and attract highly skilled individuals to live in the area. Figure 2.1 below shows that the share of working age residents holding higher level qualifications (NVQ level 4 or above) is significantly lower than the regional and national averages and has also fluctuated over time.

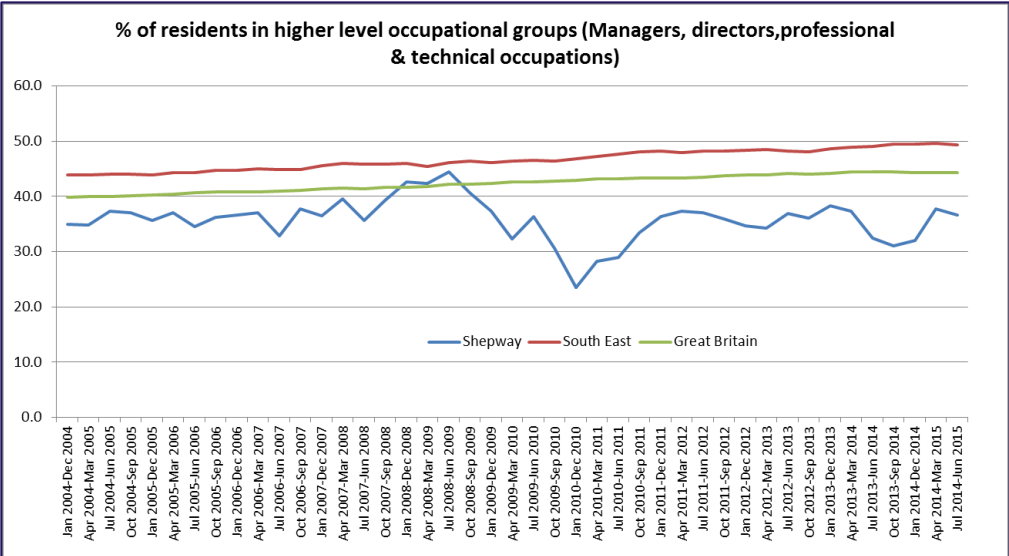
Figure 2.1: Percentage of Residents with Higher Level Qualifications



Source: ONS annual population survey

It is important for local areas to be able to retain a large share of skilled individuals within the population. Highly qualified people are likely to earn higher incomes and are often working in more entrepreneurial or innovative organisations. This in turn supports local economic competitiveness, creates further opportunities for business and enterprise and generally helps the economic wellbeing of an area. Associated with the relative lack of qualifications locally, there is also a relative under-representation of residents within higher level occupations, as shown in Figure 2.3.

Figure 2.3 Percentage of Residents in Higher Level Occupations



Source: ONS annual population survey

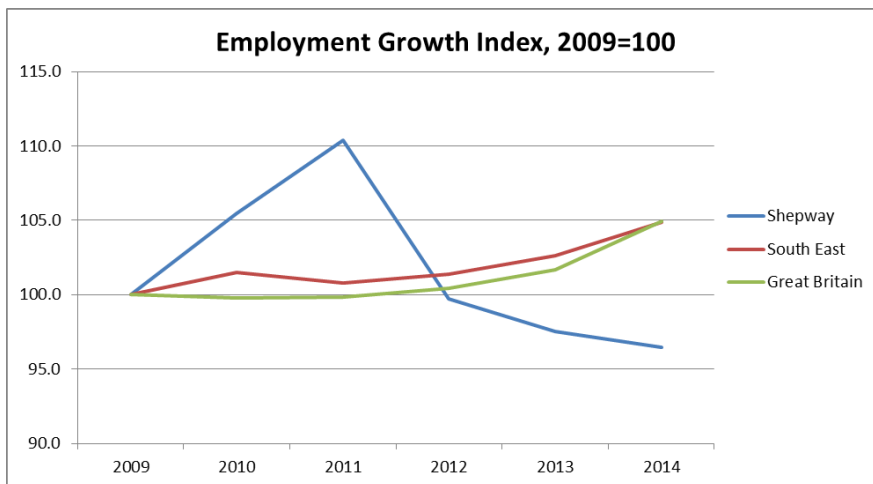
Over time, and particularly since the financial crisis of 2008/9, a significant gap has opened up between Shepway and the regional and national averages, in terms the share of residents in higher level jobs (mainly managerial, professional and technical occupations). This is likely to reflect a relative lack of these types of jobs available locally, but also that individuals in these occupations elsewhere are not choosing Folkestone and wider Shepway as a location of residential choice. In turn, this latter effect may be due to a limited range of housing options that might suit people in these job categories.

The development of the Folkestone Seafront scheme, combining high quality residential development with a significantly improved urban waterfront setting will help to support both attraction and retention of individuals in higher level jobs. In turn, this will yield benefits in terms of higher average incomes, higher local spend and additional spill-over effects such as demand for high-quality leisure, recreation and cultural activities.

Employment Growth

As the population of the local area increases, it is vitally important that the employment base and wider local economy also expand. This is key to managing and sustaining local population change and minimising the need for local people to commute outside of the area for work purposes. As Figure 2.4 below shows, the rate of employment growth in Folkestone and Shepway has been variable over recent years.

Figure 2.4: Employment Growth



Source: ONS business register and employment survey

Immediately following the financial crisis of 2008/9, Shepway district experienced a rate of local jobs growth that was ahead of the South East and GB averages. Since 2011, however, this relationship has inverted, with Shepway now having a lower and apparently declining rate of employment growth relative to the region and country as a whole. This suggests that employment growth is not keeping pace with recent increases in local population.

Employment growth is driven by a number of factors including the ability of successful local businesses to expand, the propensity for local people to establish new enterprises, and the success of the local area in drawing in new inward investment. All of these factors in turn require strong local economic assets and attractors. The Folkestone Seafront development scheme will support the expansion of the local economy by delivering much needed housing, by supporting efforts to regenerate the seafront and thus create a higher quality visitor destination, as well as helping to enhance overall quality of life and attractiveness of the area for local residents.

Overall, the Folkestone Seafront development scheme is well aligned with local/regional social and economic priorities and has the potential to contribute directly to addressing a number of major economic challenges for Folkestone and the wider Shepway district.

2.1.5 Local Engagement & Community Consultation

Folkestone Harbour Company (FHC) – promoter of the seafront development scheme - has prioritised community consultation from the earliest developmental stages, aware that the proposed changes need to be acceptable to and welcomed by the established Folkestone community and visitors. Once the new Farrell's Masterplan for the harbour and seafront area had started to take shape, FHC embarked on a series of key measures to engage with and consult the public. These included the Folkestone Seafront website (www.folkestoneseafront.com) which was launched in May 2010. This introduced the Masterplan to the public, explained the rationale for the project, included 'Frequently Asked Questions' and invited comment. It continues to be a vehicle for seafront news and for all public consultation and is complemented by a lively and popular Facebook page (currently with 3,346 followers) and a Twitter feed. The website contained a link to the public consultation which could be completed online.

The first face-to-face consultation event took place from 19 May – 9 July 2010. Canterbury Christ Church University was commissioned to carry out a parallel large scale survey and produce a report. Events included:

- A two week exhibition staged in a key location close to the seafront. The exhibition featured a large 3D model of the proposed development, a series of boards illustrating the history of Folkestone Harbour, the rationale for the Masterplan and some of the proposed concepts. The exhibition, which was open from 10.00 – 16.00 between 19 May and 9 June, including weekends and the public holiday and was staffed by trained university students and FHC staff who were on hand to answer questions, receive comments and assist the public in completing the questionnaires. A total of 2,400 visitors attended, of whom the majority supported the scheme.
- Five public consultation meetings: where the concept development 'approach' was presented in detail, followed by an open question and answer session. The public consultation meetings were preceded by a separate meeting for civic leaders, local organisations and the press
- 435 members of the public attended five public consultation events held at the Quarterhouse theatre in Tontine Street, close to the seafront.
- FHC consulted with pupils of eight primary and two secondary schools, assisted by Canterbury Christ Church University. The schools were all located in central Folkestone. There was a presentation at each school followed by a Q & A session. Most schools followed up with a visit to the exhibition where they could complete the survey. Each school was left with a large poster, on which they could stick post-it notes with their comments and suggestions (595 post-it suggestions were made). One secondary school class visited the site and followed up with their own on-line survey. Altogether 695 primary and 2500 secondary pupils were involved
- An online and hard copy questionnaire asked respondents to rate key aspects of the proposed development as well as providing them with the opportunity to provide feedback in free text format. 704 responses were received to the public questionnaire. 360 primary and 382 secondary pupils also responded

The survey work carried out in 2010 as part of this initial consultation identified that 72% of respondents agreed with the approach FHC was adopting towards regeneration of the seafront. In completing the survey, both adult and child respondents identified improvements they would like to see along the seafront and Harbour Arm. Many of these suggestions have subsequently been implemented. These include the following:

Revitalise the harbour as a lively and vibrant seafront area	<ul style="list-style-type: none"> FHC has installed a new interactive fountain, a hugely popular attraction. FHC has also invested in repairs, refurbishments and improvements to the Harbour Arm, opening it as a free leisure site to the people of Folkestone in summer 2015
Arts related – galleries, displays etc	<ul style="list-style-type: none"> The Creative Quarter has even more galleries and arts based enterprises. Free live music events took place on the Harbour Arm in 2015 and will continue in 2016
Places to eat and drink, especially cafes	<ul style="list-style-type: none"> There is a new restaurant and fish and chip shop along the Stade. A number of cafes, ice cream and coffee vendors and a restaurant have been established along the Harbour Arm
More sports – indoor and outdoor	<ul style="list-style-type: none"> A Seaports Community Group was established including members of the established yachting group and some new community members. This group went on to set up a Seaports centre towards the West of the seafront and on the little sands. A further outcome was the establishment of the Shepway Sports Trust that now works with virtually all Shepway primary and secondary schools to promote and encourage sporting excellence
Commemorating Folkestone’s history	<ul style="list-style-type: none"> This aspect has so far been supported by the Step Short charity whose members set up and ran a World War 1 café on the Harbour Arm during 2015 and will do so once it reopens in spring 2016. A Folkestone History project is developing that will eventually archive and display material celebrating Folkestone’s past
Seating and shelters	<ul style="list-style-type: none"> Have been established adjacent to the fountain and along the Harbour Arm
Shops and toilets	<ul style="list-style-type: none"> New toilets have been installed on the Harbour Arm. There are plans for shops to open on the Harbour Arm and in the Harbour and along the seafront in due course
Make it the ‘best place on two legs’ by improving walking and cycling provision	<ul style="list-style-type: none"> There are well established plans to create a green walkway and to align the coastal park cycling track to the seafront in the future in partnership with Sustrans

Ongoing Consultation

A second public consultation was held from 8 – 23 December 2011. The aim was to inform the public of general progress and gather comments, suggestions and opinions. The consultation consisted of:

- A three-day exhibition, again based close to the Seafront: allowing the public to look at a wide selection of posters outlining the updated plans and design principles. The exhibition also included a new and updated 3D model of the proposed development. Staff of the university and the Folkestone Harbour Company were present to answer questions and provide clarifications;
- Two public consultation meetings: where information was provided about the developments that have happened since the public consultation in the summer of 2010 and the updated Folkestone Seafront development plans, followed by an open question and answer session; and
- An online questionnaire: asking respondents to rate key aspects of the development and say how well informed they felt as well as providing them with the opportunity to provide feedback in free text format.

Consultation event	Attendance / participation
Shop-based exhibition	533
Public consultation meetings	180
Public consultation survey	299

Surveys suggested that 62.2% of respondents agreed or strongly agreed that recent developments were guided by responses to the earlier consultation in 2010. Around 70% agreed with plans for beach and water sports development; 74.6% agreed or strongly agreed that sufficient information had been made available about recent developments and plans going forward.

Active Engagement with Local Authorities

Consultation with Shepway District Council (SDC) has been very active throughout the planning process for the Folkestone Seafront project. This has included:

- Regular general meetings to shape the application and the consultation
- Monthly planning meetings with consultants and SDC officers
- Regular briefings to senior politicians and executives
- Frequent meetings to resolve conditions and developer contributions
- Agreement to submit application after approval of the Councils' Core Strategy
- Both parties agreed to and signed a Planning Agreement to deal with the complexity of this large application
- The project funded a Design Panel to review the plans which was then commissioned by and reported to SDC

Kent County Council (KCC) has been consulted throughout the process from the top level of the authority to officers in various departments. The Leader of KCC has been very encouraging of the development throughout along with his cabinet members and managing directors. Their support and encouragement has been very strong and has led to various preparatory highways improvements.

The project team has also met with the local MP to brief him bi-monthly on progress.

2.1.6 Organisational Overview

The Folkestone Seafront development project will be taken forward and delivered by Folkestone Harbour (GP) Limited. Legal advice is being sought currently regarding the most efficient corporate structure for the delivery company. A corporate structure will be finally agreed which is commensurate with effective and swift delivery of the project, adhering to all relevant procurement standards, in order to bring forward benefits realisation as quickly as possible.

2.1.7 Project Scope & Objectives

The overall project involves redevelopment of Folkestone harbour and seafront to provide a comprehensive mixed-use development comprising of at least 740 dwellings⁷ (C3), up to 5,000 square metres of commercial floor space including A1, A3, A4, A5, B1, D1 and D2 uses as well as sea sports and beach sports facilities. Improvements to the beaches, pedestrian and cycle routes and accessibility into, within and out of the seafront and harbour, together with associated parking,

The overall objectives of the development scheme are as follows:

⁷ Current outline planning permission allows up to 1,000 dwellings.

- To bring forward a major residential-led mixed use development scheme that will comprise of at least 740 new residential dwellings. The scheme will be appropriately phased and will be delivered as per the current masterplan which has already received outline planning permission.
- To deliver technically specific, improved flood defences for the seafront and harbour site via a combination of beach nourishment and site raising
 - Under the preferred option, these improvements will be delivered at the outset of the development programme (outlined below)
- To deliver technically specific improvements to the link from the town to the harbour arm and other public realm enhancements in order to facilitate public use of a safe and attractive physical asset
 - Under the preferred option, these improvements will be delivered at the outset of the development programme (outlined below)

The sub-objectives of the enabling infrastructure components (the subject of this business case) are outlined in detail in the following section (Economic Case). In summary, they are as follows:

- To provide beach nourishment that reduces flood risk at source
 - This will reduce flood risk to both the existing developed areas that surround the site, as well as other potential sites for development
- To provide an increased site level for the development site
 - This will reduce the risk of flood waters reaching the existing properties to the north of Marine Parade
- To provide a continuous public route from Harbour Square across the railway viaduct and swing bridge, through the disused railway station to the Harbour Arm.

This is not a simple volume house building exercise; it requires the creation of a high quality destination and comes with a high level of infrastructure costs. The project sponsor has deliberately chosen to provide a lower volume of housing than that permitted by the current planning permission, in order to facilitate provision of additional open space and physical harbour redevelopment that would enhance the quality of the location and its attractiveness to potential residents and the general public.

The SELEP funds requested would go towards essential flood defence works to raise the level of the beach across the site, the nourishment of the beach and to re-develop and improve the disused railway viaduct and Folkestone Harbour station (and associated public realm improvement) to unlock the site and move towards accelerated delivery.

2.1.8 Constraints and Dependencies

As a result of ongoing dialogue with local and regional partners, there is already a great deal of political and community support for this re-development project (as outlined above). This is reflected to some extent in the strategic priorities for Folkestone seafront set out in existing strategies on the part of a range of local stakeholders. The development scheme would be delivered in line with the current masterplan and associated outline planning permission. Reserved matters planning applications are required in order to move towards full delivery of the buildings.

Much of the infrastructure works can be permitted by discharge of conditions on the existing consent. The beach nourishment has already been granted a Marine Licence from the Marine Management Organisation (MMO) and so can proceed immediately. The MMO have confirmed through a screening process that dredging to the outer harbour, to provide fill for the site raising and improve navigational access to the Outer Harbour, does not require a Marine Licence as it is permissible under the existing Folkestone Harbour Act.

As a real-estate led project, full deliverability will be dependent upon key variables associated with local property markets and an ability to achieve price points that are commensurate with an acceptable level of developer profit and return on investment. For this project however – given its emphasis on improvement to place and associated wellbeing benefits – the project sponsor is willing to accept a level of return on investment that is below normal commercial rates (as long as the development scheme remains viable overall in financial terms).

2.2 Why the project should proceed immediately

Overall market conditions support this project at the current time and will facilitate timely completion of the development scheme if it is taken forward in the near term. There are, however, a number of additional factors and specific characteristics of this project that mean it should ideally proceed as quickly as possible.

The project is being sponsored by Sir Roger de Haan – a well-known and highly successful local businessman who has a significant personal interest in the economic future of Folkestone. In traditional commercial terms, this project suffers from a lack of obvious viability and would therefore be unattractive to a typical independent development company looking for a standard market return and with no particular link to the local area. The project requires funding for enabling infrastructure in order to commence in full and will provide a reasonable, though less than commercially standard, market return.

As demonstrated by the extensive consultation, engagement and survey work referred to earlier, there is strong and significant local support and goodwill towards the project at the current time. This public goodwill, built up over many years in anticipation of commencement of the re-development of the harbour area, will dissipate quickly if no significant action is taken in the near term. Local residents have effectively been ‘waiting for this project to happen’ for approximately 10 years. Strong momentum has built up behind the project locally and this has been spurred on by successful delivery of a range of other projects also sponsored by Sir Roger de Haan. As noted elsewhere, these projects include renovation of certain areas around the town centre and creation of a successful new creative quarter. The harbour and seafront development scheme is seen very much as a logical next step in the wider regeneration of the town and the economic development uplift that this would generate is strongly anticipated. The consultation process undertaken for the planning approval process and then repeated more recently has in itself reinforced the sense of local momentum toward full realisation of the seafront project. The harbour project is viewed as a final significant component of the town’s overall regeneration and a much needed reconnection of Folkestone with its historic waterfront.

Significant effort has previously gone into development of new public realm within Folkestone and this is gradually improving the perception and economic position of the town. Given the scale of the seafront development scheme, it must now be taken forward as a reasonable commercial endeavour in order to reach its full realisable potential, but this effort will also include opening up public access to new open space, despite its remaining in private ownership.

Other infrastructure and related developments have the capacity to supplement and create immediate synergies with the seafront project. In particular, the high speed rail link between Folkestone and London St Pancras, increases the extent to which the town is now a commutable residential destination for London-based workers, particularly those in more advanced and higher skill occupations. In the same way that this high speed link facilitates successful delivery of a real estate based scheme such as the seafront project, conversely, high quality residential development of this type reinforces the economic effect of this rail connection to London releasing further benefit and higher return on the initial transport infrastructure investment. The Folkestone Seafront Project aims to link home ownership with the creation of local jobs and with connections between London-based employment and local residents. The development of accessible, commutable homes will bring new wealth to the town and this will in turn create further direct and indirect local employment.

3 Economic Case

3.1 Introduction

This business case involves a request for funding to enable and unlock delivery of the full Folkestone Seafront development scheme as per the current masterplan for which there is outline planning approval. Delivery of the scheme requires significant upfront investments in enabling infrastructure and physical enhancement to the site.

These physical investments (outlined in detail below) will provide the basis for the development scheme to continue as planned and to be fully realised within a short timescale thereby generating a series of very desirable public benefits. At present there is a viability gap associated with the development scheme if the master developer bears the full costs of these upfront infrastructure and associated investment.

The basis for public funding rests on the following project-specific principles:

- Public funding of the required upfront investments will enable the scheme to proceed in full and within a relatively compressed timetable – this will result in the generation of the full range of socio-economic benefits and an enhanced valuation of these benefits due to their realisation early on in the programme. Otherwise, the scheme is completely dependent on relative market values which may take several years to achieve a point where the scheme is fully viable independently.
 - Scheme viability can be enhanced on a commercial basis by increasing the density of the development⁸ and reducing the volume of public open space and visitor/destination related features. This would however reduce the overall socio-economic benefit of the scheme and is not considered desirable by the project sponsor.
- These investments involve physical enhancements to the site that have a wider public benefit beyond the scheme itself (such as flood defences and public realm improvement). As such, the provision of these infrastructures will be characterised by ‘partial public good’ elements and positive ‘external’ effects.
- Completion of these physical changes at the outset of the development programme will allow the achievement of certain economies of scale in delivery which will reduce overall costs and have a positive impact upon the benefit to cost ratio achievable.

Costs claimed under the SELEP funding will not include any costs which the project has already committed to incurring under the Section 106 agreement (or indeed any other binding financial agreement).

⁸ This would be permissible under the current outline planning approval.

3.2 Proposed Items to be Funded

3.2.1 Flood defence – beach nourishment

There is a significant risk of flooding to the site through the run-up and overtopping of storm waves on the shingle beach, resulting in flood water penetrating the site. This risk is exacerbated over time due to the effects of sea level rise. As part of the Flood Risk assessment that forms part of the planning submission, significant study work was undertaken to assess this risk, and the mitigation options available. The conclusion was that the best way to mitigate and manage the risk is to reinforce the beach with additional shingle to widen and heighten the narrower and lower areas, and the beach should be actively managed by periodically moving material to maintain a consistent standard of protection across the site. This action has been agreed in principle with the Environment Agency who recorded a no objection to the Flood Risk Assessment submitted as a supporting document to the Outline Planning Permission.

Scope

To import approximately 35,000m³ of offshore dredged shingle to the beach. This material will be transported from the dredger to the site and profiled to achieve the design-based beach. The ongoing maintenance works to the beach are not included in this business case.

Benefits

The beach nourishment is required, through a planning condition, prior to any occupation of properties. Funding this activity at the outset of the development programme enables this key piece of enabling work to be completed. Furthermore, it reduces flood risk at source so will reduce flood risk to both the existing developed areas that surround the site, as well as the potential sites for development to the north of Marine Parade. For the latter, given the flood risk to these sites it is highly unlikely that they would receive planning permission without this additional flood defence in place given the precedent set. The enhanced beach will also provide a wider area of dry beach, particularly at the popular western end adjacent to the public car parks, effectively providing an increased area of public realm.

Cost: £1,372,000 (as per current financial appraisal).

3.2.2 Flood defence – site raising

In combination with the beach nourishment, the general level of the site is required to be raised to protect the development against flooding. The general flood level to be achieved, as agreed with the Environment Agency, is +6.5mOD, with higher levels at the more vulnerable areas near to the beach or the eastern sea boundary.

Scope

The existing site level will need to be raised using fill material, typically ranging from about 0.3 to 1.0m in height.

Benefits

As with the beach nourishment, the increased site level of the development site will reduce the risk of flood waters reaching the existing properties to the north of Marine Parade. Bringing the fill material to site in one stage will also generate cost savings relative to a phase-by-phase works programme currently envisaged in the masterplan. Furthermore, it is the intention to source the material by dredging the outer harbour. This will have the additional benefit of increasing navigation time into the Outer Harbour for both the fishing and leisure fleets. At present, the outer harbour is only accessible in a small time window either side of high tide. This will enable the fishing fleet to be more productive and possibly increase in scale.

Cost: £2,329,196 (as per current cost appraisal)

3.2.3 Link to Harbour Arm - works to enable public access

A key component of the masterplan and Outline Planning Permission - where it is termed the 'Green Walk' - is to provide a continuous public route from Harbour Square across the railway viaduct and swing bridge, through the disused railway station to the Harbour Arm. This will result in provision of significant, new public realm that will enhance the visitor appeal of the Folkestone seafront and harbour area.

Scope

The viaduct and railway station currently constitute disused railway infrastructure, recently formally removed from the railway network. To enable safe public access and quality public realm, significant remediation and improvement works are required to the existing structures. Key historic buildings and railway infrastructure will be retained and restored to ensure the character of the site is fully retained. The viaduct, including the swing bridge, are Grade II listed structures.

Benefits

The opening up of this presently inaccessible area will provide attractive, quality public realm and will enable new public access to a historically important waterfront location. The station also has the potential to house small business outlets as has recently been shown be successful on the renovated Harbour Arm. It was initially envisaged in the masterplan that this would be provided towards the latter part of the wider development, funded by receipts from earlier phases of development. The LEP funding would enable this work to be brought forward and the benefits enjoyed earlier, thereby increasing their discounted valuation. This alternative programming will also generate a sense of place that will increase confidence in and bring benefit to the wider development.

Cost (portion): £1,405,530

3.3 Public Good Characteristics

The items that would be provided at the outset of the development programme, outlined above, exhibit some key characteristics of public goods. Delivery of these infrastructure components not only enhances the viability of the proposed Folkestone Seafront Development scheme, but they also have positive 'knock on' effects on neighbouring sites, provide general protections to the wider community against flooding, economic benefit to local industries, and enable improvements to the quality of newly accessible public realm in the area.

'Pure' public goods have two characteristics⁹:

- Non-excludability: benefits cannot be restricted only to those who have paid for them. All consumers can benefit, even if they do not pay – they are effectively 'free-riders'.
- Non-rival in consumption: consumption by one person does not reduce availability of the good for other consumers. Supply for one is to all intents and purposes supply for all.

Some commentators also suggest that public goods can be 'non-rejectable' i.e. it is not possible to refuse or reject consumption of the good (such as the example of national defence). The flood defence infrastructure proposed for the Folkestone Seafront development and the public realm improvements exhibit these characteristics at least in partial terms.

⁹ C.V. Brown and P.M. Jackson (1990), 'Public Sector Economics', Blackwell Publishers Ltd, Oxford.

Flood defences and public realm enhancements are also characterised as having ‘positive externalities’. In this case, they have wider benefits to society in terms of environmental improvement and enhancing general wellbeing. These benefits arise out of the total level of ‘consumption’ of these goods or activities across society (or in this case local and visitor communities) i.e. the aggregate of individual consumers.

Up to a certain, possible ‘congestion’ point, the proposed flood defences and public realm assets are non-rival in consumption, and non-excludable. These assets also exhibit ‘positive externalities’ and as such, theoretically the ‘optimal’ level of production and consumption is greater than the private level. In this case, a private provider should supply either none of the ‘good’ at all or supply only as much of the good as will satisfy their private financial objectives – acting in a purely private, commercial context they will not take into account wider external benefits.

This theoretical argument underpins the case for public support for funding the required up front infrastructure and protective measures for Folkestone seafront. Without public support, the development would either not include these elements (in the case of enhanced public realm; flood defences are still necessary under all scenarios), or the development will be delayed until market conditions enable viability to be achieved in purely commercial terms. Upfront provision of these infrastructure and protective elements will yield a higher level of discounted benefits given time preference assumptions.

3.4 Development of Shortlisted Options

The shortlisted options for consideration in cost-benefit terms, as per HM Treasury Green Book guidance¹⁰, have been drawn up with regard to a range of realistic development scenarios that arise out of the current masterplan. There is a limited number of options therefore that can be considered given current market conditions and alternative options are based in the main on the overall timescale for development or alternative funding possibilities. The scheme is already residential-led and there is limited opportunity to change the existing planned mix of uses to enhance financial viability. The main component that can be altered to determine greater viability relates to overall phasing and the choice of when to implement key items of enabling infrastructure development.

3.4.1 Options

The Preferred Option:

This option follows the phases of the current Folkestone Seafront masterplan (see below). The only exception is that public realm elements, particularly related to the harbour arm, are introduced in Phase 1 instead of Phase 5. This change does not affect the implementation of the project overall as there is no overlap of the public realm and the other uses. The site raising is also undertaken in one stage immediately providing the flood defence benefits to the neighbouring areas, rather than a gradual improvement as envisaged under the masterplan.

Public support would enable this item to be brought forward into the early stages of the scheme and would therefore generate public benefits early on. Flood defence works in terms of beach nourishment and site raising would also be delivered up front in the phasing of development.

This option creates a viability gap in the development programme as it would require implementation of flood defences and harbour arm redevelopment together and in advance of any cash receipts from sale of residential and other real estate. However, maximisation of the total, discounted economic benefit of the project on an additionality basis (discussed later) requires these infrastructure elements to be implemented in the initial stages of development. This therefore requires public support.

¹⁰ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220541/green_book_complete.pdf

'Do Nothing' Option:

This option follows the broad phasing as set out in the current masterplan, however it excludes completely the proposed public realm improvements (and in particular the link from the town to the harbour arm) and delays the implementation of the project for a minimum of 5 years.

In this case, we assume that there is a likelihood that the current viability of the project can be enhanced by allowing market values to naturally achieve their required levels. We estimate that this is likely to take at least 5 years (*ceteris paribus*). In addition, viability is enhanced by removing the link from the town to the harbour arm and wider public realm improvements from the scheme. Delays to the start of the development programme and the removal of certain important public realm assets will reduce the overall discounted benefits of the project (although costs will also decline in this scenario).

Under extreme market conditions, it is possible that relative values may never adjust to their required levels and that the scheme may never reach viability as currently planned. For the purposes of modelling economic additionality however, we assume that this is not the case¹¹.

'Do Something' Option:

This option follows the phases of the current masterplan. In this case all elements are the same as the Preferred Option, however, the link from the town to the harbour arm and wider public realm elements are implemented later in the programming, in phase 5.

Alternative options considered

A series of other alternative options were also considered as part of the business case process:

- Borrowing from private finance sources:
 - In this case, the project sponsor would seek private finance from market sources to fund the enabling infrastructure and initiate the project. Given the nature of this project and its inherent viability challenges (from a purely commercial perspective), it is unlikely that private finance could be secured from standard private lenders or funders. The project would not yield a desirable enough return at a reasonable rate of interest. If private sources were identified, this would in all likelihood involve an interest rate that would render the project equally undeliverable.
 - This option has been rejected as unrealistic
- Borrowing from other public sources.
 - In this case the project sponsor could attempt to secure funding from an alternative public source. The options for this are very limited. Any form of application for central Government funds (e.g. directly from HM Treasury) would not be considered seriously, as the project is not of any great national importance.
 - This option has been rejected as unrealistic

¹¹ This is a relatively optimistic 'do nothing' scenario based on the possibility that relative values adjust sufficiently over the next five years to enable the project to proceed at least in part and on purely commercial terms (but without delivering the harbour arm improvements). This, however, is not at all guaranteed and there remains a possibility that the project will not proceed at all without the LEP funding – this will be determined by market conditions. The LEP funding will unlock the development in the near term, enabling it to proceed in full and thereby providing the full range of economic and social benefits outlined in this bid document.

- Seeking alternative grant funding
 - Other grant funding options are also limited and are unlikely to be of the financial scale necessary to enable project implementation to proceed. The possibility of packaging together a series of different grant sources although possible would likely create greater risks for the project and create an administrative and monitoring related burden that would increase the overall cost base for the project.
 - This option has been rejected as undesirable.

3.5 Economic Appraisal of Costs and Benefits with CBA

The range of benefits generated by the Preferred Option is given in the table below:

Folkestone Seafront Development Project Schedule of Benefits	
Quantities	Units
746	residential units (of which 8% are shared equity residential units as requires under the section 106)
£3,133,999	S106 Payment
5,000	sq m of additional retail floorspace
320	sq m of additional community floorspace
278	Additional Retail Jobs
4	Additional GP Jobs
3	hectares of public realm
	Improving Neighbourhood Impact

In order to understand the net additional impact of the Preferred Option, the benefits associated with this option are appraised and quantified in present value terms, relative to the 'Do Nothing' option which is considered the benchmark for comparison (i.e. what is likely to happen anyway in the absence of public funding). The discount year for all the options is 2016 and the discount rate used is 3.5% as per guidance¹². In this case, real values have been used excluding general inflation, again as per guidance¹².

All options have been evaluated for a period of 19 years. This appraisal period enables the full valuation not only of the Preferred Option but also of the 'Do Nothing' scenario. As a result, the opening year of the Preferred Option and the Do Something option is 2027, and for the 'Do Nothing' option is 2032. This comparison captures the deadweight position for the proposed project and standard factors for leakage, displacement and substitution are applied along with appropriate Type II multipliers as necessary¹². Each benefit arising from implementation of the Preferred Option is considered in turn below.

¹² As per HM Treasury Green Book guidance and the HCA Additionality Guide (http://cfg.homesandcommunities.co.uk/sites/default/files/aboutus/additionality_guide_2014_full.pdf)

Private Residential Units¹³:

The private residential units valuation is based on the additionality between the Preferred Option and the Do Nothing position. In both options the total number of private dwellings that would be constructed is 746 (as per the current masterplan). Under the Do Nothing scenario, these dwellings would be constructed and brought into the local property sector with at least a five year delay in anticipation of a rising market that would generate greater viability for the scheme overall.

The impact of the benefit has not been reduced by leakage, displacement or substitution on the assumption that the net new housing will address the growing population needs of the local area and that local demand conditions are therefore capable of absorbing the additional properties.

The housing units to be delivered have been phased over an appropriate development period and three different benefits have been valued as per DCLG guidance¹⁴. The benefits derive from the betterment in the private asset value, the enhanced visual amenity and the production benefit facilitated by new housing. The value of each benefit as stated above is £29,159, £32,205 and £9,249 respectively per residential unit. The latter is used in addition to the other two acquisition, demolition and new build category benefits due to the current non-residential land use of the site and it can also be translated into the equivalent of approximately 200 additional jobs. These values have been selected to reflect the fact that the site location will require some remediation, alongside acquisition and demolition of existing properties within an overall regeneration context which aims to substantially increase the quality of the environment. The value is converted to net present value (NPV) by applying a discount rate of 3.5% (the standard HMT Green Book factor).

The resulting values are:

- Preferred Option NPV = £246,344,835
- Do Something Option NPV = £246,344,835
- Do Nothing Option NPV = £71,525,694
- Net additionality NPV = £174,819,142

The NPV of all options is positive, with the Preferred and Do Something Options yielding a higher NPV value due to providing benefits earlier on in the project timetable. In this case, no annual uplift has been incorporated into the valuation of the residential benefit. Furthermore, the Do Nothing option is in itself relatively optimistic in that it incorporates an underlying assumption of reasonably healthy local property market conditions. As such, the net additionality of the benefit is relatively conservative as modelled.

Section 106 Contributions

The additional payments via the S106 agreement for the scheme come to a value of £3,133,999. This value is the same across all options, as they will all involve development of the residential and commercial components of the scheme to which the S106 arrangement applies. The S106 agreement in this case has been used as a form of local contribution.

¹³ The volume of affordable units, already agreed via the S106 arrangement, has been subsumed into the total number of residential units for the purposes of modelling.

¹⁴ DCLG, Valuing the Benefits of Regeneration – Economics paper 7: Volume 1 – Final Report

The impact of the benefit for all options has been reduced by a medium 25% leakage assumption as per additionality guidance¹². It is also assumed that due to the nature of the S106 agreement there will be no displacement. Finally the multiplier effect is assumed to be neutral. This gives a net effect for all options of £2,350,500. There is no net gain in this instance from delivery of the Preferred Option versus the Do Nothing option.

Additional Retail Floorspace

The additional retail floorspace is an important aspect for the scheme for several reasons: it contributes to overall place making and provides part of the basis for Folkestone Seafront to become an attractive new leisure destination available to the local community and wider public. The retail element also prevents the scheme from being completely dominated by residential real estate which may possibly impact negatively on both its longer term commercial and social attractiveness.

In all options, the volume of additional retail floorspace provided is 5,000 sq m. In the case of the Do Nothing scenario, development of this real estate asset is delayed by at least 5 years in anticipation of rising values. This results in a lower overall valuation for this benefit in the Do Nothing scenario vis a vis the Preferred Scenario.

The impact of the benefit for all options has been reduced by a 25% leakage assumption (given the possibility that the re-developed harbour may attract substantial visitors from outside of the immediate Folkestone area) and a standard 25% displacement assumption. The multiplier effect has been estimated at 38% as per guidance¹² (again related to the possibility of attracting non-resident visitors who increase local spend). This provides a net effect of 3,080 sq m of additional retail floorspace for all options.

The value per sq m of retail floorspace is taken from a recent report (Folkestone Seafront: Review of Assessment of Commercial Floorspace) and is given as £3,881 for all options.

The resulting values are:

- Preferred Option NPV = £11,093,666
- Do Something Option = £11,093,666
- Do Nothing Option NPV = £9,339,539
- Net additionality = £1,754,127

Additional Retail and Community Related Jobs

One of the benefits of the new development scheme is that it will create new employment in the Folkestone area. This will be mainly retail in nature but will also include community activities such as healthcare service jobs. The scheme is likely to generate 278 retail jobs based on a standard employment density assumption of 18sqm per employee¹⁵. We assume a low leakage rate of 10% (i.e. some jobs will be taken by non-residents of the Folkestone area, but these jobs will be limited due to a relatively high unemployment rate in Folkestone) and a low displacement rate of 10% (there is limited substitution given that the local population is increasing and will therefore require a higher volume of retail employment overall).

¹⁵ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/378203/employ-den.pdf

A multiplier impact of 1.38 is assumed as per guidance¹² as employment in the scheme has a positive 'knock on' effect on local suppliers and also generates induced spending activity. Taking these adjustments into account provides for net creation of 311 retail jobs. A real market monetary per unit value of £17,436¹⁶ is applied to the valuation of this benefit. As per guidance the value associated with each additional job is expected to have a 3 year build up period and 10 years of duration.

The resulting values are:

- Preferred Option NPV = £28,575,904
- Do Something Option = £28,575,904
- Do Nothing Option NPV = £13,694,267
- Net additionality = £14,881,637

For the community space delivered by the scheme, the working assumption is that this would take the form of a small GP surgery. Smaller GP surgeries on average employ 4 staff members directly¹⁷. In this case we assume a low leakage rate of 10% as per guidance¹² and a displacement rate of 0% due to the fact that the GP service is expected to directly serve the population of the Folkestone Seafront Development. A multiplier impact of 1.1 as per guidance¹² is assumed and a real market monetary per unit value of £17,436 is applied to the valuation. This provides a net effect of 4 jobs.

The resulting values are:

- Preferred Option NPV = £523,196
- Do Something Option = £523,196
- Do Nothing Option NPV = £336,368
- Net additionality = £186,829

The modelling does not account for local construction activity that would be generated during the development phases of the project. Therefore the benefits valuation should again be considered conservative in this case. However the equivalent FTE of construction jobs is estimated at approximately 3,516 over the period 2016-2027¹⁸.

Public Realm

The delivery of high quality public realm is one of the major public benefits that will be generated via successful delivery of the Folkestone Seafront scheme. The masterplan sets out extensive, high quality public realm investments that will contribute significantly to the regeneration of the harbour area and its re-establishment as an attractive leisure destination, available to a wide local population catchment. The scheme's principal developer has chosen to reduce the overall density of the development project, below that allowed by the current outline planning permission, in order specifically to create a greater volume of, and higher quality across, the public realm components.

As per the current masterplan, the scheme when fully developed, will deliver 3.125 hectares of accessible public realm.

¹⁶ Based on average Kent County residential earnings: http://www.kent.gov.uk/_data/assets/pdf_file/0006/8187/Kent-economic-indicators-report.pdf

¹⁷ http://systems.hscic.gov.uk/data/ods/datadownloads/gppractice/index_html

¹⁸ http://www.arcom.ac.uk/-docs/proceedings/ar2012-0317-0326_Forbes_El-Haram_Horner_Lilley.pdf

There is a key difference between the Preferred and the Do Nothing options in the context of this benefit, as the Do Nothing option involves a significant delay to the provision of public realm components. In the Preferred Option, major public realm improvements – particularly relating to the harbour arm and associated public accessibility – are provided early on in the scheme’s delivery.

Advice was sought from Department for Communities & Local Government (DCLG) with regard to recommended methodologies for valuing the benefits of public realm and open space. The valuations applied are based on open space benefit as per DCLG guidance¹⁴. This is based in turn on previous studies of ‘willingness to pay’ for new open space. The total number of hectares of public realm under both options has been reduced by a high 25% leakage assumption and a medium 25% substitution assumption as per guidance due to the expected regional popularity of the new open space. The multiplier effect has been estimated at an increase of 56%¹² as per guidance due to the important role of the new open space at the regional level. This leaves a net effect of 2 hectares.

The resulting values are:

- Preferred Option NPV = £6,321,844
- Do Something Option NPV = £3,453,954
- Do Nothing Option NPV = £0
- Net additionality = £6,321,844

Improving Neighbourhood Impact

In addition to the above benefits generated by the re-development of the Folkestone seafront and harbour area, there is likely to be a general improvement to quality of life for local residents due to the local area’s overall enhancements and the provision of new community space. In particular, this benefit valuation has been incorporated into the modelling to reflect improved satisfaction with the local area as a result of the combination of flood defence infrastructure, availability of new community space, proximity to new public realm and other positive physical changes, and to emphasize the overall quality of the proposed scheme.

Following DCLG guidance, this is valued at £59,600. As per the guidance: “in the case of a transition from ‘not satisfied’ to ‘satisfied with the area’, the expected increase in quality of life produced by this transition is equivalent to an increase in individual income of £59,600. The magnitude of this value represents the large positive influence that feeling satisfied with the local area has on an individual’s quality of life”¹⁴.

This value is applied to the additional residential units in the Folkestone Seafront Development and is converted to NPV via appropriate discounting.

The resulting values are:

- Preferred option NPV = £36,217,286
- Do Something option NPV = £36,217,286
- Do Nothing Option NPV = £0
- Net additionality = £36,217,286

3.6 Costs & Optimism Bias Adjustments

In order to undertake a meaningful economic appraisal for this business case, it is necessary to consider the cost of this investment for the public sector and the local community. This is a major development in the context of Folkestone town centre and represents a significant investment in the regeneration of a currently neglected asset that is of historic importance to the town.

The cost that has been estimated for the full scheme, based on the Preferred Option is £24,316,285 in net present value terms. The costs have been adjusted to net present value using a discount rate - the standard 3.5% discount rate as recommended by Green Book guidance.

Business Support Cost

This is the cost that the public sector will pay in order to provide general business support to new retail businesses occupying the development. As per guidance, the public sector is expected to spend £13,309 per net additional job¹³.

The resulting values are:

- Preferred option NPV = £3,299,343
- Do Something option NPV = £3,299,343
- Do Nothing Option NPV = £2,777,652
- Net additionality¹⁹ = £521,691

Opportunity Cost

In this case the opportunity cost is the loss of four FTE positions during the assessment period which are currently responsible for ongoing maintenance of the area in its current form and uses. The average GVA is used to value this cost and this is £17,436¹⁶.

The resulting values are:

- Preferred option NPV = £989,492
- Do Something option NPV = £989,492
- Do Nothing Option NPV = £663,578
- Net additionality = £325,914

LGF Cost

The cost of the grant is also included in the study as the major cost for the public sector. The NPV of the grant is £5,106,727 and is included only in the "Preferred" and "Do Something" options.

Additional Jobs Cost

The public sector is also expected to invest in work-readiness of the employees that are expected to work in the retail and healthcare sector on the Folkestone Seafront. The support required will move the new employees into sustainable employment. As per guidance the cost for each additional employee is £13,320¹⁴

¹⁹ i.e. net additional investment

The resulting values are:

- Preferred option NPV = £3,349,645
- Do Something option NPV = £3,349,645
- Do Nothing Option NPV = £2,543,280
- Net additionality = £806,365

Community Costs

Finally, the public sector will also fund the provision of the GP and associated services. To value this cost, an average number of patients per doctor was taken into account. For the south Kent area the average number of patients per doctor is 1,870²⁰. Therefore in order to estimate the community cost, an average cost per patient per year of £63.21 is used²¹.

The resulting values are:

- Preferred option NPV = £5,230,783
- Do Something option NPV = £5,230,783
- Do Nothing Option NPV = £3,277,758
- Net additionality = £1,953,025

Risks

The range of risks that might potentially have an impact on the volume and extent of public sector costs were identified and measured by using single-point probability analysis as per the guidance²². The estimated probability of the risk occurring in each case is 20%, as the risks associated with the costs above are demand risks. According to the Management Case chapter below, this type of risk is ‘not likely’ to happen and has a very high impact resulting in a score of 5/25. This score has been used to estimate the probability of the risk occurring.

For the business support, opportunity and additional jobs cost the difference between the high end cost and the average cost as described in the guidance¹⁴ was used.

Cost Risks	Estimated probability of risk occurring	Estimated Impact of risk of cost overrun	Risk Value
Business Support Cost	20%	£6,917	£1,383
Opportunity Cost	20%	£5,967	£1,193
Grant Cost	20%	£0	£0
Additional Jobs Cost	20%	£5,967	£1,193
Community Cost (extra patients per GP)	20%	152	30

By using the risk values as stated in the above table, the total NPV values has been calculated.

²⁰ <http://www.gponline.com/exclusive-huge-variation-gp-patient-ratio-across-england-revealed/article/1327390>

²¹ http://www.kingsfund.org.uk/sites/files/kf/field/field_related_document/gp-inquiry-report-evolving-role-nature-2mar11.pdf

²² <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government>

The resulting values are:

- Preferred option NPV = £812,870
- Do Something option NPV = £812,870
- Do Nothing Option NPV = £635,272
- Net additionality = £177,598

The present values of key project cost categories are therefore given in the table below:

Project Cost Categories	Economic Costs (Present Values)		
	Preferred Option	Do Something	Do Nothing
Business Support Cost	£ 3,299,343	£ 3,299,343	£ 2,777,652
Opportunity Cost	£ 989,492	£ 989,492	£ 663,578
Grant Cost	£ 5,106,727	£ 5,106,727	£ -
Additional Jobs Cost	£ 3,349,645	£ 3,349,645	£ 5,626,891
Community Cost	£ 5,230,783	£ 5,230,783	£ 3,277,758
Risk	£ 812,870	£ 812,870	£ 635,272
TOTAL FINANCIAL IMPACTS	£ 18,788,859	£ 18,788,859	£ 12,981,151

Options NPV

This sub-section combines all of the findings above in order to calculate the full NPV calculation for each option as per the guidance¹². The NPV table is included in appendix A.

The resulting values are:

- Preferred option NPV = £312.7 M
- Do Something option NPV = £309.8 M
- Do Nothing option NPV = £84.2 M

These results demonstrate the suitability of the Preferred option versus the 'Do Something' and the 'Do Nothing' options.

Optimism Bias

The optimism bias that has been applied for this business case has also been calculated in line with Green Book guidance to ensure that the overall view of the potential economic impact of the completed development scheme is realistic and not overly optimistic. The recommended capital expenditure optimism percentages for the different identified development types have been applied to the calculation as far as possible and then adjusted for the scheme's project weightings.

Adjustments for optimism bias have been applied as per the table below:

Optimism Bias % from guidance document		
Project Type	Capital Expenditure	Project Weights
Standard Buildings	24%	71%
Non-standard Buildings	51%	0%
Standard Civil Engineering	44%	15%
Non-standard Civil Engineering	66%	0%
Equipment/Development	200%	0%
Outsourcing	41%	14%
Weighted Average Optimism Bias	29%	

Options CBR

The Preferred, Do Something and Do Nothing options were evaluated in order to calculate the cost benefit ratio (CBR). The preferred option has a higher CBR of 13.6:1 compared to the CBR of the Do Nothing option which is 7.6:1. The components of the CBR are shown for each option in the following tables.

Preferred Option CBR	
Financial Impacts	Economic Costs and Benefits (Present Values)
Business Support Cost	£3,299,343
Opportunity Cost	£989,492
Grant Cost	£5,106,727
Additional Jobs Cost	£3,349,645
Community Cost	£5,230,783
Risk	£812,870
TOTAL FINANCIAL IMPACT	£18,788,859
TOTAL FINANCIAL IMPACTS (adjusted for optimism bias)	£24,316,285
Economic Impacts	
Additional Retail Jobs	£28,575,904
Expanded private housing base	£246,344,835
Additional retail floorspace	£11,093,666
Additional Healthcare Jobs	£523,196
Open Space	£6,321,844
s106	£2,350,500
Neighbourhood Impacts	£36,217,286
TOTAL ECONOMIC IMPACTS	£331,427,231
BENEFIT COST RATIO	13.6 : 1

Do Something Option CBR	
Financial Impacts	Economic Costs and Benefits (Present Values)
Business Support Cost	£3,299,343
Opportunity Cost	£989,492

Grant Cost	£5,106,727
Additional Jobs Cost	£3,349,645
Community Cost	£5,230,783
Risk	£812,870
TOTAL FINANCIAL IMPACT	£18,788,859
TOTAL FINANCIAL IMPACTS (adjusted for optimism bias)	£24,316,285
Economic Impacts	
Additional Retail Jobs	£28,575,904
Expanded private housing base	£246,344,835
Additional retail floorspace	£11,093,666
Additional Healthcare Jobs	£523,196
Open Space	£3,453,954
s106	£2,350,500
Neighbourhood Impacts	£36,217,286
TOTAL ECONOMIC IMPACTS	£328,559,341
BENEFIT COST RATIO	13.5 : 1

Do Nothing Option CBR	
Financial Impacts	Economic Costs and Benefits (Present Values)
Business Support Cost	£2,777,652
Opportunity Cost	£663,578
Grant Cost	£0
Additional Jobs Cost	£2,543,280
Community Cost	£3,277,758
Risk	£635,272
TOTAL FINANCIAL IMPACTS	£9,897,540
TOTAL FINANCIAL IMPACTS (adjusted for optimism bias)	£12,809,261
Economic Impacts	
Additional Retail Jobs	£13,694,267
Expanded private housing base	£71,525,694
Additional retail floorspace	£9,339,539
Additional Healthcare Jobs	£336,368
Open Space	£0
s106	£2,350,500
Neighbourhood Impacts	£0
TOTAL ECONOMIC IMPACTS	£97,246,366
BENEFIT COST RATIO	7.6 : 1

For every pound of public money spent on this project under the Preferred Option, there is a benefit of £64. As a result the VfM (value for money) of the preferred option is 64:1.

Enabling Infrastructure Options CBR

For the purpose of this study, those parts of the Preferred, Do Something and Do Nothing options that have an immediate relation with the LGF were isolated in order for the CBR to be re-calculated. This reflects a comparison of the costs that would be borne by the public sector versus the benefits that would accrue as a result of the enabling infrastructure only (as opposed to the whole development scheme). The benefits therefore relate mainly to new public realm and open space, as well as improved perceptions of the area due to enhanced flood defences.

In this case the preferred option has a higher CBR of 5.6:1 compared to the CBR of the Do Nothing option which is 2.6:1. The components of the CBR are shown for each option in the following tables.

Preferred Option CBR	
Financial Impacts	Economic Costs and Benefits (Present Values)
Opportunity Cost	£989,492
Grant Cost	£5,106,727
Risk	£67,725
TOTAL FINANCIAL IMPACTS	£6,163,944
TOTAL FINANCIAL IMPACTS (adjusted for optimism bias)	£7,977,292
Economic Impacts	
Open Space	£6,321,844
s106	£2,350,500
Neighbourhood Impacts	£36,217,286
TOTAL ECONOMIC IMPACTS	£44,889,630
BENEFIT COST RATIO	5.6 : 1

Do Something Option CBR	
Financial Impacts	Economic Costs and Benefits (Present Values)
Opportunity Cost	£989,492
Grant Cost	£5,106,727
Risk	£67,725
TOTAL FINANCIAL IMPACTS	£6,163,944
TOTAL FINANCIAL IMPACTS (adjusted for optimism bias)	£7,977,292
Economic Impacts	
Open Space	£3,453,954
s106	£2,350,500
Neighbourhood Impacts	£36,217,286
TOTAL ECONOMIC IMPACTS	£42,021,740
BENEFIT COST RATIO	5.3 : 1

Do Nothing Option CBR	
Financial Impacts	Economic Costs and Benefits (Present Values)
Opportunity Cost	£663,578
Risk	£45,418

TOTAL FINANCIAL IMPACTS	£708,997
TOTAL FINANCIAL IMPACTS (adjusted for optimism bias)	£917,574
Economic Impacts	
s106	£2,350,500
TOTAL ECONOMIC IMPACTS	£2,350,500
BENEFIT COST RATIO	2.6 : 1

Net Additionality CBR

A comparison of net costs and benefits for the Preferred Option versus the Do Nothing option on a net additionality basis is given in the table below. The optimism bias is adjusted downwards by 25% and 50 for purposes of illustration.

Net Additionality CBR		Sensitivity 25%	Sensitivity 50%
Financial Impacts	Economic Costs and Benefits (Present Values)		
Business Support Cost	£521,691		
Opportunity Cost	£325,914		
Grant Cost	£5,106,727		
Additional Jobs Cost	£806,365		
Community Cost	£1,953,025		
Risk	£177,598		
TOTAL FINANCIAL IMPACT	£8,891,319		
TOTAL FINANCIAL IMPACTS (adjusted for optimism bias)	£11,507,024	£10,626,453	£10,192,781
Economic Impacts			
Additional Retail Jobs	£14,881,637		
Expanded private housing base	£174,819,142		
Additional retail floorspace	£1,754,127		
Additional Healthcare Jobs	£186,829		
Open Space	£6,321,844		
s106	£0		
Neighbourhood Impacts	£36,217,286		
TOTAL ECONOMIC IMPACTS	£234,180,865		
BENEFIT COST RATIO	20.4 : 1	22 : 1	23 : 1

Net Additionality CBR		Sensitivity 25%	Sensitivity 50%
Financial Impacts	Economic Costs and Benefits (Present Values)		
Opportunity Cost	£325,914		
Grant Cost	£5,106,727		
Risk	£22,307		

TOTAL FINANCIAL IMPACTS	£5,454,947		
TOTAL FINANCIAL IMPACTS (adjusted for optimism bias)	£7,059,718	£6,519,476	£6,253,412
Economic Impacts			
Open Space	£6,321,844		
s106	£2,350,500		
Neighbourhood Impacts	£36,217,286		
TOTAL ECONOMIC IMPACTS	£44,889,630		
BENEFIT COST RATIO	6.4 : 1	6.9 : 1	7.2 : 1

Qualitative benefits identification and sub-group impact

Some of the benefit outcomes that have been identified for the Folkestone Seafront scheme cannot be given a monetary value for cost-benefit analysis purposes. However the scale of the qualitative outcomes associated with the Preferred Option warrants the identification of these benefits in this business case. These additional benefits are listed in the table below:

Additional benefit	Qualitative Outcomes
Jobs creation	<ul style="list-style-type: none"> • Improvement in local economy • Improved skills levels • Reduced benefit dependency • Boosting the local fishing industry by improving navigable access to Folkestone Harbour
Private residential units	<ul style="list-style-type: none"> • Improved housing conditions • Reduction of housing turnover • Satisfaction with accommodation and likelihood to remain in the area • Major contribution to the target for new housing locally • Contribution towards meeting growing population demand • Increased attractiveness to higher income and more highly qualified residents
Affordable residential units	<ul style="list-style-type: none"> • Improved housing conditions • Reduction of housing turnover • Satisfaction with accommodation • Major contribution to the target for new social housing locally • Contribution towards meeting growing population demand
Healthcare facilities	<ul style="list-style-type: none"> • Meeting the healthcare services demand from new housing • Improving local health outcomes
Open Space & Public Realm	<ul style="list-style-type: none"> • Green space growth • Carbon emission reduction • Environmental improvement • Improved surface water management • Habitats and biodiversity • Improvement in visitor economy • Growth in arts and cultural economy
Remediated land	<ul style="list-style-type: none"> • Enhanced quality of life • Not leaving land with planning permission underutilised • Increase in developable land • Environmental improvement
Flood Defence Improvement	<ul style="list-style-type: none"> • Wider 'knock on' positive impacts on value and development potential of adjacent land and proprietries • Enhancement to general wellbeing
Highway infrastructure	<ul style="list-style-type: none"> • Enhanced quality of life • Increased economic activity

Additional benefit	Qualitative Outcomes
	<ul style="list-style-type: none"> • Enables access for the redevelopment • Congestion reduction • Accident reduction

The table below provides detail on the potential impact of the proposed development scheme on key sub-groups within the local population:

Sub-group	Benefits
Higher-skilled residents of local area	<p>Housing: new-build private units available at major new retail/leisure destination</p> <p>Leisure: an enhanced local shopping and leisure destination, with new green space and public realm</p>
Lower-skilled residents of local area	<p>Employment: Potential job opportunities in the retail (permanent) and construction (mid-term temporary) sectors</p> <p>Housing: Provision of new affordable homes in the local area</p> <p>Leisure: a significantly enhanced local shopping and leisure destination, with new green space and public realm</p>

3.7 Sensitivity Analysis

The economic impact of the expanded private housing base is the most important benefit in this case. For this reason the sensitivity analysis involves an assumption that the NPV of the production benefit facilitated by new housing is 0. The new CBR results are shown in the tables below. The preferred option now has a ratio of 11.5:1 which proves that the benefits of the project are still significant even with this benefit removed. The results demonstrate the low sensitivity of the most beneficial part of the development scheme.

Preferred Option CBR	
Financial Impacts	Economic Costs and Benefits (Present Values)
Business Support Cost	£3,299,343
Opportunity Cost	£989,492
Grant Cost	£5,106,727
Additional Jobs Cost	£3,349,645
Community Cost	£5,230,783
Risk	£812,870
TOTAL FINANCIAL IMPACT	£18,788,859
TOTAL FINANCIAL IMPACTS (adjusted for optimism bias)	£24,316,285
Economic Impacts	
Additional Retail Jobs	£28,575,904
Expanded private housing base	£195,384,413
Additional retail floorspace	£11,093,666
Additional Healthcare Jobs	£523,196
Open Space	£6,321,844
s106	£2,350,500
Neighbourhood Impacts	£36,217,286

TOTAL ECONOMIC IMPACTS	£280,466,809
BENEFIT COST RATIO	11.5 : 1

Do Something Option CBR	
Financial Impacts	Economic Costs and Benefits (Present Values)
Business Support Cost	£3,299,343
Opportunity Cost	£989,492
Grant Cost	£5,106,727
Additional Jobs Cost	£3,349,645
Community Cost	£5,230,783
Risk	£812,870
TOTAL FINANCIAL IMPACT	£18,788,859
TOTAL FINANCIAL IMPACTS (adjusted for optimism bias)	£24,316,285
Economic Impacts	
Additional Retail Jobs	£28,575,904
Expanded private housing base	£195,384,413
Additional retail floorspace	£11,093,666
Additional Healthcare Jobs	£523,196
Open Space	£3,453,954
s106	£2,350,500
Neighbourhood Impacts	£36,217,286
TOTAL ECONOMIC IMPACTS	£277,598,919
BENEFIT COST RATIO	11.4 : 1

Do Nothing Option CBR	
Financial Impacts	Economic Costs and Benefits (Present Values)
Business Support Cost	£2,777,652
Opportunity Cost	£663,578
Grant Cost	£0
Additional Jobs Cost	£2,543,280
Community Cost	£3,277,758
Risk	£635,272
TOTAL FINANCIAL IMPACTS	£9,897,540
TOTAL FINANCIAL IMPACTS (adjusted for optimism bias)	£12,809,261
Economic Impacts	
Additional Retail Jobs	£13,694,267
Expanded private housing base	£15,103,540
Additional retail floorspace	£9,339,539
Additional Healthcare Jobs	£336,368
Open Space	£0
s106	£2,350,500

Neighbourhood Impacts	£0
TOTAL ECONOMIC IMPACTS	£40,824,212
BENEFIT COST RATIO	3.2 : 1

The same exercise has been carried out for the enabling infrastructure components in isolation (as far as this is possible). In this case the most important element of the CBR table is the neighbourhood impacts and for this reason this benefit has been reduced by 20% in order to check the sensitivity of the results. The new CBR results are shown in the tables below. The preferred option now has a ratio of 4.7:1 which proves that the benefits of the project are still significant even with this benefit discounted. The results demonstrate the low sensitivity of the most beneficial part of the scheme options.

Preferred Option CBR	
Financial Impacts	Economic Costs and Benefits (Present Values)
Opportunity Cost	£989,492
Public Sector Investment	£5,106,727
Risk	£67,725
TOTAL FINANCIAL IMPACTS	£6,163,944
TOTAL FINANCIAL IMPACTS (adjusted for optimism bias)	£7,977,292
Economic Impacts	
Open Space	£6,321,844
s106	£2,350,500
Neighbourhood Impacts	£28,973,829
TOTAL ECONOMIC IMPACTS	£37,646,172
BENEFIT COST RATIO	4.7 : 1

Do Something Option CBR	
Financial Impacts	Economic Costs and Benefits (Present Values)
Opportunity Cost	£989,492
Public Sector Investment	£5,106,727
Risk	£67,725
TOTAL FINANCIAL IMPACTS	£6,163,944
TOTAL FINANCIAL IMPACTS (adjusted for optimism bias)	£7,977,292
Economic Impacts	
Open Space	£3,453,954
s106	£2,350,500
Neighbourhood Impacts	£28,973,829
TOTAL ECONOMIC IMPACTS	£34,778,283
BENEFIT COST RATIO	4.4 : 1

Do Nothing Option CBR	
Financial Impacts	Economic Costs and Benefits (Present Values)
Opportunity Cost	£663,578
Risk	£45,418
TOTAL FINANCIAL IMPACTS	£708,997
TOTAL FINANCIAL IMPACTS (adjusted for optimism bias)	£917,574
Economic Impacts	
s106	£2,350,500
TOTAL ECONOMIC IMPACTS	£2,350,500
BENEFIT COST RATIO	2.6 : 1

4 Commercial Case

4.1 Delivery Entity

The Folkestone Seafront development project will be taken forward and delivered by Folkestone Harbour (GP) Limited. This company is private and is a wholly owned subsidiary of Folkestone Harbour Holdings Limited which in turn is 100% owned by Sir Roger De Haan.

4.2 Procurement Strategy

Folkestone Harbour (GP) Limited will be solely responsible for the delivery of the development scheme as set out in the current masterplan. The Company will oversee all management processes and structures including procurement of services and related contractual arrangements.

Legal advice is being sought currently on both the final corporate structure and strategy for the delivery company and all associated procurement processes. The following key principles will underpin procurement of all services related to successful delivery of the project:

- Clear and transparent tendering processes to provide a 'level playing field' for all relevant suppliers as far as possible – this will be reflected fully in contractual terms and obligations on the part of all parties.
- Use of competitive tendering procedures in accordance with fund holder's (KCC) requirements, for all contracts over a minimum financial level and where this is practicable.
- Emphasis on value for money and securing the most economically advantageous service provision in all cases, subject to minimum quality thresholds.
- Use of OJEU procurement processes where works or services are procured by the statutory harbour authority, and where the values are greater than relevant thresholds.
- Emphasis on use of local suppliers as far as possible, where this is practicable, allowable through the procurement rules and processes, and subject to minimum quality thresholds.

All construction work procurement by Folkestone Harbour GP Limited will be conducted under a Plan of Work/Gateway process that is based on the RIBA Plan of Work 2015. This sets strict controls in terms of:

- Business case
- Client objectives (time/cost/quality/risk management)
- Town planning
- Estate management
- Health and safety
- CSR compliance
- Project management
- Completion and handover proposals

The Chief Executive Designate of Folkestone Harbour (GP) Limited has very extensive experience in the delivery of major construction projects. As a former Operational Director of Quintain Estates & Development plc for the previous fourteen years, he had responsibility for the strategy, design, planning, procurement and delivery of all its construction and major regeneration schemes, including the Wembley and North Greenwich regeneration projects in London. He has been associated with the construction industry for thirty-six years, having worked in the development and project management disciplines of the property sector since 1988.

4.3 Market Maturity

Given the location of the project and the nature of the items and works to be procured, and the forms of associated contracting, there should be sufficient capacity within the local and wider regional market to supply these services on an open and competitive basis, yielding good value for money.

4.4 Commercial sustainability

The Folkestone Seafront development project will be privately funded in the main (with the exception of the SELEP funding), and privately delivered. There are therefore no commercial dependencies related to any other third party delivery partners. Relevant dependencies are more likely to be related to local stakeholder support and ongoing strategic relationships which will be managed appropriately on an ongoing basis.

Delivery of the buildings is reliant on granting of approval of reserved matters pursuant to the existing outline planning permissions. Much of the upfront infrastructure works can be permitted through approval of reserved matters and discharge of conditions on the existing consent. Dredging for the site raising and the beach nourishment have permissions in place to commence immediately. The site raising will require a Waste Management Licence from the Environment Agency, which will be applied for following site investigation works. There are unlikely to be any significant delays in this process however given local political and community support for the outline scheme.

4.5 Compatibility with State Aid rules

Expert legal advice has been sought on State Aid compatibility, and will be reviewed on an ongoing basis. As stated earlier, the key objectives of the Folkestone Seafront development project are:

- To bring forward a major residential-led mixed use development scheme that will comprise of at least 740 new residential dwellings
- To deliver technically specific, improved flood defences for the seafront and harbour site via a combination of beach nourishment and site raising
- To deliver technically specific improvements to the railway viaduct, swing-bridge and station, and other public realm enhancements in order to facilitate public use of a safe and attractive physical asset

The SELEP funding will be used towards funding of the latter two objectives. As previously indicated, the intention is that the SELEP funding will be used towards funding the flood defences for the seafront and harbour site via a combination of beach nourishment and site raising, and improvements to the railway viaduct, swing bridge and station and other public realm enhancements in order to facilitate public use of a safe and attractive physical asset.

The funding of public infrastructure does not constitute State Aid provided that the infrastructure falls within the boundaries established by the Leipzig/Halle case. Funding must be for genuinely open access public infrastructure, such as parks, walks and utilities, which will serve the local community and which are not exclusive to any particular development and are not intended for economic exploitation, as is the case here. The flood defences will benefit the whole of the community on a non-discriminatory basis, and both the beach and the other public realm will be open for public access without charge, and therefore fall within the boundaries set by this case.

From a State Aid perspective it is also important that the funding does not relieve the recipient of infrastructure costs that it would have to bear under existing obligations, in particular under planning agreements. There is no requirement under the Section 106 agreement to carry out these works, and therefore no State Aid issue arises in this context.

It is also important to ensure that there is no indirect State Aid arising in the context of the construction works themselves, by ensuring that all works which are funded through the SELEP funding are procured on an open and transparent basis. We have committed to using clear and transparent tendering processes which will prevent any State Aid arising in this context.

4.6 Key Contractual Arrangements

Standard legal procedures will be followed with regard to contracting in order to create maximum transparency in all contractual arrangements. Legal advice is being sought currently on the most appropriate and effective forms of contractual arrangement that will allow the project to proceed quickly and also enable proper scrutiny and monitoring of required outputs.

Engagement with the construction market for the purposes of taking forward the Folkestone Seafront project has already commenced. The construction sector has responded very positively towards the scheme and significant interest has been galvanised already. This will provide an opportunity to put together strong tender lists comprising contractors of substantial quality and resource.

It is anticipated that there will be more than one firm selected for the differing elements of work that fall under the LEP fund application, with best-value tenders from the most appropriately qualified contractors being sought chiefly through single-stage tendering. The one exception is in respect of the delivery of the link to the Harbour Arm; being a specialist railway/marine refurbishment works and the conversion of the same into public realm, there may be a degree of early contractor involvement, conducted within a two-stage tendering framework.

Contracting will involve subdividing the overall package of work into individual components and into sizes that can be ready-marketed and controlled through construction phases. This in turn will facilitate effective risk management for the entire project development process.

4.7 Consistency with other Cases

The Folkestone Seafront project is highly unusual in that there are few similar projects nationally that involve a seafront and harbour site of this scale with residential development that will be targeted specifically at primary home owners (rather than second home owners, as is often common in coastal area development schemes). As such it is difficult to compare this project with other obvious precedents. The delivery team will, however, apply the same development philosophies, rigour and good practices that have been tested and found to work elsewhere on other major regeneration schemes (e.g. at Wembley, where 5,800 new homes are being constructed and at Greenwich, where construction of 12,000 new homes is well under way).

5 Financial Case

5.1 Total project cost and basis for estimates

The inflation rate applied in the financial case is 2.5% as per guidance¹². A contingency of 5% for the works excluding the infrastructure has been included in the costs. Moreover due to the nature of the infrastructure works a higher contingency of 7.5% has been included. The breakdown of these costs is provided in the table below.

The total amount requested from SELEP is as follows:

- Beach nourishment = £1.37m
- Site levels raising = £2.32m
- Link to Harbour Arm (minimum works required) = £1.4m
- Total = £5.1m

5.2 Other sources of funding & grant recoverability

Folkestone Harbour (GP) Limited is a private company and will fund the project directly. The funding format is essentially private sector development finance. From this perspective the project is fully proceedable upon successful allocation of the SELEP funding.

Grant funding is required in order to initiate project delivery; the focus of the funding is on initiation of the project rather than outcome. Due to the nature of the project emphasising quality over profit margins²³ there will be no overage.

There is no other public funding involved in delivery of this project. Therefore the net additional benefits of the project outlined earlier accrue only as a result of the SELEP funding and to no other public funder. The project has no reliance on decisions pending by any other funding body.

5.3 Security of Funding

Funding will be provided via highly secure private sources. There is no need to access additional market based funding or identify additional funding partners.

5.4 Cost overruns

SELEP funding will enable the project to proceed with immediate effect, thereby minimising the possibility of higher than anticipated costs due to inflationary pressures. The project will be managed by highly experienced personnel according to a fully agreed and appropriately structured project management plan. All cost parameters will be monitored regularly with associated reporting on an ongoing basis.

5.5 Financial risk management

Financial risks will be minimised due to the project being privately funded.

²³ As noted previously, the project sponsor is willing to accept a level of return on investment that is below market norms – assuming the project remains commercially feasible - in order to provide a development scheme that is of a relatively higher quality, especially in terms of public realm.

Upon initiation, established project management procedures will incorporate detailed financial management mechanisms.

6 Management Case

6.1 Project Management Plan

The project will be managed as efficiently as possible and overseen by a highly experienced and dedicated project manager. The project management plan consists of the following elements:

- Deliverables to be produced - these deliverables include all specified project outputs:
 - Houses: Town house Type A; Town House Type B; Corner House; Dune Detached House; Dune Semi Detached House; Beach House; Beach House – small; Mews House; Harbourside House; Apartments; Studio; One Bed; Two Bed; Three Bed
 - Commercial Space; shell
 - Kiosks
 - Landscaping and Public Realm
 - Site Wide Infrastructure
 - Flood defence – site raising
 - Beach nourishment
 - Harbour arm improvement

- Activities required to deliver outputs: procurement of services providers; finalised contractual arrangement specifying detailed outputs and quality standards; detailed reporting

- Activities required to validate the quality of the deliverables: quality control supervision provided by suitably experienced construction/development personnel

- Resources required: experienced personnel with relevant qualifications and competencies

6.2 Benefits realisation & monitoring

A benefits realisation strategy will be finalised at the outset of project implementation and will set out arrangements for the identification of potential benefits, their planning, modelling and tracking. It will also assign responsibilities for the actual realisation of benefits throughout the key phases of the project.

The benefits register that will underpin this strategy is presented below and reflects the Preferred Option.

Folkestone Seafront Development Project					
Benefits Realisation Register					
Benefit	Activities required	Responsible officer	Performance measure	Target Value	Timescale
Delivery of private residential units	Construction and development activity as per masterplan	Project manager	Residential units	As outlined in the Economic Case section	Ongoing
Delivery of affordable housing	Construction and development activity as per masterplan	Project manager	Residential units	As outlined in the Economic Case section	Ongoing
Section 106 contributions	Construction and development activity as per masterplan	Project manager	Financial	As outlined in the Economic Case section	Ongoing

Additional retail floorspace	Construction and development activity as per masterplan	Project manager	Sq m	As outlined in the Economic Case section	Phase 1 & Phase 6
Additional community/healthcare space	Construction and development activity as per masterplan	Project manager	Sq m	As outlined in the Economic Case section	Phase 1
Additional retail and community/healthcare related employment	Construction and development activity as per masterplan	Project manager	FTE jobs	As outlined in the Economic Case section	Phase 4
Construction related employment	Construction and development activity as per masterplan	Project manager	FTE jobs	As outlined in the Economic Case section	Ongoing
Public realm improvements	Construction and development activity as per masterplan	Project manager	Sq m; qualitative measures	As outlined in the Economic Case section	Ongoing
Flood defence – site raising	Construction and development activity as per masterplan	Project manager	Expert technical judgement	As outlined in the Economic Case section	Phase 1
Beach nourishment	Construction and development activity as per masterplan	Project manager	Expert technical judgement	As outlined in the Economic Case section	Phase 1
Harbour arm link works	Construction and development activity as per masterplan	Project manager	Expert technical judgement	As outlined in the Economic Case section	Phase 1
Improved housing conditions	Construction and development activity as per masterplan	Project manager	Expert qualitative judgement via evaluation	As outlined in the Economic Case section	Ongoing
Enhanced quality of life locally	Construction and development activity as per masterplan	Project manager	Expert qualitative judgement via evaluation	As outlined in the Economic Case section	Ongoing

The above benefits will be monitored on an ongoing basis throughout the project's implementation to ensure that benefits are being realised as anticipated and that interim and final evaluations can be conducted effectively as required (see below).

6.3 Risk Assessment & Management

A final strategy for the active and effective management of risk will be drawn up at the outset of the project's implementation. This will involve:

- Identifying possible risks in advance and putting mechanisms in place to minimise the likelihood of them materialising with adverse effects
- Having processes in place to monitor risks, and access to reliable, up-to-date information about risks
- Having the right balance of control to mitigate against the adverse consequences of the risks, if they should materialise
- Implementing effective decision-making processes supported by a framework for risk analysis and evaluation.

An initial categorisation of risks is presented below.

Folkestone Seafront Development Initial Risk Analysis				
Risk	Likelihood*	Impact*	L*I	Mitigation
Planning risks	1	3	3	Outline planning permission was received with unanimous support from the council. Each phase will now require the submission of detailed reserved matters applications, taking into account that the outline consent sets out the development parameters and design guidelines for the individual plots making up the scheme.
Build risks	3	3	9	The site is coastal and its location might affect the building process. To mitigate the build risks phase 1 of the project includes flood defence infrastructure.
Market risks	3	3	9	An original plan by Foster & Partners was much more infrastructure heavy and was more susceptible to market changes. The current plan by Farrell has been developed so that individual phases can be built out in isolation to accommodate any market variability.
Funding risks	1	3	3	Access to capital funding loans is well established. There is significant private capital available to fund the project and limited recourse to market based funding will be necessary.
Programme risks	3	3	9	These are market and economy dependent. It is likely this development sector will suffer two or three more peaks and troughs within the programmed development cycle. The Farrells plan has been designed to accommodate this, having been developed during the low point of the worst recession in recent history.
Political risks	2	2	4	The project has been discussed at length and over a long period of time with a number of key local stakeholders, political and otherwise. There is general consensus locally that regeneration of the Folkestone seafront and harbour area is a major objective for the town and will yield significant social and economic benefits. Ongoing dialogue and consultation will be maintained with relevant local parties throughout the project's implementation.
Benefits realisation risks	2	4	8	Successful completion of the project will generate substantial benefits for the area. At the outset of implementation, these benefits will be fully defined and finalised with target quantitative and qualitative measures attached to them as appropriate. A combination of ongoing monitoring, plus interim and final impact evaluation will be used to ensure that benefits are realised as planned, are maximised as fully as possible and that any unanticipated constraints to active benefits realisation are flagged up and dealt with as efficiently as possible.
Demand risk	1	5	5	The demographic profile of Folkestone shows a recent, significant population increase and the improved accessibility of the town to London will further increase the demand for residential properties.
Residual value risk	1	5	5	Historically residential property values demonstrate an increasing trend. Moreover the financial case for the project uses quite conservative values in order to mitigate this type of risk.

* Likelihood and impact scores: 5: Very high; 4: High; 3: Medium; 2: Low; 1: Very low

6.4 Stakeholder management & governance

The project has already received general political and community support locally via ongoing dialogue with key stakeholders and community interests in Folkestone (as outlined in the Strategic Case). The project management process will continue this level and depth of dialogue in order to maintain local support and to quickly identify any key issues that may emerge for the community during implementation.

6.5 Impact evaluation arrangements

Effective impact evaluation is a key mechanism for ensuring that benefits are realised, that their true values – quantitative and qualitative – are discernible and that any constraints or difficulties can be dealt with effectively. The project will undertake impact evaluation (commensurate with the scale of public funding) at two points:

- Interim evaluation – at a midway point during project implementation
- Final (summative) evaluation – a short time after the project has been completed.

The interim evaluation will involve establishment of a baseline position against which the realisation of subsequent benefits can be measured and assessed from both a quantitative and qualitative perspective as appropriate. The process will also involve overall assessment of ongoing performance relative to objectives and measurement to date of outputs and outcomes relative to the benefits register above. Monitoring data collected quarterly will be utilised for the purposes of assessment. In order to assess qualitative impacts of the project on an ongoing basis, the project company will undertake consultations with selected local stakeholders and representatives of local community interests, as appropriate. Targets for achievement of socio-economic impacts will be based on the benefits outlined in the Economic Case section of this document and will be revised at the Interim Evaluation point.

The interim evaluation process will also provide guidance on future, anticipated outputs and outcomes in terms of benefits realisation and will provide guidance on how benefits can be fully realised and maximised during the remainder of the delivery programme, in line with the masterplan and delivery strategy.

The final evaluation will assess the summative impact of the project relative to initial aims and objectives and target benefits identified. This process will involve an update of the baseline generated at the interim stage and assessment of progress in full benefits realisation. Further, selected consultations with local stakeholders and community interests will also be undertaken to support assessment of qualitative impacts. Given the nature and scale of the development project, it is likely that certain outcomes, especially those associated with improved quality of life and wellbeing, will not be fully realisable until several years after completion and occupation of the development scheme. As such, the final evaluation will provide guidance on the nature of longer-term anticipated outcomes.

Appendix A Options NPV

Years	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	
Discount Factor	1.0000	0.9662	0.9335	0.9019	0.8714	0.8420	0.8135	0.7860	0.7594	0.7337	0.7089	0.6849	0.6618	0.6394	0.6178	0.5969	0.5767	0.5572	0.5384	
Preferred Option																				
Costs	-£5.5 M	-£1.4 M	-£.4 M	-£.6 M	-£.5 M	-£.5 M	-£.5 M	-£2.1 M	-£2.9 M	-£2.9 M	-£1.3 M	-£.5 M	-£.5 M	-£.5 M	-£.5 M	-£.5 M	-£.5 M	-£.5 M	-£.5 M	-£.5 M
Benefits	£4.2 M	£8.5 M	£7.1 M	£8.2 M	£12.1 M	£14.7 M	£16.9 M	£27.6 M	£31.6 M	£36.2 M	£32.1 M	£33.4 M	£36.4 M	£36.7 M	£35.9 M	£35.7 M	£35.7 M	£35.6 M	£35.6 M	
NPV	-£1.3 M	£6.8 M	£6.3 M	£6.8 M	£10. M	£11.9 M	£13.3 M	£20. M	£21.8 M	£24.4 M	£21.8 M	£22.5 M	£23.7 M	£23.1 M	£21.8 M	£21. M	£20.3 M	£19.5 M	£18.9 M	£312.7 M
Do Something																				
Costs	-£5.5 M	-£1.4 M	-£.4 M	-£.6 M	-£.5 M	-£.5 M	-£.5 M	-£2.1 M	-£2.9 M	-£2.9 M	-£1.3 M	-£.5 M	-£.5 M	-£.5 M	-£.5 M	-£.5 M	-£.5 M	-£.5 M	-£.5 M	-£.5 M
Benefits	£4. M	£8. M	£6.6 M	£7.7 M	£11.6 M	£14.2 M	£16.5 M	£27.4 M	£31.6 M	£36.2 M	£32.1 M	£33.4 M	£36.4 M	£36.7 M	£35.9 M	£35.7 M	£35.7 M	£35.6 M	£35.6 M	
NPV	-£1.5 M	£6.4 M	£5.8 M	£6.4 M	£9.6 M	£11.5 M	£12.9 M	£19.9 M	£21.8 M	£24.4 M	£21.8 M	£22.5 M	£23.7 M	£23.1 M	£21.8 M	£21. M	£20.3 M	£19.5 M	£18.9 M	£309.8 M
Do Nothing																				
Costs	£. M	£. M	£. M	£. M	£. M	£.3 M	£.8 M	£.3 M	£.9 M	£1.5 M	£.7 M	£.6 M	£1.5 M	£2.6 M	£3. M	£3. M	£2.4 M	£2. M	£.7 M	
Benefits	£2.4 M	£. M	£. M	£. M	£. M	£.9 M	£4.2 M	£3.2 M	£5.3 M	£9.1 M	£11.4 M	£11.4 M	£15.6 M	£17. M	£17. M	£13.2 M	£12.3 M	£13.7 M	£14. M	
NPV	£2.4 M	£. M	£. M	£. M	£. M	£.5 M	£2.8 M	£2.3 M	£3.3 M	£5.5 M	£7.6 M	£7.4 M	£9.3 M	£9.2 M	£8.6 M	£6.1 M	£5.7 M	£6.5 M	£7.1 M	£84.3 M

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