

This report will be made public on 5 February 2019

Report Number **C/18/69**

To: Cabinet
Date: 13 February 2019
Status: Key Decision
Head of Service: Andy Jarrett – Chief Strategic Development Officer
Cabinet Member: Councillor David Monk – Leader of the Council

SUBJECT: Princes Parade Project Business Plan

SUMMARY:

This report presents the business case for the Princes Parade project and sets out a proposal for the procurement of the contractor for the leisure centre and associated infrastructure, core consultant team and leisure centre operator. The report also seeks the approval of Cabinet to allow the Director for Place and Commercial to take the steps necessary to deliver the project in consultation with the Leader and the Princes Parade Working Group.

REASONS FOR RECOMMENDATION:

To allow the development of the Princes Parade Project to proceed in accordance with the resolution of Cabinet on 7th February 2017.

RECOMMENDATIONS:

1. To receive and note report C/18/69.
2. To approve the business case and financial appraisal as set out in the report as the basis for delivering the Princes Parade project.
3. The Corporate Director - Place and Commercial be authorised, in consultation with the Leader of the Council and the Cabinet Member for Special Projects, to implement the steps necessary to deliver the Princes Parade project as outlined in the report.
4. The Corporate Director – Place and Commercial be authorised, in consultation with the Leader and Cabinet Member for Special Projects, to dispose of the residential/commercial land at Princes Parade and the existing Hythe Swimming Pool site in order to enable the delivery of the project.
5. To accept the grant offered by the Government under its Accelerated Construction Programme for work to the site.
6. To seek the approval of Full Council to release the capital funding necessary to deliver Phases 1 and 2 of the project.

1 Background

- 1.1 The Princes Parade project was originally conceived in 2012 with aim of securing a replacement for the existing Hythe Swimming Pool. The Princes Parade site was chosen following the consideration by Folkestone and Hythe District Council's Cabinet of a number of alternatives sites and a number of development mixes including the potential relocation of Seabrook Primary School. In February 2017, Cabinet agreed the mix outlined below and authorised the submission of an application for planning permission that was subsequently submitted in September 2017 (ref Y17/1042/SH). Details of the specification and design of the proposed leisure centre are set out in Section 2 of the Leisure Centre Business Case (Appendix 1). The masterplan for the overall scheme is attached as Appendix 2.
- A new leisure centre, located to the eastern end of the site including a main 25m by 6 lane swimming pool, teaching pool, 100 station gym, studio space and a café.
 - The relocation of the existing Princes Parade in order to provide an 11m wide promenade.
 - A comprehensive area of open space to the western end of the site linked to a central area of open space by a linear park.
 - Up to 150 residential units provided in two land parcels either side of the central open space, including 45 (30%) affordable housing.
 - The potential for commercial activities, including a boutique hotel, café, restaurant, adjacent to the promenade and central open space.
 - Car parking to accommodate both residents, visitors and users of the leisure centre.
- 1.2 The planning application generated a high level of response from the public with a total of 762 responses being received with 588 of those being objections and 172 setting out support for the scheme. Following the submission of further information related to heritage, ecology, viability, transportation, road safety and lighting, a further round of consultation was carried out in March 2018. Additional information related to the Environment Statement and ecological mitigation was submitted in July 2018.
- 1.3 The application was considered by the Council's Planning and Licencing Committee on 16th August 2018 with the Committee resolving to grant planning permission subject to the Environment Agency withdrawing an objection relating to surface water drainage and the satisfactory completion of a S106 agreement covering affordable housing, open space management and a health and wellbeing contribution. These issues have been resolved (a draft s106 and Memorandum of Understanding) has been prepared and the Development Management Manager now has the authority to issue the planning permission. The National Planning Casework Unit (NPCU) have been notified of the current position in order that the Secretary of State for Communities and Local Government (SoS) can consider whether to 'call in the application' for their own determination. Such a process would involve the appointment of an independent inspector and the holding of a public inquiry. The planning

permission will be issued by FHDC should notification be received that the SoS does not wish to 'call in' the application. Following the issuing of the planning permission there is 6 week judicial review period in which a legal challenge may be made against the issuing of the planning permission.

- 1.4 In July 2017 Cabinet considered a report (ref. C/17/25) setting out the key element of the future work programme for the project. The following was agreed:

That the work programme identified in the report be approved in order that a full business case and financial appraisal may be prepared for their consideration, prior to the commencement of construction, should planning permission be granted.

- 1.5 The report identified a suggested structure for the business case and financial appraisal to include the following elements:-

- Chapter 1 – ARC Business case.
- Chapter 2 – Design Proposals.
- Chapter 3 – Capital Cost Plan.
- Chapter 4 – Capital Funding Strategy.
- Chapter 5 – Project Execution Plan.
- Chapter 6 – Project Delivery Team.
- Appendix 1 - Updated Risk Register.

- 1.6 Following the decision of Cabinet a range of work was commissioned in order to provide the information identified above. This is summarised below and set out as appendices to the report:-

- Leisure Centre Business Case (Appendix 1 to the report) – This document was prepared by The Sports Consultancy and includes an informed estimate of the management fee that Folkestone and Hythe District Council can be expected to receive over the short to medium term and the associated revenue turn-around position. The business case also sets out the management options and associated procurement options for operation of the centre.
- Design Proposal – The design proposal for the leisure centre and Princes Parade scheme as a whole were prepared by GT3 Architects and Tibbalds Planning and Urban Design and included with planning application (ref. Y17/1042/SH). The site masterplan is attached as Appendix 2. The specification and floor plans for the scheme are set out in Section 2 of Appendix 1. Further detail can be found at the Princes Parade website – www.princesparade.co.uk.
- Capital cost plan (Appendix 3) – A stage 2 cost plan for phase 1 and 2 of the Princes Parade scheme, has been prepared by quantity surveyors Betteridge and Milsom. Phases 1 and 2 (site remediation and construction of the leisure centre and supporting infrastructure) are the elements of the scheme that Folkestone and Hythe District Council will have direct responsibility for delivering, with phases 3 and 4 (residential and commercial) being delivered

by a third party developer. The cost plan incorporates valuation advice (updated in October 2018) for both the residential and commercial land included as part of the Princes Parade scheme and the existing Hythe Swimming Pool site, as provided by Savills Estate Agents and Valuers.

- Capital funding strategy – A capital funding strategy has been prepared by Folkestone and Hythe District Council Financial services based on information contained within the leisure centre business case and capital cost plan. The capital funding plan has been the subject of an independent review undertaken by Arlingclose Limited, the results of which are summarised in the Finance Officers comments.
- Project execution plan – An outline delivery programme is included in Section 4 of the Procurement and Programme Review as prepared by Hadron Consulting Ltd (see Appendix C to Appendix 1). A full project execution plan will be prepared once the Core Consultant Team has been appointed.
- Risk Register – A summary of the key risks associated with the projects is set out in Section 3 of the report. A more detailed risk register is being maintained and updated by the project team as the project progresses.

2 The Princes Parade Business Case – Overview and Summary

- 2.1 This section provides a summary and assessment of the key issues arising from the work set out in the previous section of the report and highlights the issues that Cabinet will need to take into consideration when coming to a decision on whether to proceed with the delivery of this project.
- 2.2 The Princes Parade project was developed in response to the need to find a long terms replacement for the current Hythe Swimming pool that, having been constructed in the early 1970's is coming to the end of its useful life. The options appraisal undertaken by the District Council in 2015, and recently updated, has shown the Princes Parade site to be the most suitable in terms of location, availability and deliverability.
- 2.3 In addition to the delivery of the new leisure centre the project will also deliver a number of other public benefits including a substantial area of high quality, accessible open space, a new promenade and both affordable and market housing. The Princes Parade Leisure Centre Business Case has also demonstrated that the project will result in a significant turn-around in the revenue position will the existing facility currently costing the Council approximately £320,000 per annum (see Business Case Section 3, Current Financial Performance - Appendix 1 page 7). The demographic and market analysis set out in the business case demonstrates that the facility is likely to generate a healthy surplus that will be payable to the District Council in the form of a management fee. The management fee will become payable once the centre has reached a mature position (around 3 years into operation). This is due to there being a number of upfront investment costs, such as furniture, fixtures and equipment, and the fact that it will take a certain period of time to build up the membership/usage and achieve income targets.

- 2.4 The project will also address the current contamination present on the site, as a result of its previous use as a landfill site. Should the development not go ahead then the District Council, as landowner, will need to consider addressing the current levels of contamination which will not only incur additional costs but may result in access restrictions being put in place.
- 2.5 The delivery of the Princes Parade project can essentially be divided into two key components, that is, the construction of the capital elements of the scheme (leisure centre, housing/commercial and open space provision) and the procurement and appointment of an operator for the leisure centre.

Homes England Accelerated Construction Programme Grant

- 2.6 In 2017 an application for grant funding was to be made to Homes England under the Government's Accelerated Construction Programme to support remediation and other development costs for the site.
- 2.7 The application for the grant was successful and the council has been awarded £1,977,879. The Accelerated Construction programme is designed so that local authorities can bring forward and develop surplus and / or acquired sites which:-
- Can begin to deliver housing starts within this Parliament, as part of a local authority's wider housing ambitions;
 - Can demonstrate clear additionality, for example by bringing forward sites that might otherwise not be sold for housing development, and in particular sites that are not currently in a local authority's Local Plan or 5 year land supply;
 - Respond to meeting housing needs locally by freeing up surplus land for housing where it is needed most;
 - Have capacity for 50 homes or more, or form part of a portfolio of smaller sites;
 - Are not, or, subject to successful application, will not be held in a Local Authority's Housing Revenue Account. However proposals for the delivery of mixed tenure sites were welcomed where they meet the Government's wider objectives as were proposals for the provision of serviced custom build plots.
- 2.8 The government were obviously satisfied that the site met the criteria. They were also satisfied that the scheme was viable. The offer of the grant is time limited. The council must decide whether to accept it or not. The recommendation is that it should be accepted.

The Princes Parade Capital Project

2.9 The capital element of the Princes Parade project can be broken down into four distinct element or phases as listed below, and set out in the Planning and Design Statement (PDAS) submitted with the planning application:-

Phase 1

- Site remediation works.

Phase 2

- Construction of leisure centre.
- Realignment of Princes Parade and construction of western car park.
- Relocation of existing rising main along realigned Princes Parade.
- Provision of new promenade.
- Construction of new linear park (including installation of planting along the embankment to the northern boundary, adjacent to the Royal Military Canal).

Phase 3

- Construction of the character area east (residential) and central open space.

Phase 4

- Construction of character area west (residential and commercial) and western open space.

2.10 It is considered, based on the professional advice received, that the most appropriate way to deliver the project is for Folkestone and Hythe District Council to procure a contractor to deliver phases 1 and 2. In parallel to that process the Council should seek to dispose of the residential and commercial land with the capital receipt from that sale being used to fund the implementation phases 1 and 2. The Council may also wish to consider entering into some form of joint venture or other similar arrangement, with a private developer, to deliver phases 3 and 4. In addition an alternative phasing schedule, that combines Phases 1 and 2, is set out in Section 4 of the Procurement and Programme Review (Appendix 1). Consideration should be given to both approaches as part of the further development of the project.

2.11 The cost plan prepared by quantity surveyors and cost consultants Betteridge and Milsom. In addition a funding package has been identified to meet the capital cost of delivering Phases 1 and 2 of the scheme. The estimate of costs and income is set out in detail in Section 8: Affordability of the Princes Parade Leisure Centre Business Case (Appendix 1).

2.14 The development of the cost plan and income assumptions for the scheme have relied upon advice from quantity surveyors and valuers with the overall

cost plan being subject to an assessment by independent treasury advisory company Arlingclose.

- 2.15 In addition a project programme for the scheme is set out in the Business Case (Appendix 1). This indicates that the Leisure Centre will open in the latter part of 2021.

Procurement Options for the Princes Parade Capital Project

- 2.16 In order to deliver the project it will be necessary for the Council to procure a main contractor to deliver phases 1 and 2. The options open to the Council include the use of a procurement framework or the more traditional competitively tendered OJEU route. The issue of contractor procurement is covered in detail in the Procurement and Programme Review (see Appendix 1) which sets out the following recommendations:-

- A single contractor is appointed for the remedial works, leisure centre and infrastructure (Phases 1 and 2).
- A two stage develop and construct procurement route be adopted.
- Design developed to RIBA Stage 4a in conjunction with the contractor and for the completion of the second stage tender.
- A fixed lump sum price is obtained for the works at the second stage tender.
- Key designers (e.g. architects, mechanical/electrical engineer and civil/structural engineer) would be appointed by the Council to complete the design to RIBA Stage 4a and then novated to the contractor to complete the design.
- The contractor is procured through the Southern Construction Framework, although this needs to be soft market tested to ensure there is sufficient interest from contractors on this framework.

- 2.17 An earlier soft market testing exercise indicated that there are a number of contractors on the Southern Construction Framework that would be interested in tendering for the delivery of phases 1 and 2 of the project.

Core Consultant Team

- 2.18 In order to deliver the project it will necessary for the Council to appoint a Core Consultant Team consisting of the following:-

- Lead consultant.
- Quantity Surveyor.
- Principal designer (to cover the CDM requirements. Can be appointed by the contractor at the post contract stage).
- Project manager.
- Lead architect.
- Landscape architect.
- Civil and structural engineer.
- Mechanical and electrical engineers.

- 2.19 The Procurement and Programme Review recommends the use of a single source framework, such as Pagabo or Scape, be considered for the appointment of the Core consultant team. The various stages of the project, from the current phase of the project to completion, are listed below. These are based on the standard Royal Institute of British Architects (RIBA) phases used for most construction projects.
- RIBA Stage 2 - Concept Design.
 - RIBA Stage 3 – Developed Design.
 - RIBA Stage 4 – Technical Design.
 - RIBA Stage 5 – Construction.
 - RIBA Stage 6 – Handover and Close Out.
- 2.20 It will be necessary for the Council to appoint the consultants listed above at RIBA Stage 2 in order to ensure alignment of the various aspects of the design.
- 2.21 The appointment for the lead consultant, project manager, quantity surveyor and by the District Council, will need to continue through to RIBA Stage 6.
- 2.22 The appointment of the architect, landscape architect, civil and structural engineer and mechanical/electrical engineer, by the Council, will need to continue through to stage 4. These members of the design team will then be novated to the main contractor to cover RIBA Stage 5 and 6.
- 2.23 The value of the pre-contract fees is estimated at £1.5 million. These costs are covered within the project/design team fees within the stage 2 cost plan. Such an approach will ensure that that the appointment of the team can be undertaken quickly whilst complying with the requirements of OJEU procurement regulations. It will also enable the appointment of a team with significant experience of delivering leisure projects and the retention of the architects that have developed the scheme to date to ensure continuity of design. The framework approach ensures that the fees payable have been benchmarked against other comparable schemes to ensure best value.
- 2.24 Smaller ‘non – core consultant team’ appointments, necessary to deliver the project can be dealt with either by a variation to the framework appointment or as a direct appointment by the Council.

Princes Parade Leisure Centre Business Case

- 2.25 A full business case for the proposed Leisure is out in the Princes Parade Leisure Centre Business Centre Business Case, as prepared by The Sports Consultancy and attached as Appendix 1. The key issues identified in the report are summarised below:-
- There is unmet latent demand for health and fitness facilities within the catchment of the new centre equating to circa 2300 membership.
 - Detailed business planning undertaken using by The Sports Consultancy used a recognised methodology to assess the likely demand for the centre

and the likely level of the management fee to be paid to Folkestone and Hythe District Council.

- Over first ten years of operation the centre will generate an average annual management fee payment to the Council with year by year variation, reflecting upfront mobilisation costs and reaching maturity in the early years and fluctuations in the lifecycle maintenance requirements from year to year. Living wage and in-house management options have also been assessed that would incur an additional average annual cost.
- A detailed assessment of income and expenditure is set out in Section 5 : Business Planning of the Princes Parade Leisure Centre Business Case (Appendix 1). A summary of the management fee estimate is set out in page 14 of that document.
- Soft market testing has indicated a good level of interest from potential operators most of the main leisure operators.

2.26 It is recommended that Folkestone and Hythe District Council seek to secure an operator for the new leisure centre through an open procurement process. It also recommended that the Council procure specialist advice to manage this process and achieve the best possible financial and service proposals for the Council. The estimated cost of such advice is £60,000.

3. Summary of the Next Stage or the Project Development

3.1 Following the granting of planning permission, the next stage in the delivery of project will involve commencement of the procurement process for the core consultant team, the contractor for Phases 1 and 2 and the operator of the leisure centre, as described earlier in the report. A number of preliminary works relating to, for example, ecological mitigation will also need to be undertaken. It is also recommended that further ground investigation work is undertaken at this stage that can be used to inform the contractor of the procurement process.

3.2 The Council should also, at this stage, commence the process of disposing of the residential/commercial land at Princes Parade and the existing Hythe Pool site. As part of this process the possibility of FHDC entering in to a joint venture with a private developer should be explored.

3.3 Once planning permission is obtained it will also be necessary to obtain other consents including highway stopping up approval, main rivers consent, badger licences and reserved matter approval. In relation to the stopping up process an application was submitted to the Secretary of State for Transport in May 2018. Over 200 representations (mainly objections) were received. Given that it is not a realistic possibility that all the objections will be withdrawn, following a process of negotiation, it will be necessary for the SoS to appoint an inspector to consider any remaining objections in accordance with the legal tests set out in the Town and Country Planning Act. This may be done either through a process of written representations or public inquiry. This process has been factored into the project programme, based on an estimate of the overall timescale, and will continue to be monitored.

- 3.4 The early appointment of the Core Consultant Team will be an important step in the development of the project as it will provide the Council with the additional skills need to undertake further detailed design work and take the project through to implementation.
- 3.5 A two stage procurement process has been recommended in relation to the construction of the leisure centre. This is considered appropriate as it will allow further detailed discussions to take place between the appointed contractor, FHDC and the core consultant team in order to allow the specification to be finalised in accordance with the requirements of the client and the agreed budget. Similarly discussions regarding the operational specification of the leisure centre will take place once the operator has been appointed.
- 3.6 A number of decisions will therefore need to be taken to allow the project to proceed. It is recommended that authority to take those decisions is delegated to the Corporate Director for Place and Commercial in consultation with the Leader and the Princes Parade Working Group.

4. Finance Comments

- 4.1 Arlingclose Limited, the council's treasury adviser, was commissioned by the Corporate Director for Customer, Support and Specialist Services to undertake a review of the key financial information in the business case for delivering phase 1 and 2 of the Princes Parade project. This included assessing the robustness of the estimates the council had obtained for:-
- The capital cost of the project.
 - The valuations for the land disposal options to help fund the capital cost, and
 - The operating cost model.
- 4.2 The review also included an assessment of the overall capital financing proposed for the scheme, its cashflow implications and the main financial risks.

Arlingclose Review – Summary of Main Findings

- The council has taken the correct approach in obtaining professional advice from experienced consultancy firms for the key cost and funding estimates for the scheme, including the operating cost model, providing assurance the project is achievable.
- These estimates have recently been reviewed to ensure they remain relevant and accurate.
- The capital scheme is deliverable without the need for long term borrowing.
- Short term borrowing will be required to meet cashflow timing issues and the interest cost should be capitalised and added to the overall scheme cost.
- The forecast capital funding streams will produce surplus capital receipts of about £1.2m over the estimated capital cost.

- With no long term capital financing costs, the operating cost model for the new leisure centre is expected to generate an ongoing revenue saving to the council compared to the cost of providing its existing facility.
 - The most significant financial risk to the project are delays to the capital receipts and S106 contributions required towards the project with the need for further interim borrowing to meet this should it occur.
 - Should for any reason the capital cost exceed the total capital funding, then for every £1m incurred this will mean an additional ongoing capital financing cost of £45k pa.
 - The council is most likely to have to take on the affordable housing and commercial development elements of the overall project.
- 4.3 The Arlingclose review provides assurance over the robustness of the key financial estimates for the project and that the operation of the leisure centre is financially viable over its lifetime.
- 4.4 It is important to highlight that the financial estimates remain indicative at this stage. The actual cost to deliver the scheme and operate the new leisure and commercial facilities will not be known until the outcome of the procurement process and further work on the disposal options for both the Princes Parade and South Road sites are known. Once these are known, a final detailed business case will be prepared for the scheme that will include its full financial implications. The proposed £60k budget to support the procurement process for the appointment of the leisure centre operator can be contained within existing revenue resources earmarked towards the council's corporate development plans.

5. Summary of Risks

- 5.1 The Princes Parade project is a complex and its development to date has been based on a number of assumptions informed by appropriate professional advice. The project therefore carries a number of risks of which Cabinet should be aware when taking a decision on whether to proceed with the project. The key risks are set out below:

Funding and Delivery Risks

- Capital receipts from the Princes Parade and existing Hythe Swimming Pool site lower than estimated leading to a significant funding shortfall.
- Construction costs identified through contractor procurement process greater than anticipated leading to a significant funding shortfall.
- Further abnormal development costs identified during construction stage leading to cost pressures lower than anticipated demand for new leisure centre leading to revenue shortfall.
- Significant delay to Nickolls Quarry scheme (Y06/1079/SH) leaves FHDC unable to draw down S106 contribution.
- Delays in obtaining the necessary consents required to deliver the scheme included highway stopping up approval, main rivers consent and reserved

matter approval (for planning permission Y17/10142/SH) resulting in delays to the programme and additional costs.

Planning Risks

- Call in by Secretary of State resulting planning uncertainty and a substantial delay to the programme.
- A successful judicial review challenge leading to reconsideration of the application by the local planning authority.

6. Conclusion

- 6.1 The business case and professional advice presented in this report demonstrates that the Princes Parade capital project can be delivered provided that the proposed funding package is available and the risk is appropriately managed.
- 6.2 The report also recommends a procurement route for the appointment of the main contractor, the operator of the leisure centre and the core consultant team that it is considered to achieve an appropriate balance between delivering best value and speed of delivery.
- 6.3 The Leisure Centre Business Case demonstrates that a significant and positive turn-around in the revenue position will be achieved greatly improving the Council's financial position, in addition to a much improved facility being available for use by the general public.
- 6.4 In addition the project will provide a range of other public benefits including high quality, accessible open space and both market and affordable housing.

6. RISK MANAGEMENT ISSUES

- 6.1 A summary of the perceived risks is as follows :-

Perceived risk	Seriousness	Likelihood	Preventative action
Funding and delivery risks (see section 3 of report)	High	Medium	Review position following detailed design (e.g. RIBA Stage 4a)
Planning risks (see section 3 of report)	High	Medium	Review programme and deliverability of project as appropriate.

Legal Officer's Comments (DK)

Subject to the Council complying with its planning obligations and acting competitively, fairly and transparently when selecting relevant contractors in accordance with the Public Contracts Regulations 2015, there are no legal implications arising directly out of this report other than as stated therein.

Finance Officer's Comments (LW)

The Finance Officer's comments are included in the main body of the report.

Diversities and Equalities Implications (DS)

There are no diversities and equalities implications directly related to this report.

7. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

Andy Jarrett – Chief Strategic Development Officer
Telephone: 07713081278
Email: andy.jarrett@folkestone-hythe.gov.uk

Dave Shore – Strategic Development Projects Manager
Telephone: 01303 853459
Email: dave.shore@folkestone-hythe.gov.uk

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

Nil

APPENDICES

Appendix 1 – Princes Parade Leisure Centre Business Case (incorporating latent demand assessment, soft market testing documentation and procurement and programme review).

Appendix 2 – Princes Parade Illustrative Masterplan

Appendix 3 – Stage 2 Cost Plan Report