



The Lockwood Project: Regenerating Madeira Terrace

Strategic Outline Business Case

13 January 2017

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Issue and Revision Record

Revision	Date	Originator	Checker	Approver	Description
1	12/01/17	I McNichol	O Steele	O Steele	Draft
2	16/01/17	I McNichol	O Steele	K Scott	Final

Document reference: 368587 | 01 | 01

Information class: Standard

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Executive summary

The Lockwood Project is a scheme to redevelop and reactivate Brighton & Hove's iconic, heritage-listed Madeira Terrace and associated structures as part of a wider regeneration programme planned for the City's world-famous seafront. In recent years, Madeira Terrace has had to be closed off to the public as the structure has progressively deteriorated. Without intervention, this situation is expected to continue.

To tackle this degradation, which detracts from this part of the City's seafront, Brighton & Hove City Council has devised a primarily commercially-led redevelopment scheme. This will involve the refurbishment and reconstruction of the terraces to their original Victorian built design. Prefabricated "pod" units have been designed to insert into the terraces for lease to a variety of commercial tenants, including for leisure, retail, culture and accommodation uses. This restoration has been designed to be sensitive to the heritage nature of the terraces and the surrounding built environment.

The redevelopment of Madeira Terrace is expected to bring significant economic benefit to Brighton & Hove, supporting the City's strengths in the visitor economy, arts and cultural sectors and the digital economy. Overall, the Lockwood Project is expected to contribute around £7 million to the local economy (in gross value added (GVA) terms) and create around 100 new net jobs. The project has substantial stakeholder support including from the local community, local political leaders and heritage officials.

To make the project manageable, Brighton & Hove City Council, in conjunction with its Coastal Communities Team, intends to progress the project in three phases. The first phase, to which this Strategic Outline Business Case relates, proposes to redevelop around a third of the 850m long Madeira Terrace structure, as well as the Madeira Shelter Hall and Lift Tower, which form the "centrepiece" of the structure.

The cost of this first phase is estimated at around £8 million. £4 million of grant support from the Coastal Communities Fund is sought to make the project viable, with the Council providing remaining funds and bearing risk for cost overruns. Initial commercial viability analysis has indicated that Council funding for the first phase of the project can ultimately be largely recovered by commercial rental income in the terraces. The Council's ambition is for this first phase to act as a "proof of concept" so future phases can be self-funding, potentially via a private-sector development partner.

The Council is in the process of rapidly progressing the project to the procurement phase so it can be delivered by end 2019. The Council has a strong track record in delivering coastal capital projects and commercial property management along the seafront. This indicates that with the required degree of CCF "pump priming" support, Madeira Terrace can be successfully regenerated through a rolling programme of works.

1 Strategic case

1.1 Project description

The overall scheme (the “Lockwood Project”) involves the renovation of Brighton's iconic Madeira Terrace, an 850-metre-long seafront arcade with raised walkway and associated buildings that runs along the stretch of Brighton & Hove’s seafront east of the Palace Pier. Madeira Terrace was developed by the borough surveyor Philip C Lockwood as a covered promenade to attract tourists in the late nineteenth century.

The Grade II Listed Madeira Terrace is the one of the principal attractions of Brighton & Hove’s seafront east of the Palace Pier, however in recent years it has had to be closed to the public due to major structural issues and safety concerns. This detracts from this part of the seafront, reducing visitor numbers despite the world-class heritage architecture of Kemp Town and the wider attractions of this part of the City’s seafront.

This project proposes to renew the Madeira Terrace through a reconstruction that will introduce innovative commercial and leisure uses to the structure to breathe life back into Brighton’s eastern seafront. This redevelopment is part of a wider planned seafront investment programme that includes a major new arena and conference centre at the City’s Black Rock seafront site, a major seafront swimming pool development, and associated works to improve the public realm of the area.

The redevelopment will be sensitive to the Madeira Terrace’s heritage by using historic materials and structural solutions. By attracting commercial occupants, it will also help ensure that the structure has a sustainable funding stream over the longer-term to prevent future decay.

The estimated cost of redeveloping the whole of the 850m Madeira Terrace structure is £23.6million. To make this major programme manageable, Brighton & Hove City Council, as sponsor, has split the planned redevelopment into three phases, with the first phase seeking £4.0 million of CCF co-funding to support the first phase of works estimated at £8.025 million. The Council will also provide £4.0 million of match funding. The Council’s investment is expected to be repaid by commercial rental income that the redeveloped terraces will generate.

1.2 Project objectives

- To deliver the refurbishment of a first phase of Madeira Terrace bringing it back into use for a mixture of commercial and community uses
- To stimulate new private sector investment to support growth sectors in the local economy
- To deliver 145 gross new jobs and contribute £7.1 million gross GVA to the Brighton & Hove economy
- To protect and enhance a key heritage and visitor asset as part of Brighton & Hove’s overall £1 billion seafront investment plan

1.3 Madeira Terrace

Madeira Terrace was built between 1890 and 1900 by the Borough surveyor, Phillip C Lockwood, and created as a covered promenade to attract tourists from London on the new

railway of the 1800s. Throughout its life it has been both an extended promenading space and three-tiered "grandstand" for the regular events that occur along this section of the seafront.

Madeira Terrace is the longest cast iron structure in Britain. The Victorian Society has also stated that the Terrace is one of 2015's Top Ten Most Endangered Victorian and Edwardian Buildings in England and Wales.

Madeira Terrace is the primary attraction of the wider Madeira Drive area, a 2km-long stretch of the seafront that is a world-class heritage environment and is home to some of the south coast's largest outdoor events. The area also includes a number of other visitor attractions including the Madeira Shelter Hall and Lift Tower, which were built at the same time as Madeira Terrace, and the Volk's Railway, the world's oldest electric railway. Madeira Terrace was built onto a planted "green wall" that was developed along the length of the City's East Cliff, that runs along Madeira Drive.

Madeira Terrace, Madeira Shelter Hall and the Lift Tower, and related buildings, are listed under the Planning Act 1990 as a Grade II buildings. A detailed description together with listing information is included in The National Heritage List for England. Contextual information on the study area is set out in the *Madeira Drive Regeneration Framework*, that has been supplied with this business case.

1.3.1 Scope of works

This project involves a first phase of refurbishment works to Madeira Terrace comprising structural repairs and restoration of the deck and terrace areas and the insertion of prefabricated lightweight pod structures into the refurbished terraces to create approx. 8,270 sq ft of commercial floorspace.

The terrace structure will be rebuilt using the same materials and structural solution currently in place. Cast iron beams, columns, balustrades, drainage pipes and other ironworks will be shot blasted, recoated and reinstated where possible.

Where major repairs are required the fabrication of cast iron replacement components will be to the original specification. The terrace deck will be replaced on a like-for-like basis with an infilled steel structure, the existing retaining wall and masonry pier will be repaired and deck seating refurbished.

The proposed refurbishment works for the terraces are intended to repair the deck and supporting structure such that it is capable of withstanding pedestrian loading at the upper levels. The refurbishments works aim to prevent further decay and give the structure an agreed design life subject to ongoing maintenance.

The pods will be constructed in a structured insulated panel modular building system. These lightweight, durable structures will be largely prefabricated using a 'flat pack' system and inserted into the rebuilt terraces as stand-alone units. The pods will have no direct interfaces with the existing structure and retain their own separate services infrastructure. Subject to end user requirements, several pods will incorporate a mezzanine floor.

The first phase will involve the refurbishment of 52 arches (out of 151 in total) of which 13 will be retained as open even space with the remainder available for a mixture of commercial uses. This phase will also include the refurbishment of the existing Madeira Shelter Hall and Lift Tower structures and associated external works.

Subsequent phases of refurbishment through the Lockwood Project will take place on the same basis subject to market demand.

1.3.2 Commercial uses for Madeira Terrace

The proposal is for a mixture of sympathetic retail, commercial, entertainment and accommodation uses to be developed within the terraces, with development to be organic and phased. These uses could potentially include:

- An iconic seafront hotel development;
- A youth hostel;
- An arts centre and gallery space, an area where Brighton has traditionally been underserved;
- Cafes and restaurants, with a signature facility planned for the Madeira tea rooms;
- Boutique retail; and
- Incubator space for creative and digital industry.

These proposed developments seek to enhance the seafront offering for visitors and locals alike rather than duplicate commercial uses elsewhere around the Brighton and Hove seafront, such as in the arches west of the Palace Pier or in the Lanes. They seek to build upon the City's wider regeneration strategy for this part of its seafront, in particular the development of a world-class conference centre and arena facility at the Black Rock site, located to the east of Madeira Terrace (refer *Madeira Drive Regeneration Framework*, supplied, for more detail).

Further detail on planned uses for the redeveloped Madeira Terrace is enclosed in Attachment A, showing development by the planned three development phases for the overall Lockwood Project regeneration scheme. Exact uses will be dependent on market demand and commercial considerations.

1.4 Strategic fit

1.4.1 Spatial and economic development policy

Brighton & Hove City Council has developed a hierarchy of strategic planning documents that will be used to guide the development of the Lockwood Project.

Firstly, the Council has recently completed the *Madeira Drive Regeneration Framework*, setting out opportunities to regenerate Madeira Terrace in the context of a wider urban renewal programme (Madeira Drive runs in front of the terraces) encompassing enhancements to the local public realm, public and active transport provision and visitor attractions.

The *Madeira Drive Regeneration Framework* sits within a wider public *Seafront Investment Plan*, that sets out the Council's priorities for Brighton & Hove's 12km stretch of coast. The *Seafront Investment Plan* details an unprecedented public and private sector investment programme totalling over £1 billion to enhance and renew the City's seafront.

The importance of the regeneration of Madeira Terrace is also recognised in Brighton & Hove's *City Plan Part 1* (adopted in March 2016), which makes specific reference to the regeneration efforts required along Madeira Drive within the seafront Special Area Policy SA1. In addition, one of the key strategic objectives highlighted in the City Plan states that development should 'enhance the seafront as a year round place for sustainable tourism, leisure, recreation and culture whilst protecting and enhancing the quality of the coastal and marine environment'.

Investment in the City's seafront sits alongside broader strategic work from the Council in brokering a City Deal for the Greater Brighton City Region with Central Government, which is

set to unlock around £1 billion private and £100 million public sector investment in key infrastructure, skills, and business projects to generate significant productivity, GVA and employment gains in the region.

In the Coast to Capital Local Economic Partnership's (LEP) 2014 *Strategic Economic Plan* the seafront is identified as the first of only four key development areas for the region. Development around the associated sites of Brighton Marina and the Black Rock Arena is specifically referred to, indicating the importance of the regeneration efforts in this part of the City. Rejuvenating the terraces is crucial to ensure the collective regeneration of this area.

1.4.2 Coastal Communities Fund

Safeguarding and enhancing coastal communities is a key agenda item for the UK Government. The Department for Communities and Local Government (DCLG) recognises the importance of conserving and nurturing coastal activities and has been focusing investment towards coastal economies via the Coastal Communities Fund (CCF) since 2012 and through supporting the establishment of Coastal Communities Teams in applicable local authorities across the UK.

The Brighton & Hove Coastal Communities Team (CCT) was established in March 2015. It brings together representatives from public, private and business expertise to support the City Council in developing and delivering the new Seafront Investment Plan and associated projects, including the Lockwood Project.

The regeneration of Madeira Terrace via the Lockwood Project supports the following CCF Round Four objectives: -

- Firstly, the redevelopment of the terraces structures into usable hostel/hotel, entertainment and office space provides additional employment opportunities in additional sectors beyond the visitor retail and leisure activities that already populate the City's seafront. The intention of the Council to maintain an eclectic mix of commercial activities in order to diversify the offer to businesses, residents, and visitors, will help support Brighton and Hove's vibrant SME sector also, while supporting economic diversification and innovation.
- Secondly, one of the challenges with seafront attractions is their seasonality. By adapting the currently vacant and closed promenade infrastructure into usable commercial space, with improved public realm and accessibility, the structures can be restored and their usability extended year round, increasing the business rate yield for the Council, as well as helping to activate Brighton's surrounding eastern seafront overall.
- Thirdly, unparalleled levels of investment are currently planned for the City's seafront, including the redevelopment of Brighton Marina, King Alfred Leisure Centre and Shoreham Harbour, construction of the i360 observation tower, building new state-of-the-art conference and entertainment facilities and expanding the Churchill Square shopping centre to the seafront. Regenerating Madeira Terrace, with associated public realm and transport improvements, will be part of this wider investment programme to regenerate Brighton & Hove's wider seafront through extending the visitor footprint westwards and eastwards.

1.5 Rationale for the project

According to HM Treasury's Green Book, the rationale for government intervention, whether for a new or changed policy, programme or project is essentially twofold:

- The achievement of economic objectives by addressing inefficiencies in the operation of markets and institutions; and

- The achievement of an equity objective, such as local or regional regeneration.

There is a growing body of evidence that contributes to the rationale behind this project. Madeira Terrace has been progressively closed to the public since 2012 following deterioration of the structure caused by corrosive damage from the marine environment. Permanent fencing has been erected to prevent access. Four of the six staircases that connect Madeira Drive to Madeira Terrace have been closed to the public on safety grounds after a site survey indicated concerns about the condition of the structure and the potential risk of collapse.

The structure has fallen into disrepair, despite attempts at interim remediation work. However, the entire structure remains standing and is materially intact. Without intervention, it is likely that Madeira Terrace will decay further and ultimately may need to be removed in sections over the longer-term.

Over several decades, investment and development in Brighton & Hove's seafront has traditionally been focused on the stretch between the Palace Pier and former West Pier. As such, the full potential of the seafront along Madeira Drive is not being realised. Without an impetus to change, it is likely this situation will lead to a further degradation of this area, with consequent implications for its heritage structures and wider environment.

The visitor offering in this part of the City's seafront is inconsistent and lacks a critical mass. While developments such as the Sea Life Centre and leisure beach activities in front of Madeira Shelter Hall help support the daytime visitor economy, and Concorde2 (a nightclub housed in Madeira Shelter Hall) the area's night-time economy, overall the offering is sporadic. Along Madeira Drive itself, the public realm has a tired and inconsistent look and feel.

The highly bespoke nature of Madeira Terrace as a development project makes it unlikely that it would be viable to redevelop it exclusively on commercial terms. The deterioration of the asset, its heritage listing and the lack of ready market comparables generates a degree of construction risk that a private sector developer would be unlikely to want to bear, or would only take on with significant subsidy. Furthermore, the absence of existing activity in the area (relative to other areas of the City's seafront) magnifies commercial risks for private sector developers.

These arguable market failures indicate that public sector support will be required to "pump prime" the redevelopment of Madeira Terrace, at least during its initial phase. The delivery strategy for the project, set out in Section 3, is predicated on the publicly supported Phase 1 of the Lockwood Project demonstrating "proof of concept", leading to commercial rental income that can be recycled into redeveloping Madeira Terrace through its subsequent two phases. Through activating this important asset, it is also anticipated that wider regeneration will be enabled in the wider Madeira Drive area.

1.6 Evidence of demand

In recent years, the closure of Madeira Terrace has led to the removal of local businesses hosted in these structures, the loss of the terraces as a public amenity and the necessary installation of visually intrusive safety measures to prevent access.

Limited public funding at a time of constrained local authority finances means any redevelopment solution must include a high degree of commercially derived funding. This commercially driven approach will support economic and jobs growth in the South East region by building upon Brighton and Hove's unmatched visitor economy strengths, while also harnessing its creative, dynamic local workforce, activating this stretch of the seafront.

Market assessment undertaken in developing this regeneration proposal highlights:

- Over 10 million visitors to the City per annum, including five million overnight stays
- The City's high rate of population growth and low unemployment rate
- High commercial occupancy rates for the region, particularly for commercial space along the seafront (as seen through a near 0% vacancy rate along the existing seafront arches in Brighton located to the West of the Palace Pier)

Stakeholder engagement has also indicated support for the proposed redevelopment of Madeira Terrace supported by commercial use. A visualisation of the proposed approach, developed by Brighton & Hove City Council's architect, Wilkinson Eyre, was published in June 2016 to predominantly favourable local comment.

The Council has also held a seminar to discuss its proposals with its Seafront Investment Panel, comprising local traders, businesses, and community stakeholders, as well as wider one-to-one stakeholder engagement. Again, the sentiment was highly positive providing the commercial uses were genuinely innovative, tailored to the seafront's needs, and in keeping with the area's heritage.

The ongoing commercial success of Brighton's arches to the west of the Palace Pier, which have been populated with commercial uses for many years, suggests this model will be durable, providing the attractions offered are sufficient to draw visitors and locals down to this part of the seafront.

In recent years, the Council has funded the redevelopment of a number of the seafront arches to bring them to modern building standards. This higher quality offering – comparable to what is planned for the redeveloped Madeira Terrace commercial units – has been reflected in higher rents in these modern facilities relative to other seafront commercial property.

Planned wider investment around this part of Brighton, such as the Black Rock arena, will also support the regeneration of Madeira Terrace and help to provide an activity hub, supporting economic development of the area.

1.7 Spatial impact

The project aims to encourage more widespread use of Brighton & Hove's seafront for a greater period of the year. This would help improve local quality of life, generate employment, and help to address localised social deprivation, for example through:

- Reducing overcrowding at peak times on the City's central seafront, by offering an enhanced offering for local residents and visitors alike over a wider stretch of the seafront.
- Providing employment opportunities for local residents. A number of the wards surrounding Madeira Terrace are among the most deprived in the region, as measured via the index of multiple deprivation.
- Generating business activity during both the construction and operational phases of the project both directly and indirectly in the wider supply chain. It is expected that much of this will go to businesses in the local area.

2 Economic case

2.1 Economic context

The following highlights are taken from *Brighton & Hove City Snapshot: Report of Statistics* prepared in 2014.

2.1.1 GVA

GVA per head in Brighton & Hove was lower than the South East and UK averages in 2012. GVA is a measure of the value of goods and services produced in an area on a per person basis. In 2012 the GVA of the Brighton & Hove economy was £20,712 per head. This compares to £23,221 across the South East and £21,674 in the UK overall. Between 2011 and 2012 local GVA grew by 2.1 per cent, compared to 0.8 per cent across the UK.

2.1.2 Business and employment base

In 2012 there were 13,563 businesses in the city. Between 2009 and 2012 the business base of the City grew by 295 companies to reach a total of 13,563 VAT and PAYE registered companies, and the employment base grew by 6,120 jobs.

In 2011, Brighton & Hove had the second highest number of businesses per head in the UK according to a 2013 report on UK cities, second only to London. New business formation is the highest on record since 2004 with 1,620 new enterprises registered in 2012. Per 10,000 people, the City had 58.7 new businesses in 2012. Business deaths have risen on the 2011 figure but are lower than the 2009 level, when deaths exceeded births, and lower than 2010.

Businesses in the city are on average smaller in terms of employee numbers than the national average. In 2010 86 per cent of businesses in the City were small or micro level, employing less than ten people. The Association of British Insurers survey that this data is drawn from has been discontinued but there are no reasons to think that this pattern has changed significantly in recent years.

Between 2009 and 2012 the sectors which expanded most and contributed to the economic recovery in the city were

- Accommodation and food services +1,850 jobs
- Finance and Insurance +1,661 jobs
- Retail and wholesale +1,254 jobs
- Health +840 jobs
- Arts entertainment recreation and leisure +792 jobs
- And ICT + 526 jobs

2.1.3 Sectors

A much higher proportion of Brighton & Hove's GVA comes from art and cultural services than in the UK as a whole. Around 1.4 per cent of GVA in the city (£76 million) comes from these services, compared to 0.4 per cent nationally. The city has a much higher than average concentration of employment in cultural services sectors. This contributes significantly to the clustering of skilled workers over time, driving productivity benefits in other areas of the economy.

The creative, digital and IT sectors are also significant in the City, and research undertaken by has shown that the sector is now worth an estimated £713 million to the economy.

Brighton & Hove is often cited as one of the most successful visitor destinations in the UK. With a visitor spend of £830 million throughout 2014 the tourism sector supports approximately 15,900 full time equivalent jobs and 21,682 actual jobs. Tourism is a vital part of Brighton & Hove's economy translating to roughly 14% of all jobs in the city's economy.

Brighton & Hove's strengths go far beyond its visitor economy however. The city is home to major employers, a strong finance and business services sector, one of the largest universities in the South East and a burgeoning creative and high-tech cluster.

Given this economic context, Brighton & Hove is well positioned to capitalise on its strengths and support the regeneration of its seafront, including through the redevelopment of the currently under-utilised, but strategically located Madeira Terrace and associated facilities.

2.2 Outputs / Outcomes

Preliminary designs of the terraces have been used to estimate expected floorspace and units that can house accommodation, leisure, retail, and office spaces once the project is complete. The assessment of the economic impacts of redeveloping commercial units within the terraces has been estimated using Mott MacDonald's Transparent Economic Assessment Model (TEAM), which is designed to calculate the socio-economic impacts of changes in land use.

Using high level assumptions (see below) to run the preliminary data on floor space and expected land use of the units within the terraces through TEAM, estimates have been made in relation to the number of net additional jobs facilitated within the terraces and economic impact in terms of contribution to GVA.

2.2.1 Employment outputs/GVA impacts

Table 2.1 below sets out preliminary potential economic impacts of the Madeira Terrace units once fully occupied. Note that this relates to all phases of work to be undertaken subsequent to the first phase funded with the support of CCF. It has been assumed that future phases will not require further public sector funding support – and that the CCF support will 'unlock' the delivery of all these outputs.

This analysis shows both gross and net jobs created. The net jobs calculation makes an allowance for displacement, leakage and substitution effects – i.e. it is an estimate of how far jobs created by the Lockwood Project will be "additional" at a national level.

TEAM has also been used to identify indirect and induced jobs and GVA. These effects will be generated through employment and activity in the wider labour market (e.g. in the supply chain to the occupiers of Madeira Terrace units).

Table 2.1: Economic Analysis of the Lockwood Project

Commercial uses	Gross direct	Total net direct, indirect and induced jobs	Gross GVA (£m)	Total net direct, indirect and induced GVA (£m)
Retail units	16	11	£0.7	£0.5
Museum/gallery space	1	1	£0.1	£0.0
Bar/restaurant units	47	32	£1.9	£1.4
Office space	13	9	£1.0	£0.6
Event venue	2	1	£0.1	£0.1
Hostel	3	2	£0.2	£0.1
Hotel space	60	41	£3.1	£2.1
Spa space	1	1	£0.0	£0.0
Cinema space	1	1	0.04	0.03
Total	145	97	£7.1	£4.8

Source: Mott MacDonald analysis using the Transparent Economic Assessment Model.

2.2.2 Assumptions Underpinning Methodology and Modelling

TEAM applies government recommended methodologies to calculate the level of net employment. It therefore takes account of the neighbouring employment and subsequent risk of displacement, leakage of economic benefits to other economic areas, and deadweight in terms of the level of activity already ongoing at this site

The potential economic benefits of those development units and sites identified within the improvement works areas have been calculated through the following steps:

- Inputting of key site details into TEAM including the sizes and proposed land uses (by land use classification) of sites and the key assumptions. These are based on preliminary plans for each of the commercial units emerging from designs prepared by the project team.
- Due to the preliminary nature of this study, most assumptions around employment densities and economic multipliers are based on governmental recommended best practice, but where possible given the presence of local data, these have been adjusted to increase accuracy.
- Calculation of direct economic impacts through feeding the proposed uses by size through TEAM to calculate:
 1. Direct effects of the units/sites in terms of employment and economic output (measured by GVA) of the sites being fully occupied/developed.
 2. Indirect and induced effects of the units/sites being occupied/developed from those supported further down the supply chain and employment and activity supported by the incomes of those directly or indirectly employed (through consumption multiplier effects).
 3. The economic impacts have been presented at both a gross and net level throughout the analysis. The net position adjusts the gross impacts for

additionality and deadweight by considering what levels of employment are already present within the development areas.

- Land use assumptions within TEAM relate to type of use, land utilisation and occupancy levels and employment densities of the potential development areas. These assumptions are fully listed in this section of the report and the tables below and have been undertaken on a site by site basis using information about the development proposed. It is important to note that:
- An occupancy rate of 100% has been used for all potential development areas as the analysis is presenting the total economic benefit that could be realised from these vacant premises being developed and becoming occupied. As the site is currently vacant, it has been modelled that development brought forward at these units would boost the occupancy rate to 100%.
- In cases where net internal area is not yet estimated, a building footprint of 80% has been used; as the units will not include large spaces such as car parks or gardens that would lead to a lower proportion (from best practice assumption of 50%), it is likely that the full net internal area of the properties will be used for the appropriate land use. A floorspace footprint of 90% to convert gross external areas to net internal areas (where applicable) has been used.
- Estimates for employment in hostels and hotels are based on estimates of the number of rooms/beds within the allocated development space. For the hostel employment space, the lower range estimate for average room size for a budget hotel has been used (16m²). For the hotel it is understood that a boutique hotel would occupy this space; for which an average room size of 60m².
- Given the nature of the development, it has been assumed that all development will be one storey.
- Employment densities are sourced from the HCA Employment Density Guide.
- GVA per worker estimates are based on Average GVA per worker for the South East 2015, using NUTS 1 GVA workplace data and Workforce Jobs (both ONS).

3 Commercial case

3.1 Technical solution

3.1.1 Options considered

The project team has identified three restoration/refurbishment options. These are summarised below, with further details set out in *Brighton Madeira Terraces: Recommendations for Remedial Work to the Terrace Structure*, supplied.

- *Option 1: Full restoration of the arches*

This would involve both repair work and replacement work to the component pieces to restore them fully to their original built design. Replacement may be the only option for structural components that have completely failed. The steel deck beams and concrete jack arches would be completely replaced, given they are largely concealed by the wearing course that is laid over the top.

- *Option 2: A propped structure*

This option would introduce secondary means of support to the replacement jack arches and steel deck beams, taking the loading off the edge beams, columns, and array of bolted connections. It may be possible to integrate the secondary support structure with the 'pod' structures to be introduced into the arches.

- *Option 3: Restoration and retention of the screen only*

This option proposes that the deck structure and components are not retained, repaired, or replaced but removed and that only the façade of the arches are kept – the spandrels, columns, and lattice beams. This assumes that there would be no high level route maintained. The lattice beams could also be retained in this option.

3.1.2 Preferred option

It is considered that Option 1 is the most viable, appropriate and considered scope of works from a technical restoration/refurbishment perspective, recognising the significant heritage constraints associated with the reuse of a listed structure.

The proposed works are based on the assumption the structure will be dismantled and refurbished offsite. Consideration was given to the possibility of carrying out in-situ repairs, but an off-site repair route was favoured due to the environmental, health and safety and access limitations associated with in-situ repairs.

In-situ repairs would not allow a full refurbishment and potentially would not reveal hidden defects under paint layers and within connections. The quality of the repair and the working conditions are improved by taking elements off-site.

3.2 Commercial solution

3.2.1 Ownership

Brighton & Hove City Council holds the freehold title of Madeira Terrace, the Madeira Shelter Hall and Lift Tower.

These assets are generally vacant, with the exception of the Madeira Shelter Hall and Lift Tower which is currently leased to Concorde2 Ltd., a nightclub operator.

3.2.2 Partners Involved

The project will be lead and managed by Brighton & Hove City Council. The Council works closely with its CCT and wider stakeholders such as local business and residential groups in developing its seafront investment programme.

3.2.3 Commercial and Delivery Strategy

3.2.3.1 Options considered

Brighton & Hove City Council considered two primary commercial and delivery strategies for the project (i.e. phase 1 of the overall scheme).

- *Option 1: Public sector-led redevelopment*

Under this approach the Council would be the delivery authority for the project, responsible for developing, financing (with CCF support), procuring and managing the redevelopment of the terraces and associated servicing infrastructure requirements, including the installation of the “pod” structures designed to accommodate commercial uses.

The Council would subsequently be responsible for letting and management of the redeveloped terraces, and in this role would seek to bring in private sector tenants of the terrace units. This commercial income would flow to the Council as freehold owner.

- *Option 2: Private sector-led redevelopment*

Under this approach, the Council would engage a development partner to progress the project. The development partner would be expected to provide financing to cover up-front capital costs, in partnership with funds provided from CCF support. The development partner would take responsibility, potentially in partnership with the Council in developing the project, and subsequently procuring and managing its redevelopment.

The development partner would, post-construction, be responsible for letting and management of the redeveloped terraces. Some or all of the commercial income from this would flow to the development partner to generate their expected return from the project.

3.2.3.2 Options analysis

Table 3.1 shows a comparison of the advantages and disadvantages of the two options considered.

Table 3.1: Analysis of commercial and delivery options

<i>Option</i>	<i>Advantages</i>	<i>Disadvantages</i>
1. Public-sector led	<ul style="list-style-type: none"> - Council experience of successfully delivering similar projects to time and budget - Council experience of letting seafront properties via dedicated Seafront Property Team - Value for money (VfM) from leveraging Council's very low cost of capital, and ensures all commercial income flows to Council - Ensures Council retains high degree of control of its asset, and can ensure development is consistent with stakeholder expectations - Simpler and quicker to procure than using development partner 	<ul style="list-style-type: none"> - Council bears higher level of key risks (planning, construction, commercial), with financial implications if construction costs higher or revenues lower than forecast - Resourcing implications for Council to procure and deliver project - Public sector may be less able to identify innovative design or delivery solutions than private sector - Potential affordability implications for the Council via requirement to raise finance with balance sheet implications
2. Private-sector led	<ul style="list-style-type: none"> - May generate more innovative solutions that traditional public-sector led approach - Opportunity for risk transfer to private-sector, with reduced impacts on public-sector balance sheet 	<ul style="list-style-type: none"> - Appetite for construction and commercial risks unclear. Market may not be available or only at excessive cost, particularly given uncertainties around the project (e.g. construction cost, market demand) - Length of time to identify and procure private-sector development partner may delay project timetable. Specialist resourcing requirements to agree VfM solution to the Council - Lower level of control for Council may lead to solutions are unacceptable from a heritage/use perspective (although development control provides alternative)

Source: Mott MacDonald analysis

3.2.3.3 Preferred option

Given the scale, proposed timetable and, above all, high degree of uncertainty inherent in a bespoke heritage project such as the first phase of the Lockwood Project, Brighton & Hove City Council proposes to progress a public-sector led redevelopment approach (Option 1).

Without further survey work of Madeira Terrace structure and a higher degree of design and planning certainty, it is judged unlikely that a viable private-sector development partner could be identified at a cost that is affordable to the Council and in line with its expectations to open the first phase by end 2019.

Furthermore, the Council's successful track record in procuring and delivering similar major projects in recent years via its dedicated major projects team (refer section 5) suggests construction risk can be effectively managed. In addition, the Council's dedicated property team is highly experienced in letting diverse, bespoke spaces to tenants on a commercial basis, while achieving a diversity of use arguably greater than private sector landlords, as evidenced by the ongoing success of Brighton's seafront arches over many years.

The use of a public-sector approach for phase 1 of the scheme is not intended to prohibit more private-sector led approaches subsequently. It is anticipated that, through successful "proof of concept", phase 1 could encourage and enable greater private sector involvement subsequently.

3.2.4 Development strategy

To progress the project to the procurement stage, required activities include:

- Further technical surveys to establish site condition

- Development of design to RIBA IV technical design, including structural and building services design
- Preparation of detailed cost estimates based on RIBA IV stage design, including cost plan
- Development of detailed commercial assessment with property advisor
- Development of detailed implementation plan, programme and change control strategy.

The Council has engaged a number of highly experienced technical partners to develop the project to date, including Mott MacDonald, a multidisciplinary engineering, cost and development consultancy, and Wilkinson Eyre, a leading international architecture practice. The Council is in the process of procuring a dedicated project team to progress the project to the procurement stage.

3.2.5 Statutory consents

Brighton & Hove City Council has yet to begin the process of obtaining statutory planning, environmental and building approvals for this project.

Relevant factors include:

- Grade II heritage listing of the terraces and the Madeira Shelter Hall and Lift Tower
- The Green Wall that the terraces is built onto is a candidate for a Site of Importance for Nature Conservation within the forthcoming City Plan Part 2.

The Council expects to progress a strategy based on:

- Early and regular engagement with planning officers, including Heritage England. This process has been underway for around nine months. A Heritage Assessment, supplied, has been developed by the Council's architectural advisor on this project, working with Heritage England and Council planning officers. The next stage will be a formal Statement of Significance for Heritage England.
- Early and regular engagement with Council environmental officers to ensure considerations around the Green Wall and other relevant issues are taken into account in developing the project.
- Seeking to obtain outline planning consent for the overall Lockwood Project, reflecting the integrated natures of the terraces as a single structure, in the first instance.
- Seeking to obtain detailed planning consent for each phase of the Lockwood Project separately.

3.2.6 Procurement strategy

The Council will consider procurement options as the project progresses through its development phase, including design/build and build only options, as well as more innovative options such as Early Contractor Involvement.

The project team have significant experience of procurement in accordance with EU Public Sector Procurement Directives. The team understands the routes available (open, restricted, negotiated and competitive dialogue) and where they are applicable. The team is also fully conversant with the new Public Contracts Regulations 2015 and is skilled at drafting OJEU notices in compliance with EU Directives.

3.3 Commercial Viability

3.3.1 Commercial dependencies

The successful delivery of economic outputs is dependent upon the occupation of restored/refurbished units for commercial and other end uses. This will be subject to market demand and further work is being undertaken to identify the scope and extent of demand as part of the project development process.

3.3.2 Viability assessment

The Council has assessed the potential rental income that it could raise from commercial development of Madeira Terrace in line with the use classes set out previously. Rental income has been assumed to build up to be in line with that paid by tenants in the recently refurbished seafront arches west of the City's Palace Pier, which are also Council owned.

At this stage, an indicative timetable has been assumed whereby the terraces would be redeveloped in three stages between 2019 and 2023. The total rentable area of the redeveloped Madeira Terrace once fully open is estimated at around 25,000 sq. ft.

Based on these assumptions, it is estimated that commercial income from the redeveloped Madeira Terrace could support investment of around £15 million, or half the total estimated capital cost of redeveloping the terraces through the Lockwood Project.

For Phase 1, this analysis shows that Brighton & Hove City Council will, in present value terms, be able to raise around £3.3 million from renting the units. This represents a substantial proportion of the overall Phase 1 construction cost. The initial development viability assessment undertaken by Brighton & Hove City Council is set out in Appendix B.

As the project progresses, a more detailed analysis will be undertaken of the potential commercial value that can be realised from Madeira Terrace once redeveloped.

3.4 State Aid considerations

No state aid impacts have been identified for this project. Brighton & Hove City Council has undertaken similar projects in recent years, including the West Street Shelter Hall project and the Kings Road Arches redevelopment, where facilities have been built or redeveloped for commercial uses using public funding, without any state aid implications.

On the basis that the units in the redeveloped Madeira Terraces are to be let solely on commercial terms, it is not judged that there are likely to be any state aid implications with this project.

The Council is able to procure formal advice if required by the Big Lottery Fund but would like to discuss our initial position with you further prior to commissioning this.

4 Financial case

4.1 Capital costs

A cost estimate for regenerating the Madeira Terrace is set out in Table 4.1. This preliminary cost estimate has been prepared by Mott MacDonald quantity surveyors on behalf of Brighton & Hove City Council. A detailed breakdown is set out in the report, *Madeira Terraces: Redevelopment Options – Feasibility Study*, supplied.

Table 4.1 Capital Cost Estimate – Phase 1

Item	Cost Estimate, £
Enabling	49,000
Restoration of terrace structure	1,253,048
Construction – Pod installation	2,101,743
Construction – Madeira Shelter Hall refurbishment	1,058,000
Contingency and inflation	1,393,919
Professional fees	1,406,649
Phase 1 Capital Cost Estimate Total	8,204,309

Source: *Madeira Terraces: Redevelopment Options – Feasibility Study*

4.2 Source of funding

The following sources of funding are proposed for this project:

Brighton & Hove City Council

Brighton & Hove City Council will provide £4.025m of the total £8.025m capital cost for the project. The Council expects to meet these costs from its reserves and/or borrowings from the Public Works Loans Board. In addition, the Council are continuing to explore all funding opportunities for the project at present including potential Local Growth Fund monies via Coast to Capital LEP for transport infrastructure. The Council will bear risk of any project cost overruns. Brighton & Hove City Council expects to recover the majority of these costs through rental income from tenants.

Coastal Communities Fund

A CCF grant will be used to fund the £4.0 million of the project costs. CCF grant funding is seen as essential to unlocking the site as no alternative funding sources will be available or capable of being in place to ensure that these activities can be completed within the timescales required. CCF funding is sought to cover a proportion of upfront project development costs, noting wider resource constraints faced by the Council from ongoing budget reductions.

Cash flow impacts are set out in Table 4.2.

Table 4.2 Cash Flow Impact

£000	2017/2018	2018/2019	2019/2020	Total
CCF (resource grant)	200	0	0	200
CCF (capital grant)	0	1,800	2,000	3,800
BHCC contribution	200	1,800	2,025	4,025
Total	400	3,600	4,025	8,025

Source: Mott MacDonald analysis

4.3 Operating costs and revenues

Operating costs associated with the ongoing ownership, management, and maintenance of the Madeira Terrace project will be met from within the rental income secured from letting units for commercial end-uses. The project team have identified potential indicative occupants for each phase of the project. An estimate of commercial revenues that the Council would receive is being developed based on further market assessment and soft market testing.

The project will be maintained as part of the Council's commercial property portfolio.

5 Management case

5.1 Overview

Established in March 2015, the Brighton & Hove Seafront Coastal Communities Team (CCT) brings together public, private and business expertise to support the city council in developing and delivering a new Seafront Investment Plan that will help the seafront fulfil its potential and benefit the City as a whole.

The Council is a progressive authority which has commissioned and overseen considerable infrastructure and development projects in recent years, including over £80m of residential development at the neighbouring Brighton Marina, as well as the British Airways i360 project which has been successfully completed and operational since August 2016.

The Council has a dedicated major projects team which is charged with leading the development and delivery of major investment projects, as well as a dedicated seafront development team responsible for the City's coastal infrastructure, built environment and commercial activity (including leases).

5.2 Project management

Overall responsibility for successful delivery of the project will lie with Nick Hibberd, the Council's Executive Director of Economy, Environment, and Transport. Nick will act as Senior Responsible Officer for the project. He will ensure the project meets its objectives and delivers its projected benefits. Nick has successfully led a number of major regeneration projects for Brighton & Hove City Council, including the British Airways i360 project.

Programmatic responsibility for the project rests with Katharine Pearce, a programme manager in the Council's Major Projects and Regeneration team. Katharine has responsibility for progressing a number of the Council's seafront projects, including the Waterfront East arena and conference centre project on the Black Rock site.

In developing the Lockwood Project, the Council has worked with Wilkinson Eyre, one of the UK's leading architects and Mott MacDonald, a diversified international management, engineering, and development consultancy. Relevant services provided by these organisations include scheme design, structural engineering, commercial advisory, stakeholder engagement and planning support.

The Council is in the process of procuring ongoing technical and commercial support to progress the Lockwood Project. The Council expects to appoint a dedicated project manager to lead the project day-to-day from within the Council, working with external professional advisors and reporting back to a steering committee comprising CCT members and other appropriate stakeholders, including, as required, Council Members.

The project will be developed to RIBA Stage 3 through the development of designs, market testing and further stakeholder consultation in order to secure outline planning consent. Subsequent detailed technical designs to RIBA Stage 4 will support the application for full planning consent, including Listed Buildings consent.

5.3 Risk management

An initial assessment of project risks and mitigating measures is set out in Table 5.1 and a detailed risk register will be developed as part of the design process going forward.

Table 5.1 Risk Register

RISK TYPE	MITIGATION.
Design Risk	
Designs prove inflexible or unable to accommodate anticipated uses	Involvement of commercial advisors in development of technical design to ensure meets future tenant needs
Planning Risk	
Stakeholder opposition delays or prevents project obtaining statutory planning approvals, for example from Historic England	Early and sustained engagement with local and national stakeholders to improve “buy-in” and reduce any opposition. Early engagement with Council planning officers as part of statutory applications processes
Procurement Risk	
Lack of interest in contractor market due to specialist nature of heritage construction or interest only on unacceptable terms	Council project team to undertake early market soundings to encourage interest with specialist contractors. Undertake further site surveys to reduce uncertainty
Construction Risk	
Project cost overruns due to project complexity, inaccurate cost estimates or scope creep	Embed risk transfer principles into construction contracts; undertake progressive cost estimates as project scope refined; establishment of defined change control mechanisms as project progresses to minimise scope creep
Commercial Risk	
Utilisation of terraces and/or rent levels below forecast, reducing financial viability of the project	Brighton & Hove City Council is developing detailed market assessment studies to inform project commercial and financial cases
Project Management Risk	
Management changeover or loss of focus leads to project delays	Development of project and change management strategies for the project. Key ongoing liabilities include: Liability for project defects – construction contracts will set these to rest with selected contractor as far as possible
Funding risk	
Liability for cost overruns or funding shortfalls	Brighton & Hove City Council will retain ultimate liability for funding the project in these circumstances

Source: Mott MacDonald analysis

5.4 Change management

A strict procedure will be put in place by the project team for identifying and raising changes and a co-ordinated approach to the evaluation and approval or rejection of these changes.

Following sign-off of the coordinated final design and confirmation of the cost plan that reflects the design, the scheme design will be frozen. Although change after this freeze will be restricted, it is inevitable that some change will occur. Whilst it is accepted that anyone involved

in the project should be able to initiate change, in order to maintain rigorous change control, only designated individuals will be able to formally request change from this point. All changes will be raised and evaluated using agreed pro-formas to assist with the process and the speed of response.

5.5 Monitoring and evaluation

Brighton & Hove City Council is developing a benefits realisation strategy for the Project based on the objectives identified in the key performance indicators set out earlier. This is expected to include monthly progress reports as well as an annual progress review on the project's development that will be provided to the project board and the Big Lottery Fund (as co-funder). A post-completion project evaluation will also be undertaken, looking at, as a minimum, expenditure, outputs, impacts, lessons learnt (process and impact) and assessment of success (meeting original objectives and tackling problem).

5.6 Sustainability of project outcomes

As a redevelopment with a strong commercial element, it is assumed that jobs created both directly and indirectly in the wider supply chain will be self-sustaining over the longer-term.

The ongoing commercial success of Brighton's arches to the west of the Palace Pier, which have been populated with commercial uses for many years, and have a very low vacancy rate, suggests this model will be durable, providing the attractions offered are sufficient to draw visitors and locals down to the Madeira Drive seafront.

CCF funding, matched by Council financial support, for the first phase of the regeneration of Madeira Terrace is expected to act as a catalyst to spur the development of subsequent phases using predominantly private-sector investment.

Planned wider investment around this part of Brighton, such as the Black Rock arena, will support the regeneration of Madeira Terrace and help to provide an activity hub, supporting economic development of the area.

5.7 Draft programme

The draft programme for this project (phase 1 of the Lockwood Project) is set out in table 5.2. The programme for subsequent phases of the Lockwood Project has yet to be finalised, however Brighton & Hove City Council is targeting delivery by end 2023.

Table 5.2 Draft Programme

Year	Activity	Proposed Dates
2017-2018	Develop detailed masterplan for overall Madeira Terrace redevelopment	April 2017 – July 2017
	Develop Madeira Terrace concept designs	April 2017 – Nov 2017
	Undertake structured stakeholder engagement	April 2017 – March 2018
	Detailed commercial viability study	August 2017 – Oct 2017
	Outline planning submission and approval, including public consultation	Nov 2017 – April 2018
2018-2019	Develop Phase 1 technical design	April 2018 – July 2018
	Undertake further structured stakeholder engagement	April 2018 – March 2019
	Full Phase 1 planning submission and approvals, including public consultation	July 2018 – Sept 2018
	Procurement and construction of early works	July 2018 – Dec 2018
	Preparation of tender documents and procurement of main contractor	Sept 2018 – Dec 2018
2019-2020	Undertake Phase 1 main construction works to practical completion	Jan 2019 – Oct 2019
	Handover and completion of Phase 1 to Brighton & Hove City Council	Nov 2019 – Dec 2019
2020 - 2021	Issuance of letting particulars and secure tenants for Phase 1 units	Nov 2019 – April 2020

Source: Mott MacDonald analysis

