

Disposal of Leith Waterworld

The City of Edinburgh Council

20 September 2012

1 Purpose of report

- 1.1 To report on the outcome of the marketing of the long leasehold interest in Leith Waterworld following a closing date of 7 August 2012 and to seek approval from the Council to reject the bids that were received and to undertake a fresh marketing campaign for the property.

2 Main report

- 2.1 The closure and sale of Leith Waterworld (LWW) was approved by the Council in September 2005, with both the capital receipt from the sale and the operating subsidy being used as an integral part of the funding package for the refurbishment of the Royal Commonwealth Pool. In the run up to the closure of the facility on 8 January 2012, a marketing campaign for the sale of the property commenced during 2011.
- 2.2 LWW is adjoined to a Tesco property and car park which are held on a long ground lease expiring in 2115, at a nominal annual rent. LWW was marketed on a similar basis, whereby interested parties would purchase the tenant's interest. This would give a uniformity of tenure across the three sites. The property was advertised in the press and marketing particulars were circulated around commercial agents and potential purchasers. Neighbouring proprietors were also advised of the availability of the property during the disposal process.
- 2.3 By the end of 2011 a sufficient level of interest had been shown in the property to justify setting a closing date for offers. The date was set for 8 February 2012 when the indications from interested parties suggested that several offers could be expected.
- 2.4 Towards the end of 2011, a local campaign group 'Splashback' was established with the aim of ensuring LWW remained open. In the period immediately preceding the closure of the pool, Splashback intimated that they wished to submit a community bid for the facility.
- 2.5 On 2 February 2012, Council agreed to delay the closing date, for up to six months, to allow time for a community bid to be developed and submitted. Towards the end of June 2012, Splashback advised they were in a position to

submit a bid and a new closing date of 7 August 2012 was set. The parties who had previously expressed an interest in bidding at the February closing date were advised of the rescheduled closing date.

2.6 At the closing date two bids were received: both were from Splashback, one to purchase the long leasehold interest in the property, the other to enter into a sublease for a period of 25 years. No other bids were received. The six month delay had resulted in one potential occupier finding alternative premises and in another case a potential purchaser had reappraised their requirements and the timing of the closing date was not suitable.

2.7 The bid from Splashback relating to the Council granting a lease was on the basis of a 25 year term at a rent of £1 per annum. The tenant would have the benefit of a break option at any time after providing 6 months prior written notice. This bid was discounted as the property had not been marketed on this basis.

2.8 The remaining offer to purchase can be summarised as follows:

Purchase Price £1

Timescales Missives agreed as soon as possible. However, six month period requested to allow for discussions to continue with potential partner organisations and funders.

Suspensive Conditions

1. Completion of a fully funded feasibility study
2. Council agreement to ongoing funding of Leith Waterworld
3. Satisfactory building survey
4. Incorporation of Scottish Charitable Incorporated Organisation (SCIO)
5. Satisfactory examination of lease and title documentation.
6. Conclusion of missives and settlement.
7. Receipt of satisfactory finance agreement

2.9 Following receipt of the bids, GVA were commissioned by the Council to undertake an independent review and submit a report on the offers received; the marketability of the asset now and in the future; and the potential use of the premises pending a disposal. A copy of this report can be found in Appendix A.

2.10 The one remaining bid submitted by Splashback included a business case which details the proposed method of operating the facility. Splashback anticipate that income levels could be increased through longer opening hours, raising entrance charges and improving the facilities on offer such as creating a café and a larger soft play area. Indicative financial projections were provided which demonstrate that in the first three years following re opening, a subsidy would be required from the Council of £273,069, £249,292, and £221,481 respectively. The decreasing level of funding required reflects a planned increase in income as outlined above and a reduction in relative staff costs

despite the projected increased usage. The financial projections make no provision regarding the level of subsidy required from year 4 onwards.

- 2.11 Although there is a sum of £60,000 included each year for additional equipment the figures provided do not appear to reflect initial start up/re-commissioning costs that would be required as the facility has been empty for some time. The re-commissioning costs have been estimated by Edinburgh Leisure at £155k. Also, there is a cost of £2.2 million over a ten year period for a refurbishment programme of existing plant and machinery which the business case suggests may be financed by grant funding.
- 2.12 An annual subsidy is required from the Council to offset the projected operating loss. However, in any particular year, there could be additional subsidy required if, for example, a large unforeseen item of expenditure was required and not covered by any alternative sources of funding that may be achieved.
- 2.13 The Splashback bid will not provide a capital receipt and in addition the proposal requires a significant revenue contribution from the Council for which there is currently no designated budget. It is therefore recommended that the bid be rejected and a fresh marketing campaign is undertaken. As is the case before any marketing campaign is undertaken, an appraisal of the options for the property and the target market will be undertaken.

3 Financial implications

- 3.1 The closure of LWW realised revenue savings of £310,266 which re-invested over 20 years under the prudential framework generates £4.089m which has been included into the funding package for the refurbishment of the Royal Commonwealth Pool. There is therefore no remaining budget for operating costs arising from the re-opening of the facility.
- 3.2 The sale of the premises contributes a further sum of circa £1.5m for the Council, which has also been included in the funding package for the refurbishment of the Royal Commonwealth Pool. If the sales does not proceed, either the Council will have to identify the £1.5m from elsewhere in the capital programme, or Culture and Sport will have to make revenue savings of circa £120,000 per annum to fund the borrowing costs.
- 3.3 If the Council approves the Splashback bid, a minimum projected subsidy of £743,842 over the first three years would be required, together with a one-off sum of £155k for re-commissioning costs. This is an addition to any ongoing maintenance costs as described in paragraph 2.11 above. No budget exists for any of these costs.
- 3.4 The current holding costs of the property, on a vacant basis are just under £100,000 per annum. Of this total, non domestic rates account for approximately £67,000, with the balance being utility and security costs. These costs are unbudgeted and are a pressure for Corporate Governance.

4 Equalities impact

- 4.1 In 2005, there was no requirement on the Council to undertake an Equalities Impact assessment and after a request from the Splashback Campaign Group an Equalities Impact Assessment on the services provided by LWW was undertaken. However, the subject of this specific report has no relevance to public sector duty contained in the Equality Act 2010 and a full Equalities Impact Assessment is not required.

5 Environmental impact

- 5.1 There are no adverse environmental impacts associated with rejecting the Splashback bid.

6 Recommendations

- 6.1 It is recommended that Council agrees with the GVA report to reject the bid received from Splashback and the remarketing of the property in due course. The anticipated timescale for a further closing date, market conditions permitting, would not be before the first quarter of 2013.

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Appendices 1 GVA report

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Wards affected city wide

Single Outcome Agreement Supports National outcome 6 "We live longer, healthier lives"

- National and Regional Sports Facilities - the Royal Commonwealth Pool Project to Finance and Resources Committee of 7 June 2011;
- National and Regional Sports Facilities - the Royal Commonwealth Pool Project to Finance and Resources Committee of 1 June 2010;
- Progress Report to Finance and Resources Committee of 16 June 2009;
- An Interim Investment Programme for Meadowbank Sports Centre and Stadium report to Council of 5 February 2009;
- Progress Report to Council of 20 November 2008;
- Appointment of Construction Contractors to Finance and Resources Committee of 9 September 2008;
- Progress Report to Council of 13 March 2008;
- Progress Report to Council of 20 December 2007;
- Progress Report to Executive of the Council of 14 August 2007;
- Establishment of Independent Review Group to Council of 28 June 2007;
- Progress Report to Council of 1 February 2007;
- Meadowbank Development Brief Consultation Draft Report to Planning Committee of 7 December 2006;
- Appointment of Design Teams to Council of 1 June 2006;
- Progress Report to Council of 15 September 2005;
- Outcome of Funding Bid to Council of 11 November 2004;
- Proposed Bid - A Vision for the Future of Sport in Edinburgh to Council of 18 March 2004.

Report to City of Edinburgh Council on the potential disposal of Leith Waterworld

1.0 Introduction

1.1 GVA have received direct from the Legal & Administration Services Department of City of Edinburgh Council, relevant documents relating to the proposed disposal of the former leisure facility that was Leith Waterworld (LWW). We are being commissioned to address the following key issues:

- Review of the two offers received
- Marketability of the asset now and in the future
- Potential use of the premises pending a disposal

1.2 Given the limited time available to address the above issues we shall report to you in summary format via this document. Should you wish us to expand upon this written note then we would be more than happy to meet and discuss further with you.

1.3 We can confirm that we have also inspected the site and the immediate vicinity on Thursday 16th August, 2012.

1.4 We have also discussed the marketing campaign engaged in by CEC's Estates team and with officers of the Culture & Sports Division.

2.0 Leith Waterworld – the site.

2.1 LWW was closed on the 8th January 2012 and has remained vacant to date. The premises extend to approximately 35,600 sq ft and they share a 326 space car park with the adjacent proprietor, Tesco. LWW was an established leisure facility operated by Edinburgh Leisure. It had operated at a significant loss requiring a large annual subsidy from CEC and after a thorough analysis by Edinburgh Leisure it had been identified for closure as far back as 2005.



However it was agreed that it would continue to stay open whilst trading at a loss, until the major redevelopment of the Royal Commonwealth Pool was completed in 2011.

- 2.2 The premises have no direct main road frontage, albeit they are visible from Leith Walk. They are bound by mixed use, traditional buildings on Leith Walk and Duke Street and by Tesco immediately to the east. Pedestrian access is available direct from Leith Walk but the main vehicular access is to the rear of the premises off Easter Road.
- 2.3 The premises are laid out as a water based leisure facility with interconnected pools; flumes etc together with ancillary soft play area, changing facilities and a reception/café area. The building is of a block work wall construction with a steel portal frame and pitched metal clad roof with roof lights and an eaves height of 4.5m. We estimate the building extends over a site area of approximately 0.8 acre, excluding the shared car park.
- 2.4 We have not been afforded access to the premises so cannot comment on the internal condition of the facility or its services and plant etc.
- 2.5 The premises are bespoke as a leisure facility and therefore, adaptation for an alternative use would be problematic and expensive.
- 2.6 Tesco trade from the former Co-op store to the rear of LWW and their customers dominate the adjacent car park. The buildings on Leith Walk and Duke Street dominate the street frontage such that LWW lacks prominence. We understand that Walker Group may still own the retail units and upper floors on Leith Walk but the former Job Centre and pub/night club at the junction of Leith Walk and Duke St are vacant and are being marketed by Lambert Smith Hampton & Shepherds respectively.
- 2.7 The development potential of the asset itself is therefore quite limited unless further land assembly could be initiated to provide a greater site with prominence. In addition, the overall location and commercial attraction is



poor in terms of the ability to attract retailers, leisure users, office occupiers or residential uses as there are many other better opportunities within the Leith /Edinburgh area.

3.0 Review of proposals received.

- 3.1 We have been advised by CEC's Estates team that the asset was extensively marketed from the summer of 2011. This involved an extensive mailshot to developers, known enquiries and agents. The site was also advertised. As a result of that exercise a number of interests were generated and it was agreed a closing date should be set as at 8th Feb, 2012.
- 3.2 By this time, LWW had been closed. A local community group, Splashback who objected to the closure had been formed and after lobbying all parties confirmed their interest in making a bid. At a full Council meeting on 2 Feb 2012, Council agreed that the Splashback Campaign Group would be afforded a significant time period to prepare a bid and accordingly the closing date was extended by 6 months to 7th August, 2012.
- 3.3 In this extended period, Splashback confirmed they would produce a robust business case that supported their bid and clearly identified how they would fund and operate LWW.
- 3.4 In the meantime other interests that had been expressed were lost. In one case the operator for the site could not afford a delay and secured alternative premises and in the other case a retailer was suffering from more challenging trading conditions and their affordability for the site would weaken if the sale was delayed.
- 3.5 Clearly the knowledge of a delay to accommodate a community bid reduced the interest levels and as a result only 2 proposals from Splashback were received by the August closing date.



- 3.6 One of the offers was to take a 25 year FRI lease but with rolling break options on providing 6 months notice at a nominal rent of £1 pa. This was considered to be non-compliant and therefore invalid. With a rolling break in the tenant's favour we would also have advised against proceeding on this basis.
- 3.7 The second bid was to purchase the ground lease interest until 9/3/2115 at £1 peppercorn payable in 6 months time. This is subject to CEC providing a non-specific subsidy close to £300k pa, funding a feasibility study and a building survey. No pool operator is identified within the bid or business case.

An alternative business case supported both bids but it lacked significant detail. Key matters that have not been addressed include ; a) funding of the day to day working capital required to run the facility, b) understanding of the physical and technical operational needs of the facility, c) improving visitor numbers – how ? d) Marketing budget, e) no penalties if the venture fails, f) significant subsidy is still required from the city with limited detail of a time limit, g) no details of how grant assistance would be achieved, h) no programme identified for securing funding and i) no cognisance of future capital requirements identified between £155k (to re open) and £2,2m over 10 years (for replacement of renewal of facilities).

- 3.8 In essence the Splashback proposals require CEC to effectively re open a loss making venture and then support this with a significant subsidy and provide for capital expenditure up to £2,2m plus over 10 years. Splashback's contribution appears only to be as an operator with the aim improving visitor numbers through increased tariffs and reduced staff costs. There is very little evidence of how this can be achieved.
- 3.9 Splashback and their representatives had met with CEC (25th May, 2012) and were given sufficient information on the operational costs of LWW to allow them to inform a competent business case. It is therefore disappointing that



the resultant business case in effect only transferred the majority of the risk back to CEC with major cost implications that could not be justified in the current economic climate.

- 3.10 It is also regrettable that one of the impacts of this major and well publicised community approach was to diminish other interests in the asset. This will have a potentially negative impact on future sales receipts which had been estimated at between £1m and £1.5m.
- 3.11 In our opinion therefore, the proposals received are not commercially acceptable and do not demonstrate best value – a key criteria of the sale of any publicly owned asset. If we had been your marketing agent on the sale we would not have recommended acceptance.
- 3.12 CEC has only limited funds and would in our opinion struggle to justify the financial risk of re opening a previously unprofitable venture. Edinburgh does offer many good alternatives in the immediate vicinity at Leith Victoria and Leith Academy. There is also the Royal Commonwealth Pool which offers a state of the art facility for swimming and diving.

4.0 Future Marketability of the asset.

- 4.1 As outlined above LWW is a bespoke leisure facility that has almost 100% site cover, but has very limited prominence to the main streets of Leith Walk and Duke Street. Unlike other commercial buildings its alternative uses are limited. The extensive marketing campaign has not produced a credible bid such that fresh consideration of the disposal requires to be considered.



- 4.2 We have not had sight of the CBRE report dated October 2010 which considered the development options. In any event, this could now be regarded as out of date as many of the factors impacting on development will have changed.
- 4.3 The recent marketing exercise was undoubtedly affected by the community group's interest. In our opinion, this has impacted negatively on interest levels. Moving forward the site now faces the challenge of weak occupier demand, lack of funding and other competing sites that remain on the market eg – Shrubhill to the west on Leith Walk.
- 4.4 The site lacks main road frontage and is landlocked on 3 elevations. Adjacent occupiers and landlords have had the opportunity to note interest but to date they have rejected the site.
- 4.5 In the limited time available to GVA regarding the development potential we have considered the following sectors ;
- * Retail – discount food eg Aldi who would trade well adjacent to Tesco. There is also the opportunity to re open discussion with Tesco re expansion of their store.
 - * Gym – Pure Gym, Virgin Active, Bannatynes, David Lloyd are all well represented in the city. It is unlikely there is capacity for a further gym in this area.
 - * Leisure – indoor bowling, casino, limited screens cinema and pub. All possible and further analysis should be undertaken.
 - *Medical Centre – possible discussion with NHS?
 - * Residential – unlikely to be mainstream private interest but possible social housing or student based.
 - * Budget Hotel / Hostel .



Clearly the opportunities are limited from occupiers but the next phase of marketing should revisit all of these sectors.

- 4.6 The site could improve if a link to main road frontage was created. There is opportunity to re visit discussions with Walker Group who own the block to the west and with the owners of the pub/ nightclub on Duke St. The Duke St properties are vacant and have been on the market for some time. We believe a wider approach to development and regeneration will drive value. It should not be lost that the site does sit adjacent to a very busy intersection, major bus routes and a high population within easy walking distance.
- 4.7 We have assumed that CEC have considered all existing requirements they control that could be accommodated. There also may be Scottish Government occupational needs which could be accommodated after adapting the building.
- 4.8 In summary, the site has been fully marketed and limited interest was received. Occupier demand in this location is weak. We cannot confirm when this will improve. In Edinburgh, prime sites such as Donaldsons College, Caltongate, Torphicen Street, and Fountain Quay have all taken time to sell mainly due to lack of funding and weak occupier demand. However in the main they have sold. In our experience with similar sites a degree of patience is required. We would suggest the following actions over the coming weeks;
- 4.8.1 Consider fresh discussion with Tesco.
 - 4.8.2 Assess demand from Aldi or equivalent.
 - 4.8.3 Discuss requirements with pub, hotel operators.
 - 4.8.4 Discuss the greater development opportunity with adjacent landlords.
 - 4.8.5 Consider other public sector requirements eg National Archive?



- 4.9 A period of time to 'cool off' should be allowed – say 3 months to consider the above. Thereafter a second marketing exercise should commence. An immediate re marketing will not in our opinion, prove fruitful.
- 4.10 We appreciate that in the meantime the asset is costing money to run so there is pressure to dispose and realise a capital receipt. Markets across sectors will improve but this is being lead by development of prime sites. As the prime sectors evolve attention will divert to secondary sites such as LWW. We believe that the site can drive a positive land value but aspirations for a capital value in the region of £1.5m should be lowered.
- 4.11 Continued closure is costing the City of Edinburgh Council approximately £2k per month for security and utilities; re opening and re-comissioning costs for LWW have been estimated at £155k, with an annual capital maintenance cost of between £50k and £100k. As indicated in para 3.7, an annual revenue subsidy of £300k would need to be found. We suggest that the costs involved in reopening may result in LWW remaining closed as this will be the most cost effective outcome and in the best interest of the City Council.

GVA

20/08/12.

