

10am, Thursday, 10 March 2016

Funding package proposal for a new Meadowbank

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|---------------|------------------------------------------------|
| Item number | 8.5 |
| Report number | |
| Executive | |
| Wards | All, and particularly Craigentinny/Duddingston |

Executive Summary

In September 2015 the Corporate Policy and Strategy Committee noted that the estimated overall project cost for a new Meadowbank Sports Centre had reduced from £43m to £42m and the funding shortfall had reduced from £19.78m to £6.8m. This report fulfils a commitment to provide recommendations for addressing the remaining funding gap. Since then, the estimated total project cost has reduced further, to £41.1m. This would reduce the funding shortfall to £5.98m. A disposal option transferring part of the surplus land at Meadowbank to the Housing Revenue Account has been identified.

A funding gap is inevitable and cannot be met without a contribution from the Council's capital programme. It is recommended that a detailed design to RIBA Stage 4 be developed, funded to a maximum of £0.7m from planned receipts due to be paid into the Strategic Investment Fund. This would allow the project to be tendered, and thus provide greater cost certainty, and accuracy around expenditure and income cash flow. It is further recommended that the Council agree in principle to a realignment of the Capital Investment Programme, using an element of the unallocated funding available in the later years; the total sum required to fill any remaining gap will be confirmed following analysis of a completed tender exercise and confirmation of funding from sportscotland.

Links

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|--------------------------|-------------------------------|
| Coalition pledges | P42, P43, P45 |
| Council outcomes | CO20 |
| Single Outcome Agreement | SO2 |

Funding package proposal for a new Meadowbank

Recommendations

- 1.1 It is recommended that the Council:
 - 1.1.1 Notes the estimated total project cost has reduced to £41.1m;
 - 1.1.2 Notes that a capital receipt from surplus land sites A and B at Meadowbank are essential for the funding package for a new Sports Centre there;
 - 1.1.3 Approves the transfer of sites A and B to the Housing Revenue Account, retaining ownership of the land, delivering 10% more affordable housing than is likely in an open market disposal and potentially generating ongoing revenue for the HRA and the General Fund;
 - 1.1.4 Notes that it is the intention to place site C at Meadowbank on the market for student accommodation;
 - 1.1.5 Agrees to ringfence the capital receipt from sites A, B and C for the new Meadowbank's funding package;
 - 1.1.6 Approves a contribution of £0.7m from planned receipts due to be paid into the Strategic Investment Fund to develop the design to the end of RIBA stage 4;
 - 1.1.7 Agrees that once the detailed design at the end of RIBA stage 4 is ready, the Council will invite, receive and analyse tenders for the construction of the new Meadowbank, to provide certainty on the project cost and any remaining funding gap (currently estimated to be £5.98m);
 - 1.1.8 Approves the principle of repaying £0.70m to the Strategic Investment Fund and covering the Meadowbank project's remaining gap through a realignment of the Capital Investment Programme using an element of the unallocated funding available in years 2019/20 and 2020/21, taking account of the project's anticipated expenditure and income cash flows;
 - 1.1.9 Notes that the outcome of the tender exercise, analysis of the expenditure and income cash flow, and revised estimates of total project cost will be reported to the Council, at which point the final funding package will be confirmed and a contribution from the Capital Investment Programme will be requested; and

- 1.1.10 Agrees, on the basis of the commitments given above, that the Council may now seek funding support from **sportscotland** towards the project costs.

Background

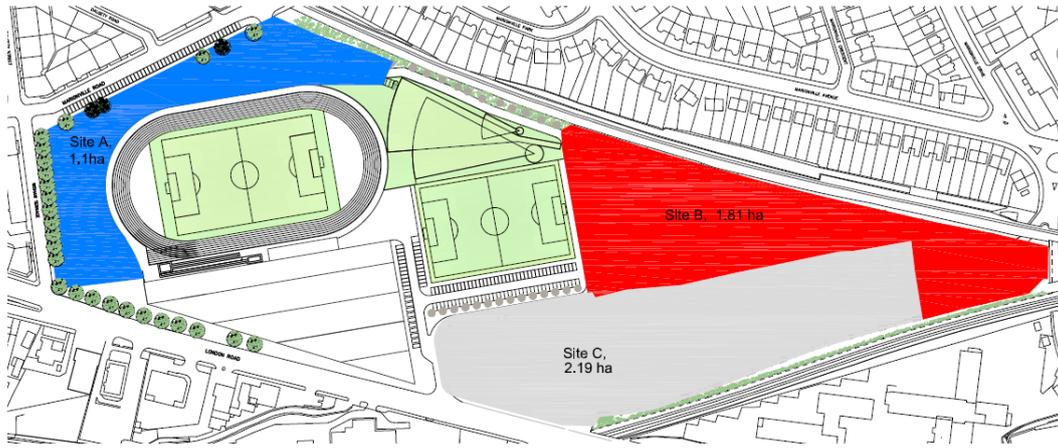
- 2.1 In considering the last update on the proposal for a new Meadowbank Sports Centre, the Corporate Policy and Strategy (CP&S) Committee of [29 September 2015](#) noted that a report would be presented to that Committee as soon as possible to recommend how to address any remaining funding gap.
- 2.2 The CP&S Committee had previously noted that Council would require to ringfence the capital receipt from disposal of surplus land on site for the development of the new Meadowbank. On 29 September, the Committee decided that the option of transferring some of this surplus land to the Housing Revenue Account (HRA), in order to build new Council housing while generating a capital receipt for the Meadowbank project, would be fully explored as a priority and the conclusions incorporated in this report. The current funding gap, and the implications of the HRA option, are discussed below.
- 2.3 On 17 November 2015, the Economy Committee approved the disposal of the surplus land held on the Culture and Sport Account at Westbank Street, Portobello. On [26 November 2015](#), Finance and Resources Committee ratified this decision, and also approved the ringfencing of the Westbank Street capital receipt for Meadowbank.
- 2.4 The Council is currently consulting on proposals to expand its house building programme from 3,000 to 8,000 affordable homes and has also agreed to establish a Limited Liability Partnership (LLP) to accelerate house building through the development and acquisition of homes for competitive market rent.

Main report

- 3.1 Previous estimates of the Meadowbank project cost have included an 11% fee allowance for the full design team. The outcome of a procurement process to renew the Council's framework agreement for Construction Professional Services was approved by the Finance and Resources Committee on [24 September 2015](#). The fee levels within this framework are significantly lower than those used in the Meadowbank project budget. A lower fee allowance of 7.5% has been used to calculate a reduced total project cost of £41.1m.

Surplus land at Meadowbank

- 3.2 The surplus land has been divided into three sites – A, B and C – as shown below.



- 3.3 Work has been done with Planning which suggests a potential capacity of c200 residential units on the site to the west of the sports centre (site A) with a further c160 units on the site to the east (site B). The remaining surplus land to the east (site C) has been identified as being suitable for up to 1,200 student beds with communal facilities. This work will form planning guidance for these sites.
- 3.4 Valuation advice based on the above potential uses has been obtained from one of the Council's Framework property consultants.

Proposed transfer of sites A and B to the Housing Revenue Account (HRA)

- 3.5 As reported to the Corporate Policy and Strategy Committee of 29 September, discussions have taken place to assess the viability of housing development through the Council's 21st Century Homes Programme. The Health, Social Care and Housing Committee was advised on [11 November 2014](#) that in order to expand this Programme, it would be necessary to identify private and publicly owned sites for potential acquisition through the HRA. An update on progress was provided to the Health, Social Care and Housing Committee on [10 November 2015](#), noting that the current 21st Century Homes Programme will deliver 1,800 homes for rent and sale.
- 3.6 Together with EDI, the Housing Service has assessed the potential for residential development at Meadowbank and concluded that there is demand for housing at market and affordable rent at this location. If the Council approved this transfer option, the Housing Service would propose to work in partnership with EDI to develop a commercial model that would secure a minimum of 35% affordable housing on the combined sites A and B. Through this option the Council would have greater control over the quality of housing and placemaking.
- 3.7 The Housing Service has offered a figure for the transfer of the land to the HRA that exceeds the independent valuation mentioned above. The transfer of the site and the value of the land would be fixed and could be available within a shorter timescale in comparison to marketing the sites.
- 3.8 The all-round best value option to help achieve several major Council objectives is to transfer the surplus residential land to the HRA account. The Meadowbank site would remain in Council ownership and deliver longer term benefits to the Council through housing and rental income.

Site C – Land for Student Accommodation

- 3.9 The intention is to market the site to potential developers along with planning consent in principle for student housing.
- 3.10 The development will be based on a design using planning guidance developed by the Meadowbank design team with Planning.

Recommended funding package

- 3.11 The table below takes account of reduced fee levels, a transfer to the HRA of sites A and B based on independent valuation, disposal of site C and disposal of the Powerleague site in Portobello.

| Estimated cost and financial package for a new Meadowbank | February 2015 | September 2015 | March 2016 |
|-----------------------------------------------------------|----------------|----------------|----------------|
| Total project cost estimate | £43.00m | £42.00m | £41.10m |
| Principal Funding Sources | | | |
| Anticipated capital receipts | £11.50m | £21.50m | £21.50m |
| Prudential borrowing | £5.97m | £5.97m | £5.97m |
| sportscotland | £5.00m | £7.00m | £7.00m |
| Revenue savings from closure of Meadowbank | £0.75m | £0.75m | £0.65m |
| <i>Total funding</i> | <i>£23.22m</i> | <i>£35.22m</i> | <i>£35.12m</i> |
| Funding Gap | £19.78m | £6.78m | £5.98m |

- 3.12 Additional sources of income are being pursued: as previously reported, discussions are ongoing with other interested parties such as NHS Lothian and Edinburgh City Football Club.
- 3.13 A funding gap is inevitable and will have to be met by a contribution from the Council's budget. In order to obtain greater certainty about the size of the likely gap, it is recommended that detailed designs be developed to the end of RIBA stage 4, using £0.70m from planned receipts due to be paid into the Strategic Investment Fund, which would allow the Council to tender for the new Meadowbank and confirm the total project cost and funding gap. It is further recommended that this gap be funded by realigning an element of unallocated funds within the Capital Investment Programme (from years 2019/20 and 2020/2021), and that this would include a repayment of £0.70m to the Strategic Investment Fund.

Measures of success

- 4.1 A successful strategy to minimise the funding gap for the delivery of a new sports centre, whose design allows land to be released to support much needed housing development.
- 4.2 A successfully concluded tender exercise resulting in cost certainty to allow the final funding package to be presented to the Council
- 4.3 Ultimately, the construction of a new Meadowbank.

Financial impact

- 5.1 A total of £0.360m in revenue has been spent to date on developing the new Meadowbank proposal.
- 5.2 The total cost of the project is now estimated to be £41.1m. The estimated total funding which could be achieved is £35.12m. (This is predicated on transferring surplus sites A and B to the HRA.) The total project cost could potentially reduce further, depending on the outcome of the eventual tender process to appoint a contractor. Equally, rising construction inflation could increase the total project cost.
- 5.3 The remaining projected shortfall is just under £6m. Taking the project to the end of RIBA stage 4 will provide greater cost certainty, thus confirming the likely funding gap, whilst allowing time to apply for external grant funding. Following this a final funding package will be presented to the Council with a recommendation that an element of unallocated funds from the Capital Investment Programme in 2019/2020 and 2020/2021 be used to fill the gap.
- 5.4 To progress the prudential borrowing element of funding, approval will need to be sought from the Finance and Resources Committee and Council, based on a business case that demonstrates the associated revenue income / saving streams that would be generated to pay for annual loan charges. The proposed level of prudential borrowing has been in part calculated by assuming that the improved operating position of the new facility would remove the requirement for a service payment.
- 5.5 The prudential borrowing element of the funding requires the new Sports Centre to operate without a service payment from the Council and for the service payment for the existing facility (around £0.330m per annum) to be made available by the Council to part-fund the assumed prudential borrowing element of funding. Further sustainable revenue income and saving streams of £0.159m will require to be generated to pay the annual loan charges of £0.489m to meet the prudential funding.
- 5.6 Pending realisation of the full funding package, the Council could incur additional borrowing costs to fund the timing of payments. These costs will be known once the procurement solution is identified and the cost and income profile is known.

- 5.7 The report outlines proposed total capital expenditure plans of a maximum of £41.1m with identified funding of £35.12m and a remaining funding gap of £5.98m. If this funding gap were to be funded fully by borrowing, the overall loan charges associated with this expenditure over a 20 year period would be a principal amount of £5.98m and interest of £3.8m, resulting in a total cost of £9.78m based on a loans fund interest rate of 5%. The annual loan charges would be £0.489m.
- 5.8 It should be noted that the Council's Capital Investment Programme is funded through a combination of General Capital Grant from the Scottish Government, developers and third party contributions, capital receipts and borrowing. The borrowing required is carried out in line with the Council's approved Treasury Management Strategy and is provided for on an overall programme basis rather than for individual capital projects.
- 5.9 If the decision is taken not to proceed with the proposed new Meadowbank, a further report on the financial and other implications of this will be required within six months. As noted in previous reports, the facility cannot be refurbished to a satisfactory standard and there is a limit to the length of time it can remain operational.

Risk, policy, compliance and governance impact

- 6.1 The total project cost and funding projections are estimates and are subject to fluctuating market conditions and inflation which may affect the scope and delivery of the project. Construction inflation has increased since February 2015 and (at the time of writing) is still rising. The capital receipt estimates are based on current day prices and informed by independent valuations.
- 6.2 The prudential funding element of the funding package requires the new Sports Centre to operate without service payment and for additional annual efficiencies and income of £0.159m to be achieved. The risk of any shortfall against these targets is borne by Edinburgh Leisure.
- 6.3 The revenue costs and income projections in the business case for the new Sports Centre's operation are subject to regular review and updating which could change the prudential borrowing level.
- 6.4 The Planning risk has been mitigated by preparing Planning guidelines for the site with Planning.
- 6.5 If the project does not proceed beyond RIBA stage 4, or is reduced in scope, design fees related to the abortive elements of the project will require to be written off to the revenue budget.
- 6.6 Since Meadowbank is Edinburgh's biggest driver of indoor and outdoor sport participation, the closure of this facility would have a negative impact on levels of physical activity and participation in sport by Edinburgh residents of all ages. As reported to the Corporate Policy and Strategy Committee on 29 September 2015,

an independent consultancy advises that there would be a serious under-supply of facilities and services if Meadowbank is closed and not replaced.

- 6.7 This would have a negative impact on the delivery of key policies including the Physical Activity and Sport Strategy agreed by the Council and city partners; two of the Council's Pledges; and the Scottish Government's Active Scotland Outcomes Framework. The health effects of an inactive life are serious. Inactivity accounts for over a third of deaths from heart disease and threatens the progress made in this area over many years. Added to this is the disease, disability and poor mental health that come from growing levels of obesity and a lack of physical strength. Physical inactivity has been called the 'silent killer of our time'. As reported in a [2012 article in The Lancet](#), "Elimination of physical inactivity would remove between 6% and 10% of the major non-communicable diseases of Coronary Heart Disease, type 2 diabetes, and breast and colon cancers, and increase life expectancy."
- 6.8 If this project does not proceed, and services are withdrawn from Meadowbank, the capital city would no longer have a flagship multi-sport facility. Regional training needs and Edinburgh's general health and wellbeing would be adversely affected. The city's other facilities could absorb some but not all of the demand for a short period (of say 18 months) only. The city would have fewer regional-level sporting facilities than its peer city group and lose the ability to train Edinburgh's future sportsmen and sportswomen.

Equalities impact

- 7.1 The new Meadowbank proposal would help to meet the city's housing needs, including affordable housing, and would provide a modern, fully accessible, high quality facility open to all Edinburgh residents and visitors. The new facility would make a positive impact on the health, well-being and quality of life of those who use it. The facility is currently projected to attract over 600,000 visits per year by the second year of its operation. The current Meadowbank has just over 500,000 visits per year. If the project does not proceed, the impact on current users losing this facility would require to be assessed.

Sustainability impact

- 8.1 The impacts of this report have been considered in relation to the three elements of the Climate Change (Scotland) Act 2009 Public Bodies Duties, and the outcomes are positive. These have been described in full in previous reports. In addition, the Council will review the entire Meadowbank site for potential installation of district heating.

Consultation and engagement

- 9.1 Detailed community consultation will be undertaken if the recommendations of this report are approved.
- 9.2 For reasons of efficiency, safety and cost, demolition will be completed before construction begins. Alternative provision will need to be made for Meadowbank's customers, using Edinburgh Leisure facilities, the school's sporting estate and facilities in neighbouring council areas. This is the approach that was taken by the successful £37.1m refurbishment of the Royal Commonwealth Pool.

Background reading/external references

Report to Finance and Resources Committee on [26 November 2015](#)

Report to Economy Committee on [17 November 2015](#)

Report to Corporate Policy and Strategy Committee on [29 September 2015](#)

Minute of Council on [12 February 2015](#)

Report to Corporate Policy and Strategy Committee on [20 January 2015](#)

Report to Culture and Sport Committee on [17 December 2013](#)

Nine previous reports on National and Regional Sports Facilities (incorporating Meadowbank) to Council, Culture and Leisure Committee, and the Culture and Sport Committee, from 2004 to present, culminating in a [March 2008](#) report to Council

Scottish Government [Active Scotland Outcomes Framework](#)

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Links

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|--------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Coalition pledges | <p>P42 – Continue to support and invest in our sporting infrastructure.</p> <p>P43 – Invest in healthy living and fitness advice for the most in need.</p> <p>P45 – Spend 5% of the transport budget on provision for cyclists</p> |
| Council outcomes | <p>C020 – Culture, sport and major events – Edinburgh continues to be a leading cultural city where culture and sport play a central part in the lives and futures of citizens.</p> |
| Single Outcome Agreement Appendices | <p>S02 – Edinburgh’s citizens experience improved health and wellbeing, with reduced inequalities in health.</p> |