

# Housing and Economy Committee

10.00am, Thursday 22 March 2018

## City Strategic Investment Fund – Powderhall Stables

Item number	7.5
Report number	
Executive/routine	Executive
Wards	12 – Leith Walk
Council Commitments	<a href="#">2</a> , <a href="#">46</a>

### Executive summary

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This report updates members on the City Strategic Investment Fund (CSIF). The CSIF is an evergreen fund that was created in 2013 and initially capitalised with £7.5m of capital. £5.2m of this has been committed, leaving an unallocated balance of £2.3m. A further allocation of £500,000 to support the restoration and refurbishment of Powderhall Stables as a hub providing workspaces and community space is proposed. This would help meet the strong demand for space of this nature in the central Edinburgh area and complement the Council-led housing regeneration of Powderhall Waste Transfer Station. This allocation would leave the balance of the CSIF at £1.8m.

## City Strategic Investment Fund – Powderhall Stables

### 1. Recommendations

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- 1.1 It is recommended that the Committee:
- 1.1.1 Approves the allocation of £500,000 from the CSIF for the restoration and refurbishment of Powderhall Stables, subject to sufficient grant funding being secured from other sources to enable the project to proceed;
  - 1.1.2 Notes that this new allocation would leave the uncommitted balance of the CSIF at £1.8m; and
  - 1.1.3 Agrees that this allocation be referred to the City of Edinburgh Council for final approval at a future date.

### 2. Background

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#### Fund position

- 2.1 On [7 February 2013](#), the Council approved the creation of the CSIF to “create new development opportunities, support business innovation, deliver jobs and promote economic growth in Edinburgh”. The CSIF is an evergreen fund that will provide debt and equity finance for projects delivering a return on investment. The Council agreed to capitalise the CSIF with £7.5m. An investment strategy for the CSIF was agreed by the Economy Committee on [29 April 2014](#).
- 2.2 To date, CSIF funding has been committed for the following projects:
- 2.2.1 £2,166,861 to fund the development of the East Hermiston Business Park, a 1,587 sqm industrial park in Sighthill. This was approved by the Economy Committee on [28 April 2015](#) and by the City of Edinburgh Council on [28 May 2015](#). The Park was completed in September 2017 and is now fully let. The Park is now projected to generate £145,500 of rental income for the Council annually with full repayment in 2032/33;
  - 2.2.2 £700,000 to fund the design of the replacement Meadowbank Stadium to RIBA stage 4. This was approved by the City of Edinburgh Council on [10 March 2016](#). This allocation was to be repaid to the CSIF by realigning the future Capital Investment Programme. Following approval by Council for the Meadowbank Stadium project to proceed, this funding is not required for the purpose originally envisaged;
  - 2.2.3 £1.0m to make provision for any cash flow issues arising as part of the closure of The EDI Group Ltd. This was agreed by the Housing and

Economy Committee on [7 September 2017](#), pending ratification by full Council. This can be repaid, if required, from future savings and revenue associated with the closure of EDI; and

- 2.2.4 £2.0m to fund the design of the tram extension up to RIBA stage 2. This was approved by the Transport and Environment Committee on [4 September 2017](#). If the decision is taken to proceed with the tram extension, these costs could be capitalised and the CSIF replenished. If the project does not proceed, the CSIF would potentially require to absorb this write-off, or the Council could choose to replenish the fund in any case.
- 2.3 The uncommitted balance of the CSIF therefore stands at £2,333,139.

### **Powderhall Stables**

- 2.4 Powderhall Stables refers to the former offices and stable block of the Powderhall Waste Transfer Station at 165 Broughton Road as shown in appendix 1. Built in 1893, it is a two-storey, 618 sqm property in the Scots Baronial style. With architectural features including an archway entrance, bartizans, and ornate cast iron gates, it is a prominent feature on Broughton Road. It has been category 'B' listed since 1993. The building was originally used as offices for the adjacent waste incinerator plant and as stables for the horses that pulled the waste carts; latterly, it has been used as a staff facility for waste collection staff. The building is now over 120 years old and in poor condition. A condition survey carried out in 2017 returned a 'C' rating, indicating major defects. Multiple repairs are needed, including to the roof; stonework; ceilings; and doors and windows. The interior is highly dated and generally unsuited to contemporary occupier requirements.
- 2.5 Powderhall Waste Transfer Station was previously used to sort and compact waste prior to it being transferred to a landfill site at East Barns in East Lothian. The Waste Transfer Station was closed in late-2016 due to equipment failures and drainage issues, with alternative facilities being used on an interim basis until the new energy-from-waste plant at Millerhill enters service in 2019. On 23 March 2017, the Finance and Resources Committee approved the sale of the Waste Transfer Station to the Housing Revenue Account for housing-led redevelopment.
- 2.6 The Council's Development and Regeneration Team (DRT) has appointed Collective Architecture to develop proposals for a housing-led redevelopment of the Waste Transfer Station and aims to apply for planning permission in principle in 2018. An independent valuation of Powderhall Stables has suggested that, due to the poor condition of the building and the cost and complexity of conversion to residential uses, market interest would potentially be limited and the sale price relatively low. Given this and other considerations set out below, the Council is exploring the scope to instead retain the building and lease it out.

### 3. Main report

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- 3.1 It is proposed to restore Powderhall Stables as a hub providing workspaces and community space. It is anticipated that the existing offices on the first floor of the building could be turned into offices and studios which could be let out to artists and micro-enterprises, while the ground floor could potentially be turned into a flexible function space and other uses. The lower ground floor and attic (currently used for storage) could also potentially be brought into higher-value uses. The project would aim to meet the strong demand for workspaces and function spaces in central Edinburgh. It is estimated that the building could support between 21 and 56 full-time equivalent jobs if fully-let depending on the mix of uses.
- 3.2 The restoration of Powderhall Stables would provide a centre-point for the wider Powderhall redevelopment being taken forward by the DRT. This is a mixed-tenure development of up to 450 homes with potential to deliver a new nursery school, new public realm, and community growing areas. Powderhall Stables would enable residents living in the area to access employment and recreation opportunities. Collective Architecture is presently working on proposals for both Powderhall Stables and the wider Waste Transfer Station site and is considering how the building could be embedded within the wider redevelopment. Further information on the wider redevelopment opportunity will emerge as designs are refined, with consultation undertaken prior to and as part of the planning process.
- 3.3 An initial study is being carried out by Collective Architecture to assess options for adapting the property. This study would provide a basis for more detailed design work.
- 3.4 There is a growing shortage of cultural and creative space in Edinburgh. In February 2018, the Caledonian Trust announced that it had agreed to sell St. Margaret's House – a 9,294 sqm 1970s office building on London Road – to the Drum Property Group for a mixed-use redevelopment; Drum anticipates having detailed planning consent by mid-2019. Since 2008, St. Margaret's House has been leased to Edinburgh Palette, a charity which sub-lets space to artists; the building currently comprises approximately 200 studios, all of them let (with a lengthy waiting list). The redevelopment of St. Margaret's House will therefore significantly increase demand for creative space at a time when this space is already in short supply and high demand. Organisations such as Edinburgh and Palette and Out of the Blue have a standing requirement for space in Edinburgh that can be sub-let to artists and other creative occupiers and have previously worked with the Council. As set out below, officers have engaged with a small number of operators of creative space in Edinburgh to gauge their interest in participating in the project as part of its soft market testing. Should the allocation from the CSIF be approved, more comprehensive engagement will commence.
- 3.5 Powderhall Waste Transfer Station is an employment site of more than one hectare in size. Policy Emp 9 of the Local Development Plan (LDP) is therefore likely to apply. Policy Emp 9 requires that the redevelopment of employment

sites of more than one hectare should include “floorspace designed to provide for a range of business users”. Converting Powderhall Stables into business and community space would potentially enable this planning requirement to be fulfilled within the listed building, enabling housing capacity on the remainder of the Waste Transfer Station to be maximised.

- 3.6 As noted above, the total costs of the project are estimated at £1.5m. It would be necessary for the Council to attract additional grant funding for the project to proceed. Allocating £500,000 from the CSIF will give the Council a core project budget that it can use to leverage in additional external funding. Council officers have engaged with key grant fund operators to discuss the scope to secure grant funding to take forward the restoration and refurbishment of Powderhall Stables. Potential sources of funding include the Heritage Lottery Fund, Historic Environment Scotland’s Historic Environment Repair Grant scheme, and the Scottish Government’s Regeneration Capital Grant Fund.
- 3.7 If sufficient grant funding cannot be secured, the project will be unable to proceed. In this case, no money will be drawn down from the CSIF except where this can be expected to be recouped from the resultant increase in the sale value. If the project cannot proceed, the assumption is that the Council would sell the building.
- 3.8 It is anticipated that the most likely outcome of an open sale is the acquisition of the building for redevelopment into private housing. An assessment of the building by a surveyor has calculated that it could be converted into eight flats. As noted above, it is anticipated that due to the cost and complexity of converting the building the price that would be achieved would be relatively modest. Selling the building would potentially result in practical difficulties during the redevelopment of the wider Waste Transfer Station if two contractors were on site simultaneously. Additionally, as noted above, it is anticipated that, if business space cannot be delivered within Powderhall Stables, this space would instead require to be delivered elsewhere on the Waste Transfer Station site to comply with policy Emp 9 of the LDP, reducing the number of housing units that could be delivered on the site.
- 3.9 Due to the long lead-in times associated with grant funding, it is recommended that the £500,000 be allocated to the project to enable the Council to proceed with making grant applications. These applications will not commit the Council to proceeding with the project and the Council will retain the scope to sell the property (or otherwise use it) at any time should it see fit.

#### **4. Measures of success**

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- 4.1 Powderhall Stables have been restored to good repair and refurbished into a well-used business and community hub.
- 4.2 The income from Powderhall Stables enables the investment from the CSIF to be fully replenished.

## 5. Financial impact

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- 5.1 The balance of the CSIF currently stands at £2.3m. It is proposed to release a further £500,000 leaving the balance of the CSIF at £1.8m.
- 5.2 The full project cost is estimated at approximately £1.5m. This includes approximately £400,000 of restorative works to the building and a further £700,000 of refurbishment costs, along with project overheads and contingency.
- 5.3 Powderhall Stables has a net internal area of 618 sqm (6,652 sq ft). A review of properties being marketed in the area suggests a market rent of approximately £108 per sqm (£10 per sq. ft.) is realistic. This suggests that the property could, if fully let, generate an income of £66,520 per annum. Deducting 20% to account for voids, etc, would give a projected annual income of £53,216. A review of the financial records for the Creative Exchange, the business incubator operated by the Council in Leith, suggests that this income projection is realistic.
- 5.4 Based on the above income projection, it is anticipated that the CSIF would be fully replenished over 10 years. Following this, the income from the property would accrue to the General Fund.
- 5.5 Appendix 2 sets out the anticipated cash flow of the CSIF based on current allocations and payback terms.
- 5.6 There may be scope for a Community Asset Transfer of Powderhall Stables at some point in the future. Any such transfer would need to be in line with the Council's Community Asset Transfer Policy as approved by the City of Edinburgh Council on 27 April 2017. As set out above, the building is estimated to require approximately £1.5m of investment to safeguard its future. Any Community Asset Transfer would need to be on the basis of these costs being met. A Community Asset Transfer of the building after the project had been completed would need to be based on the £500,000 being repaid to the CSIF and in line with any conditions on disposal imposed by grant funding agreements.

## 6. Risk, policy, compliance and governance impact

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- 6.1 There is a risk that the works to the building would run over budget. This risk can be mitigated by scoping out the works in detail; building contingency into the budget; and value engineering all elements. CSIF cash would not be drawn down until grant funding was secured or offered in principle.
- 6.2 There is a risk that the building would be unable to be let. This risk is considered to be low as there is strong demand for space of this nature in Edinburgh; as noted above, the closure of St. Margaret's House in 2020 will create a glut of demand. Three operators of business space in Edinburgh have each expressed an interest in taking a head lease on the building; a head lease would insulate the Council from fluctuations in occupancy levels.

- 6.3 There is a risk that the income from the building would be lower than projected. This risk can be managed by leveraging in as much grant funding as possible (minimising the Council's exposure); seeking additional funding to subsidise the running costs of the building; and by securing the best possible terms with tenants. If, hypothetically, income was to be 25% lower than projected, the payback period would rise from 10 years to 13 years.
- 6.4 The Council would at all times retain the ability to sell the property.

## 7. Equalities impact

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- 7.1 The refurbishment of Powderhall Stables would include works to enhance access to the building for people with mobility issues, for example providing increased access for wheelchair users. This will be developed further throughout the design process.

## 8. Sustainability impact

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- 8.1 The refurbishment of Powderhall Stables would include works to enhance the energy efficiency of the building, such as renewing windows and doors; improved insulation; and lower-energy heating solutions. This will be developed further throughout the design process.

## 9. Consultation and engagement

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- 9.1 Three key operators of creative space in Edinburgh have been approached to assess whether in principle they would be interested in participating in the project. All have expressed an interest in principle. More detailed engagement with potential partners will be carried out as the project develops.
- 9.2 The Council has engaged with Historic Environment Scotland and the Heritage Lottery Fund to discuss the scope for drawing down grant funding for the project.
- 9.3 Community consultation will be undertaken in parallel with the planning process for the proposed housing development on the remainder of the Waste Transfer Station.

## 10. Background reading / external references

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None.

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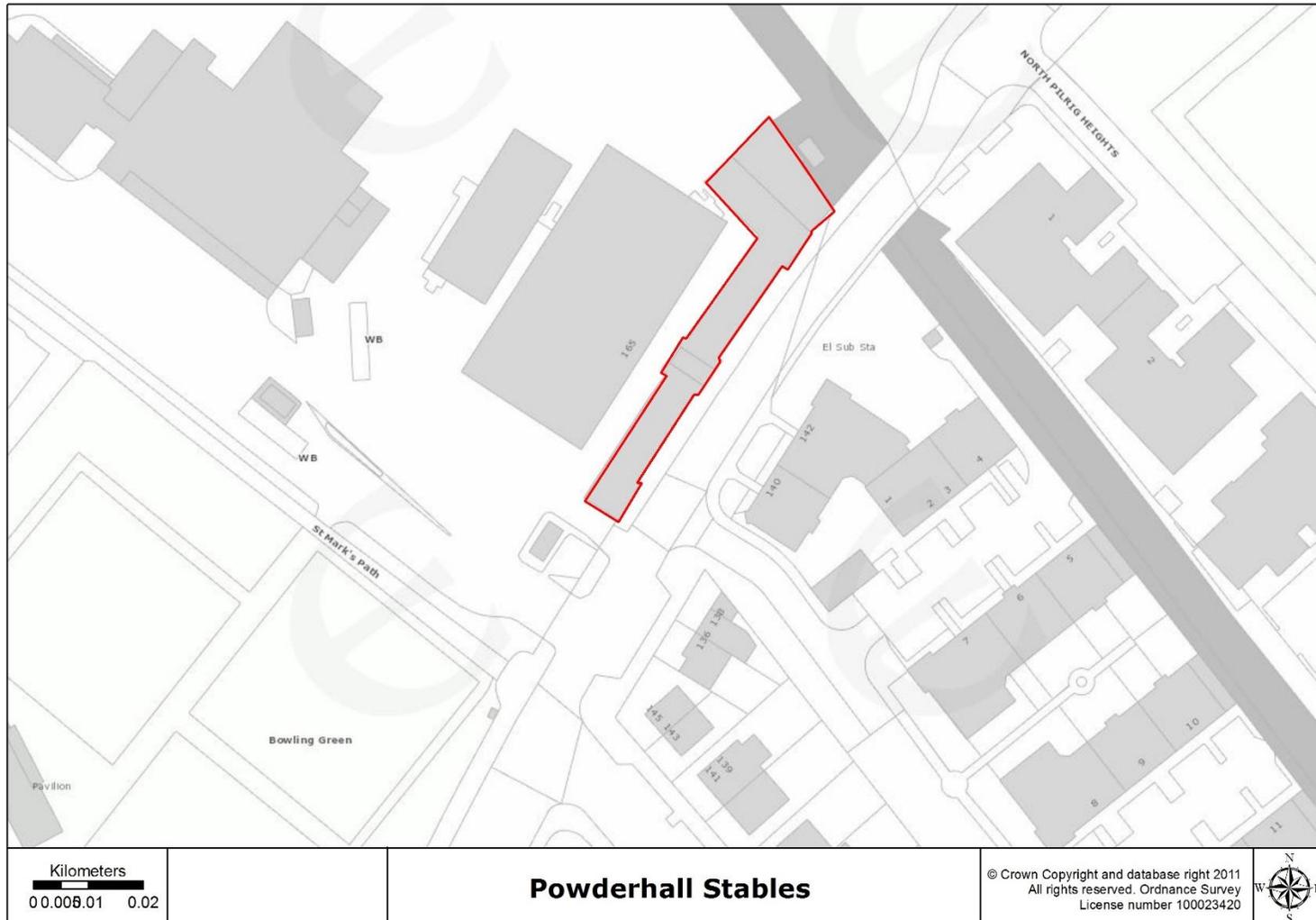
## 11. Appendices

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Appendix 1 – Powderhall Stables site plan

Appendix 2 – City Strategic Investment Fund: projected cash flow

## Appendix 1 – Powderhall Stables site plan



## Appendix 2 – City Strategic Investment Fund: projected cash flow

Project	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
East Hermiston Business Park	(£42,113)	(£1,277,659)	(£803,479) *	£145,500	£145,500	£145,500	£145,500	£145,500	£145,500
EDI cash flow reserve	–	–	–	(£1,000,000)	–	–	£1,000,000	–	–
Meadowbank Stadium	–	–	(£0)	–	–	–	–	–	–
Tram design works	–	–	–	(£2,000,000)	£2,000,000	–	–	–	–
Powderhall Stables	–	–	–	(£500,000)	–	£50,000	£50,000	£50,000	£50,000
<b>Balance at year end</b>	<b>£7,457,887</b>	<b>£6,180,228</b>	<b>£5,376,749</b>	<b>£2,022,249</b>	<b>£4,167,749</b>	<b>£4,363,249</b>	<b>£5,558,749</b>	<b>£5,754,249</b>	<b>£5,949,749</b>
Project	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
East Hermiston Business Park	£145,500	£145,500	£145,500	£145,500	£145,500	£145,500	£145,500	£145,500	£86,251
EDI cash flow reserve	–	–	–	–	–	–	–	–	–
Meadowbank Stadium	–	–	–	–	–	–	–	–	–
Tram design works	–	–	–	–	–	–	–	–	–
Powderhall Stables	£50,000	£50,000	£50,000	£50,000	£50,000	£50,000	–	–	–
<b>Balance at year end</b>	<b>£6,145,249</b>	<b>£6,340,749</b>	<b>£6,536,249</b>	<b>£6,731,749</b>	<b>£6,927,249</b>	<b>£7,122,749</b>	<b>£7,268,249</b>	<b>£7,413,749</b>	<b>£7,500,000</b>
*Based on a drawdown from the CSIF of £847,089, partially offset by income of £43,610.									