

Corporate Policy and Strategy Committee

10.00am, Tuesday, 20 January 2015

Proposal for a new Meadowbank

Item number	7.2
Report number	
Executive	
Wards	All, and particularly Craightinny/Duddingston

Executive summary

In 2008, Council agreed to commission an appraisal for a new build facility at Meadowbank. A 2014 feasibility study has concluded that if the Council wishes to replace Meadowbank – at a total estimated cost of £43m - the funding package would comprise ringfenced capital receipt from sale of surplus land on site; revenue savings from closure during construction; prudential borrowing funded from forecast improvement in net income and a sportscotland grant. The Council's advisers have identified a funding shortfall of between £11.3m and £19.8m, using a range of differing estimates for land value receipts and the external grant.

An intrusive ground survey and a Development Brief defined with Planning could confirm, and possibly narrow, the funding gap estimates. This work could be done within the first quarter of 2015 without delaying the programme. These actions would involve costs of up to £0.100m.

A funding shortfall will still need to be addressed. Committee is asked to refer this report to Council as part of its budget considerations on 12 February 2015. If funding cannot be found, or Committee decides in any case not to proceed, an immediate review of Meadowbank will be required and planned withdrawal of service within the next five years.

Links

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

Proposal for a new Meadowbank

Recommendations

It is recommended that the Corporate Policy and Strategy Committee:

- 1.1 notes that the feasibility work completed since February 2014 has reviewed a range of different options for funding a new Meadowbank;
notes that the Member Officer Working Group has concluded that the typical package used by UK local authorities to fund sport and leisure developments would be the most appropriate funding method for a new Meadowbank because it would secure delivery within the proposed timescale and retain Council control of the new facility;
- 1.2 notes that there is a funding shortfall of between £11.3m and £19.8m of the estimated £43m total cost of the project;
- 1.3 notes that expenditure of up to £0.100m on an intrusive ground survey and preparation of a Development Brief would potentially reduce the total cost and funding gap, and provide more financial certainty;
- 1.4 notes the proposed sporting facility mix and proposed Royal Institute of British Architects (RIBA) Stage C design for a new Meadowbank;
- 1.5 notes that the current timeline anticipates that a new Meadowbank would open by the end of 2017, should approval be given to proceed, and to demolish the existing facility before construction begins;
- 1.6 notes the potential funding identified to date (capital receipt from sale of surplus land at Meadowbank; revenue savings from closure of the existing facility; prudential borrowing based on income projections for the new Meadowbank; and a **sportscotland** grant); notes the consequent funding shortfall;
- 1.7 agrees to refer this report to the Council budget meeting on 12 February and if Council considers it appropriate, and identifies funding, notes that Council would require to:
 - 1.7.1 approve expenditure of up to £0.040m from the Corporate Governance revenue budget 2014/15 for an intrusive ground survey as phase one;
 - 1.7.2 approve as phase two, subject to the Director of Corporate Governance being satisfied with the ground conditions, expenditure of up to £0.060m from the Corporate Governance revenue budget 2014/15 to prepare and agree a Development Brief with Planning;

- 1.7.3 note that throughout phases one and two, soft market testing and negotiations will continue with external stakeholders and potential partners to reduce the funding gap, and that any resultant changes in the financial costs and funding package would be reported to the appropriate committee;
- 1.7.4 subject to satisfactory completion of phases one and two, approve the proposed sporting facility mix and proposed Royal Institute of British Architects (RIBA) Stage C design for a new Meadowbank;
- 1.7.5 agree to progress the proposed design to RIBA Stage D (design development), and subject to satisfactory completion of Stage D, to Stage E (technical design);
- 1.7.6 agree to demolish the existing facility before constructing the new Meadowbank;
- 1.7.7 approve the ringfencing of any capital receipt from sale of surplus land at Meadowbank for a new Meadowbank to proceed;
- 1.7.8 note the potential funding identified to date (capital receipt from sale of surplus land at Meadowbank; revenue savings from closure of the existing facility; prudential borrowing based on income projections for the new Meadowbank; and a **sportscotland** grant); and
- 1.7.9 consider the consequent funding shortfall.

If the Corporate Policy and Strategy Committee decides to proceed no further with this project:

- 1.8 instructs a review to bring forward proposals for a planned withdrawal of service within the next five years; this review to be developed in consultation with stakeholders, for review by the Board of Edinburgh Leisure and reported to the appropriate Council committees; and
- 1.9 requests a report outlining alternative options for Meadowbank and its site.

Background

- 2.1 Meadowbank does not meet customer expectations of 21st century sporting facilities nor the requirements specified by Scottish Governing Bodies of Sport for lighting levels, run-offs for courts (to prevent injury) and ceiling heights. Meadowbank is now regarded as inferior when compared to other facilities more recently developed in Glasgow, Aberdeen, Stirling and Motherwell.
- 2.2 On 13 March 2008, the Council approved “a new build at Meadowbank as the best option” for the future of this Sport Centre and Stadium and agreed “to commission an appraisal for this new facility”.

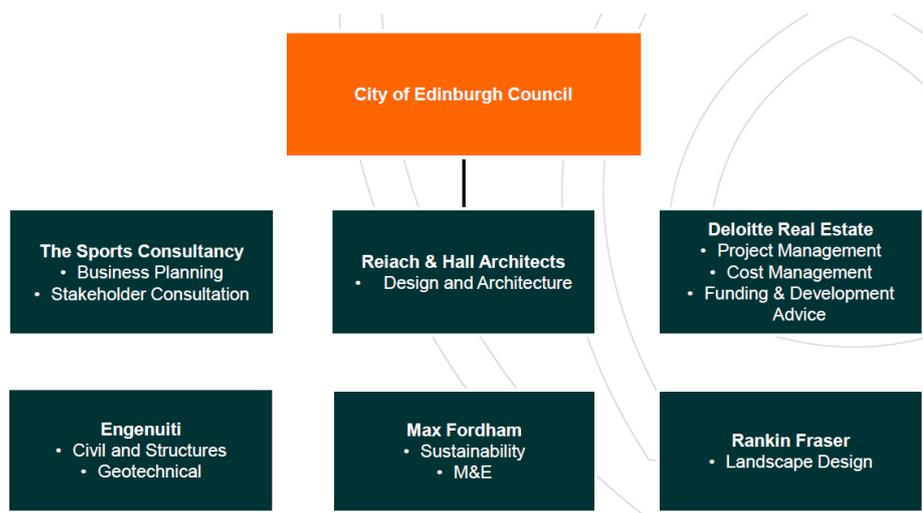
2.3 As an interim investment measure, and in recognition that the facility was more than 40 years old, was beyond its designed lifespan and required significant upgrades, the Council spent £1.45m in 2009 to improve the reception areas, showers and changing facilities. Edinburgh Leisure continues to carry out routine repairs and maintenance, and an annual condition survey to identify any immediate risks to the ongoing operation of the facility, including failure of mechanical and electrical services and plant.

2.4 Various systems within the building are becoming more difficult to keep in service through repair work, and it is anticipated that a point will be reached in the short term when it is no longer practical or economic to keep the current facility open. Before that point is reached, unless other plans are developed for the future of this facility, a planned withdrawal of service within the next five years will be required.

2.5 Since February 2013, the following work has been completed:

February 2013	Council allocated £60k for an initial stakeholder engagement and options appraisal
August 2013	Council appointed Deloitte Real Estate, supported by The Sports Consultancy and Reiach and Hall Architects, to carry out this study
December 2013	Culture and Sport Committee considered the results of this stakeholder engagement and options appraisal and referred it to Council
February 2014	Council allocated £0.200m towards a detailed feasibility study and business case for Meadowbank and community consultation
July 2014	Design team and cost consultant appointed to deliver the feasibility study, business case and future community consultation, led by Culture and Sport

2.6 Team members are shown in the diagram below.



- 2.7 A Meadowbank Member Officer Group was established during 2013, and has met four times in 2014. The group includes all political groups, local ward members, **sportscotland**, Edinburgh Leisure and Council officers and is chaired by the Convener of Culture and Sport.
- 2.8 The report discusses the key points of the feasibility study and business case, before providing details of the proposed sporting facility mix. The feasibility study and business case have been placed in political group rooms; key points from both are provided below.

Main report

- 3.1 A **business case for a new Meadowbank** has been prepared and benchmarked against other UK facilities to allow the cost consultants to calculate 10-year revenue projections.
- 3.2 To develop the business case, the team:
- 3.2.1 reviewed Meadowbank's revenue income and expenditure from 2009 to date;
 - 3.2.2 reviewed Meadowbank's footfall and usage over that period;
 - 3.2.3 reviewed latent demand for health and fitness in Edinburgh;
 - 3.2.4 considered the staffing structure required to operate the new facilities;
 - 3.2.5 prepared conservative estimates of the running costs of the new facility, building in higher than currently projected utility costs, increases in inflation, etc; and
 - 3.2.6 prepared a sensitivity analysis of varying levels of income and costs for the new facility.
- 3.3 Currently, the Council makes a service payment to Edinburgh Leisure to manage Meadowbank. Before 2013, the service payment was approximately £0.400m per annum. Since the opening of the 3G pitch in 2013/14 and the curricular use by James Gillespie's High School of the facility, the payment has fallen to around

£0.250m for the current financial year. This is expected to increase to a payment of around £0.350m in 2015/16, when curricular use by Gillespie's will cease.

- 3.4 The business case for the new Meadowbank demonstrates that after the first year of its operation, the new facility is projected to generate a surplus in each of the following nine years. This business case, which was produced by The Sports Consultancy and reviewed by Edinburgh Leisure, will be regularly reviewed and updated if the project progresses.
- 3.5 Using the business case described above, and the proposed facility mix and architectural design, the team has prepared estimated costings for the entire project and identified different ways to fund the project. These funding options are summarised in appendix one and discussed below.
- 3.6 The **feasibility study** is based on a core sporting facility mix for a new Meadowbank and architectural concept and design to RIBA Stage C (concept and outline proposals for buildings and structures). The purpose of RIBA Stage C is to develop the client's design brief into outline proposals that show the design sufficiently developed for the client to understand, comment on and approve. The Developed Design would be prepared in Stage D. This would include coordinated and updated proposals for structural design, building services systems and outline specifications, along with cost information. The Technical Design would be prepared in Stage E, to include all architectural, structural and building services information, and any specialist subcontractor design and specifications.)
- 3.7 A key element of the feasibility study is that residual land not needed for the new facility (a total of 10 acres in three lots) should be sold for development. (A 3G pitch which is within one of the three lots would be lifted and re-laid in a new position to the west.) The proposed layout plan, showing the residual land, is provided in appendix two.
- 3.8 The design team has drawn up indicative plans for the area to the east for 430 housing units (25% of which will be in the affordable housing category) set in green space with access for vehicles. In addition, a plot of land to the west at Wishaw Terrace could accommodate housing, and the team has identified student accommodation (273 beds) as likely to generate the best financial return. The team is assessing demand for student housing in this area. It is accepted that there is a Planning risk associated with such a use in this location. The smallest lot of surplus land has been identified as suitable for office accommodation.
- 3.9 To progress this work, it will be necessary to work with Planning to produce a Development Brief for the site, based on the design by the current Design Team. This Development Brief would be part of the procurement information package.
- 3.10 It would be beneficial to procure a single company to develop the entire site in accordance with any Development Brief. It would be the responsibility of this

company to deliver each of the land uses across the site through subcontractor agreements where necessary. This would result in one contract between the Council and the developer company and reduce the risks to the Council from a mixed use development. This would also create a single point of contact to the Council to provide efficiencies during the development process.

Estimated cost of a new Meadowbank

- 3.11 The construction cost of the three options reported in December 2013, with varying sporting facility mixes, ranged from £35.1m to £85.2m. These cost estimates excluded some elements of fees, lifecycle costs, asbestos removal, inflation, demolition, risk, contingency, fixtures, fittings and equipment.
- 3.12 The construction costs and the entire project costs have been revised and updated since then, and are now estimated to be £43m. This figure includes a high risk allowance for underpinning the new building, based on worst case assumptions about the underlying ground conditions; an allowance for pre-construction and construction inflation totalling £1.75m, up to the third quarter of 2016; and allowances for removal of contamination and the inclusion of client direct fit out costs.
- 3.13 A detailed ground survey would provide certainty about the exact underlying conditions. If these are better than the worst case scenario, this would reduce the risk allowance required for underpinning the building, reduce the allowance for removal of contamination across the site, and remove some risk from this key construction element of the project.

Review of funding options

- 3.14 The cost consultant, Deloitte Real Estate, has concluded that the majority of community sport and leisure developments in the UK now rely on a blend of funding to make them viable. The typical package used by local authorities includes prudential borrowing (based on the forecast improvement in the revenue position); capital receipts from the sale of assets; grant funding from external bodies, capital funding from local authorities and Planning gain (in Scotland, under Section 75 of the Town and Country Planning (Scotland) Act 1997).
- 3.15 The detailed feasibility study has explored a wide range of funding options. None of these options taken individually would generate enough funding to cover the full cost of the project. A summary of the review of funding options by Deloitte, assisted by the Sports Consultancy, is attached as appendix 1.
- 3.16 The project team and the Member Officer Working Group have reviewed the funding options and have noted that:
 - 3.16.1 some options are incompatible (eg **sportscotland** grant with development partner);
 - 3.16.2 grant funding from **sportscotland** is not available to a private developer, and is dependent on a capital contribution from the local authority;

3.16.3 the typical funding package used by local authorities allows councils to retain a great deal of control and also provide greater measures of certainty on future income, costs and service levels than the options which involve the private sector in a lead or management role.

3.17 Taking all of this into account, the Member Officer Working Group and the project team recommend the type of funding package which is described in paragraphs 3.14 and 3.16.3 above.

Recommended funding package

3.18 A fund of £20m set aside by the Scottish Government for [National and Regional Facilities Investment](#) is managed by **sportscotland**. It has been assumed that between £5m to £7m would be available from this fund for the project. It is hoped that it may be possible to achieve more than the higher estimated grant figure through further negotiations with **sportscotland** and the Scottish Government.

3.19 It is possible to provide estimates for the total sum which could be achieved by combining the sale of excess land, prudential borrowing, revenue savings during demolition and construction and a grant from **sportscotland**. This total sum is estimated to be worth between £23.2m and £31.7m. This leaves an estimated funding shortfall of between £11.3m and £19.8m. Although alternative funding methods have been reviewed by the Council's advisers, these are not considered to be achievable within the timescale required and have considerable uncertainty attached to them at this stage.

3.20 Soft market testing is under way with the private sector and developers. This will continue if the project progresses, and will help to confirm the estimates for capital receipts from surplus land and for income from the operation of the new facilities.

3.21 The project team and Member Officer Working Group have also discussed procurement solutions. Alternative procurement routes explored so far include SCAPE (a provider of national construction frameworks), delivery company hubco (for the South East Territory) and the standard procurement route via calls for tender in the Official Journal of the European Union. An indicative high level timeline is provided in appendix three, showing that the earliest point by which the new Meadowbank could open, if the project proceeds, is the end of 2017.

Core facility mix for a new Meadowbank

3.22 The design team has re-tested the core facility mix reported in December 2013, by consulting **sportscotland**, Scottish governing bodies of sport, and key clubs which use Meadowbank. As a result of this process, the design team has defined the core sport facility mix for a new Meadowbank as follows:

An outdoor athletics track with seating for 500
A 3G synthetic or grass sports pitch in the centre of the athletics track

An additional outdoor 3G synthetic sports pitch
An indoor 60m 6 lane athletics track with jumps area
Outdoor throws area
An eight badminton court sports hall with 500 permanent seats plus bleachers (in area, the same size as the current Meadowbank Hall 1)
A four badminton court sports hall with 500 permanent seating (the same size as the current Meadowbank Hall 2)
A gymnastics hall
A gym
Studios
Café
Meeting rooms
Changing facilities

- 3.23 For many people, the outdoor athletics track is synonymous with Meadowbank, and its long Commonwealth Games history from 1970 onwards. In contrast with all previous attempts to redesign Meadowbank, this new design (which has been taken up to RIBA Stage C) is based around keeping the outdoor athletics track in its current position. Further details on the architectural concept for a new facility are provided in appendix four.

Measures of success

- 4.1 A decision whether or not to proceed further with the project.

Financial impact

- 5.1 A total of £0.325m in revenue has been spent to date on developing the new Meadowbank proposal.
- 5.2 The total cost of the project is estimated to be £43m. The total estimated funding, which could be achieved by combining the sale of excess land, prudential borrowing, revenue savings during demolition and construction and a grant from **sportscotland**, is between £23.2m and £31.7m.
- 5.3 It is anticipated that the total cost of the project could be reduced if the ground conditions are better than worst case. In order to confirm this, a sum of up to £0.040m requires to be spent on an intrusive ground conditions survey. It is recommended that Council approve £0.040m from the Corporate Governance revenue budget 2014/15.

- 5.4 It is anticipated that a Design Brief for the site, developed and agreed with Planning, and costing up to £0.060m, would remove further risk from the project. Subject to the Director of Corporate Governance being satisfied with the ground conditions following a survey, it is recommended that Council approve £0.060m from the Corporate Governance revenue budget 2014/15 for the Development Brief.
- 5.5 To progress the prudential borrowing element of funding, full 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 level of prudential borrowing indicated in the funding package has been calculated by assuming that the improved operating position of the new facility would remove the requirement for a service payment. The forecast service payment level for the existing facility (around £0.350m per annum) will be made available by the Council to fund the proposed prudential borrowing.
- 5.5 Pending realisation of capital receipts and grant contributions, the Council could incur additional borrowing costs. These costs will be known once the procurement solution is identified and the cost profile is known.
- 5.6 The report outlines proposed total capital expenditure plans of a maximum of £43m. If this expenditure 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 £43m and interest of £28.6m, resulting in a total cost of £71.6m based on a loans fund interest rate of 5.2%. The annual loan charges would be £3.580m.
- 5.7 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. Following a request from Members, notional loan charge estimates have been provided above; these estimates are based on the assumption of borrowing in full for this capital project.
- 5.8 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. As noted in previous reports, the facility cannot be refurbished to a satisfactory standard and there is a five-year 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, at this stage, estimates and are subject to fluctuating market conditions and inflation which may affect the scope

and delivery of the project. However, inflation has already been included in the construction costs. The capital receipt estimates are based on current day prices.

- 6.2 The revenue costs and income projections for the business case will be subject to regular review and updating which could change the prudential borrowing level.
- 6.3 The Planning risk would be mitigated by preparing and agreeing a Development Brief for the site with Planning.
- 6.4 If the project does not proceed beyond RIBA Stages D or E, 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.
- 6.5 As discussed in appendix four below, early discussions are ongoing with NHS Lothian on the potential for creating a broader health and wellbeing focus for a new Meadowbank, through locating a primary health care facility on site. This opportunity would be lost, and the current Meadowbank will continue to decline, if the decision is taken not to proceed with this project. Since this 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.
- 6.6 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 National Outcome on physical activity.
- 6.7 If this project does not proceed, the wider implications of this decision for the delivery of physical activity and sport services will be taken into account by the ongoing strategic review of all Council-owned sport and physical activity facilities and services. This wider review, which includes consideration of community access to schools, is scheduled to report early in 2015.

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 within the next five years 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 described below.

- 8.2 The new building would be built to meet or exceed modern energy efficiency standards. On a like for like basis, the energy consumption would be significantly lower than the existing building. The new building's energy demands would be reduced by the proposed enhanced building fabric performance; high efficiency equipment for heating, ventilation, and lighting; and renewable energy technologies such as Photovoltaics.
- 8.3 A visual inspection of the trees surrounding the Meadowbank site was undertaken in September 2014. The inspection report identified the 11 Wheatley Elms on Wishaw Terrace and 10 on London Road as having the most significant impact on the street scene. Unlike many cities in the UK, Edinburgh has managed its stock to retain approximately 15,000 elms in the city. From assessing historic photos of the area and the height of the trees it is reasonable to assume the elms pre-date the existing stadium. The new building proposal has been designed to maintain an adequate distance from the existing elm trees to allow their retention in principle. A detailed survey of their condition and any impacts on the trees of construction works or resurfacing around the trees will be undertaken at the next stage.
- 8.4 The decision to retain the new sports centre on the existing Meadowbank site will enable the new facility to benefit from the existing transportation network already serving Meadowbank. A strategic plan for maintaining and improving these transportation links will be developed if the project progresses. The landscaping proposal will help to create a civic presence along the London Road frontage, and will provide a generous public arrival area at the entrance to building. Shelter will be provided along the length of the building from the roof canopy, and features within the landscape will provide seating and gathering areas. Consideration has been given to providing increased facilities for cyclists in line with National Planning Policy. The existing bus stops would be retained and incorporated into the landscaping proposals along London Road.

Consultation and engagement

- 9.1 Detailed consultation with the public will be undertaken if this project proceeds.
- 9.2 Given the recommendation – for reasons of efficiency, safety and cost – to complete the demolition before construction begins, alternative provision will need to be made for Meadowbank's customers, using Edinburgh Leisure facilities and the school's sporting estate. This is the approach that was taken by the successful £37.1m refurbishment of the Royal Commonwealth Pool. Further work will be done on this if the project proceeds.

Background reading/external references

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, including the [March 2008](#) report to Council cited above

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Links

Coalition pledges	P42 – Continue to support and invest in our sporting infrastructure. P43 – Invest in healthy living and fitness advice for the most in need. P45 – Spend 5% of the transport budget on provision for cyclists
Council outcomes	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.
Single Outcome Agreement	S02 – Edinburgh’s citizens experience improved health and wellbeing, with reduced inequalities in health.
Appendices	<ol style="list-style-type: none">1. Summary of Review of Funding Options2. Proposed layout plan3. Current proposed timeline for the project4. Architectural concept for a new Meadowbank

Summary of Review of Funding Options - Deloitte, supported by The Sports Consultancy

Principal funding options considered

Option 1	Capital receipt from disposal of the excess land, primarily comprising some 9 acres to the east of the stadium together with smaller areas to the south and west of the stadium	
<i>Advantages</i>	<i>Weaknesses and risks</i>	<i>Conclusion</i>
<p>Council would benefit from a significant capital contribution.</p> <p>Student housing has the potential to raise a higher level of price over other uses.</p> <p>Would help the Council to deliver targets for provision of new homes and will assist in the wider regeneration of the area.</p>	<p>No significant weaknesses</p> <p>Risks:</p> <p>Land values could fall between now and the point at which the site is sold. On the positive side, values could also increase during that period.</p> <p>Planning consent obtained without onerous conditions relating to development density and infrastructure requirements</p> <p>Abnormal costs resulting from soil and site investigations to confirm the development capability and contamination levels</p> <p>Demand for the proposed developments</p> <p>Other points: timing of disposal and the impact this will have on project cash flow; impact of a significant development taking place on the site at the same time as the new Meadowbank is being built should be considered, as the project programme is developed.</p>	<p>Capital receipt from sale of excess land presents the most significant funding opportunity for the project and is relatively low risk to the Council.</p> <p>Opportunities for further intensification of development should be considered and discussed with planners as the project moves forward to determine whether further capital can be generated.</p>

Option 2	Prudential borrowing capability based on improvement in operational revenue	
<i>Advantages</i>	<i>Weaknesses and risks</i>	<i>Conclusion</i>
<p>Prudential loan rates tend to be more competitive than private sector funding. This maximises the amount of capital that can be borrowed.</p> <p>The loan repayments can be fixed for the term of the loan term. This reduces the risk of future index-linked increases in loan repayments.</p> <p>This tends to be the borrowing route of choice for public sector projects.</p>	<p>There are prudential borrowing limits for local authorities. The Council will need to be clear whether it can borrow the amount of funding required, without breaching its borrowing limits.</p>	<p>Prudential borrowing should be used to access capital funding towards the project.</p>

Option 3	sportscotland grant funding	
<i>Advantages</i>	<i>Weaknesses and risks</i>	<i>Conclusion</i>
<p>Grant funding is external funding which does not rely on revenue funding from the Council to support loan repayments.</p>	<p>Funding tends to be conditional on delivery of programme objectives and can limit future use of the funded facilities. The Council should ensure that it is comfortable with the proposed terms, conditions and required outcomes before applying for grant funding.</p> <p>This funding is subject to a funding application process and an application, so cannot be guaranteed at this stage.</p>	<p>The Council should apply to sportscotland for funding to help deliver the project. It should make a strong case for a grant of £7m.</p> <p>sportscotland should be engaged in the development of the project.</p>

Option 4	Revenue savings from closure during build period	
<i>Advantages</i>	<i>Weaknesses and risks</i>	<i>Conclusion</i>
<p>The sooner the centre is closed the more the Council is likely to save in terms of the service payment it makes towards the operation of Meadowbank.</p> <p>In addition to the financial savings, closure is likely to simplify the construction process, reducing risk, cost and timescales compared to retaining operation of parts of the centre while the new build takes place.</p>	<p>The net revenue savings need to be clarified with any deductions for closure costs and operator compensation.</p>	<p>There is an opportunity for the Council to make revenue savings during the construction works that can be used as capital funding towards the project. The final figure will need to be agreed with the Finance Service and is likely to be subject to negotiation with Edinburgh Leisure, with reference to the terms and conditions of the management agreement.</p>

Based on the results of these four principal funding routes, and faced with a further funding gap, we believe that consideration should be given to the alternative sources of funding described in the table below.

<i>Alternative source of funding</i>	<i>Advantages</i>	<i>Weaknesses</i>
<p>Option 5: A contribution from the Council's capital reserves</p>	<p>Avoids the Council being left with an on-going revenue commitment.</p> <p>Assuming funds are available, this is a relatively straightforward approach.</p> <p>Offers flexibility with the delivery approach – the Council could procure a contractor for the sports facility and dispose of the surplus land separately. Alternatively a single development partner could be procured to deliver both elements.</p>	<p>Clearly reliant upon the Council having sufficient capital reserves to contribute.</p> <p>Limited scope for the Council to derive a return on the equity it has invested.</p> <p>High risk – the current forecast is that funds will not be available from capital reserves.</p>
<p>Option 6: Head lease commitment</p> <p><i>The Council commits to a head lease over the new Meadowbank facility. Ideally, the Council would look to cover its head lease commitment by the management fee paid by the centre's operator. Dependent on the new facility generating a positive income stream.</i></p>	<p>The Council's covenant would be well received by the funders and developers, particularly if it was underwriting a secure income stream of 20 years plus.</p> <p>The strength of this income stream could be used to generate an up-front capital contribution from a funder, which is a model a number of pension funds are actively promoting.</p> <p>In a best case scenario, the management fee would be greater than the head lease commitment; presenting the Council with a revenue stream.</p>	<p>Head lease commitments of this nature are often linked to fixed rental uplifts, typically on an RPI basis.</p> <p>Should the management fee not cover the head lease commitment, a risk which would increase over the lifespan of the centre, then the Council would potentially be left with an increasing revenue liability.</p> <p>Would require significant change from current operating model.</p> <p>The revenue forecasts for the centre estimate an annual operating surplus of circa £124k per annum. This level of income would not be sufficient to service the head lease payments required to service the capital investment required.</p> <p>Therefore, this option should be discounted.</p>
<p>Option 7: Additional prudential borrowing (including increasing the borrowing term)</p> <p><i>Using borrowing from the Public Works Loan Board (PWLB), the Council would be required to commit additional annual revenue payments,</i></p>	<p>The Council has the potential to access borrowing at a lower cost than a developer, via the PWLB. These savings should be reflected in the overall costs of the project.</p> <p>Scope for repayment of the loan from income received from the operator over the borrowing period of the loan.</p>	<p>Loan repayments of this nature are fixed over the borrowing period of the loan. As an example, if the Council wishes to raise an additional £10m capital funding to close the funding gap it would need to find £833,330 per annum to cover the additional repayment costs to service the annual loan repayments.</p>

Alternative source of funding	Advantages	Weaknesses
<p><i>over and above the forecast revenue improvement, to finance the borrowing costs for the capital sum required, as described previously in the principal funding options section.</i></p>		<p>The Council is currently unable to afford the loan repayments, unless these can be funded from additional revenue savings elsewhere in the Council.</p> <p>This would require a significant additional revenue commitment from the Council. This additional revenue cannot be generated from the new Meadowbank site and would have to come from other Council budgets. This could include closure of other facilities in the leisure portfolio.</p>
<p>Option 8: Private sector borrowing</p> <p><i>For example, pension fund annuity funding. This scenario envisages the Council committing to pay an income stream to a pension fund, which would in return offer an upfront capital payment.</i></p>	<p>Does not require the Council to allow for a Minimum Revenue Provision (MRP) set aside as is the case with Prudential Borrowing.</p> <p>Scope to explore entering into a wider partnership.</p>	<p>Likely to be more expensive than prudential borrowing: rental payments are subject to RPI-linked increases (likely to be between 0-5% per annum).</p> <p>The Council is unable to afford the loan repayments, if these cannot be funded from additional income.</p> <p>Private sector borrowing is likely to be more expensive for the Council over the term of the loan. As with prudential borrowing it would require a significant additional revenue commitment from the Council. This additional revenue cannot be generated from the New Meadowbank site and would have to come from other Council budgets.</p>
<p>Option 9: Other grant funding</p> <p><i>This would involve the Council accessing other grant funding opportunities, which would effectively provide a one-off capital contribution to the project with no requirement for repayment.</i></p>	<p>Provides capital contributions without the Council being left with an on-going revenue commitment.</p>	<p>Funding often comes with conditions relating to delivery of specific outcomes. These can have an impact on capital costs and operational revenue.</p> <p>We are not aware of any significant funding opportunities available for a scheme of the specific nature of Meadowbank, other than the £5m - £7m that has been discussed with sportscotland. A fundraiser would need to be engaged to review funding opportunities and work with the Council in making applications.</p>

Alternative source of funding	Advantages	Weaknesses
<p>Option 10: Naming rights and sponsorship</p> <p><i>Would involve attracting a headline sponsor and branding Meadowbank via naming rights. Agreements tend to be for a medium to long term. Most recent examples relate to high profile stadia or arenas, as opposed to community leisure facilities, since sponsors seek maximum exposure for their brands.</i></p>	<p>Provides a sum that can be used to fund capital or revenue over a fixed term of the agreement</p>	<p>Meadowbank is not home to a large, high profile club with a significant fan base and media exposure, particularly TV. Therefore, the value of naming rights is likely to be low and perhaps best suited to local businesses.</p> <p>There may be a conflict between the requirements of the sponsor to promote its association with the venue and the need for the Council and the venue operator to promote their association.</p> <p>There are no significant examples of naming rights and sponsorship of community leisure facilities with the order of funding required for Meadowbank.</p> <p>The relatively low levels of brand exposure mean that any sponsorship that can be obtained will be of low value and will not generate a significant sum towards the funding shortfall.</p>
<p>Option 11: Philanthropic contributions</p> <p><i>Would involve the Council running a fundraising campaign to attract donations from businesses and individuals towards the cost of the project. This is a model frequently used in the arts and culture sectors.</i></p>	<p>Provides a sum that can be used to fund capital or revenue with no ongoing payment from the Council.</p>	<p>There is not an established culture of philanthropy in relation to funding public sector sports buildings, to the extent required to cover the funding requirement.</p> <p>While it may be possible to attract some funding through philanthropic contributions, this is likely to require a significant campaign to be undertaken by the Council and there is no guarantee of success. The amounts raised are likely to be very small compared to the scale of the funding required.</p> <p>In many cases philanthropic donations tend to be distributed funding organisations and trusts set up for specific purposes (covered under “other grant funding” discussion above).</p>

Alternative source of funding	Advantages	Weaknesses
<p>Option 12: Reduce the scope of the building and capital costs</p> <p><i>This would be achieved by removing areas from the building, with a focus on those areas that provide the lowest return on capital investment.</i></p>	<p>Reducing the scale and cost of the building could reduce the capital cost and the funding requirement</p>	<p>The specification is based on extensive work completed to date and on the Council's aim to replace Meadowbank with a similar facility. The extent of reductions required to close the funding gap would need radical changes which will not deliver the facility identified through the needs analysis and consultation to date.</p> <p>Changes to the building may have a detrimental impact on revenue generation and must be carefully considered.</p> <p>Any departure from the agreed specification would diminish the Council's ability to meet the sporting needs of the local community and the needs of other stakeholders. We understand that this is unlikely to be acceptable to the Council and partners.</p>
<p>Option 13: Include additional revenue generating facilities within the Meadowbank redevelopment</p>	<p>Other facilities could add to the mix on the site.</p> <p>Some commercial uses could generate additional income for the Council.</p>	<p>Any additional facilities will require additional capital investment, which will increase the initial funding requirements on the Council.</p> <p>There is a risk that the additional facilities may not generate a significant additional income that helps contribute towards the funding of the project.</p> <p>There are planning constraints that will limit the options for commercial facilities at the site.</p> <p>Deloitte has undertaken a broad property market review and concludes that residential development on the surplus land appears to be the most viable option. Adding additional commercial space to the sports centre is likely to increase its build costs and also impact upon the space available to provide the facilities sought. The additional build costs are unlikely to be offset by significant improvement in the net revenue generated at the site.</p> <p>Planning issues are likely to be a barrier to further commercial</p>

Alternative source of funding	Advantages	Weaknesses
		<p>development of the sports centre site. Commercial development is arguably better delivered by the private sector through sale of the excess land to generate a capital receipt for the Council.</p>
<p>Option 14: Rationalisation – contribute additional surplus land/assets to the project</p> <p><i>Would mean taking a wider strategic view of assets in the leisure portfolio and other Council-owned property to understand if there are any other facilities that could be disposed of to generate either a revenue saving or capital receipt that could contribute towards the funding shortfall.</i></p>	<p>Capital or revenue can be raised through disposal of excess Council facilities to provide a contribution with no ongoing revenue commitment for the Council.</p>	<p>Scope for additional savings and disposals may be limited.</p> <p>Disposal opportunities beyond the leisure portfolio may be limited and capital receipts and revenue saving may be earmarked for other projects.</p> <p>Many recent community leisure developments have been facilitated by rationalisation of facilities across a portfolio. This has helped unlock capital receipts and revenue savings that have been used to finance borrowing costs. The Council should consider whether there are any further opportunities to dispose of assets to contribute towards the shortfall for Meadowbank.</p>
<p>Option 15: Competitive tendering of the management contract for the centre</p> <p><i>The operator market in the UK has matured in recent years with the growth of private sector and trust operators that are increasingly expanding their portfolio of management contracts, through aggressive growth. This has provided significant revenue benefits to authorities that have competitively tendered contracts. It is increasingly common for operators to pay a management fee to a local authority, particularly where new facilities have been built. The larger operators are able to do this due to the economies of scale and efficiencies they can offer compared to smaller trust organisations.</i></p>	<p>This option would require no further investment from the Council.</p> <p>The improvement in revenue position could be used to finance further prudential borrowing.</p> <p>It could bring a fresh approach to the management and operation of the centres.</p>	<p>There is a risk that operators will not be interested in the contract, as there are currently many contracts out for tender in the market. However, initial conversations indicate that there would be interest.</p> <p>Possible conflict with Council policy and commitments (for example, on pricing structures) and therefore would potentially be resisted by the public and governing bodies of sport.</p> <p>Soft market testing should be conducted early in the next stage of development, to test the market's appetite for managing the new Meadowbank.</p>

Conclusions

The majority of community sport and leisure developments in the UK are funded by using a traditional approach. They rely on a blend of funding to make them viable. Typically, this tends to include the following sources:

- Prudential borrowing, based on the forecast improvement in the net revenue position
- Capital receipts from the sale of assets
- Grant funding from external partners eg **sportscotland**/Sport England
- Contributions from capital reserves
- Planning gain/developer contributions eg S106 / S75 funding
- Partnerships eg schools, universities and local authorities pooling funding to deliver a shared facility that meets the need of their users.

There is clearly a significant funding shortfall under the best and worst case scenarios.

As building costs increase it is becoming more difficult for community leisure facilities to be developed in a cost neutral way. Increasingly, local authorities are having to take a broader view of their leisure facility portfolios to unlock value to fund new developments. This tends to involve rationalisation of their portfolios. By closing facilities that operate at a significant deficit, and disposing of sites, many are able to use the revenue savings to fund further prudential borrowing. The capital receipt can also be applied to the development of new facilities. In some cases this has included sale of non-leisure sites, such as libraries, to help fund new leisure developments.

The financial benefits from competitively tendering management contracts are also providing a significant improvement in the revenue position, particularly where new facilities are built. This enables authorities to unlock revenue to service capital borrowing. In addition, many projects are reliant on maximising the commercial return from sale of excess land to developers. This tends to result in development for residential or commercial development, which provides the highest return.

The funding opportunities summarised in this paper have been identified by Deloitte and The Sports Consultancy in consultation with members of the project team, including the City of Edinburgh Council, **sportscotland** and Edinburgh Leisure, as well as the Scottish Futures Trust. This input represents many years of collective experience and knowledge in the development and funding of public and private sector leisure projects.

All realistic options have been reviewed. No single solution is going to close the significant funding gap that exists. **The principal funding options to explore further as the project develops are listed below.**

Capital receipts from sale of excess land

The proposal for the development of the excess land should be reviewed with the Council's Planning Service to explore whether there is any further opportunity to generate additional capital receipts from the site. This should include exploring the possibility of building residential accommodation above the sports centre itself. This has been done successfully on other schemes in the UK, helping to meet demand for new housing which helps fund community infrastructure such as leisure centres.

Rationalisation - Contribute additional surplus land / assets to the project

The ability to raise the shortfall funding required from the Meadowbank site alone is limited. Therefore the Council should take a broader strategic view of other assets within its leisure portfolio and identify whether other sites that are performing poorly from a revenue perspective could be closed or transferred to other organisations to operate. The revenue saving could then be used to help finance borrowing for the development of Meadowbank.

In addition, capital could be raised from sale of leisure or non-leisure sites to contribute towards the development. We understand this work is being conducted as part of a strategic review of the Council's leisure service, which is due to be completed in early 2015.

Competitive tendering of the management contract

This option provides a significant opportunity for the Council. The financial benefits, in terms of additional revenue savings could be provided following a competitive tendering process. This improved revenue contribution could then be used to finance additional borrowing to help fund the shortfall. The main cost to the Council would be the costs associated with the procurement process.

Funding from Council budgets

We are aware that the Council allocates funding for capital and revenue budgets for projects and services and that it is possible for the Council to allocate funding based on the priority of projects as part of its budget setting process. This may also provide a source of funding. Although Meadowbank will be competing against many other priorities.

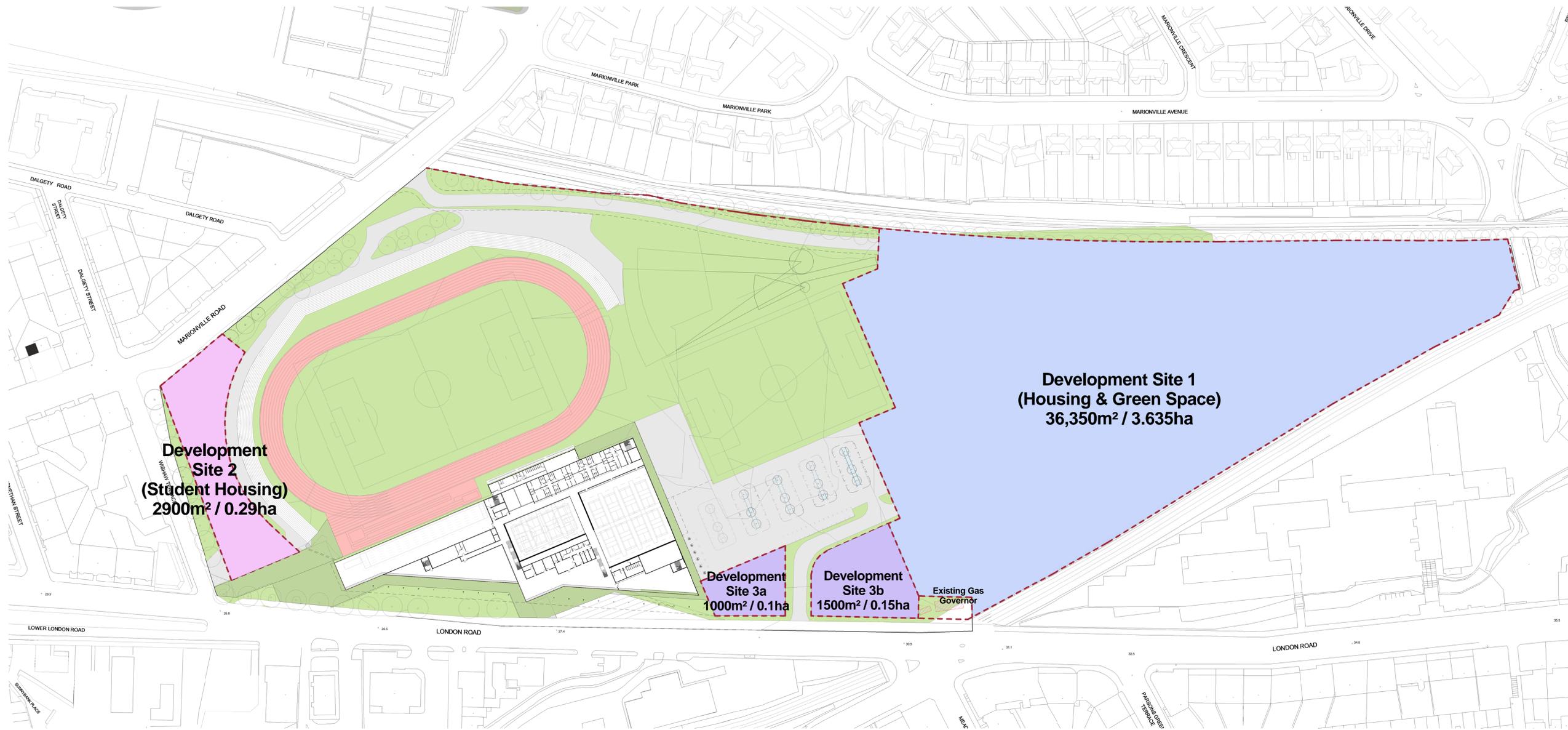
Summary

Overall, the solution to funding the shortfall is likely to be a blend of the principal and alternative options reviewed in this paper. At this stage it is not possible to put figures against the contribution which all of these could make towards funding the shortfall. However, we recommend all options are explored further as the project develops beyond RIBA Stage C.

It is recognised that the disposal of surplus assets at Meadowbank, together with grant funding from **sportscotland** and a contribution from prudential borrowing, still leaves a funding shortfall of between £11.3m (best case) and £19.8m (worst case). A number of alternative sources of funding have been identified, which could contribute towards closing this gap. The Council will need to decide which of these to pursue as the project progresses. Until some soft market testing and further detailed site analysis are carried out a question mark will remain over the amount of the shortfall. The Council needs to consider internal options to cover this deficit to provide the level of physical activity and sport services required at Meadowbank for the city, and be prepared to allocate internal funds for this purpose in the short term.

NOTE
All dimensions should be checked on site.
Do not scale off this drawing.
Any drawing errors or divergences should be brought
to the attention of the originator of this drawing.

Revision



NOTE:
LEVELS SHOWN ARE RELATIVE TO ATHLETICS TRACK

FOR INFORMATION

Reiach and Hall Architects

Meadowbank Stadium and Sports Centre
Site Plan
Capital Receipt Development Sites

4149 (SK) 075

Date : 05/12/14 Drawn : Scale : 1 : 750

6 Damaway Street Tel : 0131 225 8444
Edinburgh EH3 6BG www.reiachandhall.co.uk

Architectural concept for a new Meadowbank

1. The existing facility is separated from London Road and the pavement by trees and grass, and the reception is reached by a pedestrian bridge. The building's street façade has few windows.
2. The architectural concept for a new Meadowbank is to bring the building forward, right up to the pavement, and to make extensive use of glass to create an open, lively and welcoming feel for users and passers-by. As shown in the architectural visualisations below, pedestrians will have direct access from the street to the reception. Anyone passing will be able to see some of the activities taking place inside the building and come in and use facilities such as the cafe.
3. This design would enhance the street, by fully integrating a new Meadowbank into the streetscape, and creating a lively civic space. This attractive new facility, which could incorporate within its footprint some community uses (described below) should help to regenerate the London Road area.
4. The team has worked in detail on functionality of the building, the optimum design and layout of the overall complex and of facilities within it, to achieve ideal customer flow. The development of the proposed building diagram has been influenced by the reconciliation of two key issues – site and brief. The triangular shape of the site, constrained by London Road to the south, the existing athletics track to the north and the existing Sport Centre to the east, introduces interesting limitations for a building which is essentially comprised of large rectangular spaces. The form and massing of the building is largely a direct result of the specific dimensional requirements of the sports spaces, which are pre-determined by various governing bodies, combined with the area available on the site.
5. A primary structural grid has been placed on the site, determined by the requirement for clear spans across the sports halls. The east-west span is defined by the length of a badminton court, typically the 'building block' around which multi-purpose sport halls are conceived. The intersection of the east-west grid and the building line of London Road determines the north-south grid.
6. Natural daylight is brought into the sports halls through roof lights placed between the courts, whilst avoiding glare. The large 8-Court Hall is located on the east elevation where the site is widest, and the 4-Court Hall and the Athletics Hall are placed further into the site. The more adaptable spaces, such as the Gym, are placed in the voids left between the large halls.

7. At the heart of the layout, accessed directly off London Road, is the entrance and reception area, The Gym is located next to the Reception, allowing direct access to this facility from the street entrance. The café and retail areas are also next to the reception, and could be open for business separately, if required, from the sporting facilities, maximising trading hours and potential income.
8. Forming the west elevation, the Athletics Hall affords views down London Road. Placing it next to the Gym allows both facilities to benefit from sharing the Strength and Conditioning Area which would be located in the Gym. Through the north façade the Athletics Hall opens up onto the existing running track, providing views in and out, daylight and allowing the indoor track to perform as a warm up area during competitions.
9. From the Reception and Café area a stair leads up to first floor level. Located on the first floor are a number of Studio spaces. Elevated above London Road, the Studios offer views across to Arthur's Seat and Holyrood Park whilst providing a level of privacy to their occupants. The double height volumes of the ground floor provide a connection between the Entrance, Café and Gym on the ground floor and the Studios above.
10. The first floor level also provides access to the spectator seating in the Sports Hall and the Hospitality facilities which overlook the outside athletics track and 3G Football/Rugby pitch.
11. This new design includes all the existing sports accommodated currently in Meadowbank with two exceptions. The existing shooting range (currently used by the national shooting squad and some clubs), and the outdoor velodrome (currently leased to Edinburgh Road Club), cannot be replaced because of the space they would require, their high capital cost, and the very low revenue they generate. SportScotland intends to make some funding available to build a shooting range of the same standard elsewhere in Scotland. Members will recall that £1.215m was allocated in February 2013 towards creating a cycling hub in Hunter's Hall park. The results of community engagement on options for this hub were presented to the Culture and Sport Committee on 16 December 2014.
12. The Council continues to explore with Scottish Rugby whether there is potential to provide a home for Edinburgh Rugby at several locations across the city, including Meadowbank. The design team's proposal incorporates the potential for 7,000 seats, which could be included in a future phase should funding become available.

13. Early discussions are also ongoing with NHS Lothian on the potential for creating a broader health and wellbeing focus for the new venue. For example, there may be an opportunity to locate a primary health care facility on site if NHS Lothian is able to identify a funding contribution. It may also be possible to locate supplementary healthcare practitioners, for example offering physiotherapy, remedial massage, injury rehabilitation, and advice on nutrition, fitness and healthy lifestyles. This would help serve as an additional portal into the sporting activities, and help broaden the appeal and footfall of the new venue. It may also be possible to accommodate other community uses within the plans, such as small retail units and office space for small businesses.