

10.00am, Thursday 22 February 2018

## City Strategic Investment Fund 2017-18 Update – referral from the Housing and Economy Committee

Item number	5.3
Report number	
Executive/routine	
Wards	
Council Commitments	

### Executive Summary

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On 18 January 2018 the Housing and Economy Committee considered a report by the Executive Director of Place 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. £5.0m of this has been committed to date, leaving an unallocated balance of £2.5m. The report was originally considered by the Committee in private however officers have confirmed the report can now be considered in public.

# Terms of Referral

## City Strategic Investment Fund – 2017/18 Update - referral from the Housing and Economy Committee

### 1. Terms of Referral

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- 1.1 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.
- 1.2 To date, CSIF funding of £2.0m has been committed 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 City of Edinburgh Council on 28 May 2015. The Park was completed in September 2017 and several units have now been let. The Park is projected to generate £155,200 of rental income for the CSIF annually.
- 1.3 East Hermiston Business Park is now complete and letting is underway with several tenants already in place. The Park is projected to generate an income for the Council of £145,500 per annum.
- 1.4 The final cost of developing the Park was £2,166,861. This is £166,861 higher than the £2m originally allocated from the CSIF towards the project. This was mainly due to the various services connections required. Further to the actual connection costs and due to the delay of Scottish Water being unable to visit the site within the contract period, additional costs were expended in the provision of traffic management, which was outwith the costs for loss and expense incurred by the contractor as an extension of time of six weeks that was granted due to delays beyond the contractor’s control. It is proposed to allocate a further £166,861 from the CSIF to cover this cost; this will delay full repayment to the CSIF by approximately one year. Future cost overruns of this nature can potentially be mitigated against by more aggressive value engineering, by building in a greater element of contingency funding, and by agreeing in advance of the project commencing how any cost overruns will be addressed.
- 1.5 The Housing and Economy Committee agreed:
  - 1.5.1 To approve the allocation of a further £166,861 to cover costs associated with the East Hermiston Business Park above the £2.0m previously allocated.

- 1.5.2 To note that the new allocations would leave the uncommitted balance of the CSIF at £1.3m.
- 1.5.3 To refer the report on to the City of Edinburgh Council for final approval of the recommendation at 1.5.1.

## **2. For Decision/Action**

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- 2.1 The Council is asked to approve the allocation of a further £166,861 to cover costs associated with the East Hermiston Business Park above the £2.0m previously allocated.

## **Background reading/external references**

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Housing and Economy Committee, 18 January 2018

### **Laurence Rockey**

Head of Strategy and Insight

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## **3. Appendices**

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Appendix 1 – Report by the Executive Director of Place

# Housing and Economy Committee

10.00am, Thursday 18 January 2018

## City Strategic Investment Fund – 2017/18 update

<b>Item number</b>	
<b>Report number</b>	
<b>Executive/routine</b>	Executive
<b>Wards</b>	13 – Leith, 7 – Sighthill/Gorgie
<b>Council Commitments</b>	<a href="#">2</a> , <a href="#">9</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. £5.0m of this has been committed to date, leaving an unallocated balance of £2.5m.

The first project to be funded by the CSIF, the East Hermiston Business Park, has now been completed and repayment to the CSIF has begun.

A further allocation of £0.1m is proposed. These allocations would leave the balance of the CSIF at £2.4m. Several repayments to the CSIF are expected in the latter part of 2017/18 and in 2018/19.

## City Strategic Investment Fund – 2017/18 update

### 1. Recommendations

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- 1.1 It is recommended that the Committee:
  - 1.1.1 Approves the allocation of a further £166,861 to cover costs associated with the East Hermiston Business Park above the £2.0m previously allocated.
  - 1.1.2 Notes that these new allocations would leave the uncommitted balance of the CSIF at £1.3m.
  - 1.1.3 Refers this report on to the City of Edinburgh Council for final approval of the recommendation at 1.1.1.

### 2. Background

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- 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 £2.0m 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 City of Edinburgh Council on 28 May 2015. The Park was completed in September 2017 and several units have now been let. The Park is projected to generate £155,200 of rental income for the CSIF annually.

£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 will not now be required for the purpose originally envisaged.

- 2.2.2 £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, subject to ratification by full Council. This can be repaid from future savings and revenue associated with the closure of EDI.
- 2.2.3 £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, no alternative route has been identified for the CSIF to be replenished and the CSIF would potentially require to absorb this write-off.
- 2.3 The uncommitted balance of the CSIF therefore stands at £2.5m.

### 3. Main report

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#### **East Hermiston Business Park**

- 2.4 As set out above, the East Hermiston Business Park is now complete and letting is underway with several tenants already in place. The Park is projected to generate an income for the Council of £145,500 per annum.

#### *Costs to the CSIF*

- 2.5 The final cost of developing the Park was £2,166,861. This is £166,861 higher than the £2m originally allocated from the CSIF towards the project. This was mainly due to the various services connections required. Further to the actual connection costs and due to the delay of Scottish Water being unable to visit the site within the contract period, additional costs were expended in the provision of traffic management, which was outwith the costs for loss and expense incurred by the contractor as an extension of time of six weeks that was granted due to delays beyond the contractor's control. It is proposed to allocate a further £166,861 from the CSIF to cover this cost; this will delay full repayment to the CSIF by approximately one year. Future cost overruns of this nature can potentially be mitigated against by more aggressive value engineering, by building in a greater element of contingency funding, and by agreeing in advance of the project commencing how any cost overruns will be addressed.

#### *Repayment to the CSIF*

- 2.6 Based on the projected income of £145,500, the costs to the CSIF of developing the Park are projected to be fully recouped in 2032/33, after which the Park will generate surplus income for the Council. Alternatively, the CSIF could dispose of the asset before this date, either to the General Fund or to an external buyer.

## **4. Measures of success**

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- 4.1 The East Hermiston Business Park will have generated enough revenue to replenish the CSIF and begun generating a surplus for the Council.

## **5. Financial impact**

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- 5.1 The balance of the CSIF currently stands at £2.5m. It is proposed to release a further £0.1m, leaving the balance of the CSIF at £2.4m. Repayments to the CSIF anticipated to be received in 2018/19 would raise the balance back to ~£4.4m. The CSIF is projected to be fully replenished by 2032/33.

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

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- 6.1 N/A

## **7. Equalities impact**

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- 7.1 N/A

## **8. Sustainability impact**

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- 8.1 N/A

## **9. Consultation and engagement**

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- 9.1 N/A

## **10. Background reading / external references**

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- 10.1 N/A

## **Paul Lawrence**

Executive Director of Place

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## **11. Appendices**

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- 1 – City Strategic Investment Fund: projected balance

## Appendix 1 – City Strategic Investment Fund: projected balance

Project	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
East Hermiston Business Park	–£2,000,000	–	–£123,251*	£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	–	–	–	–	–
<b>Balance at year end</b>	<b>£5,500,000</b>	<b>£5,500,000</b>	<b>£2,376,749</b>	<b>£4,522,249</b>	<b>£4,667,749</b>	<b>£4,813,249</b>	<b>£5,958,749</b>	<b>£6,104,249</b>	<b>£6,249,749</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	–	–	–	–	–	–	–	–	–
<b>Balance at year end</b>	<b>£6,395,249</b>	<b>£6,540,749</b>	<b>£6,686,249</b>	<b>£6,831,749</b>	<b>£6,977,249</b>	<b>£7,122,749</b>	<b>£7,268,249</b>	<b>£7,413,749</b>	<b>£7,500,000</b>
*Based on an additional drawdown from the CSIF of £166,861, partially offset by income of £43,610.									