

Finance and Resources Committee

10.00am, Tuesday, 27 March 2018

The EDI Group Ltd - Transition Strategy

Item number	7.14
Report number	
Executive/routine	
Wards	All
Council Commitments	1, 2, 10 and 50

Executive Summary

This report provides an update on the progress made to date in closing down EDI Group Ltd and its subsidiary companies and bringing its development activities into the Council.

It follows the approval of the EDI Transition Strategy by the Housing and Economy Committee on 2 November 2017.

The EDI Group Ltd - Transition Strategy

1. Recommendations

- 1.1 Committee is asked to:
 - 1.1.1 Note the EDI Transition Strategy was approved by Housing and Economy Committee;
 - 1.1.2 Note the progress made to date on the transition;
 - 1.1.3 Note that the pension liability will be taken forward on an on-going basis rather than making a cessation payment subject to agreement by Council; and,
 - 1.1.4 Note that £1million from the Council's City Strategic Investment Fund will be set aside to cover any cash flow issues that may arise over the transition period.

2. Background

- 2.1 The Economy Committee and the Finance and Resources Committee considered reports on 7 February 2017 and 23 February 2017 respectively setting out the options available to the Council regarding the operating model for its property companies, including issues arising and proposed transitional arrangements. These reports were considered by members under a 'B' agenda at both meetings.
- 2.2 The outcome was an instruction to the Chief Executive and the Board of CEC Holdings, EDI, Parc Craigmillar, Waterfront Edinburgh and Shawfair Land Limited to commence implementation of Option 3 (In-House Model) as set out in those reports.
- 2.3 On the 2 November 2017 the Housing and Economy Committee approved the Transition Strategy for closing down EDI and moving projects in-house.

3. Main report

Transition Strategy

- 3.1 The agreed Transition Strategy is for EDI to undertake a process of corporate closure that will take place over approximately five years although operational activity within the company will reduce dramatically this year. There are no cash payments required from the Council to EDI under this approach. Assets (land and

cash) will be transferred to the Council in lieu of loan stock and share capital with a dividend paid at the end of the process.

Progress to Date

- 3.2 Since the report on 2 November 2017 Council officers have continued to work with EDI to implement the Transition Strategy.
- 3.3 Council officers have been identified to lead each of the projects that are transferring into the Council. In addition officers have also been identified to manage to the areas of work that will remain within the EDI Group Ltd and to provide support to the EDI Board in the running of the company as and when EDI staff are made redundant.
- 3.4 EDI staff have prepared handover packages and have been working through these with Council officers. Good progress is being made in this regard and it is anticipated that this process will be complete by May 2018. By this point in time, the majority of EDI projects will have been moved into the Council and will subsequently be moved forward under normal Council project management and approval processes.
- 3.5 It is likely that there will be some cases where the transfer of work into the Council will bring about the need for Transfer Under Protected Employment (TUPE). It is anticipated that this will be limited to four staff.
- 3.6 The work within EDI will have significantly reduced but there will still be work to be progressed. It is unlikely that this will be sufficient to justify the number of staff currently employed within EDI and this will be a matter for the EDI Board to consider. Following the approval of this report, the EDI Board will be advised that the Council is ready to provide the staff resource necessary to support the ongoing work of EDI.

Pension Liability

- 3.7 The approach being taken in managing the cash and assets within EDI during the closing down period, allows for the cost of the pension liability within the company to be met through a one off payment to buy out this liability. Council officers have taken forward discussions with Lothian Pension Fund to assess whether it would be possible, and preferable, to take forward the liability on an on-going basis. The outcome of this exercise is that taking on the pension liability on an on-going basis is the preferred approach.

City Strategic Investment Fund (CSIF)

- 3.8 In agreeing the strategy for the transition of EDI activities into the Council, the Housing and Economy Committee agreed to the, in principle, use of up to £1 million from the fund to ensure that any cash flow issues within EDI can be resolved

should such a problem arise. This is not anticipated and there should not be any need for a cash injection from the Council although it is considered prudent to set aside money for this purpose to avoid unexpected pressure on Council budgets. The fund will only be used if necessary and any expenditure will be recovered from EDI in due course.

4. Measures of success

- 4.1 The measures of success are that the transition strategy is delivered:
- In accordance with the objectives set;
 - On time and within cost parameters; and,
 - That projects continue to be effectively delivered in line with the Council's housing and economic objectives.
- 4.2 Progress against these measures will be tracked in 6 monthly reports to Housing and Economy Committee.

5. Financial impact

- 5.1 In November 2017 it was reported to Housing and Environment Committee that the Council would receive a total of £21.657m from the wind down of EDI. This was to take the form of cash and land receipts and resulting in the repayment of all outstanding loan stock and share capital, along with an estimated dividend of £4.4m. In addition, it was noted that the Council was expected to receive a further £7.5m in profit share from developments at Market Street and Brunstane.
- 5.2 The original modelling was carried out based on the balances sheets of August 2017 and reflecting the then estimates of land sales values. The modelling has been redone during February 2018 based on the latest December 2017 year-end balance sheets and revised estimates for land sales and pension liabilities. The latest modelling now shows the cash and land receipt increasing to £25.767m, resulting in repayment of all outstanding loan stock and share capital together with an estimated dividend of £8.5m. In addition, anticipated profit share from Market Street and Brunstane has increased to £9.158m. Appendix 1 sets out the revised financial position.
- 5.3 The financial implications of this process for the EDI Group Ltd have been modelled by EDI staff and checked by Council staff. In addition, the taxation implications of the strategy have been reviewed by EDI's external tax advisers, to minimise the risk of any unintended adverse impact on either EDI or the Council. Current modelling shows a healthy financial position with sufficient funds and assets available to allow the transition strategy to proceed as intended. However, given the nature of property market in which EDI operates, these forecasts are likely to change. The financial modelling will therefore be re-run on a regular basis.

- 5.4 It is not anticipated that any cash injection will be required and the transition strategy will be delivered through a managed process of corporate closure with assets transferring to the Council over the closure period.
- 5.5 While it is forecast that EDI will remain solvent throughout this process, it is prudent to set aside £1m from the CSIF to cover any cash flow issues that may arise. This money, if spent, will be repaid to the Council by EDI and there are sufficient proceeds from the closing down of EDI activity to cover this potential expenditure.

6. Risk, policy, compliance and governance impact

Risk

- 6.1 Risk – As stated above the Council is the parent company of EDI. The proposed closedown of EDI is managed process and while land and projects will transfer directly to the Council the financial and corporate elements of this process will remain within EDI. There is not considered to be any significant additional risk to the Council as a result of this strategy.
- 6.2 Reputational Risk – Some of the property companies have been in existence for over 20 years and there may be reputational issues with winding them up at this time. However, there has been significant change during this period with the Council in under unprecedented finance pressure. These reasons alone will mitigate against any reputational issues arising.
- 6.3 Policy - The risk around loss of momentum in key areas of regeneration such as Craigmillar, Granton and India Quay is mitigated by the way in which this strategy is phased and planned. There are arrangements in place to ensure a smooth transition and the continued delivery of projects in line with Council policy objectives.
- 6.4 Compliance – The processes in place will ensure that financial, legal, and employment rules are observed throughout this process.
- 6.5 Governance – The existing governance and control measures in place, both within the Council and EDI, are considered to be appropriate.

7. Equalities impact

- 7.1 There are not considered to be any negative equalities impacts arising from this report.
- 7.2 Any equalities or rights issues arising in relation to development projects will continue to be assessed through existing arrangements within EDI and the Council.

8. Sustainability impact

- 8.1 The impact of this report in relation to the three elements of the Climate Change (Scotland) Act 2009 Public Bodies Duties have been considered, and the outcomes are summarised below.
- 8.2 There are not considered to be any sustainability impacts arising from this report.
- 8.3 Any sustainability impacts in relation to development projects will continue to be assessed through existing arrangements within EDI and the Council.

9. Consultation and engagement

- 9.1 The Consultation will be undertaken and will continue to be undertaken concerning proposals that impact on staffing matters.
- 9.2 Consultation with Lothian Pension Fund has taken place and discussions will continue on the detail of the proposals to settle the pension liability.
- 9.3 Consultation and engagement with local communities and investment/development partners will continue to be taken forward in relation to individual projects, for example the Fountainbridge Sounding Board in relation to India Quay.

10. Background reading/external references

- 10.1 Report to the City of Edinburgh Council on 26 April 2012 entitled 4-8 Market Street;
- 10.2 Report to the City of Edinburgh Council on 13 December 2012 entitled [Council Companies](#);
- 10.3 Report to Finance and Budget Committee on 21 February 2013 on [4 to 8 Market Street: Proposed Disposal](#);
- 10.4 Report to Council on 27 June 2013 on [Rationalisation and Restructure of Council Arm's Length Companies – Progress Report](#);
- 10.5 Report to Council on 6 February 2014 on [Rationalisation and Restructure of Council Arm's Length Companies – Progress Report](#);
- 10.6 Report to Economy Committee on 22 May 2014 (B Agenda) on Fountainbridge: Disposal/Development Options;
- 10.7 Report to Finance and Resources Committee on 4 June 2015 (B Agenda) on Fountainbridge – Transfer of land to the EDI Group Limited
- 10.8 Report to Economy Committee on 7 February 2017 (B Agenda)
- 10.9 Report to Finance and Resources Committee on 23 February 2017 (B Agenda)
- 10.10 Report to Economy Committee on 2 November 2017 (B Agenda) on EDI Transition Strategy.

10.11 Link to EDI Website and Company Accounts - <http://edigroup.co.uk/information>

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11. Appendices

11.1 Appendix 1 – Financial Plan

Appendix 1

Financial Plan		
	Cost	Receipt
	£'000s	£'000s
Received by Council		
Land & buildings		3,895
Cash		21,872
<u>Total</u>		<u>25,767</u>
Offset against		
Intercompany Loans	1,229	
Loan Stock	7,538	
Share Capital	8,500	
<u>Total</u>	<u>17,267</u>	
Net Financial Position		
Net amount received from EDI		8,500
In addition the Council is contractually entitled to a profit share from Market Street and New Brunstane estimated at £9.158m spread over ten years.		

N.B. The movement in net receipt from £4.4m to £8.5m is as a result of an increased estimate for the sale of New Brunstane and the Council taking on the pension liability on an on-going basis.