

## Equal Pay – Single Status Funding Standing Claims

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### City of Edinburgh Council

9 February 2006

#### Purpose of report

- 1 To refer to the Council a joint report by the Directors of City Development and Finance on a preferred strategy for meeting the backdated element of the Equal Pay claim.

#### Details

- 2 On 31 January 2006, the Executive considered the attached joint report by the Directors of City Development and Finance on options open to the Council to achieve, in a limited time frame, a major funding release required to address the backdated element of the Equal Pay claim.
- 3 The report recommends approval of a preferred strategy for achievement of the £33 million required to meet the backdated element of the settlement from the disposal of EDI investment assets (£15 million) and disposal of Morrison Street (£14.8 million), with any required balance being met from disposal of Council investment assets.
- 4 The Executive agreed to refer the report to the Council without recommendation

#### Recommendation

- 5 That the Council consider the joint report by the Directors of City Development and Finance

Donald Anderson  
Leader

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<b>Appendix</b>	Joint report no E/386/05-06/CD & F by the Directors of City Development and Finance
<b>Contact/tel</b>	Louise Williamson, Committee Services Tel: 529 4121 Fax: 529 7607 e-mail: <a href="mailto:louise.p.williamson@edinburgh.gov.uk">louise.p.williamson@edinburgh.gov.uk</a>
<b>Wards affected</b>	City Wide
<b>Background Papers</b>	Minute of the Executive of 31 January 2006

## Equal Pay – Single Status Funding Standing Claims

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### Executive of the Council

31 January 2006

#### 1 Purpose of report

- 1.1 This report sets out options open to the Council to achieve in a limited timeframe a major funding release required to address the backdated element of the Equal Pay claim.
- 1.2 The recommended strategy is disposal of a portfolio of investment assets belonging to both EDI and CEC. While this gives greater flexibility for the longer term it is also more complex to deliver than Option 1 which is outright disposal of EDI.

#### 2 Main report

- 2.1 The City of Edinburgh Council like other local authorities has had to respond in a short timeframe to the challenge of a backdated Equal Pay settlement. On 15 December 2005 the Council considered a report on Equal Pay – Past and Future Liabilities. This explained the background and highlighted the issues, including costs, associated with implementation of the Single Status Agreement and resolving past and future pay inequalities. The Council resolved inter alia to authorise the Director of Corporate Services in conjunction with the Director of Finance to settle past liabilities associated with Equal Pay.
- 2.2 In practical terms, meeting the obligation to settle these past liabilities will require the early release of £33 million. There are few opportunities open to the Council to realise funding on this scale. All potential options have been examined rigorously by officials from Finance and City Development.

##### **Option 1 - Outright Disposal of EDI**

- 2.3 Outright disposal of EDI would meet the requirement for such a large cash sum. EDI was incorporated in 1988 as Enterprise Edinburgh by the former Edinburgh District Council. Since that time the company has grown from having a net asset value of £9 million to in excess of £40 million and now comprises seven property holding companies and ten joint ventures with other parties.

- 2.4 Disposal of the company is likely to produce in a single transaction a sum to fund the backdated element of the Equal Pay settlement. Current gross value is in excess of £40 million and allowance for tax of £11 million equates to an estimated net value on disposal of £29 million. If sold the Council will be able to enforce contractual payments due by EDI or their successors by virtue of existing obligations. Whilst the Council will lose the dividend return, which was £750,000 for 2005, this has less serious revenue implications than other options.
- 2.5 Disposal as a single entity may, however, not be the best way to extract monetary value from a mixed product of investment properties and development opportunities. For example, particular investments may realise a higher amount if offered to the investment market on an individual basis rather than as part of a mixed portfolio.
- 2.6 Disposal of the company would also mean potential loss of a flexible delivery vehicle and there will be some EDI projects which would not appeal to the wider market. In particular an alternative vehicle would need to be created for the regeneration of Craigmillar.

**Option 2 – Council Reserves**

- 2.7 Council currently holds General Fund reserves of £32 million, of which £21 million has either been earmarked for specific purposes or expenditure approved by Council in the current year leaving an unallocated balance of £11 million. This level of unallocated resources is consistent with that required by the Council taking into account the financial risks inherent in the budget process and is reviewed by the Director of Finance on an annual basis.
- 2.8 A further £11.5m is held within the Renewal and Repairs Fund and the Capital Fund. Taking this sum with the unallocated General Fund balance of £11m would provide available resources of £22.5m which would still be insufficient to meet liability arising from single status.

**Option 3 - Disposal of CEC Investment Assets**

- 2.9 The £33 million required for the backdated element of the Equal Pay settlement could in theory be achieved by disposal of CEC assets. The Council's investment portfolio may be summarised as follows:

<b>Investment Assets</b>	<b>Capital £m</b>	<b>Revenue £m</b>
Car Parks	8	(0.75)
Industrial Estates	9	(0.82)
Shops (excluding HRA)	9.5	(0.95)
Other commercial property investments	<u>11</u>	<u>(0.64)</u>
Total	37.5	3.16

- 2.10 Achieving the required level of funding would necessitate disposal of virtually the whole portfolio and result in a major loss of revenue income. The current rate of return is significant in terms of the capital value. Disposal on this scale would also seriously weaken the Council's capability to exercise leadership through the use of properties assets and would have serious implications for the delivery of other policy objectives. In particular any loss of industrial property would run counter to the Council's policy commitments in support of SMEs. Recent studies have highlighted the Council's pre-eminence in the provision of workshops for small businesses and the need for that to continue in the future.

#### **Option 4 - Disposal of EDI and CEC Investment Assets**

- 2.11 It is clear from the above that the need cannot be met from the Council side alone and that any recommended strategy must involve at least in part the disposal of EDI assets. The recommended way forward seeks to retain and realign EDI while at the same time maximising the return from the controlled disposal of selected assets. In this scenario the required amount would be assembled by a package made up of disposal of selected EDI investment assets [£15 million]; disposal of Morrison Street where the interest is joint [£14.8 million] and achievement of any required balance by disposal of Council assets.
- 2.12 In July 2002 the Council disposed of its interest in the Morrison Street Goods Yard site to EDI by the grant of a long leasehold. To date the Council has received an interim payment of £5.2 million for the value of its interest in the land. The present value of the land with the benefit of the planning permission recently obtained by EDI is considered to be in the region of £23 million. Costs amounting to £3 million have also been incurred by EDI in reaching this stage. It is estimated therefore that return of the site to the Council for onward disposal after reimbursement to EDI of their costs would release an estimated £14.8 million.
- 2.13 Adoption of the hybrid model described above would provide scope for retention of EDI within a redefined business model and reduce the tax liabilities arising from outright disposal of EDI. The removal of the significant component of its asset base whilst keeping intact the bulk of the company's development programme presents a challenge to refocus EDI's business to its core activity of property development. As part of this process the Council will set up a Project Group to work with specialist external advisors to determine how best this refocus should be taken forward in a way which provides a robust commercial outlook of the company's future and which at the same time recognises and maximises shareholder investment. It is recognised that this will also increase the risk and potentially prejudice the viability of some projects currently under consideration. The disposal of investment assets will also be reflected in a reduced dividend, at least in the short to medium term.
- 2.14 While considered more effective and efficient it is also recognised that the preferred option could be more difficult to deliver than outright disposal which may need to be reconsidered in the event that major difficulties arise. The sale of individual investment assets will generate high demand in the market place however the option can only be delivered with the collaboration of EDI during a period of major change for the company as a new business model is created.

### **3 Financial Implications**

It should be noted that all figures are best estimates and actual sums received will be dependent on market conditions and further detailed consideration of taxation issues.

## Preferred Option – Disposal of EDI and CEC Investment Assets (Option 4)

	Capital £m	Revenue £m	
Disposal of EDI investment assets - Market Value - £22 million Less Tax - £ 7 million	15	0.75	(potential loss of dividend from EDI)
Morrison Street reversion to CEC and onward disposal Market value - £23 million Less costs - £8.2 million	14.8		
Disposal of CEC investment assets	3.2	0.19	(potential revenue loss to CEC)
<b>Total</b>	<b>33</b>	<b>0.94</b>	

### 4 Recommendations

- 4.1 The Executive is recommended to approve the preferred strategy for achievement of the £33 million required to meet the backdated element of the Equal Pay settlement from the disposal of EDI investment assets [£15 million]; disposal of Morrison Street [£14.8 million] with any required balance being met from disposal of Council investment assets.
- 4.2 In the event that the preferred strategy proceeds, a further report will be submitted to the Executive meeting of 14th March on the progress with disposals and on the new business model for EDI going forward.
- 4.3 Refer this report to Council meeting of 9th February for decision.



**Andrew M Holmes**  
Director of City Development

25.1.06.



**Donald McGougan**  
Director of Finance

25th January 2006

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<b>Appendices</b>	None
<b>Contact/Tel</b>	Andrew Holmes, Director of City Development - Tel 0131 529 3525 Ronnie Hinds, Head of Financial Services - Tel 0131 469 3184
<b>Wards affected</b>	Council wide
<b>Background Papers</b>	Report to Council 15 December 2005 - Equal Pay - Past and Future Liabilities

**Agenda item:**

**Report title: Equal Pay –Single Status – Funding Standing Claims**

In accordance with the Council's Standing Orders, the contents of this report have been noted by the appropriate Executive Member.

Without prejudice to the integrity of the report, and the recommendations contained within it, the Executive Member expresses his/her own views as follows:

**Signed:**



**Date:** 25-1-06

**For information** – Standing Order 57(1) states:

“Heads of Department will prepare reports, with professional advice and recommendations, on matters requiring decisions by the Executive:

- a report seeking decisions on matters of corporate strategy, corporate policy and corporate projects will be submitted direct to the Executive
- a report seeking decisions on matters relating to the special responsibilities allocated to an individual member of the Executive will be submitted, in the first instance, to that member. The member will add his or her own recommendation to it before submission to the Executive. Where the Executive member disagrees with the advice and the recommendation of the officers, the Executive member will also state his or her reasons.”

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**Signed:** *Maurice M. Child*

**Date:** *25/1/06*

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