

# Finance and Resources Committee

10.00a.m. Thursday, 30 October 2014

## Governance of Major Projects: Update on Edinburgh International Conference Centre

Item number	7.6
Report number	
Executive/routine	
Wards	

### Executive summary

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The report updates the Committee on the financial position of the Edinburgh International Conference Centre.

### Links

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Coalition pledges	<a href="#">P28</a>
Council outcomes	
Single Outcome Agreement	All

## Governance of Major Projects: Update on Edinburgh International Conference Centre

### Recommendations

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- 1.1 Members are asked to note the contents of this report which sets out the finding of the EY report on the Edinburgh International Conference Centre.

### Background

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- 2.1 Governance Risk and Best Value Committee on 22 May 2014 asked for an update on the EICC following consideration of a report on the governance of major projects. A further report to Finance and Resources Committee on 30 July 2014 advised members that whilst the construction project for the EICC additional function space and the Atria offices had been successfully delivered on time and within budget, there was a need to review the EICC business plan.
- 2.2 EY were commissioned by the Council, as the shareholder, and the EICC board to review the business plan and to consider possible restructuring options. The business case for the Additional Function Space at the EICC was developed a number of years ago, with the financial year 2014 budget originally prepared in 2010.
- 2.3 The review by EY was undertaken in 2 phases.
- 2.4 Phase 1 included an overview of the current business and financial projections of the EICC with consideration also given to other possible company structures including a charitable trust.
- 2.5 Phase 2 involved the following work streams:
- detailed analysis of the projected income, expenditure and cash flow;
  - revised 5 year plan, including sales and marketing strategy and capital expenditure requirements;
  - review of management information reports provided to the Board and suggested enhancements;
  - risk register;
  - consideration of the appropriate Board structure and representation; and
  - feasibility of corporate reorganisation into a charitable trust and other tax management strategies.

## Main report

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### Independent Review

- 3.1 The draft report by EY was circulated to Board members on 26 August 2014 for consideration at the Board meeting on 27 August, with a further Board meeting on 11 September 2014.
- 3.2 The report confirms that revenue income, based on current activity projections is likely to fall below levels set out in the EICC business plan for the foreseeable future.
- 3.3 The projected cash flow shows that there are no immediate solvency issues. Overall cash reserves are estimated to be sufficient to sustain the business until quarter 1 2016 when support from the Council would be required, based on current projected activity levels.
- 3.4 Number of issues would require to be addressed to enable the company to gain charitable status.

### Projected Financial Outturn 2014

- 3.5 An updated projection for the financial year to 2014 was presented to the EICC Board at its meeting of 27 August 2014. The Company is anticipating a net loss at the end of the year of £1.2m against a budgeted surplus of £0.1m.
- 3.6 The projected loss is a result of a shortfall of revenue income from rentals, events and catering income caused partly by the changing economic environment and increased competition in the conference market. This has been marginally offset by operating cost savings.

### Going Forward

- 3.7 It is essential that measures are taken to robustly monitor the business and that the quarterly management information to the Board designed as part of the EY phase 2 work is fully implemented.
- 3.8 Further work on the EICC sales strategy is required including looking at new business opportunities and this will be taken forward as a priority by the new Chief Executive.
- 3.9 It was highlighted in the report that current projections estimate the company will require a cash injection within quarter 1 of 2016. During the intervening period it is essential that cash flows are closely monitored to ensure that fluctuations in cash resources are appropriately managed.
- 3.10 The EICC are challenging the non domestic rates assessment for the conference facilities. The current forecast budget includes provision for the full annual amount of the rates notice of £1.6m. Any reduction in liability will improve the projected outturn position.

- 3.11 The company is also reviewing the existing cost model to identify further efficiencies and savings.
- 3.12 The Council has £4.77m set aside in the Expenditure Trust as a sinking fund for future capital expenditure requirements of the EICC. The revised business plan includes planned capital investment over the 5 years to 2018 of £0.547m annually to be met from the Trust. Cash funds may therefore be available to the EICC to support revenue activity without a further call on Council budgets, subject to appropriate approval. There would be an impact on future funds available to maintain the facility but could be reviewed as part of the revised business plan.
- 3.13 Inconsistencies between the accounting for indebtedness between the Council and the EICC have been identified. The EICC balance sheet shows a short term loan liability to the City of Edinburgh Council of £2.146m. This relates to a payment made to the company from the former Edinburgh District Council in March 1996. The former Council's records are being reviewed to confirm the basis on which the payment was made. At this time, the City of Edinburgh Council's accounts do not reflect an equivalent indebtedness and no repayment of this sum has been assumed by the Council.

## Measures of success

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- 4.1 The operation of the EICC within the approved business plan.

## Financial impact

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- 5.1 There are no financial implications directly arising from this report.

## Risk, policy, compliance and governance impact

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- 6.1 The process of reporting and senior management oversight of risk within major projects portfolio serves to strengthen the control environment and where appropriate prompt mitigating action.

## Equalities impact

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- 7.1 There is no direct relevance of the report's contents to equalities related issues.

## Sustainability impact

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- 8.1 There is no direct relevance of the report's contents to sustainability related issues.

## Consultation and engagement

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9.1 Not applicable.

## Background reading/external references

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[Governance of Major Projects](#) – Governance, Risk and Best Value, 14 August 2014

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## Links

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<b>Coalition pledges</b>	<b>P28</b> - Further develop our links with the business community by developing and implementing strategies to promote and protect the economic well being of the city
<b>Council outcomes</b>	
<b>Single Outcome Agreement</b>	All
<b>Appendices</b>	