

Economy Committee

10.00am, Tuesday, 28 June 2016

Proposed EDI Business Plan

Item number	7.1
Report number	
Executive/routine	
Wards	All

Executive Summary

Economy Committee is asked to note the proposed EDI Business Plan 2016-2018.

Links

Coalition Pledges

Council Priorities

[CP8, CP9, CP12](#)

Single Outcome Agreement

[SOA1](#)

Proposed EDI Business Plan

1. Recommendations

- 1.1 To note the proposed EDI Business Plan 2016-2018.

2. Background

- 2.1 EDI is a property development and investment company based in Edinburgh and was established in 1998 by the City of Edinburgh Council as an arms length organisation.
- 2.2 On 13 December 2012 the Council approved arrangements for the governance of arms length companies and the responsibility for the Council's property companies sits with the Economy Committee.
- 2.3 The EDI Business Plan 2015-2017 was considered by Economy Committee on [23 June 2015](#).

3. Main report

- 3.1 The proposed EDI Business Plan 2016-2018 is now presented to Economy Committee for noting.

4. Measures of success

- 4.1 The proposed EDI Business Plan includes targets for the period 2016-2018.

5. Financial impact

- 5.1 There are no direct financial impacts for the Council from the EDI Business Plan.
- 5.2 EDI are committed to support a dividend to the Council of £0.5m per annum.

6. Risk, policy, compliance and governance impact

- 6.1 This report and presentation fit within the Council's approach to governance of arms length companies.
- 6.2 EDI submit an annual assurance statement in line with the Council's requirements for assurance from arms length companies.

7. Equalities impact

- 7.1 There are no direct Equalities impacts arising from the EDI Business Plan.

8. Sustainability impact

- 8.1 There are no direct Sustainability impacts arising from the EDI Business Plan.

9. Consultation and engagement

- 9.1 The EDI Board are responsible for consultation and engagement in the development of the EDI Business Plan.

10. Background reading/external references

- 10.1 None.

Paul Lawrence

Executive Director of Place

Contact: Alison Coburn, Senior Executive Officer

E-mail: alison.coburn@edinburgh.gov.uk | Tel: 0131 529 3149

11. Links

Coalition Pledges

Council Priorities

CP8 - A vibrant, sustainable local economy

CP9 - An attractive city

CP12 - A built environment to match our ambition

Single Outcome Agreement

SOA1 - Edinburgh's economy delivers increased investment, jobs and opportunities for all

Appendices

1 – EDI Business Plan 2016-2018



EDIGROUP
CREATING INSPIRING SPACES

BUSINESS PLAN 2016-2018



Business Plan 2016 – 2018

Contents	Page
Executive summary	1
Review of 2015 performance	2
Creating inspirational places	3
Strategic context	4
Financial Plan	5
Risk Summary	6
Project objectives	
- Brunstane	8
- Craigmillar	9
- Granton	11
- India Quay	12
- Market Street	15
- Future Projects	16

Vision and Mission

The EDI Group Ltd:

EDI is a property development and investment business based in Edinburgh. Established in 1988 by the City of Edinburgh Council, EDI is a private company, owned by the Council and run as an arms-length operation.

Our vision is:

To build Edinburgh's world status, as an aspirational place to live and breathe.

We do this through our mission:

To maximise the positive impact of land & buildings in Edinburgh by creating inspirational spaces for workers, residents and global visitors.

Which is underpinned by our core values:

Caring	We care about Edinburgh and work closely with its communities to understand how our work can benefit them.
Sustainable	We consider the wider aspects of development taking into account infrastructure and amenities.
Prudent	We take care in providing for the future, we add value to areas and buildings.
Positive	We create improved environments for everyone who interacts with them.
Creative	We strive to provide creative and desirable buildings and spaces.

Executive summary

The 2015 financial results show a profit of £0.5m and retained reserves increasing to £2.5m which is a good outcome in the context of a year which focused on design progress and the marketing of projects with project completions taking place either side in 2014 and 2016.

Based on the solid preparations made in 2015 we look forward to seeing major progress in Craigmillar, completing the hotel on Market Street and beginning of our build to rent site at India Quay.

In Craigmillar we will complete land sales which will lead to the opening of two major new retail stores and supply of over 500 new homes. Our hotel in Market Street will go on site, be complete and open by the end of 2017, filling in one of the last gaps in the old town skyline. At Granton the objective is to see new homes occupied by the end of 2018 and to set in place a long term development plan. Our Build-to-rent scheme at India Quay will go on site during 2016 and we are also targeting the commencement of the office development. New projects are being agreed with CEC and with preliminary design expected to start later this year.

The opportunity for residential development stands out; across Granton, Brunstane and the new projects we have the opportunity to develop as many as 2,000 homes as part of our vision for making Edinburgh an aspirational place to live. With our Build-to-rent knowledge from India Quay and the Council's desire to use Build-to-rent as one tool to address the City's housing supply needs, the potential exists to establish EDI and the Council as a major supplier of desirable rented housing in Edinburgh and to generate a long term income stream.

Based on the completion of these projects we are targeting a profit (after tax) of £2m in 2016 and £1.5m in 2017 and £2.4m in 2018 to support dividends to the Council of £0.5m in each of 2016 and 2017.

Review of 2015

The financial performance for 2015 was better than expected and reflected the long term nature of EDI's projects with 2015 being a period which focused on design, planning and marketing. Compared to 2014 which included the results from a number of completed projects, the profit for the year was substantially reduced.

We had aimed for conclusion of two land sales in Craigmillar, but contract and planning delays pushed completion in to 2016. The negative impact has been more than offset by miscellaneous income of £2.2m arising from the balancing out of a number of related land and property transactions between EDI and Edinburgh Council over a number of years where EDI (through its subsidiary Parc Craigmillar Ltd) provided the Council with two new primary schools.

We had projected that the group reserves at the end of 2015 would be just under £1m, but due to the better than envisaged profit and a reduction in the pension fund liabilities, the outcome was reserves of £2.5m, an increase of £1m from 2014.

The delay in the land sales completions reduced the year end cash and the balance of £3.8m reflects investment of almost £3m across a range of projects progressing each in pursuit of our vision of creating great places in Edinburgh.

Since the end of the year, the first land sale in Craigmillar has completed and our Market Street hotel has gone on site. A number of land sales are on target to complete this year and our investment partner for the India Quay development will be on board before the end of the year as site works commence.

We therefore are budgeting for a profit in 2016 of £2.5m, a stronger balance sheet and the commencement of a regular dividend to the Council.

	2015 Actual £'000's	2015 Plan £'000's
Profit before tax	536	(1,298)
Retained Profits	2,515	953
Closing Cash Balance	3,821	4,401

Current and proposed projects

Craigmillar.	Having spent a number of years focusing on masterplanning and marketing, we are looking forward to five land sales completing in 2016 leading to new shops and housing commencing before the end of the year. We will carry out site infrastructure works for these and for future sites which we will market in 2017 and 2018.
Market Street	With the contractor due to be appointed in December 2015, the target is to complete the building by September 2017 ready for client fit out. The positive impact of the new building on the Old Town skyline should be evident by the end of 2016.
India Quay	The initial focus is on completing the PRS design for a planning submission with consent expected by mid 2016. This will be followed by ground works and then main construction before the end of the year. Two of the four housing blocks should be complete by late 2018. We are also targeting progress on the office and hotel with the key objective of securing pre-lets in 2016 leading to construction starts in 2017 and 2018.
Granton	Our view is that market conditions have altered to make residential development in the area viable so we will move to create 500 new homes along West Harbour Road over the next 4 to 5 years. The focus for 2016 will be to put in place a PRS scheme which will speed up supply and have a greater long term return but with a staged process of land sales to housebuilders as an alternative. This will be supported by a programme of improving public spaces. A strategy for the long term use of the industrial area along West Shore Road will be developed with CEC.
Brunstane	With capacity for over 1,000 homes, this site is a key part of Edinburgh's housing supply and development will also create public open space in this currently closed off area. The site is included in the LDP submitted by CEC for review by the reporter so we will prepare to obtain masterplan consent during 2016 and target two site sales (of about 200 units each) in 2017 and 2018.
New Projects	Two new surplus sites have been identified and it is clear that these have the potential to become housing with high quality amenities. During 2016 we will establish the development strategy for both these and then in 2017 obtain planning consent with the target of commencing construction on one site in 2018.

Strategic Context

Identifying New projects

A range of possible sites have been considered and reviewed and a small number have been identified as appropriate for EDI's remit. Discussions with CEC are continuing to clarify the timescales for release to EDI and the terms of transfer.

This Plan assumes only feasibility and design expenditure up to the point of obtaining planning consents.

Expanding our Build to Rent base

The new projects when combined with Granton and Brunstane have residential capacity of over 2,000 homes. There is an obvious potential for further Build to Rent developments building on our experience at India Quay and out of that the potential to establish a residential rental entity of sufficient scale to be viable and have a noticeable impact on the quality of rental supply in the City. The Council's overall approach to creating this and EDI's role within that needs to be addressed in the coming months.

Supporting the delivery of the City Deal

Edinburgh Council as part of The Edinburgh City Region is a key player on the proposed £1bn city deal. A successful outcome for the funding bid (which should be known by early 2016) will establish "An economically-focused infrastructure investment programme where funding will be rigorously targeted at maximising net economic growth". The proposal identifies a number of geographical areas to be targeted with investment including the waterfront and a number of sectors to be targeted including housing and economic regeneration.

Recognising EDI's past and current experience in these locations and sectors suggests that the company is ideally positioned to have a significant role to play in on-the-ground delivery. EDI will participate in the process of identifying suitable investment proposals with a view to these becoming active projects in 2017 and 2018.

Financial Plan

Key financial indicators

The table below sets out the key figures for the next three years.

- Turnover fluctuates but produces a consistent and robust level of gross profit across the three years.
- Profit before tax is projected to be around £2.5m in 2016.
- Overheads are projected to increase each year reflecting the need for increased staff numbers and resources to match the project workload.
- Dividends have been requested by CEC and provision has been made for £0.5m pa commencing in 2017.
- Cash balances fluctuate significantly both in year and at year ends, reflecting the development cycle of investment followed by a one-off return. Cash balances are not projected to go below £2m and should be over £9m at the end of 2018
- Allowing for dividends, Retained Reserves increase over the three years to £7m

	2014	2015	2016	2017	2018
	£'000's	£'000's	£'000's	£'000's	£'000's
Profit before tax	2,550	536	2,612	1,927	3,033
Retained Profits	1,569	2,515	4,027	5,085	7,001
Closing Cash Balance	7,054	3,821	3,186	7,463	9,568

Strategic Risks

Risks	Description
<ul style="list-style-type: none"> ➤ Political circumstances 	<p>Elections in 2016 and 2017 have the potential to create local instability and unexpected shareholder decisions.</p>
<ul style="list-style-type: none"> ➤ CEC & EDI re-organisation 	<p>While uncertainty remains this restricts the ability to optimise staffing resources and may lead to reputational issues with suppliers and partners.</p>
<ul style="list-style-type: none"> ➤ Council property strategy 	<p>The agreed strategy of surplus sites coming to EDI may be reviewed as part of the Council's responses to its strategy.</p>
<ul style="list-style-type: none"> ➤ Community Empowerment 	<p>It is likely that we will receive a significant increase in community pressure to release sites or restrict development.</p>
<ul style="list-style-type: none"> ➤ Retention / Recruitment of staff 	<p>We compete with the private sector and our projects will give staff strong experience.</p>
<ul style="list-style-type: none"> ➤ Lack of capital to invest 	<p>There is the potential for significant cash calls in support of Council strategy.</p>
<ul style="list-style-type: none"> ➤ Resourcing within CEC 	<p>Council restructuring may lead to delays in the processing of planning applications and land contracts.</p>
<ul style="list-style-type: none"> ➤ Project costs escalate 	<p>The shortage of construction companies in Scotland could reduce pricing competition.</p>
<ul style="list-style-type: none"> ➤ Local Development Plan 	<p>The strong opposing views on the efficacy of the LDP has the potential to reduce the viability or block some projects.</p>
<ul style="list-style-type: none"> ➤ Economic circumstances 	<p>The EU and Far East economic stresses could lead to reductions in local economic growth.</p>

Project summaries

Brunstane

2016 – 2018 Plan

With PAN submitted by the end of 2015, we will concentrate our effort on preparing a high quality masterplan that meets the company's aspiration in creating inspiring places. Community consultations and public relations will be a continuing feature to ensure positive messages are projected during the PPP process.

In tandem with our PPP process, it is expected that the LDP Reporter's report will be issued in February 2016 and the final LDP adoption by May 2016. We anticipate our PPP application will be submitted around then with a minded to grant secured by Autumn 16.

Marketing of Phase 1 Development will be after summer 2016 to secure a preferred bidder in good time for taking forward the detailed design and planning application for Phase 1 development.

2015 Achievements

- Site included in Proposed Edinburgh Local Development Plan
- Further technical due diligence work on access and crossings
- Commenced masterplan work
- PAN submitted (by Dec 2015)
- Maintaining position in LDP process

Objectives 2016

- Development strategy agreed
- Secure LDP Allocation
- Secure PPP Minded to Grant
- Commence marketing phase 1 development

Objectives 2017 -2018

- Conclude S75 Agreement
- Complete sale of Phase 1
- Complete sale of Phase 2

Craigmillar – Greendykes & Parklands

Project Description

The completion of the contracted residential land sale is expected in 2016 along with unconditional agreement for 21st Century Homes to provide 70 affordable housing. As the new homes progress we will put a further site on the market for a sale in 2017/18 to ensure a steady supply. Masterplanning of Greendykes South will take place in 2016 to obtain PPP for around 170 units.

To facilitate the residential sales we will carry out infrastructure works including the diversion of a culvert in 2016 and creating of a new community park in 2017/18.

CEC are leading the South East Wedge parkland where we will jointly fund the first phase to install footpaths and cycle ways.

2015 Achievements

- PPP consent for 500 units at Greendykes North
- In principle agreement with 21 CH for 70 units
- Concluded land sale missives for 158 units

Objectives 2016

- Residential land sale completed
- 21 CH agreement completed
- Divert the culvert
- First phase South East Wedge parkland completed
- PPP lodges for Greendykes South

Objectives 2017 -2018

- Further phase residential plots under offer
- PPP consent issued on Greendykes South
- Provide new community park

Craigmillar – Town Centre & Wauchope

2016 – 2018 Plan

It is anticipated that the retailers will receive their planning consent in early 2016 and then commence development of the new retail centre.

We are also targeting the completion of the two residential land sales early in 2016 and expect construction to commence during the year with completion of the majority of the 270 units by the end of 2018.

The remaining residential plots in the Town Centre will be held until the end of 2018 and phased. A family pub restaurant will complement the new homes and retail stores where we will look to identify an operator and agree a site sale within the Plan period.

We will carry our first phase of road infrastructure improvements in 2016, with provision of a new park, further road improvements and new town square planned for 2017/18.

2015 Achievements

- Planning consent for a new Town Centre Masterplan
- Land sales Missives concluded with 2 major retailers
- Planning applications lodged for new retail stores
- Land sale at Wauchope for 148 units expected
- Land sale in the Town Centre for 121 units expected

Objectives 2016

- Retail land and sales completed
- Residential land sales completed
- Enabling works & first phase road improvement completed
- Temporary Greening of School site completed

Objectives 2017 -2018

- New park opened
- New Town Square completed
- Two phases of road improvements complete
- Restaurant site sale concluded
- Further phase of residential under offer
- Niddrie Town Square completed

Granton

2016 – 2018 Plan

With market demand for housing in the area only slowly establishing, there is a need to assess the best strategy for a sustainable supply. This will include assessing the potential demand and viability of PRS. Depending on the outcome of this review, we anticipate that we will work towards a planning application for the Central Development Area in 2016 and consent in 2017/18.

With CEC we will also look to determine a mixed commercial and housing development strategy for the North Shore in 2016 and seek to bring forward a commercial development on Plot A.

A community Group are working with us towards taking over Madelvic House within 2016/18 which will help improve community integration.

2015 Achievements

- Partnership in principle for development of Madelvic 9
- Madelvic House strategic future established
- North Shore Plot A site investigation complete

Objectives 2016

- New housing supply strategy for Central Development Area
- Submit planning application for PRS development
- OR Market one residential site and have under offer
- Implement phase 2 of community use at Madelvic House
- Commence disposal strategy Madelvic 9 & Granton Station
- Conclude the development strategy for the North Shore

Objectives 2017 -2018

- Obtain planning and secure residential development on CDA
- Madelvic 9 & Station planning consent and sale completed
- Plot A planning consent and development commenced
- Madelvic House future determined
- Madelvic 7 landscaping carried out

India Quay - Residential

2016 – 2018 Plan

We will secure detailed consent for the 3 blocks of PRS and the block of affordable housing. Construction will be done through a single contract with the intention of enabling works and remediation commencing in mid 2016 and main construction starting in January 2017 through to June 2019.

The preferred bidder and EDI will work on the Property Management function and branding during this time to ensure a robust process is in place prior to the units being completed.

Marketing of the first PRS units will commence approx. 6 months prior to completion in mid 2018.

A profit of £2.2m is projected for the land transaction in 2016 with this being reinvested. The main profit is realised on final PC in 2019.

2015 Achievements

- Preferred funder for PRS selected in Oct 15 and legals by Dec
- PPP approved and S69 documented
- Stage 1 report for PRS approved
- RSL identified and start of Stage 2 design

Objectives 2016

- Submit AMSC for PRS blocks Feb 2016
- Commence remediation strategy July 2016
- Tender main construction contract
- Agree Property Management with funder
- Relocate temporary users
- Award main construction contract

Objectives 2017 -2018

- Complete Block W1/2 late 2018
- Monitor as Development Plan with funder

India Quay - Office

2016 – 2018 Plan

The original PPP was to construct an office and hotel on plot E2 but due to difficulties with the cultural end user this has been altered to respond to office demand. Planning favour more office development in this area.

We have therefore been designing a single office building of up to 130,000sqft which is in line with the planning brief for Fountainbridge.

The aim is to agree funding with the PRS funder based on a 50% prelet. The funder will pay for the Stage 2 design through to detailed planning consent. An AMSC application will be submitted in March 2016 following the PRS submission

2015 Achievements

- Ground Floor user identified
- Stage 1 report completed
- Funding partner identified

Objectives 2016

- Complete the funding package for Stage 2 fees
- Lodge the AMSC application by March 2016
- Achieve detailed consent by June 2016
- Identify 50% pre-let and agreed terms
- Agree cultural pre-let
- Commence tender for contract

Objectives 2017 -2018

- Start construction early 2017
- Monitor construction throughout 2017

India Quay - Hotel

2016 – 2018 Plan

The aim is to secure a management agreement or lease for a turnkey delivery of a 4 star plus hotel.

Discussions are taking place with hotel operators who have a brand identity which will support the sense of place. It is hoped that additional cultural uses can be accommodated.

Our focus will be to reach a deal with an operator during 2016 and carry out design work across 2017 leading to a land sale in 2018.

2015 Achievements

- Stage 1 report completed
- Early feasibility study with a 4 star operator completed

Objectives 2016

- Secure a land sale or lease or turnkey package
- Submit detailed design for the hotel with an operator
- Achieve a detailed consent by Dec 2016

Objectives 2017 -2018

- Land Sale 2018

Market Street

2016 – 2018 Plan

With the award of the construction contract scheduled for the end of 2015, our focus moves to managing the construction with the objective of ensuring that the building is completed on time and budget.

Our targets are to complete demolition of the existing structure by Spring 2016 with the main steel frame structure being erected at the beginning of June 2016. The main building envelope is due for completion during Spring 2017 with handover for fit out in October 2017

2015 Achievements

- Planning consent obtained with S75 agreed
- Main contract tendered
- Demolition contract tendered and start Jan 2016
- First stage building warrant submitted

Objectives 2016

- Demolition complete by end April 2016
- Assist HMI with fit out contract negotiations
- Monitor contractor programme and costs
- Main structure commenced by June

Objectives 2017 -2018

- Hand over completed building to operator in October 2017

New Projects

2016 – 2018 Plan

A review of CEC surplus sites has identified some that could be suitable to be undertaken by EDI. The objectives assume EDI is tasked with development.

2015 Achievements

- Two future sites identified and noted as suitable for EDI

Objectives 2016

- Land sale and development agreement with CEC
- Detailed planning consent on Project 1
- Powderhall development strategy agreed
- Masterplan and PAN on Project 2

Objectives 2017 -2018

- Construction started on project 1
- Project 1 building complete
- Funding partner agreement on Project 1
- Planning consent on Project 2
- Commence construction on Project 2

