

Housing and Economy Committee

10.00am, Thursday, 21 March 2019

City Strategic Investment Fund

Item number	8.6
Executive/routine	Executive
Wards	12 – Leith Walk
Council Commitments	2 , 46

1. Recommendations

- 1.1 It is recommended that the Committee:
- 1.1.1 agrees that the £1m allocated for cash flow reserves for the EDI Group Limited (EDI) that is no longer expected be required be released back to the City Strategic Investment Fund (CSIF);
 - 1.1.2 notes that the £2m allocated from the CSIF for tram design works is now not shown as being returned to the fund until 2025/2026, based on the full business case for the tram to Newhaven project;
 - 1.1.3 agrees to increase the maximum CSIF allocation for the restoration and refurbishment of Powderhall Stables from £500,000 to £850,000, subject to the same terms as the original allocation;
 - 1.1.4 agrees that this report be referred to the City of Edinburgh Council for final approval of the fund allocations; and
 - 1.1.5 agrees that it is now appropriate to undertake a wider review of the use of the fund, to ensure it is deployed to meet the priorities of the economy strategy, and wider city development and regeneration aims. A report on this review will come back to Housing and Economy Committee on 15 August 2019.

Paul Lawrence

Executive Director of Place

Contact: David Cooper, Service Manager, Development

E-mail: david.cooper@edinburgh.gov.uk | Tel: 0131 529 6233

City Strategic Investment Fund

2. Executive Summary

- 2.1 This report provides an update on CSIF. The Committee is recommended to agree that:
- 2.1.1 the £1m allocated from the CSIF to make provision for EDI cash flow issues be returned to the CSIF as it is no longer expected to be required; and
 - 2.1.2 the allocation for the Powderhall Stables be increased from £500,000 to £850,000 to enable the project to be fully-funded if a bid to the Regeneration Capital Grant Fund for £1.05m is successful. These decisions would increase the unallocated balance of the fund from £2.05m to £2.70m.
- 2.2 It is also noted that, based on the Tram to Newhaven business case, the £2m allocated for tram extension design works is now shown as being returned to the CSIF in 2025/2026. Should the project not be approved, then this allocation would be repaid earlier.
- 2.3 It is proposed to carry out a wider review of the use of the fund, to ensure it is deployed to meet the priorities of the economy strategy, and wider city development and regeneration aims.

3. Background

- 3.1 On [7 February 2013](#), the Council approved the creation of 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](#).
- 3.2 To date, CSIF funding has been committed for the following projects:
- 3.2.1 £2,166,861 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 the City of Edinburgh Council on [28 May 2015](#). The Park was completed in September 2017 and is now fully let. The Park is now projected to generate £145,000 of rental income for the Council annually with full repayment in 2032/33. Due to repayments made to date the balance now stands at £1,947,802;

- 3.2.2 £700,000 to fund the design of the replacement Meadowbank Stadium to Royal Institute of British Architects (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 (CIP). Following approval by Council for the Meadowbank Stadium project to proceed, this funding was not required as originally envisaged;
 - 3.2.3 £1.0m to make provision for any cash flow issues arising as part of the closure of EDI. This was agreed by the Housing and Economy Committee on [7 September 2017](#) and by the City of Edinburgh Council on [31 May 2018](#);
 - 3.2.4 £2.0m to fund the design of the tram extension to Newhaven up to RIBA stage 2. The commencement of stage 2 design funded by the CSIF was approved by the Transport and Environment Committee on [4 September 2017](#) (the CSIF is referred to as the Strategic Priorities Fund) with the City of Edinburgh Council giving final approval on [21 September 2017](#); and
 - 3.2.5 £500,000 towards the refurbishment of Powderhall Stables as work space and community space. This was agreed by the Housing and Economy Committee on [22 March 2018](#) and by the City of Edinburgh Council on [3 May 2018](#).
- 3.3 The projected uncommitted balance of the CSIF at the end of 2018/19 therefore stands at £2,052,198.

4. Main report

Tram extension

- 4.1 As set out above, £2m from the CSIF has been allocated to fund the design of the proposed tram extension.
- 4.2 The report in which the £2m was allocated stated that should the tram extension be approved following completion of Stage 2 and the presentation of a Final Business Case, the majority of design costs could be capitalised allowing for the CSIF to be replenished. The report did not specify how or if the CSIF would be replenished in the case that the tram extension was not approved.
- 4.3 Based the financial modelling for the Tram to Newhaven business case, it is now estimated that the CSIF will not be replenished until 2025/2026. This is because a review of accounting treatment has determined that it is not possible to

capitalise the design costs and the CSIF will instead be replenished from surpluses generated by the extended tram line once it is operational.

- 4.4 The delay in the return of the £2m is not expected to negatively impact on any projects currently approved or proposed to be funded from the CSIF. However, the ability of the CSIF to invest in additional projects will be constrained until the fund is replenished in 2025/2026.

EDI transition

- 4.5 As set out above, £1m from the CSIF has been allocated to make provision for any cash flow issues relating to the closure of EDI.
- 4.6 Most EDI employees were made redundant by June 2018 and the lease of offices at 3 Cockburn Street ended in the same month. The two remaining EDI employees were made redundant in October 2018. The day-to-day operating costs of EDI are therefore now minimal. The sale of land at Brunstane is in the process of being completed, while work to sell land at Greendykes is underway. These events have improved the EDI cash flow position. It is therefore considered that the £1m allocated from the CSIF to address any cash flow issues is no longer required and can be released.

Powderhall Stables

- 4.7 As set out above, £0.5m from the CSIF has been allocated for the refurbishment of Powderhall Stables as work space and events space, subject to additional grant funding being secured.
- 4.8 When this was originally reported to Committee it was estimated that the building would be able to support between 21 and 56 full-time equivalent jobs if fully-let. More detailed figures have been prepared as part of the design and funding process. It is now projected that it will directly support 50 jobs (at the higher end of the original range), not including jobs created by the Operating Partner to run the building or jobs associated with the function spaces, adding £2.5m of gross value added per annum. In addition it has become apparent that the building could also be used for training activity which would be of additional economic benefit in terms of skills and employability.
- 4.9 Since the last report there has also been public consultation on the Powderhall Stables project has received strong support from the local community and from business consultees. There remains significant pressure on the supply of affordable business space and creative space in Edinburgh, with St Margaret's House, the home of Edinburgh Palette, expected to close in 2019/20.
- 4.10 A bid to the Scottish Government's Regeneration Capital Grant Fund (RCGF) for £1.05m was made in 2018. This was considered to be a prudent level of funding to bid for given the scale of previous successful bids and the overall level of funding available for all RCGF-backed projects. The bid was successful at round one with announcements on round two pending.

- 4.11 The costs of the Powderhall Stables project were estimated in March 2018 at £1.5m. Work undertaken since then has indicated that a more likely figure is £1.9m. It is therefore recommended that the CSIF allocation for the Powderhall Stables project be increased from £0.5m to £0.85m to provide sufficient budget for the project to proceed should the RCGF bid be successful.
- 4.12 It is considered unlikely that the full £850,000 would be required. This is as the budget includes £228,919 of contingency funds; some design costs have already been met from revenue budgets; the budget include includes items such as external works where some costs may be able to be shared with the adjacent housing development; and the Council is continuing to bid into other funds to attempt to reduce the level of Council funding required. The Council has progressed through the first round of grant applications to Historic Environment Scotland and Edinburgh World Heritage Trust; additional grant applications will be made if the project is confirmed to continue. The £850,000 therefore represents the maximum contribution of the Council to the project in a worst case scenario. Should the project proceed, the Council will seek to identify opportunities to value engineer the project to reduce costs.
- 4.13 Assuming £850,000 from the CSIF is spent on this project it will result in a £1.9 million pound investment into a Council asset which would result in a considerable improvement in the book value of the asset. This project is not dissimilar to the East Hermiston Business Park project where it is anticipated that once the CSIF has been replenished that the Council will be left with an income generating asset.
- 4.14 Increasing the CSIF allocation for Powderhall Stables to £850,000 would extend the projected final repayment date to 2037/2038, albeit this would wholly depend on the level of rent that could be secured from the building. As this allocation is an extension of an existing allocation rather than an entirely new allocation it is proposed that the allowance for inflation of 3% per annum agreed by the Housing and Economy Committee on 7 June 2018 would not be applied.
- 4.15 A further report to Housing and Economy Committee will be provided, once the outcome of the RCGF bid is known, to allow a final decision to be taken before moving the matter to Council for final decision.

Review of CSIF

- 4.16 It is proposed that a wider review of CSIF be carried out to ensure that the scheme continues to align with the priorities of the economy strategy, and wider city development and regeneration aims. This review will be undertaken shortly and will be reported to Housing and Economy Committee on 15 August 2019.

5. Next Steps

- 5.1 Should the Council's bid for £1.05m from the Regeneration Capital Grant Fund be successful, the Powderhall Stables project would in principle be fully funded. The Council would then take a decision on whether to proceed with the project.

6. Financial impact

- 6.1 As set out above, the projected uncommitted balance of the CSIF at the end of 2018/2019 is £2,052,198.
- 6.2 The release of a further £350,000 towards the Powderhall Stables project and the return to the CSIF of the £1m allocated to make provision for EDI cash flow issues would increase this balance to £2,702,198.
- 6.3 As set out above, the £2m allocated to tram extension design works is shown as being returned to the fund in 2025/2026, based on financial modelling for the tram to Newhaven full business case, subject to the tram extension proceeding. The funding allocated to the East Hermiston Business Park is projected to be fully recouped by 2032/2033 and the funding allocated to Powderhall Stables by 2039/2040.
- 6.4 As set out in appendix one, at no point are the cash reserves of the CSIF projected to fall below £2.99m. Until further allocations are made, from 2021/22 onwards the cash reserves of the CSIF are projected to steadily increase each year.

7. Stakeholder/Community Impact

- 7.1 Consultation on the proposals for Powderhall Stables has been undertaken as part of the wider consultation on the future of the Powderhall Waste Transfer Station, albeit with the caveat that the project may not proceed. The local community is strongly supportive of the proposals for the building.
- 7.2 The Council's Investment Estates service has carried out soft market testing to assess interest in the Powderhall Stables development from potential operators.
- 7.3 The proposed works to Powderhall Stables would improve the accessibility and energy efficiency of the building.

8. Background reading/external references

- 8.1 City Strategic Investment Fund: project repayment terms report to the Housing and Economy Committee on [7 June 2018](#)

9. Appendices

9.1 Appendix 1 – City Strategic Investment Fund: projected cash flow.

Appendix 1 – City Strategic Investment Fund: projected cash flow

Project	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
East Hermiston Business Park	(£42,113)	(£1,277,659)	(£719,084) ^A	£91,054 ^B	£145,000	£145,000	£145,000	£145,000
EDI cash flow reserve	–	–	–	£0	–	–	–	–
Meadowbank Stadium	–	–	£0	–	–	–	–	–
Tram design works	–	–	–	(£2,000,000)	–	–	–	–
Powderhall Stables	–	–	–	–	(£680,000)	(£170,000)	£50,000	£50,000
Balance at year end	£7,457,887	£6,180,228	£5,461,144	£3,552,198	£3,017,198	£2,992,198	£3,187,198	£3,382,198
Project	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
East Hermiston Business Park	£145,000	£145,000	£145,000	£145,000	£145,000	£145,000	£145,000	£145,000
EDI cash flow reserve	–	–	–	–	–	–	–	–
Meadowbank Stadium	–	–	–	–	–	–	–	–
Tram design works	–	–	£2,000,000	–	–	–	–	–
Powderhall Stables	£50,000	£50,000	£50,000	£50,000	£50,000	£50,000	£50,000	£50,000
Balance at year end	£3,577,198	£3,772,198	£5,967,198	£6,162,198	£6,357,198	£6,552,198	£6,747,198	£6,942,198
Project	2031/32	2032/33	2033/34	2034/35	2035/36	2036/37	2037/38	2038/39
East Hermiston Business Park	£145,000	£62,802	–	–	–	–	–	–
EDI cash flow reserve	–	–	–	–	–	–	–	–
Meadowbank Stadium	–	–	–	–	–	–	–	–
Tram design works	–	–	–	–	–	–	–	–
Powderhall Stables	£50,000	£50,000	£50,000	£50,000	£50,000	£50,000	£50,000	£50,000
Balance at year end	£7,137,198	£7,250,000	£7,300,000	£7,350,000	£7,400,000	£7,450,000	£7,500,000	£7,550,000
A – Net expenditure based on expenditure of £767,659, partially offset by income of £48,575.								
B – Net income based on income of £145,000, partially offset by expenditure of £53,946.								