



Subsidiary Companies

Purpose of Policy University of Edinburgh policy on the governance of subsidiary companies, responsibilities of the directors of subsidiary companies and the financial management of subsidiaries.

Overview Guidance on what is best practice in corporate governance, how subsidiary companies should be structured including memorandum of understanding with the University, the management of subsidiary company finances and the process to follow when setting up a new subsidiary company.

**Scope:
Mandatory Policy** All staff that are involved with setting up, managing or trading with a subsidiary company.

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1. Introduction	<p>The University undertakes a number of its activities through subsidiary companies. Subsidiary companies are companies that are controlled by the University, but are separate legal entities in their own right. This paper sets out, in general terms, issues that are relevant in the formation and maintenance of a subsidiary company. For a list of the University's subsidiary companies, see Appendix 1.</p> <p>The reader is referred to a separate Guidance Note on Commercial Activities, which deals with the circumstances that would - or could - lead to the decision to set up a new subsidiary company.</p> <p>The reader should also note the distinction made, in University parlance, between a subsidiary company, a spin-out company, and a start-up company.</p> <ul style="list-style-type: none">• A spin-out company is one which is formed to take advantage of intellectual property generated through the academic work of a member of staff, and in which the University will take an equity stake.• A start-up company is similar to a spin-out, except that it arises from student activity and does not usually involve the University owning shares. Neither spin-outs nor start-ups are considered further in this Guidance. http://www.ed.ac.uk/edinburgh-research-innovation/commercialising-research• Subsidiary companies are regulated by the Companies Acts; the most recent being the Companies Act 2006. <p>Best practice in relation to setting up new subsidiary companies in the UK Higher Education sector was first published by HEFCE in the late 1990's and subsequently updated in 'Related Companies: Guidance for Higher Education Institutions' in December 2005.</p>
2. Corporate Governance	<p>In November 2010 the Institute of Directors (IoD) published guidance on corporate governance for private/unlisted companies in a paper entitled 'Corporate Governance Guidance and Principles for Unlisted Companies in the UK':</p> <p>https://www.iod.com/Portals/0/PDFs/Campaigns%20and%20Reports/Corporate%20Governance/Governance%20code%20for%20unlisted%20companies.pdf</p> <p>The guidance sets out 14 principals that provide appropriate guidance on corporate governance to directors and company secretaries of private/unlisted companies. The 14 principals should be followed by all subsidiaries, except in cases where it can be shown that a principal does not apply.</p> <p>Each subsidiary company should have a schedule of delegated authority which sets out authorities appropriate for the circumstances of that company.</p>



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3. Risk and Responsibility	<p>The University of Edinburgh is recognised by HM Revenue & Customs (HMRC) as having charitable status. This confers certain advantages on the University, particularly in relation to taxation. However, it also brings certain risks and responsibilities. Whilst it is possible for certain types of trading ("primary purpose" trading) to be undertaken from within the University, much of the trading that a university would wish to undertake is non-primary purpose trading. This is carried out in a separate legal entity, so that the University's assets - which were provided for charitable purposes - are not placed at risk by undertaking such commercial activities.</p> <p>On the other side of the coin, operating through a subsidiary brings responsibilities. A company must operate at arm's length from its parent University - so it must meet directly all costs of its operation, including property costs, utilities and any support services provided. The University regulates the relationship between a subsidiary and itself by means of a Memorandum of Understanding.</p>
4. Directors	<p>A company is overseen by a Board of Directors appointed for the purpose, who should meet at appropriate intervals throughout the year. These will be senior officers of the University, and both senior support staff and senior academic staff may be involved, depending upon the nature of the Company's activities. It is possible for the Board to seek to appoint persons with appropriate skills and experience from outside the University, but all directorships are subject to the approval of the University Court. A Company director carries onerous responsibilities in respect of the Company and, when acting as such, an individual must pursue the best interests of the Company. This could lead to a situation in which a conflict of interest arises, and directors have a responsibility to draw attention, as soon as possible, to any such conflicts that arise.</p> <p>Directors are not usually remunerated for their role as directors of University subsidiaries.</p> <p>Directors are identified and nominated through the Company. Their appointment is ratified by the University Court.</p> <p>A Company Secretary will also be appointed, also requiring ratification by the University Court.</p> <p>The University maintains Directors' and Officers' liability insurance for each of its subsidiaries.</p>

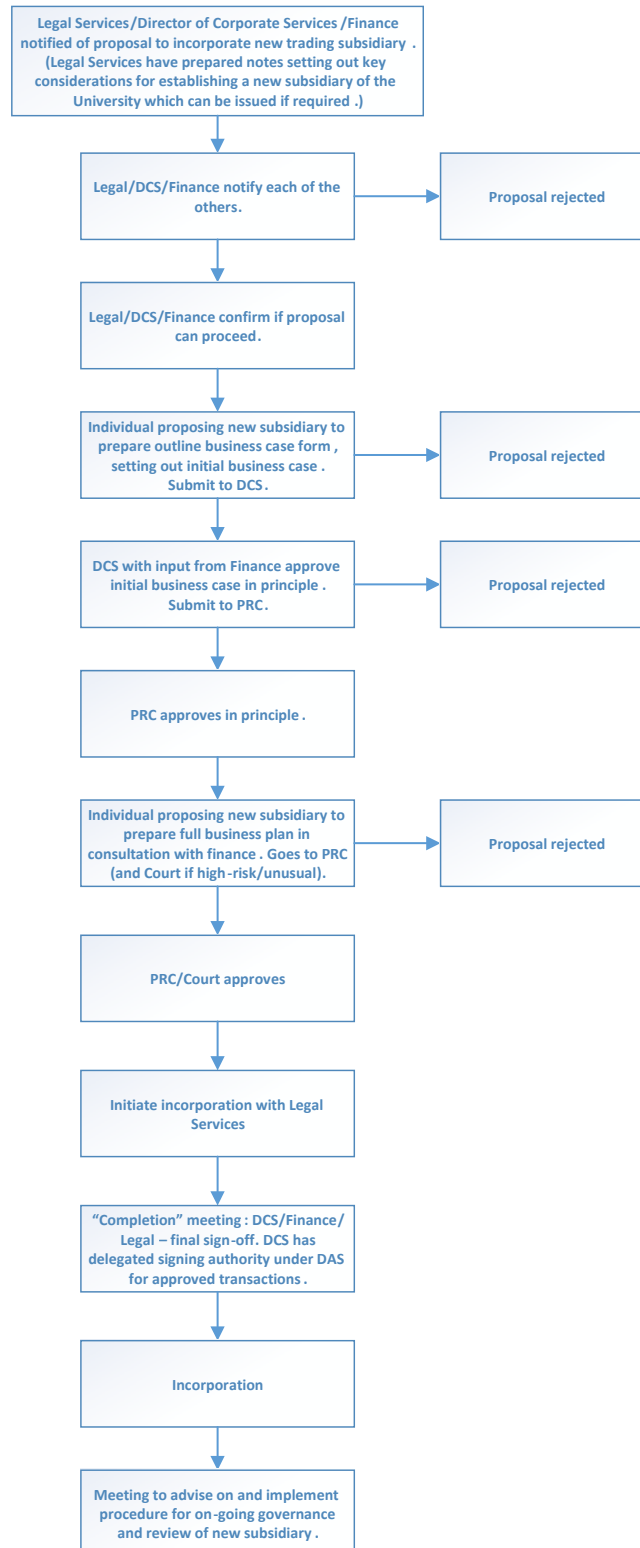


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5. Nominated Officer	<p>In a University context, it is good practice to identify a Nominated Officer for each subsidiary. The Nominated Officer cannot be a director of the subsidiary in question (though may act as Company Secretary). He/she represents the University's interest and his/her presence at Board meetings allows the directors to set aside their University responsibilities, and speak and act freely in pursuit of the Company's objectives. The existence of this role thus facilitates good corporate governance between the University and the subsidiary.</p> <p>The Nominated Officer is appointed by the University Court. He/she liaises with the University's Director of Corporate Services, who serves as the management conduit, linking subsidiary company to the University Court.</p>
6. Memorandum of Understanding	<p>The relationship between the University and each subsidiary is regulated via a Memorandum of Understanding (MoU). MoUs deal with corporate governance issues and sets out what the Company's objectives and obligations are. For further information on corporate governance, refer to the Governance and Strategic Planning and Internal Audit web sites.</p>
7. Financial management	<p>The financial management of subsidiaries is overseen by the University's Finance Department, though in practice, financial management may be carried out either by Finance Department staff, by ERI or by dedicated staff locally within the Company. Monthly management accounts, quarterly forecasts and other financial information will be sought by the Finance Department.</p> <p>Each Company is responsible for developing and maintaining its own Business Plan, which will support the Company's operational strategy. Companies are also expected to have exit strategies in place, so that an orderly wind-down of an activity, if and when needed, can be properly effected.</p> <p>Subsidiary companies must act at arm's length from the University. This means that the all services or assets used must be paid for at a rate that does not amount to the University providing a financial subsidy to the Company. HMRC has regard to transfer pricing rules, and has also indicated that it expects subsidiary companies to demonstrate this arm's length arrangement by generating an appropriate profit. Should a subsidiary company wish to borrow money to finance its activities, it must approach the University immediately. Borrowing directly from the marketplace is not permitted without the express approval of the University's Director of Finance.</p> <p>Subsidiary companies may elect to gift-aid all, or part of their taxable profits to the University, and thereby legitimately avoid becoming liable for Corporation Tax.</p> <p>Subsidiary companies must have an annual audit by the University appointed auditor.</p>

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8. Setting up a subsidiary company



Legal Services have produced a suite of template documents to be used when considering setting up a new subsidiary from notes of advice e.g. 'Pros and Cons of



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	<p>setting up a subsidiary company' to pro forma templates e.g. MoU between UoE and the subsidiary.</p> <p>Subsidiary Companies Information</p>
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9. Appendix 1: List of Subsidiary Companies as at 28/04/2017	Company	Activity	Finance Contact
	UoE Accommodation Limited	Non-student lettings & the provision of nursery childcare services.	Claire Barnish
	UoE Utilities Supply Company Limited	Provide utility services to the University.	Jess Wright
	UoE HPCx Limited	Provision of high-performance computing services.	Lynne Ramsay / Arthur Trew
	FloWave TT Limited	Provision & operation of wavetank facilities for the testing of marine energy & other devices in simulated wave & tidal current conditions.	Tulay Avsar
	Edinburgh Research & Innovation Limited	Commercialisation of the world-class research & academic expertise at the University to potential funders, collaborators, licensees or investors.	Chris Cope
	Edinburgh Technology Transfer Centre Limited	Company is dormant.	Chris Cope
	Edinburgh Technology Fund Limited	Venture Capital for early stage high technology developments.	Chris Cope
	Research into Results Limited	Delivery of research & project management services in the area of international development.	Tulay Avsar
	UoE Deaconess Limited	Investing & operating student accommodation property.	Laura Robertson
	Sunnergos Innovations Ltd	Commercial exploitation of intellectual property arising from research.	Iain Reid
	Edinburgh University Press Limited	Publication of educational books & journals.	Jan Thomson / Timothy Wright
	Old College Capital	Early & mid-stage investments into selected companies that emerge from the university.	Chris Cope



Subsidiary Companies

	Roslin Cells Limited	Stem Cell Research	enquiries@roslin incells.com
In addition to the above The University of Edinburgh Development Trust, a charity registered in Scotland, is classed as a quasi subsidiary.			

28th April 2017



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Document control

Author	Laura Robertson
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Signature of approver	
Date approved	
Section responsible for policy maintenance & review	Financial Information, Reporting & Strategy Team (FIRST)

Change Control record

Approval date	Amendment made	Approved by:
11/1/2019	v1.1 update contact details for Finance helpline	n/a