

10.00am, Thursday, 27 October 2016

Lothian Buses – Appointment of Executive Directors

Item number 7.3

Report number

Executive/routine

Wards

Executive Summary

Lothian Buses wishes to appoint up to three new Executive Directors to its Board to replace Executive Directors who have left, or are shortly to leave, the business. The appointment of Executive Directors is a consent matter reserved to City of Edinburgh Council under the shareholder agreement. This paper seeks consent for these appointments.

Links

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Single Outcome Agreement

Lothian Buses –Appointment of Executive Directors

1. Recommendations

- 1.1 The Council:
- 1.1.1 agrees to the appointment of Sarah Boyd and Nigel Serafini to the Lothian Buses board; and
 - 1.1.2 notes that recruitment for a further Executive Director will take place over the coming months and delegates authority to the Chief Executive, in consultation with the Convener and Vice Convenor of the Transport & Environment Committee, to approve this appointment in due course on behalf of the Council.

2. Background

- 2.1 The Articles of Association of Lothian Buses, in accordance with the Transport Act 1985, direct that Lothian Buses must have a minimum of three Executive Directors, and up to four Executive Directors, appointed by the Directors (Executive and Non-Executive) of Lothian Buses, subject to reasonable consultation with the Council as Majority Shareholder.
- 2.2 The Majority Shareholder Agreement provides that the appointment of Executive Directors is a matter which requires the consent of the Council.

3. Main report

- 3.1 Lothian Buses currently has three Executive Directors:
- Richard Hall, Managing Director
 - Bill Devlin, Engineering Director
 - Norman Strachan, Finance Director
- 3.2 Bill Devlin and Norman Strachan will be leaving the business in January 2017. To ensure good governance and maintain operating capability, Lothian Buses requires to appoint two Executive Directors to replace them. The appointments of Executive Directors will be effected upon the resignations of Bill Devlin and Norman Strachan respectively, to maintain the requisite minimum three Executive Directors.

- 3.3 As at January 2015, the top level managerial structure of Lothian Buses had 14 staff, with a total remuneration of £1.74m. As part of a planned restructure of the management team, it is proposed that the new senior structure will have a total remuneration of £1.31m, a reduction of £430k. This will mostly be achieved through the removal of bonus payments for staff and recruiting successors at lower salary levels.
- 3.4 As part of the restructuring, on the recommendation of its Remuneration Committee, Lothian Buses wishes to appoint the following Executive Directors:
- Nigel Serafini, currently Head of Commercial, as Commercial Director; and
 - Sarah Boyd, currently Head of Operations, as Operations Director.
- 3.5 Council should note that there has been no formal advertising of these roles. However, in advance of this recommendation, Lothian Buses took a number of steps to assess their suitability for the positions, and enable the Remuneration Committee and Board to be satisfied that they are the correct appointees:
- 3.5.1 During the absence of an Executive Director, they both undertook his duties. They were set objectives to measure their performance, and these were assessed by Jim McFarlane as Chair and Interim General Manager.
- 3.5.2 The job descriptions for these roles were reviewed by the Managing Director in May 2016 based on his industry experience. Job descriptions for Directors and Heads of Function are assessed for validity and benchmarked against industry norms by KornFerry Hay, (previously Hay Group), the compensations and benefits professional service firm; this process is overseen by the Remuneration Committee.
- 3.5.3 The Managing Director reviewed the performance of the two proposed appointees and also received feedback from Board members on their performance and took soundings on comparisons with talent available in the industry as a whole; he also took feedback from the wider executive team.
- 3.5.4 Based on performance reviews, benchmarking and feedback, the business believes that both proposed appointees are the most competent, experienced and proven candidates in the market to undertake the critical roles of Operations and Commercial Director respectively.
- 3.6 As part of the new structure, it is proposed that a fourth Executive Director, a Finance Director, will be sought for the business. The process for this will commence shortly. Following the recommendation of the preferred candidate, the Council will be asked to consent to the appointment. It is proposed that once recommended by the Board of Lothian Buses, authority be delegated to the Chief Executive, in consultation with the Convener of the Transport & Environment Committee, to approve this appointment.
- 3.7 With regard to the timings of the relevant resignations and appointments, if approved, it is proposed that Nigel Serafini be appointed to the Board immediately,

with Sarah Boyd and any fourth Executive Director joining the Board once Bill Devlin and Norman Strachan leave the business in January 2017.

4. Measures of success

- 4.1 These appointments will strengthen the resilience and experience within Lothian Buses, ensuring the success of the business which relies on their continuing expertise to continue to serve the people of Edinburgh and the Lothians.

5. Financial impact

- 5.1 The Executive team is focused on reducing cost overheads. On a like for like basis the salary costs overall for the Executive Directors and Heads of Functions will have fallen by nearly 25% between January 2015 and October 2016. The Remuneration committee have approved salaries that contribute to this overhead reduction.

6. Risk, policy, compliance and governance impact

- 6.1 The appointment of Executive Directors is critical to the governance of Lothian Buses. Failure to ensure the requisite minimum of three Executive Directors would cause difficulties for Lothian Buses to trade.

7. Equalities impact

- 7.1 None.

8. Sustainability impact

- 8.1 Not applicable.

9. Consultation and engagement

- 9.1 Prior to formal submission of this report, Lothian Buses has consulted with Councillor Lesley Hinds, Transport Convenor, Andrew Kerr, Chief Executive and Paul Lawrence, Executive Director of Place.

10. Background reading/external references

- 10.1 None.

Paul Lawrence

Executive Director of Place

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11. Links

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Appendices