

# Transport and Environment Committee

10.00am, Thursday, 20 June 2019

## Annual Update on Council Transport Arms Length Companies

Executive/routine	Executive
Wards	All
Council Commitments	N/A

### 1. Recommendations

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- 1.1 Transport and Environment Committee is asked to:
  - 1.1.1 Note the progress of the three Council arms length companies (Transport for Edinburgh (TfE), Edinburgh Trams Limited (ETL) and Lothian Buses (LB) over the past 12 months; and
  - 1.1.2 Refer this report to Governance Risk and Best Value Committee for noting, as part of the Council's governance arrangements.

#### Paul Lawrence

Executive Director of Place

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## Annual Update on the Council Transport Arms Length Companies

### 2. Executive Summary

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- 2.1 This report sets out the progress made by TfE, ETL and LB over the last 12 months and is reported in line with the Council's governance arrangements, which require an annual update on performance of arms length organisations. This is the first report on the Transport companies.

### 3. Background

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- 3.1 On [22 August 2013](#), in establishing the arrangements for the operation of the new Edinburgh Tram, Council approved the establishment of TfE. This company now holds the Council's shareholding in both LB and ETL. This shareholding is as follows: 100% of ETL and 91.01% of shares in LB (with the balance owned by East Lothian, West Lothian and Midlothian Councils).
- 3.2 The most recent update on the three companies was considered by Transport and Environment Committee on [17 January 2016](#).

### 4. Main report

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- 4.1 Annual company reports are attached for TfE (appendices 1 and 2), ETL (appendix 3) and LB (appendix 4).
- 4.2 The companies shared vision is 'to provide world class, integrated, environmentally-friendly and socially-inclusive transport which plays a central role in the future prosperity of Edinburgh and the Lothians.
- 4.3 In 2018 this group of companies carried over 126.5 million passengers, with a total revenue of £176.5m, returning £7.691m in dividends to its Local Authority owners in 2018.

#### TfE

- 4.4 Appendix 1 summarises the financial arrangements and service delivery arrangements. These include:
- 4.4.1 Fulfilling corporate responsibilities and obligations;

- 4.4.2 Leading on “in house” tram advertising, for two of the three licenses;
  - 4.4.3 Delivery and development of The Edinburgh Cycle Hire Scheme;
  - 4.4.4 The development and delivery of Edinburgh City Wayfinding;
  - 4.4.5 The development and delivery of a Driver Innovation Safety Challenge;
  - 4.4.6 Festival transport Co-ordination;
  - 4.4.7 Support ETL’s move to ‘operate and maintain’ and Tram to Newhaven; and
  - 4.4.8 Coordination of the Council’s response for Operations Unicorn, Kingfisher and Forth Bridge in terms of contingency planning.
- 4.5 The Council approved an amendment to the Shareholding Agreement for TfE on [2 May 2019](#).

#### **ETL**

- 4.6 ETL has been operating effectively since 2018, with improving annual performance.
- 4.7 ETL continues to be recognised in the industry for performance excellence, alongside service improvements being made to maintain and improve performance including:
- 4.7.1 Reduced journey times;
  - 4.7.2 Increased number of passenger journey’s;
  - 4.7.3 Supporting events and introducing night trams on Saturdays through the summer festival and Edinburgh’s Hogmanay; and
  - 4.7.4 Excellent customer satisfaction.
- 4.8 Until 2018, ETL was managed as an ‘operator only’ organisation however Transport and Environment Committee on [6 December 2018](#) approved a change to the operating agreement. This means that moving forward ETL will also be responsible for operating and maintaining the system.
- 4.9 A summary of ETL’s performance in 2018 is included in appendix 2.

#### **LB**

- 4.10 LB is extremely successful and is recognised and valued by the Edinburgh public and was awarded Scottish Public Transport Operator of the Year in 2018, alongside other award recognition.
- 4.11 Highlights for LB in 2018 include:
- 4.11.1 Maintaining strong links with communities and developing new relationships to promote active travel;
  - 4.11.2 Turnover increased, in spite of challenging operating conditions;
  - 4.11.3 Introduction of new services and changes to existing services to better deliver customer needs;
  - 4.11.4 Investment has been made in driver training; and

4.11.5 Introduction of new buses, which were made in Scotland.

4.12 A full report on LB's review of 2018 is included in appendix 3.

## **5. Next Steps**

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- 5.1 It is recommended that this report be referred to Governance Risk and Best Value Committee for noting.
- 5.2 The LB Business Plan is due to be submitted to the Council in September 2019 and will be reported to Transport and Environment Committee on 5 December 2019.
- 5.3 The next annual update on the Transport arms length companies will be scheduled in line with the company annual performance reporting arrangements and will be reported to both Transport and Environment and Governance Risk and Best Value Committees in 2020.

## **6. Financial impact**

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- 6.1 There are no direct financial impacts arising from this report for the Council.

## **7. Stakeholder/Community Impact**

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- 7.1 The Boards of TfE, ETL and LB meet regularly to review the activities and performance of the individual companies. The Council is represented on the TfE Board by four Non-Executive Director Elected Members and an Observer with Officer Observers on the Boards of ETL and LB.

## **8. Background reading/external references**

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- 8.1 None.

## **9. Appendices**

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- 1. TfE Annual Report
- 2. TfE Strategic Report
- 3. ETL Annual Report
- 4. LB Annual Report

## **FOR BOARD AND COMMITTEE APPROVAL**

### **Transport for Edinburgh Ltd**

### **Annual Company Report 2018**

#### **Executive Summary**

1. The Strategic Report within the TfE 2018 Audited Accounts covers the three key elements of business plan, financial information and performance indicators. The purpose of this covering report is to summarise and highlight the TfE outputs and service delivery in 2018.
2. Transport for Edinburgh (TfE) is the parent company of Lothian Buses (LB) and Edinburgh Trams (ET), Edinburgh's municipally owned public transport companies. TfE holds the City of Edinburgh's Shareholding in these companies and is itself wholly owned by CEC. TfE provides the "single financial entity" that ensures the municipally owned companies cannot be considered as being in competition and provides a framework for integration across modes. The relationship between TfE and CEC is governed by The Shareholder Agreement dated 28 October 2013. The relationships within The Group are dealt with by a separate Shareholder Agreement also dated 28 October 2013, The Tram Operating Agreement and The Articles of Association of The Companies.
3. The TfE Vision is: "To provide world class, integrated, environmentally-friendly and socially-inclusive transport which plays a central role in the future prosperity of Edinburgh and the Lothians".
4. The TfE Group reports by calendar, not fiscal, years. In 2018 The TfE Group carried over 126.5 million passengers, with revenue of £176.5M, making a £6.8M net loss, returning £7.691M in dividends to its Local Authority owners and investing some £11.5M in new fleet and equipment.

#### **Parent Company**

5. As Parent Company in 2018 TfE has continued to oversee the governance of the municipally owned companies. The 2018 Audit Report is a "clean audit" Report and TfE itself remains a "going concern."
6. On the 6 December 2018, The Transport and Environment Committee approved recommended changes to the Tram Operating Agreement. These changes handed responsibility for, and the costs of, tram maintenance to ET with support from TfE. The changes included a higher access fee for use of the trams, track and depot. This decision was taken on the basis that; ET was consistently performing ahead of budget and after more than 4 years of operations, ET was sufficiently mature to take on the additional responsibilities to drive improved value for money and tighter contract management. The 2018 TfE £6.8M loss is incurred because of these changes.
7. To ensure that the cash flow position of ET is secure during the implementation of these changes, CEC purchased £8.8M of B shares in the company in 2018. This effects the balance sheet, not profit and loss.

8. In 2018 TfE repaid in full the £1M operating loan through existing back to back arrangements, that was made available to ET in 2014 to ensure ET cash flow at the commencement of operations,

9. In 2018 The LB Audit and Risk Committee with the agreement of their Auditors (Scott-Moncrieff) took a prudent decision to revise depreciation calculations for the existing fleet. This had an adverse effect on the LB balance sheet to the value of £7.69M

10. 2018 was the second year of the 5-year Strategy for Delivery 2017 – 2022, unanimously approved by the Transport and Environment Committee in January 2017 and the second year of the 3-year Business Plan endorsed by the TfE Board and Transport and Environment Committee in 2017.

11. In 2018, having paid on all revenue, dividends and loans generated for, or payable to CEC, totalling some £8.5M and delivering services to the value of some £2M, TfE received a £400K grant to provide services for the coming year.

### **Other TfE Outputs and Service Delivery in 2018**

12. In addition to fulfilling Parent Company and Shareholder responsibilities TfE undertakes other specific tasks, roles and responsibilities, either delegated, or covered by separate MoUs, in accordance with the purpose of the company set out in the 2013 Shareholder Agreement. In 2018 these included:

13. **Tram Advertising** TfE leads on generating tram advertising revenue from 2 of the 3 licenses, for internal and external advertising, having taken this “in house” in late 2017. This generated some £665K of revenue after costs and a £120K saving to CEC in 2018. TfE leads on major sales and customer relations. The 3<sup>rd</sup> licence for tram stop advertising, remains with JC Decaux. This remains under review, although in 2018 TfE identified interest in selling advertising at all 16 tram stops.

14. **Edinburgh Cycle Hire Scheme.** TfE is responsible for the delivery and development of The Edinburgh Cycle Hire Scheme with no CAPEX or OPEX cost to CEC and for securing additional funding for the further development of the scheme. In 2018 TfE conducted the procurement, negotiated and awarded a Concession with the preferred bidder Serco and launched the scheme on 17 September 2018. By 19 December 2018 there were 500 cycles at 50 hire points across The City. The CAPEX investment in the scheme by The Concessionaire in 2018 was some £1.2M with considerable associated OPEX on: activation, launch, maintenance, redistribution, customer service, communications and marketing. The scheme will continue to be developed in 2019, including through the integration of e bikes and significant further investment by The Concessionaire. Bids for significant additional funding were submitted and have come to fruition in early 2019. The scheme supports CEC Cycling and Active Travel strategies and policies.

15. **Edinburgh Wayfinding.** TfE is responsible for the development and delivery of Edinburgh City Wayfinding at no cost to CEC. To be delivered through sponsorship and other sources of funding. The project aims to encourage wider exploration of The City by walking, cycling and use of public transport, reduce pressure on City Centre pinch points at peak times,

improve visitor experience and encourage return journeys. In 2018 the design of on street totems was finalised and data mapping completed. Technicians were trained and the route to procurement was confirmed. TfE secured a dedicated Project Officer in partnership with Sustrans. The project enlisted Early Adopters and delivered a number of on street and other pilots, where cartography technicians “learned by doing.” The impact of, and response to, initial products was gauged. Bids for funding from a variety of sources to a total value of £1.3M are in train. The project supports CEC Active Travel policy, The Edinburgh Tourism Strategy 2020, The Edinburgh Old and New Town World Heritage Management Plan and the Festivals “Thundering Hooves” Strategy.

16. **The Driver Innovation Safety Challenge (DISC).** TfE leads on the development and delivery of a Driver Innovation Safety Challenge, drawing upon some £590K of Scottish Government funding. The project is trialling a new method of procurement and aims, in the aftermath of the Croydon tram and Glasgow bin lorry incidents, to identify a method of forewarning control rooms when a driver or operator of heavy machinery, is about to have an episode that could affect their ability to drive or operate safely. The project was launched in September 2018 and has received significant industry interest. The project supports ET, LB and CEC safety policies.

17. **Festival Transport Coordination.** TfE co-leads with Transport Scotland the Festival Transport Coordination Project. Working in collaboration with Transport Scotland, the University of Edinburgh Data Driven Innovation (DDI) Programme, public transport Operators (including, but not exclusively Scotrail, Stagecoach, First, Central Taxis, Uber, Border Buses, CPT, ET and LB), Festivals, Visit Scotland, Scottish Enterprise and tourism Stakeholders to better understand flows into, around and in The City, particularly at the peak August Festival period. Outputs from this work allow transport Operators and Festivals to make more informed decisions on scheduling, meeting demand at peak times and adjusting to meet latent travel demand as The Festivals and tourism continue to grow. The main challenge to the significant potential opportunity of the project in 2018, was the ability to share commercially confidential data in a safe space and to fuse and interrogate this data to best effect. In 2018 a Data Sub Group was formed to overcome these challenges and a way ahead developed. Scottish Enterprise have expressed interest in funding the 2019 Data Sub Group Pilot and a 3-year programme thereafter. The project supports The CEC Planning for Change and Delivering Services 2019 – 2023 Strategy, City Centre Transformation, The Edinburgh Tourism Strategy 2020 and The Edinburgh City Region Deal.

18. Support to Edinburgh Trams to take maintenance “in house” and move to a full **Operate and Maintain model** by the end of 2019. The Board of ET has requested that TfE support the ET Managing Director and Management Team in delivering the move to operate and maintain by the end of 2019.

19. Support to the **tram to Newhaven Project**. TfE are Members of the Tram Extension and Leith Programme Board, supporting its work throughout 2018.

20. **Coordination of CEC Contingency Planning.** In May 2018 TfE was given delegated authority for the coordination of CEC Operation UNICORN, KINGFISHER and FORTH BRIDGE contingency planning (CONPLANNING). This is in addition to the already delegated responsibility for the coordination of transport planning. TfE has secured long term commitment to provide resources to support this task as follows:

- a. 1 x FTE for 1 /2 days per week from Police Scotland since May 2018.
- b. 1 x FTE for 1 day per week from Army in Scotland since June 2018.
- c. 1 x FTE from ET for 1.5 days per week since January 2018.
- d. Support from Iventis Ltd, 1 day per month and provision of CONPLANNING software support and maintenance for 2019 and 2020.
- e. Pro bono support from Inverroy Crisis Management, 1 day per month.

21. Following this delegation of responsibility in 2018, TfE developed a new governance framework to coordinate the CONPLANNING and leads this through a monthly Edinburgh Working Group attended by CEC Teams, Uniformed Services and a wide range of Strategic Partners, including Edinburgh International Airport. Liaison is conducted regionally and nationally to ensure CONPLANNING coherence. Transport operators and other Stakeholders including; ETAG, The Strategic Implementation Group, Festivals, The Edinburgh Chamber of Commerce, The Hotels Association and Unions are kept informed of CONPLANNING progress. This activity supports CEC resilience and will ensure The City continues to operate as best as possible during a major event.

22. **Support to the City Operations Concept.** TfE is supporting the City Operations SRO through collaboration with The University of Edinburgh Business School and other partners to develop the business case for the City Operations capability.

### Summary

23. In addition to fulfilling its responsibilities as Parent Company and Shareholder during 2018, TfE delivered seven (7) other public transport services and integration and coordination benefits to CEC, all consistent with the TfE Strategy for Delivery 2017 – 2022.



**George Lowder**  
**Chief Executive**  
**Transport for Edinburgh**

**10 May 2019**



## **TRANSPORT FOR EDINBURGH LIMITED**

**For the year ended 31 December 2018**

### **Strategic Report**

#### **Principal Activities**

The principal activity of the Company is to act as a holding and parent company for the City of Edinburgh Council's public transport companies; Lothian Buses, which operates over 800 buses in Edinburgh and the Lothians and for Edinburgh Trams, the City's Tram Operating Company, which operates 27 Trams between Edinburgh Airport and the City Centre. The Company is also directed to deliver an integrated transport network and transport projects for The City of Edinburgh and the Lothians. The Directors are aware that the activities of the Company are developing in line with The Transport for Edinburgh Strategy for Delivery 2017 - 2021, which was unanimously approved by The City of Edinburgh Council Transport and Environment Committee in January 2017. The Company also delivers additional services for The City in line with the purpose of the Company and The Strategy, most notably in 2018 this included: the procurement and launch of the Edinburgh Cycle Hire Scheme, leadership of the Edinburgh Wayfinding Project and Driver Innovation Safety Challenge (DISC) and the coordination of City wide, major event contingency planning. This Report should be read in conjunction with the Strategic Reports of Lothian Buses and Edinburgh Trams.

#### **Business Strategy**

The core purpose of Transport for Edinburgh Limited is to deliver world class, integrated, environmentally friendly, and socially inclusive transport, which plays a central role in the future prosperity of Edinburgh and the Lothians. We will deliver results through a strong commercial focus and transport services through innovative collaborations, cooperation with our neighbours and partners and the coordination of activity. We will reduce costs to The City of Edinburgh Council by drawing down as much other available funding as possible, to enable the delivery of services, particularly around Active Travel and Innovation.

#### **Review of the Business**

The Group retained a substantial share of the local public transport market in Edinburgh and the Lothians. The Directors consider that the results for the year are in line with expectations, with the main reason for the loss in the year being Edinburgh Trams assuming responsibility for all tram and network maintenance from The City of Edinburgh Council in 2018 and paying a higher access fee for use of assets including the tramway, trams and tram Depot. As shown in the Consolidated Statement of Profit or Loss and Other Comprehensive Income revenue has increased by 6.4% over the previous year to £176.5m, while the loss for the year is -3.8% or £6.8m net after tax. The Statement of Financial Position shows the Group's financial strength at the year end, with net reserves of £148.8m.

Capital expenditure in the year was £11.5m, the main items of expenditure being the addition of new buses to the fleet.

The Group has faced significant operating and cost pressures. We anticipate that these cost pressures will persist in 2019 and we will remain proactive in seeking to mitigate their impact.

#### **Results and Dividends**

The results and dividends are summarised below. A final dividend of £691,000 for non-equity holders was approved on 13 December 2018 and was paid on 26 March 2019 by a subsidiary (Lothian Buses Limited). A dividend of £6,180,000 (of £1.06p per share) in respect of 2017 was paid to the City of Edinburgh Council (CEC) on 28 March 2018 and payment of an interim dividend for 2019 of £7,000,000 was made to CEC on 26 March 2019 by Transport for Edinburgh. The Group has also generated an additional revenue stream for The City from tram advertising, by taking two licenses "in house" and repaid in full, the original £1m operating loan, that was provided to Edinburgh Trams in 2014 at the commencement of tram operations.

## TRANSPORT FOR EDINBURGH LIMITED

For the year ended 31 December 2018

### Strategic Report (continued)

#### Results and Dividends (continued)

	2018 £'000	2017 £'000
Revenue	176,466	165,838
(Loss)/profit before income tax expense	(6,920)	11,948
Income tax expense	154	(3,021)
Net (loss)/profit for the year	(6,766)	8,927
Attributable to:		
Equity holders	(6,830)	8,265
Non-controlling interest	64	662
Dividend	6,871	6,610

The Group uses a wide range of key performance indicators (KPIs) across the business to monitor progress in achieving its objectives. These are shown in detail in the Company reports. The most important KPIs are:

	2018	2017	Change
Group operating margin – operating (loss)/profit relative to revenue	-4.7%	7.3%	-12.0%
Group patronage – year on year movement in passenger journeys	126.5m	127.8m	-1.3m
Group staff turnover – leavers excluding retirement and conduct	13.9%	15.2%	-1.3%
Group customer satisfaction – complaints per 100,000 passenger journeys	7.21	7.86	-0.65

Group operating margin has decreased by 12.0% due to losses made in 2018 within Edinburgh Trams. Group patronage has decreased 1.3m year on year. Tram patronage has grown to 7.3m from 6.7m in 2017, helping to offset bus patronage decline. The Group is working with City of Edinburgh Council and other Partners to do everything possible to address the decline in City bus patronage. The Public Transport Action Plan measures will have a positive impact if fully implemented. Group staff turnover has decreased by 1.3% year on year and the Group is actively trying to reduce this further. Group complaints per 100,000 passenger journeys have decreased slightly by 0.65 and the Group is trying to reduce this level further.

#### Future Prospects

The Directors are of the opinion that the Group remains in a sound position to maintain its role as the major operator of buses, trams, open top tours and cycle hire in Edinburgh and the Lothians. The current year's trading is in line with expectations. The Directors remain optimistic about the future, continuing to focus on the delivery of reliable high-quality services which provide our customers with value for money. In addition to bus and tram services, TfE procured a cycle hire scheme for the City and is at the heart of the City Wayfinding Project that will help residents, workers, students and visitors; walk, cycle and use public transport in Edinburgh. The Group has been deeply involved in the development of the proposal to take trams to Newhaven and will remain significantly engaged, whilst also supporting Edinburgh Trams as it takes maintenance contracts "in house."

#### Employees

Details of the number of employees and related costs can be found in note 7 of the financial statements. We value our staff and have a strong commitment to equal opportunities and partnership working with trade unions.

Training, development and promotion opportunities, where appropriate, are available to all employees. Employment practices are continuously reviewed and updated to ensure that non-discriminatory legislation and codes of practice apply equally to all current and potential employees. We recognise the need for ongoing training, not just for new recruits, but also on an ongoing, continuing, basis for existing staff. Training

## **TRANSPORT FOR EDINBURGH LIMITED**

**For the year ended 31 December 2018**

### **Strategic Report (continued)**

#### **Employees (continued)**

programmes include customer care and disability awareness. The training is an essential part of employee development and to ensure best practice. The Group recognises that employee involvement is fundamental to its success. Executive Directors have regular meetings with elected staff representatives and informal meetings at employee level from time to time. Employees are encouraged to contribute to discussions on specific areas of importance e.g. health and safety, staff catering and staff welfare.

Applications for employment received from disabled persons are considered on an equal basis with other applications, subject to the nature and extent of the disability and the degree of physical fitness demanded of the post. Where disablement occurs during service with the Company, every effort is made to seek suitable alternative Company employment.

We recognise the need to develop our staff and during 2019 we will again invest heavily in our Supervisors, Managers and Leaders to ensure they have the right skills and attributes to lead and inspire our staff. Diversity and inclusion training will continue in 2019, focussing on and celebrating difference within the workplace and the communities we serve.

To ensure our ongoing commitment to good and progressive employee relations and engagement Lothian Buses introduced a new People Function over a year ago with dedicated People Managers in each of the three main bus garages. Working alongside both operational and non-operational management they advise and guide on a wide range of employment matters, ensuring legal compliance and best practice is at the fore when dealing with employees. Edinburgh Trams has similarly invested in their People and Training functions.

#### **Risks and Uncertainties**

The Boards regularly reviews the Risk Registers, which detail and identify risks from all areas of operations. The TfE Risk Register is regularly reviewed, evaluated and managed by the TfE Audit and Risk Committee and TfE Board, with action plans collated and monitored throughout the year.

The Group is subject to risk factors both internal and external to its business. External risks include; political and economic conditions, competitive developments, supply interruptions, regulatory changes, service diversification, supply price increases, pension funding, environmental risks, strikes and litigation. Internal risks include; risks related to capital expenditure, regulatory compliance failure and failure of internal controls. The Boards and their respective Audit and Risk Committees, regularly review the process of identifying, evaluating and managing the significant risks that the Group faces. The Boards consider acceptance of appropriate risk to be an integral part of business and unacceptable levels of risk are avoided or reduced. The Group uses an advance contracting strategy to reduce the impact of future volatility in fuel prices. The strategy is targeted to fix the cost of fuel to the Group through a part volume fixed price contract.

2018 has highlighted the complexity of decisions surrounding Brexit. This subject is included within our Risk Register and will remain a significant subject, closely monitored and action taken where necessary to ensure all aspects of the business, from operations to employee engagement are fully understood and where necessary communicated by the company to our staff. Working in close partnership with our major suppliers, the Board has received confirmation that they have also taken all necessary steps to ensure they can continue to deliver an uninterrupted level of service to back up our main operations and where applicable have resources in stock to deal with both short term and long-term objectives.

#### **Corporate Social Responsibility**

2018 has been a successful year for Lothian Buses and Edinburgh Trams, both in environmental achievements and community partnerships.

Lothian remains committed to reducing its impact on the environment. Lothian has further developed its 5-year Bus 2020 Environmental Strategy and continues to work towards cutting its emissions footprint by 42% and operating at a minimum of Euro 5 by 2020, in line with the Scottish Government's ambitious climate change targets. This year has seen significant investments in low emission bus technology, with new buses joining the fleet and further resource efficiency improvements.

## **TRANSPORT FOR EDINBURGH LIMITED**

**For the year ended 31 December 2018**

### **Strategic Report (continued)**

#### **Corporate Social Responsibility (continued)**

In 2018, Lothian purchased 91 buses in a mix of Euro 5 and Euro 6 across several routes running throughout the City Centre. These low emission buses emit up to 99% less harmful emissions and provide an enhanced passenger experience. Lothian has also added more fully electric cars and vans to its ancillary fleet, taking the total number now held to 6. The investments in low and zero emission vehicles support air quality improvements in its operational environment. Lothian ends the year with 85% of its bus fleet at Euro 5 standard or above.

As part of the Environmental Strategy Lothian has also focused on internal operations with improvements in waste, water and energy. During the year Lothian upgraded lighting in its depots and converted from using paper hand towels to using modern efficient hand driers.

Across 2018, Lothian also continued to focus on its local community and charity engagement. Lothian continued into year two of its Charity of Choice two-year partnership with Macmillan Cancer Support, following a successful first year, and raised over £6,000 during 2018. Fundraising events so far have included, the popular Doors Open Day in September, which saw over 8,000 visitors to Central Bus Garage and the internal dress festive Christmas Campaign. 2018 also saw Lothian once again support Poppy Scotland across November with a special liveried 'Poppy Bus' for the charity.

Lothian also partnered with The Edinburgh Festival Fringe Society again for Summer 2018 to provide free bus travel as part of a wider initiative to give Fringe Days Out. The initiative benefitted 29 local charities and community Groups who may never have been able to experience a show previously. Results show that the initiative was again very successful. Lothian Buses partnership with Police Scotland continues its behavioural change campaign in secondary schools targeting anti-social behaviour on buses. To date Lothian continues to receive a positive engagement with the programme.

In 2018 Edinburgh Trams continued to build on the successes of operations commencing in May 2014, recording exceptional patronage and revenue growth year on year, giving our owners the confidence to further invest in the system.

#### **Tram Fleet**

Edinburgh Trams has a fleet of 27 trams operating seven days a week, offering services from every three minutes to 16 locations, connecting Edinburgh Airport to the City Centre in under 35 minutes. Edinburgh Trams recorded 98.84 per cent service reliability and 98.89 per cent punctuality in 2018.

#### **Moving to Operate and Maintain**

Under the "Operator Only" Operating Agreement, Edinburgh Trams would have returned an Operating Profit in excess of £3m, up from £1.6m in 2017 and £252k in 2016.

With year on year performance ahead of budget, the maturing of the Operating Company and anticipated future decisions to develop the system, The City of Edinburgh Council (CEC), owners of Edinburgh Trams, decided in late 2018, to consolidate the full costs of operating and maintaining the system in one place. This was achieved by recharging the full costs associated with the maintenance of the tram infrastructure and trams to Edinburgh Trams, resulting in Edinburgh Trams returning a loss from operations for this financial year of £9.4m.

Full responsibility for the management of the tram maintenance contracts will pass to The Edinburgh Trams Management Team through the course of 2019. This eliminates additional third-party involvement allowing full control of operations, revenue streams; including passenger income and advertising, as well as all costs. This gives the Company and Edinburgh Trams the levers to improve value for money and contract management.

Our main aim short term is to return Edinburgh Trams to profit including all maintenance costs. This will be followed by a mid to longer term aspiration to be profitable, despite the higher access to assets and infrastructure charges. Whilst challenging, we are confident these goals will be achieved.

## For the year ended 31 December 2018

### Strategic Report (continued)

#### Trams to Newhaven Project

Throughout 2018 the Edinburgh Trams Management Team have been working in partnership with the CEC Trams to Newhaven Project Team on the Final Business Case for the completion of Line 1 to Newhaven. A Final Financial Business Case was developed and extensively reviewed by CEC with a vote to invest £209m on a completion project to be opened in 2023.

#### 2018 Trams Performance

Edinburgh Trams continues to outperform the expectations set by the CEC prior to the commencement of service in May 2014. These targets are being exceeded through a robust business plan aimed at obtaining both the profit requirements of the business, a safe operation, strong brand perception, environmental targets, CSR and the overarching Transport for Edinburgh Strategy for Delivery 2017 - 2021.

Central to the continued success of Edinburgh Trams in 2018 has been the robustness of the service. Improvements have increased journeys by 23 per cent and reduced end to end journey times by 16 per cent, from 42 to 36 minutes. This included a core 7.5 minute frequency throughout the day, 7 days a week. This was further enhanced in the second half of the year by services running from every 3.75 minutes during morning and evening peaks to meet growing demand. We have continued to support major events at Murrayfield Stadium utilising 19 trams, as well as introducing night trams on Saturdays during the peak Edinburgh Festivals period and for Edinburgh's Hogmanay. To enhance safety and customer service Edinburgh Trams adopts a policy of staffing each tram in service with a Ticketing Services Assistant (TSA).

A new operational strategy that improves the efficiency of our operations on event days was introduced in the latter period of 2018 which has allowed us to operate more tailored journeys for each event. All night trams for Hogmanay and Saturdays during the Edinburgh Festival period also operated again in 2018, generating positive customer responses.

The tram network requires Edinburgh Trams to work with Parkeon for Ticketing Systems maintenance, Siemens for Mechanical & Electrical maintenance, CAF Rail for tram maintenance and Bilfinger for Facilities Management and Civil Structural, Landscape and Drainage maintenance. Regular communication between all parties ensures the assets of the system are maintained to a standard expected from our passengers and stakeholders, ensuring a dependable delivery of service both now and for the future.

Supporting our strategy is the production, delivery and regular review of the Edinburgh Trams Marketing & Communication Plan. This plan will target potential passenger groups at key "hotspot" locations identified along the system, including Edinburgh Airport, the five dedicated transport interchanges and Ingliston Park and Ride.

#### Edinburgh Trams Board Changes

In July 2018 The Edinburgh Trams Board was increased by two additional Non-Executive Directors following the retirement of the Chairman, upon completion of his term of office. New expertise has now been added, reflecting the move to operate and maintain and the impending decision on the completion of Line 1 to Newhaven, giving a total of one Chairperson and 5 Directors on the main Board of Edinburgh Trams.

#### Tram Financial Overview

The final results for Edinburgh Trams for 2018 reported a loss of £7.6m after tax. This is a marked difference from the £1.3m profit after tax reported for 2017. The loss should be seen in the context of Edinburgh Trams increasing maturity as a business and the complementary decision to recharge Edinburgh Trams' full maintenance costs and access charges. An increased access charge, due to be incurred in 2019 will now become obsolete, having been incorporated within the new charging structure.

Reviewing our 2018 performance in detail we can confirm that Edinburgh Trams continues to exceed the original business plan as set out in 2013 by the City of Edinburgh Council. Revenue and patronage continue to increase above expectations with Service Income increasing by 18% from £12.9m in 2017 to £15.1m in 2018.

**TRANSPORT FOR EDINBURGH LIMITED**

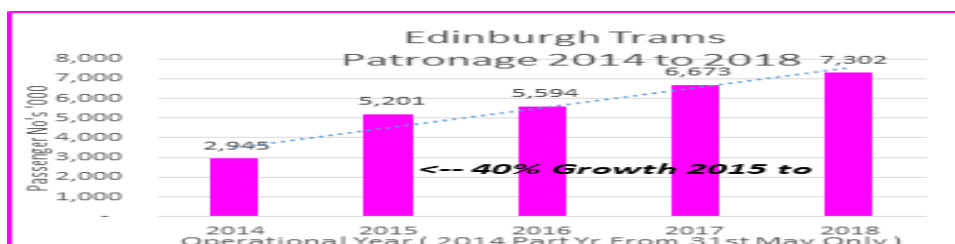
**For the year ended 31 December 2018**

## Strategic Report (continued)

### Tram Financial Overview (continued)

Patronage levels increased to 7.3m from 6.6m in 2017, up almost 10%. The graph below demonstrates the exceptional growth recorded on our tram network from service commencement in May 2014. The investment in fares, ticket channels and customer relations and engagement, increased services and the decision to strengthen an already robust service, particularly during peak times, gives rise to the high growth Edinburgh Trams can report. We have created a resilient service capable of maximising its full potential across the network.

### Tram Patronage Overview 2014 through 2018



### Asset Management

Edinburgh Trams (ET) is now recognised as a company delivering an excellent level of customer satisfaction and a leader in this field within our industry. The ability to continue delivering such a service is dependent on the main assets of the company being maintained in a satisfactory condition. Although service commencement started on 31 May 2014 the tram vehicles were procured prior to 2014 giving an average age just now of over 10 years old. It is imperative to ET that the renewals\asset life cycle programme administered by City of Edinburgh Council (CEC), is controlled, monitored and actioned where necessary in a timely manner, thus ensuring ET can continue to deliver the excellent level of service currently being experienced by our passengers.

ET are working with CEC to transfer the ownership and management of the maintenance contracts from CEC to ET. The process for this transfer may vary on a contract by contract basis, options available are:

- novation with the agreement intact;
- novation with an intent to re-negotiate terms
- termination by CEC and re-procurement by ET (with CEC support).

The Heads of Terms which outline the necessary amendments to the Operating Agreement between ET and CEC has been signed by both parties. A full variation to the Operating Agreement (based upon the Heads of Terms) is currently being drafted by CEC legal team. The full variation will need to be in place prior to the formal variation or procurement of any of the maintenance sub-contracts. We have every confidence based on current progress we are on track to deliver the above.

ET has agreed to bear the full cost of each of the contracts (from 1 January 2018), in place of the contribution made previously via the contractual Access Fees. ET will be liable for the cost of asset maintenance only, any cost relating to asset renewal/lifecycle will be borne by CEC. As ET will be responsible for the upkeep of the asset(s) a process will be agreed to allow ET to draw on CEC funding for asset renewal activities. ET has agreed that where feasible, subject to value and working within the confines of CEC procurement policy we will use the current contract discussions with sub-contractors to incorporate the maintenance of the York Place to Newhaven extension from 2023.

This report was approved by the Board and signed on its behalf by:

Date: 10<sup>th</sup> May 2019

**George Lowder**  
Director

# EDINBURGH TRAMS LIMITED

## Strategic Report

For the year ended 31 December 2018

### Principle Activity

Edinburgh Trams is the award-winning Operator and Infrastructure Manager of the city's tramway. Our vision is to be a world class, integrated, environmentally-friendly and socially inclusive transport provider playing a central role in the future prosperity of Edinburgh and the Lothians. In 2018 we continued to build on the successes of operations since May 2014, recording exceptional patronage and revenue growth year on year, giving our owners the confidence to invest in our system, in both the short and long term, as detailed within this report.

### Company Fleet

Edinburgh Trams has a fleet of 27 trams operating seven days a week, offering services from every three minutes to 16 locations, connecting Edinburgh Airport to the heart of the City in under 35 minutes. Edinburgh Trams recorded 98.84 per cent service reliability and 98.89 per cent punctuality in 2018.

### Our Values

At Edinburgh Trams our corporate values are: Trusted, Innovative, Passionate and Smart. We share these values with the TfE Group and believe they summarise the attitudes, behaviour and characteristics, that we require and expect of all our employees that will ensure the continued success of the business.

### Business Strategy

Our overriding strategy remains to provide a world class, integrated, environment friendly and socially inclusive transport operation, meeting and exceeding the expectations of both customers and Stakeholders making Edinburgh "proud of their trams".

Previously under the term "Operator Only" Edinburgh Trams would have returned an Operating Profit in excess of £3m, up from £1.6m in 2017 and £252k in 2016.

This statement demonstrates the strength and depth of Edinburgh Trams as a business, gaining approval from our stakeholder they are content with the continued progress being achieved by the current management of Edinburgh Trams.

With the maturing of the tram system and noting likely future decisions to develop the system, a decision was taken by City of Edinburgh Council (CEC), owners of Edinburgh Trams, in late 2018, to consolidate the full costs of operating and maintaining the system. This has been expedited by recharging the full costs associated with the maintenance of the tram infrastructure and trams, resulting in Edinburgh Trams returning a loss for this financial year.

With an increase confidence gained from past performance our reporting now includes full maintenance costs and a recharged infrastructure access cost from CEC thus resulting in a swing from an Operating Profit to an Operating Loss of £9.4m for the year.

As a business this again passes responsibility to the tram management team, eliminates additional third-party involvement allowing full control of operations, revenue streams including passenger income and advertising as well as all costs. This all translates to the ability to deliver a more robust, contained, all round business for our owner, CEC.

Our main aim short term is to return the trams to a level of profit under to include all maintenance costs followed by the inclusion of the additional infrastructure costings. Whilst challenging the management are confident these goals will be achieved within our Stakeholders aspirations for the longer-term success of the trams.

# EDINBURGH TRAMS LIMITED

## Strategic Report

For the year ended 31 December 2018 (continued)

### Trams to Newhaven Project

Throughout 2018 the Management Team from Edinburgh Trams have been working in partnership with the Project Team at CEC on the Business case for the completion of Line 1 to Newhaven. A Final Financial Business Case was developed and extensively reviewed by CEC with a vote to invest £209m on a completion project to be opened early 2023. Further details of this project are noted within this report.

Edinburgh Trams continues to outperform the expectations set by the CEC prior to the commencement of service in May 2014. These targets are being exceeded through a robust business plan aimed at obtaining both the profit requirements of the business, a safe operation, strong brand perception, environmental targets, CSR and the overarching Transport for Edinburgh Strategy for Delivery 2017 - 2021.

Central to our continued success in 2018 has been the robustness of our service. Improvements have increased our journeys by 23 per cent and reduced end to end journey times by 16 per cent, from 42 to 36 minutes. This included a core 7.5 minute frequency throughout the day, 7 days a week. This was further enhanced in the second half of the year by services running from every 3.75 minutes during morning and evening peaks to meet growing demand. We have continued to support major events at Murrayfield Stadium utilising 19 trams, as well as introducing night trams on Saturdays during the peak Edinburgh Festivals period and for Edinburgh's Hogmanay.

In relation to the safety and security of both staff, employees and neighbours, the Edinburgh Tram Network is equipped with emergency call points, information help points, CCTV systems on tram and platforms recording 24 hours a day, 7 days a week. Edinburgh Trams also adopts a policy of staffing each passenger service vehicle with a Ticketing Services Assistant (TSA) which gives our customers a feeling of safety.

Continued monitoring of data throughout the year, stands us in excellent stead to move forward into 2019 and continue to meet our customer demands. This, once again, includes enhancing services in the morning and evening peak. A new operational strategy that improves the efficiency of our operations on event days was introduced in the latter period of the year which has allowed us to operate more tailored journeys for each event. All night trams for Hogmanay and Saturdays during the Edinburgh Festival period also operated again this year which generated positive customer responses.

The tram network requires Edinburgh Trams to work alongside Parkeon for Ticketing Systems maintenance, Siemens for Mechanical & Electrical maintenance, CAF Rail for tram maintenance and Bilfinger for Facilities Management and Civil Structural, Landscape and Drainage maintenance. Regular communication between all parties ensures the assets of the system are maintained to a standard expected from our passengers and stakeholders, ensuring a dependable delivery of service both now and for the future.

Supporting our strategy will be the production, delivery and regular review of the Edinburgh Trams Marketing & Communication Plan. This plan will target potential passenger groups at key "hotspot" locations identified along the system, including Edinburgh Airport, the five dedicated transport interchanges and Ingliston Park and Ride.

This strategy will also identify key price points and promotions including Edinburgh Ticket – our new pre-purchase, print at home ticket along with ongoing ticketing options being explored train operating companies to allow a more seamless travel flow. All these commercial based options are geared towards increasing awareness and making Edinburgh Trams the preferred choice of travel and will be promoted and communicated via channels such as social media and tram stop literature.

### Board Changes

In July 2018 The Board was increased by two additional Non-Executive Directors following the retirement of the Chairman upon completion of his term of office. New expertise has now been added, reflecting the move to operate and maintain and the completion of Line 1 to Newhaven, giving a total of one Chairperson and 5 Directors on the main Board of Edinburgh Trams.



# EDINBURGH TRAMS LIMITED

## Strategic Report

For the year ended 31 December 2018 (continued)

### Financial Overview

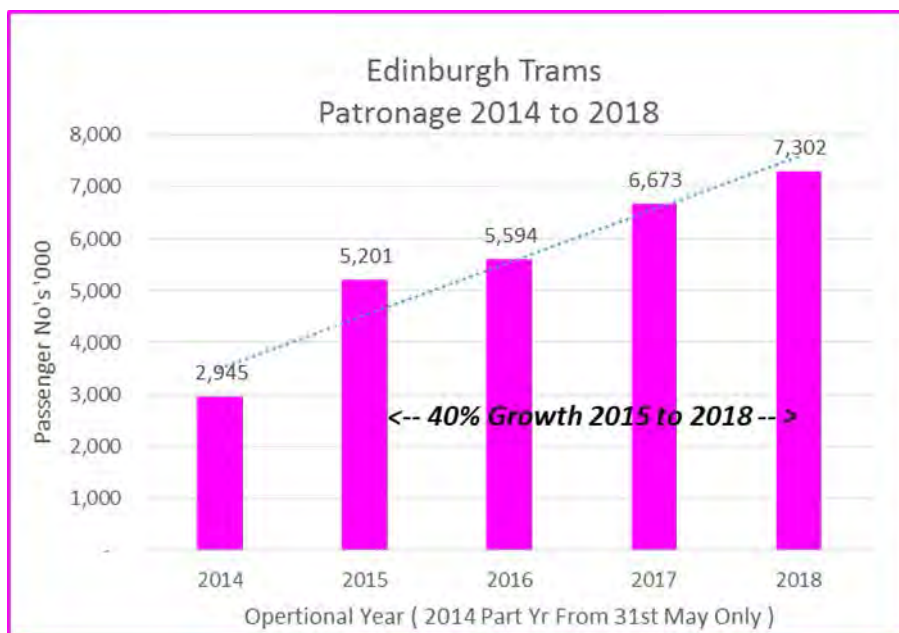
The final results for Edinburgh Trams for 2018 reported a loss of £7.6m after tax. This is a marked difference from the £1.3m profit after tax reported for 2017. The loss should be seen in the context of Edinburgh Trams increasing maturity as a business and the complementary decision to recharge Edinburgh Trams' full maintenance costs and access charges. An increased access charge was due to be incurred in 2019 will now become obsolete as incorporated within new costing structure. The Edinburgh Trams Management Team aims to return the company back to an operating profit in the future that will include the full costs of tram operations. This new operating model is defined as a full Operator, Maintenance and Infrastructure regime and is how Edinburgh Trams performance will now be judged. Our new budgets reflect our new strategy which the Board will review on a regular basis.

Edinburgh Trams Limited is the Operating Company of the trams system which is fully owned by the City of Edinburgh Council (CEC). Edinburgh Trams is responsible for ensuring we operate a transport service to the people of Edinburgh, residents from surrounding areas and beyond, visitors and commuters that maximises the assets of the company and returns a robust, safe and financially viable operation in line with CEC expectations for both the current and future years of the tram system. The financial statements noted herein form a true and fair statement of Edinburgh Trams Limited.

Reviewing our 2018 performance in detail we can confirm that Edinburgh Trams continues to exceed the original business plan as set out in 2013 by the City of Edinburgh Council. Revenue and patronage continue to increase above expectations with Service Income increasing by 18% from 12.9m in 2017 to 15.1m in 2018.

Patronage levels increased to 7.3m from 6.6m in 2017, up almost 10%. The graph below demonstrates the exceptional growth recorded on our tram network from service commencement in May 2014. The investment in fares, ticket channels and customer relations and engagement, increased services and the decision to strengthen an already robust service, particularly during peak times, gives rise to the high growth Edinburgh Trams can report. We have created a resilient service capable of maximising its full potential across the network.

### Patronage Overview 2014 through 2018



# EDINBURGH TRAMS LIMITED

## Strategic Report

For the year ended 31 December 2018 (continued)

### Asset Management

Edinburgh Trams is now recognised as a company delivering an excellent level of customer satisfaction and a leader in this field within our industry. The ability to continue delivering such a service is dependent on the main assets of the company being maintained in a satisfactory condition. Although service commencement started on 31 May 2014 the tram vehicles were procured prior to 2014 giving an average age just now of over 10 years old.

It is imperative to Edinburgh Trams that the renewals\asset life cycle programme which is administered by City of Edinburgh Council, is controlled, monitored and actioned where necessary in a timely manner, thus ensuring Edinburgh Trams can continue to deliver the excellent level of service currently being experienced by our passengers.

Edinburgh Trams (ET) are working with City Edinburgh Council (CEC) to transfer the ownership and management of the maintenance contracts from CEC to ET. The process for this transfer may vary on a contract by contract basis, options available are:

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ET has agreed that where feasible, subject to value and working within the confines of CEC procurement policy we will use the current contract discussions with sub-contractors to incorporate the maintenance of the York Place to Newhaven extension from 2023.

### Financial Results

	Year to 2018 £	Year to 2017 £
Revenue	15,811,287	12,989,004
Costs	(25,214,575)	(11,389,455)
(Loss)/Profit from operations – (operating loss)	(9,403,288)	1,599,549
Gain on disposal of property, plant and equipment	-	11,217
(Loss)/Profit before income tax	(9,403,288)	1,610,766
Income tax	1,779,479	(318,515)
(Loss)/Profit for the full year	(7,623,809)	1,292,251

## EDINBURGH TRAMS LIMITED

### Strategic Report

For the year ended 31 December 2018 (continued)

KPIs	2018	2017
Revenue	15.8m	12.9m
Yr on Yr increase	22%	
Operating profit/loss	-9.4M	1.6m
Operating profit/loss %	-59.4%	12.3%
Patronage	7.30m	6.67m
Yr on Yr increase	9.4%	
Health and Safety benchmarks		92%
11 out of 12 achieved in 2017		
11 out of 11 achieved in 2018	100%	
Mileage operated	881k	864k
Yr on Yr increase 1.97%		
Customer Experience	97.2%	98.3%
Institute of Customer Service – UK CSI	87.9%	85.8%
Reliability performance	98.84%	99.3%
Tram – Peak Vehicle Requirement (PVR)	15	15
Special Event Trams ( Match day utilisation )	19	18

#### Financial Special Project & Sustainability

Edinburgh Trams in partnership with Transport for Edinburgh and Marketing Edinburgh were granted the licences to deliver internal and external advertising on the fleet of 27 trams. In this the first full year of management under the control of ET and TfE the revenue has grown to £670k compared to £120k in 2017. It is Edinburgh Trams' longer term strategy to obtain full advertising rights to include a third element, Tram Stop Advertising. The ability to offer a full suite of advertising products will enhance our commercial opportunities and one we will strive to take control of to maximise full yield for advertising rights. High profile names like CR Smith, Diageo, Qatar Airlines, MacDonalds Hotels and Parabola all have contracts with Edinburgh Trams for a combination of external and internal advertising on trams.

Edinburgh Trams is also the first tramway in the world to roll out DriveSmart. DriveSmart is a unique, cost effective approach to reducing traction energy costs. Trials have shown that traction energy can be reduced by between 15 and 21 per cent on the Edinburgh Tram Network.

#### Health & Safety/Environmental Policy Statements

Safety is fundamental to everything we do and is always our foremost consideration, without exception. Formal arrangements and systems have been put in place to manage health & safety within Edinburgh Trams in order to control risks associated with the scope and scale of our operation, to a level that is So Far As Is Reasonably Practicable (SFAIRP). To achieve this, we are committed to providing every Edinburgh Trams employee with a safe and healthy working environment. Safe methods of working have been assessed for risks and includes suitable and sufficient control measures, appropriate tools and equipment. Information, training facilities and supervision are provided for other necessary for work that is required to be carried out. Regular two-way communication and information on safety matters is routinely provided. Our organisational structure provides for

## EDINBURGH TRAMS LIMITED

### Strategic Report

For the year ended 31 December 2018 (continued)

these commitments to be fulfilled and is underpinned by our safety management system and the management and supervisory teams working closely with employees, in order to identify and address safety issues.

Edinburgh Trams is committed to protecting the environment, including the prevention of pollution and to meeting all relevant compliance obligations. We commit to continual improvement of the environmental management system, to enhance our performance through the implementation of our policies and practices. This includes the setting and tracking of key objectives that are measurable and achievable. We will maintain our certification to ISO 14001 through rigorous monitoring and review of our performance. It is our policy to reduce both domestic and traction energy consumption through on-going monitoring and analysis, maximise recycling opportunity, reducing the amount of waste disposed of in landfill wherever possible, promote environmental awareness for our colleagues and contractors, implement processes to prevent environmental non-conformances and ensure that we are suitably prepared to deal with potential environmental emergencies.

These policies are regularly reviewed and updated to take account of organisational priorities, changes in our activities and environmental compliance obligations.

One of Edinburgh Trams' key safety principles is ensuring that all of our colleagues, especially those in a safety critical job role, are fit for duty. Mainline rosters have all been constructed in consultation with the end user and none of our shift patterns throw up any concerns in relation to fatigue risk. To assist with this, we have a policy that all drivers must live within an hour radius of the depot to reduce the likelihood of fatigue. We also continuously monitor the drivers' fitness and there are stringent medicals for all safety roles, which place great emphasis on individual responsibility. We trust in the professionalism of our colleagues.

Unlike some other rail operators, Edinburgh Trams does not employ a remote sign-on system. Many of our colleagues – including all Drivers, TSAs and Controllers – have to attend the depot, ring the bell and sign themselves on; and in doing so they are declaring themselves to be fit for work. If the controller has any reason to believe that it is necessary then they will challenge the individual accordingly, and any drug use need to be declared at this stage also. For instance, if a driver had taken a couple of Ibuprofen because their knee has flared up, then they'd have to declare that. There is a list of medicines that you are permitted to still drive a tram having taken. Drivers who are not sure about the medication must raise this to an operational controller. They then contact the company's occupational health provider and the controller will be informed if the driver is fit to commence work.

To supplement the fitness for work element we have recently enhanced our 'random drugs and alcohol' screening. All colleagues are made aware, early in the induction process that we have a zero tolerance to being 'under the influence'. Random screening for both drugs and alcohol used to be undertaken by a third party but we have recently trained up a number of management and support staff to carry these out. This means that we have been able to set a KPI for Random Drugs & Alcohol Screening, reported upon on a monthly basis. We have committed to screening 15% of the safety critical workforce and the same percentage of non-safety critical colleagues each year as an absolute minimum. Additionally, the same pool of management and support staff are utilised to carry out 'for cause' drugs and alcohol screening, following an adverse event. A real-life example is when a third party, such as a taxi attempting a U-turn, hits a tram, the reason being so that we can immediately discount driver drug/alcohol impairment as causation.

### Employees

Edinburgh Trams employs staff across many areas from Drivers to Engineers, Ticketing Services Assistants to Administration and Managerial roles. In 2018 our Chair retired following a three-year period of office. Two new Directors have joined the Board giving a total of six Directors. Repetition Our Board is now made up of the following; one Chair, one Executive and four Non-Executive Directors. These positions will remain in place for a further three years. Two of these Directors are new to the Board bring additional expertise in transport as well as increasing the business acumen which currently exists within the Board. Out-with the Board there are five Senior Managers covering Safety & Standards, Finance, Operations, Projects and Engineering. These are further complimented with HR, IT and Customer Experience Management roles with additional expertise as and when required sought from external sources thus meeting all areas of the business requirements.

## **EDINBURGH TRAMS LIMITED**

### **Strategic Report**

**For the year ended 31 December 2018 (continued)**

A decision to invest in our training department, bringing more control “In House” was carried out during 2018. Investing in our staff is an integral part of the company ethos, especially our customer facing colleagues who receive regular training updates and assessments under our Competency Management System.

Edinburgh Trams is committed to a Health and Wellbeing programme for our employees, encouraging and promoting staff to remain as healthy as possible with both their physical and mental health. This initiative has seen the introduction of an Employee Assistance Programme to provide counselling and advice on all life matters, including counselling, financial, legal and family support. Another commitment to our employees wellbeing has been the introduction of fresh fruit once being delivered once a week to the office which has proved highly popular with all staff together with a further new introduction of a “Healthy Nibbles” vending machine offering a healthier choice snacks to staff.

In addition to this Edinburgh Trams also offer facilities such as free flu jabs, the opportunity to take free health assessments on a health kiosk, reduced gym fees via agreements with local providers for tram staff. We also offer salary sacrifice schemes for Cycle to Work or Kiddie Vouchers which give a financial benefit to the staff.

We have started a reward and recognition scheme for staff to nominate their peers for demonstrating behaviour aligned to our Values: Trusted, Innovative, Passion and Smart. The scheme rewards on a monthly basis and then an annual award from all the monthly winners is chosen.

A behavioural framework has been introduced for all staff to have a twice-yearly meeting with their line manager to discuss and measure performance and behaviours aligned with a framework aligned to the Company values.

#### **Employee Pension**

In line with our statutory requirements the company introduced pension auto enrolment statutory guidelines. As at the end of our financial year more than 90% of our employees were both contributing and benefitting from the company pension scheme. As part of our longer-term strategy and working in partnership with Unite in promoting the benefits of a pension scheme Edinburgh Trams will also offer all staff the opportunity to increase pension contributions above the combined 8% minimum to 10% with a match 5% and 5%. We believe this offers staff a longer-term benefit and one more prevalent to today’s working conditions.

#### **Risks and Uncertainties**

The company is subject to risk factors both internal and external. External risks include political and economic conditions, supply interruption, service competition, strike action and litigation. Internal risks include regulatory compliance failure and failure of internal controls.

The Board reviews the company’s Risk Register which details and identifies risks from all areas of the company’s operations. This register is regularly reviewed, evaluated and managed with action plans collated and monitored throughout the year.

2018 has highlighted the complexity of decisions surrounding Brexit. This subject is included within our Risk Register and will remain a significant subject line, closely monitored and action taken where necessary to ensure all aspects of the business from operations to employee engagement are fully understood and where necessary communicated by the company to our staff. Working in close partnership with our major suppliers, the Board has received confirmation they likewise have taken all necessary steps to ensure they can continue to deliver an uninterrupted level of service to back up our main operations and where applicable have resources in stock to deal with both short term and long-term objectives.

#### **Awards & Recognition**

In 2018, Edinburgh Trams are proud to have been recognised as one of the best transport operators. At the Global Light Rail Awards Edinburgh Trams was recognised in all four of the categories we were shortlisted in winning Operator of the Year and Highly Commended certificates in Environmental and Sustainability, Most Improved System, and Technical Innovation Infrastructure.

## **EDINBURGH TRAMS LIMITED**

### **Strategic Report**

#### **For the year ended 31 December 2018 (continued)**

We have previously won Operator of the Year in 2015 and 2017 with the criteria covering excellence in safety, customer experience, corporate values, as well as a proven record in reliability and financial performance.

At the Edinburgh Chamber of Commerce Business Awards Edinburgh Trams was awarded with Excellence in Health and Safety for the defibrillators project undertaken with St John Ambulance.

In 2018 Edinburgh Trams took part in the Institute of Customer Service benchmarking survey for customer satisfaction and were awarded a score of 87.9 – more than 15 points above the transport industry average and 10 points higher than the multi-sector average.

#### **Corporate & Social Responsibility (CSR)**

Edinburgh Trams, continues to invest time, financial support and resource in environmental, charitable and community projects aligned to the company.

As part of our commitment to the people of Edinburgh and offering an increased service to the community, we operated free Hogmanay trams to all party goers following the iconic Edinburgh's Hogmanay celebrations.

During The peak Edinburgh Festival period, we operated all-night festival trams, to ensure the festival revellers had the opportunity to enjoy the late night festival shows on offer, including The Royal Edinburgh Military Tattoo.

When challenged by the "Beast from the East" our team kept trams running recording more than 30,000 customer journeys during three days of extreme weather conditions. The team worked tirelessly to keep tracks clear of snow, allowing trams to run through the city. With passenger service continuously running for 43 hours and free services throughout during the night the worst of the inclement weather conditions, trams provided a lifeline to many customers.

For the first time we took part in the popular Edinburgh Door's Open Day weekend. Our guided tours, run by staff volunteers sold out within three weeks of release. Members of the public were invited to see Edinburgh Trams from a different perspective.

2018 also saw Edinburgh Trams award The Multiple Sclerosis Therapy Centre Lothian as our "Local Charity of the Year" as selected by the staff of Edinburgh Trams. During the year we have supported our staff in various charitable activities including a company bake off competition, World Cup sweep stakes and weight loss challenge. Over the total period the amount paid over will be in excess of £6K.

#### **Moving Forward**

On the 14 March 2019 the elected members of City of Edinburgh Council voted in favour to proceed with the Trams to Newhaven Project.

After a full review of the Final Business Case made their final decision on the project. With approval now granted to proceed with completing the Line 1a to Newhaven, the project will begin in the Autumn 2019 with a six-month Early Contractor Involvement (ECI) period where the two contractors (Sacyr, Farrans, Neopul Joint Venture for the Infrastructure and Systems Contract and Morrison Utility Services Ltd for the Swept Path Contract) will work closely with the Council and other key stakeholders, including ourselves to finalise plans for construction.

Construction work is set to get under way after the ECI has concluded and Edinburgh Trams are timetabled to take their first passengers to and from Newhaven in early 2023.

Nearly 16 million people are forecast to use the completed Edinburgh Airport to Newhaven tramline in its first year of operation - almost double the number predicted for the existing Airport to York Place route in the same period.

This decision cemented a year of hard work undertaken by the Edinburgh Trams management team, Transport for Edinburgh and colleagues at City of Edinburgh Council.

The evidence the team were able to provide regarding the successful build up of demand and effective operation based on our first 4.5 years of operation would have given CEC and the population of Edinburgh confidence in

**EDINBURGH TRAMS LIMITED**

**Strategic Report**

**For the year ended 31 December 2018 (continued)**

the feasibility of the extension project and the ability of the management team to manage a bigger network. This is supported by the way we are currently dealing with the day to day operations providing service enhancements, commitment to customer service, maturity of system and company consistently exceeding expectations with the ability to deliver an award winning service that the city can be proud of.

Signed on behalf of the Edinburgh Trams Limited Board by:-

Lea Harrison  
Managing Director  
Edinburgh Trams

# Strategic Report *for the year ended 31 December 2018*

## PRINCIPAL ACTIVITIES

The principal activity of the group during the year under review was the operation of approximately 840 buses in Edinburgh and the Lothians, carrying approximately 2.3m customers per week.

The group comprises of a number of complementary divisions:

- **Lothiancity** - serving the principal city of Edinburgh plus services into adjacent areas of western East Lothian and northern Midlothian. This delivers core local bus operations with an expansive network of service provision operating 24hrs a day over 365 days of the year complemented by a bespoke set of Airport operations that links Edinburgh Airport with the city.
- **Edinburgh Bus Tours** - which delivers open top sightseeing operations throughout the city and beyond.
- **Lothian Motorcoaches** - which provides private hire, day tours and excursions, contracted express and tour operations and managed event services originating from Edinburgh and covering the whole of the UK.
- **EastCoastbuses** - providing local bus service operations within East and Midlothian and core commuter routes into Edinburgh from East Lothian
- **Lothiancountry** - which provides local bus service operations within West Lothian and core commuter routes into Edinburgh
- The group also operates and provides staffing to a number of Park and Ride facilities for the City of Edinburgh Council and has a number of our own customer interfacing retail outlets and Travel Shops.

## BUSINESS STRATEGY

The core purpose of Lothian Buses Limited is to deliver a high quality and integrated transport service.

We will also strive to deliver profit through a strong customer led and commercial focus whilst importantly driving efficiencies where appropriate putting our people and customers at the heart of our organisation.

Our overarching vision is to continue to be an integral part of the future economic success of Edinburgh and the Lothians, whilst adapting and evolving our model and business to societal change and other relevant factors.

## REVIEW OF THE BUSINESS

The group continued to operate within the local public transport market in Edinburgh and the Lothians.

The Directors consider that the results for the year are in line with forecasted expectations.



As shown in the Consolidated Statement of Comprehensive Income, revenue has increased by 5.1% over the previous year driven by the exploitation of growth opportunities by the Directors delivering a profit from operations with a margin of 0.6%. Earnings before Interest, Tax and Depreciation Adjustment was £20.0m (12.5%) compared to £19.4m (12.7%) in the previous year.

Profit from operations decreased directly as a result of a Board decision to review and implement changes to the bus depreciation policy due to rapidly changing emission regulations driving fleet renewals. This decision changed the bus depreciation term from 15 to 12 years.

The final year of a 3 year wage agreement for our driving and other staff led to an increase in administrative expenses year on year.

The Statement of Financial Position shows the group's financial strength at the year end with net reserves of £147.9m.

Capital expenditure in the year was £11.4m. The main item of expenditure was the addition of 91 public service vehicles to our fleet.

The group has faced significant operating and cost pressures driven by economic change and inflation. We anticipate that these cost pressures will remain in the 2019 operating year and we will have to be proactive in seeking to address and mitigate the impact of these pressures in order to maintain our required investment and returns.

## RESULTS AND DIVIDENDS

The results and dividends are summarised below:

A final dividend of £1.2019 per share was approved on 13 December 2018. This was paid on 26 March 2019 to our shareholders which includes:

- Midlothian Council
- West Lothian Council
- East Lothian Council
- City of Edinburgh Council (through Transport for Edinburgh Ltd, in order for them to declare a further dividend to the ultimate parent.)

	<b>£,000</b>	
	<b>2018</b>	<b>2017</b>
<b>Revenue</b>	<b>160,629</b>	<b>152,884</b>
<b>Profit before income tax expense</b>	<b>(1,590)</b>	<b>(2,639)</b>
<b>Provision for income tax expense</b>	<b>2,302</b>	<b>10,008</b>
<b>Net profit for the year</b>	<b>7,691</b>	<b>6,790</b>

<b>Dividend</b>	<b>712</b>	<b>7,369</b>
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## **FUTURE PROSPECTS**

The Directors are of the opinion that the group remains in a sound position to maintain its role as an operator of public transport operations including local bus services, open top tours and coach operations in Edinburgh and the Lothians.

The current year's trading to date is in line with budgeted expectations.

The Directors remain optimistic about the future despite the significant challenges being brought about by socioeconomic change and changes to the way that the city operates and evolves. This will bring significant challenges and require future issues and actions to be addressed whilst continuing to focus on the delivery of reliable and high quality bus services, which provide value for money options for travel.

Operating profit margin has decreased by 6.1% as noted above primarily due to the change in bus depreciation term resulting in a higher level of depreciation compared to the prior year, this having an impact of 6.1% on this out turn figure.

Overall customer patronage has decreased 1.9m year on year driven by decreasing journey speeds because of the impact of congestion across the city region as well as changes to travel patterns by customers.

Operational safety and reliability levels remain consistent and the company is proud of its excellent Engineering MOT first time pass rate.

Importantly driving staff turnover has decreased by 0.4% year on year and complaints per 100,000 passenger journeys have decreased by 0.1 with the company being proactive in reducing this level further as we move forward.

The group uses a wide range of key performance indicators (KPIs) across the business to monitor progress in achieving its objectives.

## **KEY PERFORMANCE INDICATORS**

	<b>2018 (52 weeks)</b>	<b>2017 (52 weeks)</b>	<b>Change</b>
<b>Operating profit margin</b> operating profit relative to revenue earned	<b>0.6%</b>	<b>6.7%</b>	<b>-6.1%</b>
<b>Patronage</b> year on year movement in passenger journeys	<b>119.2m</b>	<b>121.1m</b>	<b>-1.9m</b>
<b>Operational safety</b>	<b>4.2%</b>	<b>3.8%</b>	<b>+0.4%</b>

blameworthy incidents per 100,000 miles			
<b>Operational reliability</b> scheduled mileage not operated (lost mileage)	<b>0.18%</b>	<b>0.17%</b>	<b>+0.01%</b>
<b>Engineering MOT pass rate</b> 1 <sup>st</sup> time pass rate	<b>99.8%</b>	<b>100%</b>	<b>-0.2%</b>
<b>Drivers staff turnover</b> leavers excluding retirement and conduct	<b>6.0%</b>	<b>6.4%</b>	<b>-0.4%</b>
<b>Customer satisfaction</b> complaints per 100,000 passenger journeys	<b>7.6</b>	<b>7.7</b>	<b>-0.1</b>

## RISKS AND UNCERTAINTIES

The group is subject to risk factors both internal and external to its business.

External risks include political and economic conditions, competitive developments, supply interruptions, regulatory changes, service diversification, supply price increases, pension funding, environmental risks, strikes and litigation.

## EMPLOYEES

Details of the number of employees and related costs can be found in note 7 of the financial statements.

Our staff are key to the outputs and delivery of our business and during the year we have developed and enhanced our People Team in the business significantly to ensure appropriate support, training and development requirements are met fully. This has resulted in the implementation of dedicated People Managers in each of our main garages that work alongside our operational teams and provide support, advice and guidance on a wide range of employment matters, ensuring legal compliance and best practice is at the fore at all times.

We recognise the need to develop our staff fully and during 2019 we will again invest heavily in our supervisors, managers and leaders to ensure they have the right skills and attributes to lead, inspire and motivate our staff.

Diversity and Inclusion training will also continue in 2019, focussing on and celebrating the differences within the workplace and the communities we serve.

Driver CPC training has been significantly enhanced for 2019 by the recruitment of a dedicated Training Manager who will deliver bespoke interactive and relevant training to our driving teams to widen their skill sets.

We have worked hard and will continue to develop and embody a culture of equal opportunities within the group and expand minority represented sectors of our workforce. We also reviewed during the year and put in place a new recognition and procedural agreement along with a new formal consultation process with our trade unions.

Training, development and promotion opportunities, where appropriate, are available to all employees and actively advertised and promoted within the group.

The People Team have additionally worked hard at reviewing and developing modern fit for purpose policies in line with published guidelines and advice from ACAS as well as operational and historic best practice.

We recognise the need for high quality and ongoing training not just for new recruits to our driving team but also on an ongoing continuing basis for existing staff across our wide and diverse spectrum of employees. Training is an essential part of employee development and to ensure ongoing best practice and service delivery.

The Board of Directors also includes a worker-director nominated by company employees.

The group recognises that employee involvement is fundamental to its success and ongoing development and engages with its employees through many methods and mediums.

The executive Directors and senior management team have regular meetings with elected staff representatives and a plethora of informal meetings at employee level at regular intervals. Employees are encouraged to contribute to discussions on specific areas of importance e.g. health and safety, staff catering and staff welfare.

A significant development during the year has been the development and introduction of Lothian TV which ensures up to date messaging and news is communicated to all our sites and departments through internal media screens.

We actively promote the positive and appropriate use of social media as a communication tool in the group and to our wider customer base.

Applications for employment received from disabled persons are considered on an equal basis with other applications subject to the nature and extent of the disability and the degree of physical fitness demanded of bus driving and other operational staff.

## **RISKS AND UNCERTAINTIES**

The group is subject to risk factors both internal and external to its business.

External risks include political and economic conditions, competitive developments, supply interruptions, regulatory changes, service diversification, supply price increases, pension funding, environmental risks, strikes and litigation.

Internal risks include risks related to capital expenditure, regulatory compliance failure and failure of internal controls.

The Board regularly reviews the process of identifying, evaluating and managing the significant risks that it faces through delegated responsibility to the Audit & Risk Committee. The Audit & Risk Committee reports back to the Board. The Board considers acceptance of appropriate risk to be an integral part of business and unacceptable levels of risk are avoided or reduced.

The group uses an advance contracting strategy to reduce the impact of future volatility in fuel prices. The strategy is targeted to fix the cost of fuel to the group through a part volume fixed price contract.

## **CORPORATE SOCIAL RESPONSIBILITY**

2018 has been a successful year at Lothian both in environmental achievements and community partnerships.

Lothian remains committed to reducing our impact on the environment.

We have further developed our 5 year Bus2020 Environmental Strategy and continue to work towards cutting our emissions footprint by 42% and operating at a minimum of Euro 5 by 2020, in line with the Scottish Government's ambitious climate change targets. This year has seen significant investments in low emission bus technology, with new buses joining the fleet and further resource efficiency improvements.

In 2018, Lothian purchased 91 buses in a mix of Euro 5 and Euro 6 across several routes running throughout the city centre. These low emission buses emit up to 99% less harmful emissions and provide an enhanced passenger experience. We have also added more fully electric cars and vans to our ancillary fleet, taking the total number now held to 6. The investments in low and zero emission vehicles support air quality improvements in our operational environment. We ended the year with 85% of our bus fleet at Euro 5 standard and above.

As part of the Environmental Strategy we have also focused on internal operations with improvements in waste, water and energy. During the year we upgraded lighting in our depots to LED from traditional systems and converted from using paper hand towels to using modern energy efficient hand driers.

During 2018, we also continued to focus heavily on our local community and charity engagement.

We entered year two of our Charity of Choice two-year partnership with Macmillan Cancer Support, following a successful first year, and raised over £6,000 during 2018. Our fundraising events during the year included our ever popular Doors Open Day in September, which saw over 8,000 visitors to Central Garage and our internal 'dress festive' Christmas Campaign. 2018 also saw us once again support the national Poppyscotland campaign across November with a specially liveried 'Poppy Bus' for the charity.

We also partnered Edinburgh Festival Fringe Society again for Summer 2018 to give away free bus travel as part of a wider initiative to give Fringe Days Out. The initiative benefitted 29 local charities and community groups who had never been able to experience a show previously. Results show that the initiative was very successful.

Our partnership with Police Scotland continues our behavioural change campaign in secondary schools targeting anti-social behaviour on buses. To date we continue to receive a positive engagement with the programme.

Lothian has had a busy year and we look forward to exciting projects coming up in 2019.