

# Policy and Sustainability Committee

10.00am, Thursday, 9 July 2020

## Reform of Transport Arm's Length External Organisations

Executive/routine	Executive
Wards	All
Council Commitments	<a href="#">21</a>

### 1. Recommendations

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- 1.1 Policy and Sustainability Committee is asked to:
- 1.1.1 note the options for reform of the Council's wholly and partly owned Transport Arm's Length External Organisations (Transport for Edinburgh Limited, Edinburgh Trams Limited and Lothian Buses Limited) (the Transport ALEO's);
  - 1.1.2 note the pre-approved budget saving to implement a reduction in the overall operating costs of the Transport for Edinburgh Group of £0.4m and the current financial position of the Council;
  - 1.1.3 approve engagement on the preferred option as outlined at paragraph 5.1 with each of the Transport ALEOs, the minority shareholders and the recognised trade unions in each of the organisations on the reforms proposed; and
  - 1.1.4 agree to receive a report in two cycles on the recommended approach to reform of the Transport ALEOs.

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# Report

## Reform of Transport Arm's Length External Organisations

### 2. Executive Summary

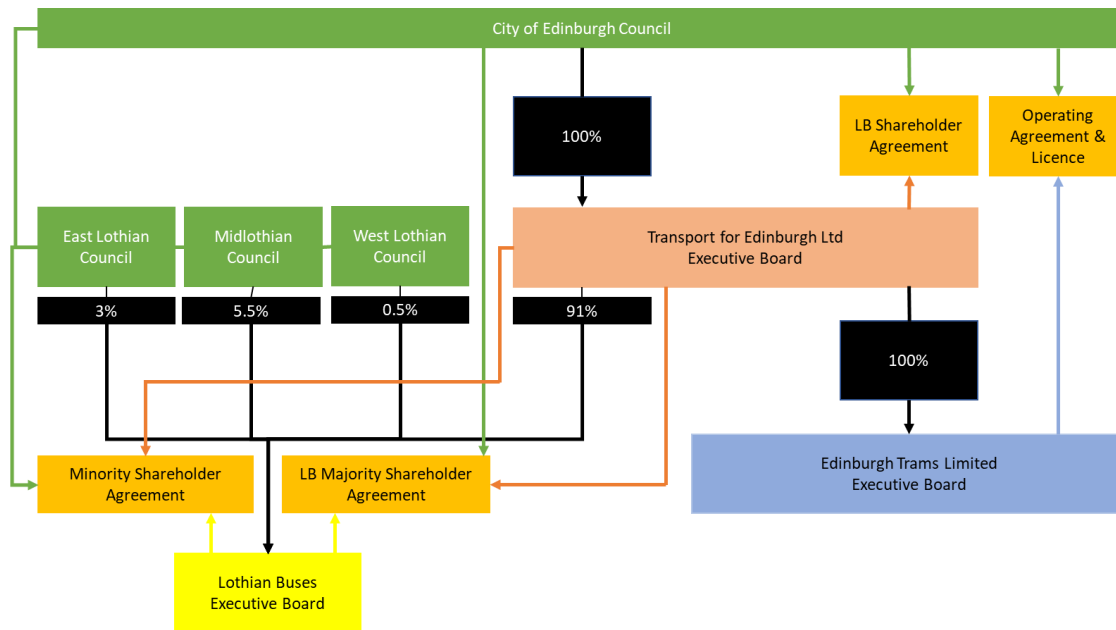
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- 2.1 This report sets out the current arrangements in place for the governance of the Council's Transport ALEOs and sets out options for reform of these companies. The report proposes swift engagement with each of the Transport ALEOs, the minority shareholders and the recognised trade unions in each of the organisations.

### 3. Background

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- 3.1 The Council is the majority or full owner of the most used public transport services in Edinburgh.
- 3.2 The current arrangements were set out in a report to Council of [31 January 2013](#).
- 3.3 Prior to commencement of tram operations in 2014 the decision was taken by the Council to create a group company structure for the delivery of an integrated transport system in Edinburgh and the surrounding area. This structure was, in part, established to ensure compliance with competition and procurement law and to provide a model to enable maximum integration.
- 3.4 The current group structure comprises Transport for Edinburgh Limited as parent company (wholly owned by City of Edinburgh Council), with a wholly owned subsidiary Edinburgh Trams Limited, and a 91% ownership of Lothian Buses Limited and its subsidiary companies (the rest of Lothian Buses is owned by East, Mid, and West Lothian Councils). The structure is set out below:



- 3.5 These arrangements have delivered high quality public transport in the city, but inefficiencies within the operating model have led to challenges regarding collaboration and integration across and between them.
- 3.6 Since the existing structure was put in place the tram operation has matured and the transport and mobility needs of the city and region also continue to change.
- 3.7 There are a number of drivers of this change:
- 3.7.1 The city continues to change and grow, and, with that, grows the requirement for a flexible, efficient and integrated public transport network. By 2041 Edinburgh's population is forecast to grow by a further 15%, taking the number of people living in the capital to nearly 583,000.
- 3.7.2 Edinburgh, like all other cities, will be subject to significant change in employment, leisure, and wider activity in the wake of the COVID-19 pandemic, and new approaches to public transport will be central to the overall adaptation and renewal process.
- 3.7.3 The operational delivery success of the transport companies is key to the delivery of wider Council mobility and sustainability objectives. Efficient and effective public transport is a key driver of success of the [City Mobility Plan](#) (CMP) and [Edinburgh City Centre Transformation](#) (ECCT). These policy drivers are discussed in more detail at section 4 below.
- 3.7.4 National policy is being updated with ambition for a close interface between transport services and wider policy objectives clearly demonstrated at a national level. This is reflected in the new National Transport Strategy and the Strategic Transport Project Review 2 (STRP2).
- 3.7.5 The need to improve the network of service provision across and into the city needs to make it easier and more attractive for people to choose public transport services rather than travel by car.

- 3.8 The current structure of ownership - a shareholding parent company with two operating companies, all of whom are responsible for delivery of different aspects of transport operations present challenges to the delivery of existing and emerging transport policy objectives.
- 3.9 It should be noted that integration of the transport network was an objective of the present structure when it was put in place. The Transport for Edinburgh Strategy for Delivery notes the requirement for integration, but in the period since the Strategy was adopted delivery of the required integration has proved challenging. This is a result of the complexity of current structures.
- 3.10 In light of the challenges outlined, coupled with the future projected change and growth of the city (and the public transport network), and the urgent need to maximise efficiency and effectiveness in future delivery, a rapid re-structuring of the city's transport companies is proposed.

## 4. Main report

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- 4.1 The Council should ensure that the public transport companies under its full or part ownership are structured to support the sustainable long-term growth of the city and the city region, to meet wider policy objectives and to provide the best service for the travelling public.
- 4.2 This will always require a careful balance of public service outcomes with ongoing commercial imperatives. This balance can be ensured through delivery of public transport that is efficient, integrated and sufficiently flexible to align delivery with local, regional and national transport policies as they evolve.
- 4.3 Public transport companies have a key role to play in the ambition to reach net zero carbon by 2030, through the delivery of a number of strategic programmes such as the CMP, ECCT, Trams to Newhaven and the emerging Regional Growth Framework and Spatial Strategy.
- 4.4 In the wake of the COVID-19 Pandemic, these matters have grown in importance, given that many aspects of day to day life in the city are subject to short, medium and long term change. Public transport provision needs to adapt to a changed world.
- 4.5 The increasing importance of integrating transport systems at the regional level is also a key issue, and any reform process needs to take account of the sustained importance of partnership working at the regional level.

### **Objectives for Future Public Transport Provision**

- 4.6 Taking account of the policy ambitions of the Council in reframing transport choices and road usage in the city (as set out in Appendix 1), the following objectives have been identified for creating an integrated public transport network for the future.
- 4.6.1 Delivery of public transport that takes account of wider public policy drivers, particularly in delivering anti-poverty and pro-sustainability strategies;

- 4.6.2 The continued development of high quality public transport services across the Lothians, catering for the needs of all passengers;
- 4.6.3 The efficient mobility of the passenger is the overriding factor in infrastructure and investment decisions, enabling increased movement between modes;
- 4.6.4 Efficiency and value for money must be optimised;
- 4.6.5 Strategic planning across public transport in Edinburgh should anticipate and respond to future development and demographic needs;
- 4.6.6 Public transport arrangements must be fit for the post COVID- 19 operating environment;
- 4.6.7 Dividend performance is a key issue and must be factored into any new arrangements; and
- 4.6.8 Any reform should enable and maximise collaboration between public transport delivery and local, regional and national policy.

### **Financial Arrangements**

- 4.7 On [20 February 2020](#), the Council approved its budget strategy for the revenue budget 2020/23 and recognised a pre-approved saving from 2019/20 for a reduction in the overall operating costs of the Transport for Edinburgh Group of £0.4m.
- 4.8 On [30 June 2020](#), the Council considered an update on the Council's revenue budget for 2020/21 which shows the financial impacts of COVID-19 on the Council and its ALEOs. A more detailed update on the impact of COVID-19 on the Council's ALEOs will be presented to Committee on 23 July 2020.

### **Options for Future Public Transport Provision through the Council's Transport ALEOs**

- 4.9 In light of the objectives set out in the report above, there are three options for the future of public transport provision through the Council's Transport ALEOs:
  - 4.9.1 *Do nothing* – this would leave the existing corporate structure and corporate agreements in place. It would look to improve existing relationships among the transport companies and the Council (s) to deliver change.
  - 4.9.2 *Adaptation of existing model* – this would mean retaining the existing corporate structure or significant parts of it but reviewing the Shareholder Agreements and other company governance documentation with a view to promoting the transport policies of the Council (s) and driving greater integration and efficiency.
  - 4.9.3 *Creation of a single company model* – this would mean having a single company to deliver an integrated transport system. Strategic direction would be provided to that company by the owners, who would also exercise shareholder powers to ensure accountability.
- 4.10 In addition, given the financial position of the Council, cost effectiveness must be an important determinant of any proposals for change. If savings can be made for the public purse while improved services are delivered, this should be a

consideration in the assessment of options. Therefore, a key input of the new structure is the ability to optimise efficiency and to hold the transport arm's length company (or companies) to account for spending and financial performance.

4.11 The impact of COVID 19 in the short term and possible future impact makes optimisation of efficiency more crucial. Close working between the Council and public transport delivery will maximise the role that public transport can play in COVID-19 recovery and help to deliver modal shift.

4.12 Each option, assessed against stated objectives can be summarised as follows:

4.12.1 *Do nothing* – The existing structure was implemented to enable integration and to comply with procurement and competition guidelines. It currently delivers high quality services and could continue to do so. However, the structure encourages an environment where the transport companies are partly competing in the same market and it is anticipated that this will increase over time. The current structure can result in competing priorities and introduces complexity which result in challenges to strategic planning across public transport in Edinburgh. Further, the current structure does not maximise operational savings from grouping business delivery functions. Therefore, the do nothing scenario is not favoured.

4.12.2 *Adaptation of existing model* - Amendments to the existing corporate governance documentation, coupled with revised management practice and a fresh ethos could potentially help deliver the stated objectives. However, retaining three companies with different management teams and boards means continuing competing priorities which make delivery of wider transport outcomes challenging. Each of the three companies also has a separate relationship with the Council in terms of delivery of transport infrastructure and policy which adds complexity. This means that this scenario is unlikely to resolve current barriers to strategic planning across public transport in Edinburgh, and nor does it maximise collaboration to deliver local and regional policy objectives. It also does not maximise efficiency and value for money. Therefore, it is considered that more fundamental change is required.

4.12.3 *Creation of a single company model* – This option would put integration and improving outcomes for the travelling public at the heart of public transport delivery and would see an end to the competition between tram and bus at a local level. It would also maximise operational savings. This structure allows for the least complex method of delivery with only one interface between the Council (s) and the public transport company which would achieve the collaboration needed to deliver local and regional transport policy.

### **Preferred Approach**

4.13 The city has set out an ambitious agenda of change – to be carbon neutral by 2030; tackling poverty, inequality and exclusion; being a city and regional economy that benefits everyone; and to be the data capital of Europe.

4.14 The way in which people move about the city in the future and, in particular, how they access and use public transport will need to adapt and change.

- 4.15 From the options above, it is the view of officers that the current system of separate companies for each mode of transport (bus and tram) should be transformed into a single integrated public transport company that is focused on meeting the needs of passengers and on increasing public transport use but with no negative impact on the front line operational staff.
- 4.16 Under the proposed new arrangement, services would retain separate branded operating functions for bus and tram. This approach would respect the vitally important brand identity of bus and tram whilst delivering an integrated set of back office functions and, potentially, proposals for senior management efficiencies.
- 4.17 This would require a new shareholder agreement to be put in place between the owners and the company. This agreement would set out all relevant policy outcomes expected to be delivered by the company, but crucially, would see the company responsible for all operational aspects of bus, tram, and cycle delivery. It would support delivery of a truly integrated approach for the first time
- 4.18 Such an approach would need changed arrangements on the shareholder side to ensure good governance was maintained, policy objectives were being delivered, and dividend performance sustained. This would include transparent oversight at both Elected Member and officer level, both by City of Edinburgh Council and also by the other shareholding Councils.
- 4.19 It should be noted, however, that Lothian Buses is not wholly owned by City of Edinburgh Council and so a new company structure would need to be developed in consultation with the minority shareholders. The needs of the partner councils, both from a transport policy and financial performance perspective, would need to be fully addressed. The issue of ensuring separate accounting for and continuity of the 9% shareholding in Lothian Buses by the three minority shareholders will require resolution. A mechanism to deliver this outcome will need to be carefully considered and discussed with the partner Councils.
- 4.20 Any plan for change will need to take into account the HR policies of each company and best practice in industrial relations. The details of such processes will be developed as part of the implementation plans.

### **A new Plan for Public Transport**

- 4.21 Alongside the creation of a single, integrated company, a comprehensive new public transport strategy is required to provide the framework and direction for the company, focused on addressing the current issues affecting the city. These issues include:
- 4.21.1 Tackling congestion in the city centre, particularly the number of buses traversing Princes Street and other key corridors;
- 4.21.2 Dealing with the constraints of the current bus network which mean that passenger numbers cannot significantly increase.
- 4.21.3 Recognising that the current bus network is 100 years old and while this has served the city well in the past it now needs to be recast and modernised

using best practise and external expertise as is being done in other cities such as Dublin.

- 4.22 Redesigning the bus network is an opportunity to review the evidence for public transport demand, and to design a network that meets those demands most efficiently. Ultimately, the goal is to provide a network designed around the needs of Edinburgh today and tomorrow, rather than one based on the past.
- 4.23 Like most European cities, Edinburgh presents features that make public transport essential, and require that it be highly efficient:
  - 4.23.1 Severe road space limitations. Across most of Edinburgh, especially in the older core, the road-width is fixed and will never be wider.
  - 4.23.2 Intensification of land use. In response to growing demands for housing and commercial space. More and more people are living within and around the city.
- 4.24 These two factors combined mean that more and more people are trying to use a fixed amount of road space. If they are all in their cars, they simply do not fit in the space available. The result is congestion, which cuts people off from opportunity and strangles economic growth.
- 4.25 The only alternative to congestion is for a larger share of the public to rely on public transport and other alternative modes. This requires services that most efficiently respond to the city's changing needs, as well as bus priority to give buses priority over cars that reflect the vastly larger numbers of people on each bus.
- 4.26 This new Public Transport Plan will be a key deliverable from the City Mobility Plan and will be taken forward urgently alongside the transformation of current company structures. The outputs of the plan will be a key part of the Shareholder Agreement and Business Plan of the new, unified company.

## **5. Next Steps**

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- 5.1 Given the positive opportunity for reform, the seriousness of the financial position facing the Council, and the impact of COVID-19 on the Transport ALEOs, it is recommended that engagement with the Transport ALEOs, the minority shareholders and the recognised trade unions of the companies, commence immediately with a report back to Committee in two cycles on the feedback received and a final proposals for change.
- 5.2 A detailed delivery plan and a full risk assessment will be developed once the final decision on the preferred approach is taken. Appropriate further legal and financial advice will be sought throughout implementation.



## **6. Financial impact**

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- 6.1 A reduction in the operating costs of the Transport for Edinburgh group was approved by Council in 2019/20 for implementation in 2020/21.
- 6.2 A small funding allocation has been made in the Place directorate budget to develop the implementation plan for the preferred approach, once approved.
- 6.3 Cost savings would be expected from any reform process. These savings, cost and resource implications of implementing a single company will be assessed as part of the implementation of any proposed changes.

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

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- 7.1 As set out in the report, the proposals will require appropriate engagement with Transport ALEO boards and their executive management teams. Full engagement will be required with them and the appropriate Trade Unions concerning any proposals.
- 7.2 The minority shareholders of Lothian Buses Limited will be fully involved in the forthcoming engagement and, if approved, in developing the plans for future public transport integration.
- 7.3 In addition, the proposals will have implications for the customers of the operational companies, who may see changes across ticketing and modal choice. In order to maximise the benefits of these changes, engagement will be required as delivery of public transport evolves in line with policy delivery. Such consultation would take place alongside development of policy at Council level.
- 7.4 It is anticipated that the proposed changes will have a positive impact on carbon, climate change or sustainable development impacts as a result of these proposals. Close working with delivery of other Council policies, in particular the draft CMP, will be required to ensure that the benefits arising from a new company structure are maximised.

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

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- 8.1 None.

## **9. Appendices**

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- 9.1 Appendix 1 – Summary of the Policy Context and Options for Future Delivery.

## **Appendix 1 – Summary of Policy Context and Options for Future Delivery**

### **Policy Context**

#### **City Mobility Plan (CMP)**

The draft CMP sets out the requirement for new approaches to public transport routing as a key feature of an improved transport system. Modal shift to public transport is central to reducing congestion and the impact of cars, and therefore a public transport system which is integrated, fast, convenient and affordable is an essential component of the CMP.

It also highlights at present, unrealised opportunities for greater integration within our public transport and active travel network. A more innovative approach to integrated pricing and ticketing with integrated routing would create a better public transport experience. This must be a key feature of any reform process.

The CMP recognises that better alignment of strategic business planning and operational management of the transport companies with the city's transport travel policy and programmes should be accelerated if transformational change is to be achieved.

Further, a key risk to delivery of the CMP is that the major city public transport providers currently work in competition with each other. A collaborative and integrated approach is the imperative for such transformational change.

#### **Edinburgh City Centre Transformation (ECCT)**

The delivery of the ECCT plan is dependent upon modal shift away from car, to allow road capacity to be realigned in favour of public realm and to encourage active travel. ECCT also proposes a 'to, not through' approach in order to address bus domination of certain parts of the city centre.

Currently the majority of bus routes pass through a small number of city centre roads, impacting upon the environment and inhibiting growth of active travel facilities as road capacity struggles to cope with bus numbers on a limited road network.

In addition, further integration with the existing tram line will help to reduce bus congestion in the city centre. A closer relationship at the operational level between the public transport companies and the Council will be critical for successful delivery of the vision of ECCT.

#### **Regional Integration**

Developing the CMP has demonstrated the vital relationship between transport systems within the city and across the wider region. Currently, Lothian Buses play a key role in East, Mid and West Lothian, and analysis through the STRP2 process is demonstrating the importance of further integrated solutions.

Any proposals for reform need to ensure the potential for greater regional connectivity from the outset. This makes the role and views of the minority shareholders in Lothian Buses particularly important in setting the policy outcomes.

The current structure with three separate boards presents challenges to an overall integrated approach.