

Lothian Buses Limited Review update**Report by Kevin Anderson, Executive Director - Place****Report for Noting****1 Recommendations**

It is recommended that Council notes the progress of reforms to the City of Edinburgh Council's (CEC) Transport Arms Length External Organisation (ALEO), as reported and approved at the CEC Transport and Environment Committee on 19 August, 2021.

2 Purpose of Report/Executive Summary

Following the most recent of the reports to Midlothian Council on this matter, on 15 December, 2020, progress has been made regarding development of options for reform of the City 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).

The subsequent Working Group report received approval for the model and the governance arrangements favoured by the minority shareholders as detailed in the CEC report link provided.

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3 Background/Main Body of Report

3.1 City of Edinburgh Council holds 91% ownership of Lothian Buses Limited and its subsidiary companies (the rest of Lothian Buses is owned by East, Mid, and West Lothian Councils). Midlothian Council is a minority shareholder in Lothian Buses Limited holding a 5% shareholding in Lothian Buses and is a recipient of a resultant dividend.

The City of Edinburgh Council (CEC) review of the governance and operational arrangements for its transport ALEOs has since determined a preferred approach and the CEC report is appended for reference.

3.2 Preferred Approach to implementation

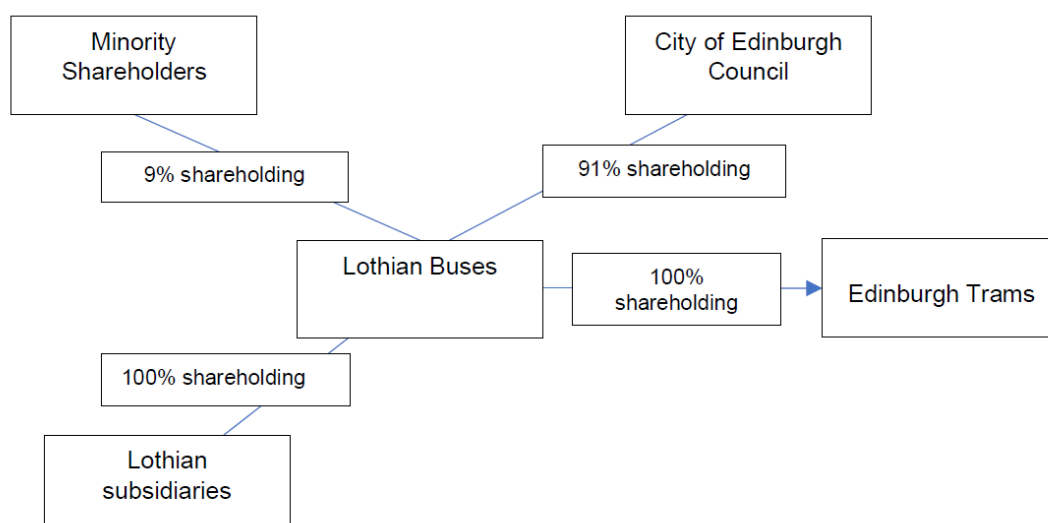
Extract from the CEC Transport and Environment Committee; 19 August, 2021; Reform of Transport Arm's Length External Organisations;

4.20 Taking account of all considerations, the approach recommended is to progress to reconstitute the Lothian Buses corporate entity with an amended Memorandum and Articles of Association, to be responsible for multi modal public transport delivery.

4.21 The reconstituted company would be responsible for delivering all Council owned public transport modes in the city, rather than being responsible for bus alone. It would also be responsible for anticipating and developing new transport modes. Opportunities for growth of public transport within Edinburgh and the wider region should be identified and developed to support and enable policy delivery and for the commercial sustainability of the company.

4.22 Edinburgh Trams would be a subsidiary of the reconstituted company. This gives sufficient control to develop multi modal public transport delivery, and also avoids multiple boards which has resulted in conflicting priorities in the past.

4.23 A diagram showing the legal/shareholding structure is shown below:



4.24 It is important to stress that the revised Lothian company would be responsible for delivery of multi-modal public transport. Therefore, no pre-eminence of any particular mode in the approach to delivery will be permitted, rather, the focus of the group will be on mobility, customer service, and commercial and environmental performance. This approach will be reflected in every aspect of the organisational design of the company.

4.25 To progress this new approach: 4.25.1 A new shareholder agreement would be required. The role of the minority shareholders in the reconstituted company would remain and they should continue to have a Board observer as now. The shareholder agreement would make clear that the profits and losses from Edinburgh Trams would be excluded from dividend to the minority shareholders. At Council officer level, a streamlined interface would be established to enable close working with dialogue to be established to work together on key policy issues. The Council would retain Board observer status;

4.25.2 Any revisions to Lothian Buses corporate documentation would make it clear that the new Board is to be responsible for existing and emerging transport modes, as directed by the owners of the company;

4.25.3 The Council would maintain formal political oversight through the existing committee structure;

4.25.4 As now, the commercial independence of the reformed company would be important (for legal and financial reasons), but key policies and practices would require the consent of the Council as majority shareholder in accordance with the terms of the new shareholder agreement;

4 Report Implications (Resource, Digital, Risk and Equalities)

4.1 Resource

Cost savings would be expected from any reform process. These savings, cost and resource implications of implementation will be assessed as part of the implementation of any proposed changes.

The council receives an annual dividend payment which is subject to the financial performance of Lothian Buses. There has been no dividend payment this year due to the financial impact of Covid-19 mitigation measures which resulted in a significant reduction in income to Lothian buses and public transport in general.

4.2 Digital

Not applicable

4.3 Risk

Change to the governance structure will require a new shareholders agreement and as a minority shareholder, Midlothian Council seeks to ensure the Council's rights are protected with representation within the new governance structure.

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 be considered with all the partner Councils.

4.4 Ensuring Equalities

Not applicable

4.4 Additional Report Implications

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

A.2 Key Drivers for Change

Key drivers addressed in this report:

- ☒ Holistic Working
- ☐ Hub and Spoke
- ☒ Modern
- ☒ Sustainable
- ☒ Transformational
- ☒ Preventative
- ☒ Asset-based
- ☒ Continuous Improvement
- ☐ One size fits one
- ☐ None of the above

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

- ☒ One Council Working with you, for you
- ☒ Preventative and Sustainable
- ☒ Efficient and Modern
- ☒ Innovative and Ambitious
- ☐ None of the above

A.4 Delivering Best Value

A detailed delivery plan and a full risk assessment will be developed form the final decision on the preferred approach is taken. Appropriate further legal and financial advice will be sought throughout implementation.

A.5 Involving Communities and Other Stakeholders

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

A.6 Impact on Performance and Outcomes

Agreement in this initiative should help preserve and deliver modern and reliable transport services to Midlothian customers.

A.7 Adopting a Preventative Approach

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.

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.

A.8 Supporting Sustainable Development

It is anticipated that any changes will have a positive impact on carbon, climate change or sustainable development impacts as a result of these proposals.