

**Lothian Buses - City of Edinburgh Council Request for Extraordinary Dividend****Report by Ricky Moffat, Head of Commercial Operations****1 Purpose of Report**

Council will be aware following recent reporting in the press, a request made by City of Edinburgh Council to Lothian Buses to consider the possibility of an extraordinary dividend of £20 million over the period 2017 – 2020.

The purpose of this report is to advise Council of the concerns raised directly with Lothian Buses on the potential impacts this proposal by the majority shareholder may have on the bus company and specifically what effect this could have on services within the Midlothian area.

**2 Background**

- 2.1** At the City of Edinburgh Council meeting on 19 November 2015 a report on the Edinburgh Tram extension was considered which raised the possibility of an extraordinary dividend of £20m being received from Lothian Buses during the period of the next business plan covering the period 2017 - 2020. In considering this report City of Edinburgh Council approved a motion which instructed the Chief Executive, City of Edinburgh Council to;

“write to Lothian Buses to request details of any impacts such an extraordinary dividend would make on their future transport strategy, fleet modernisation plans, the likelihood of future fare increases, loss of other transport initiatives (hidden opportunity costs), and the confidence or otherwise of their ability to ensure the company can continue to meet its liabilities”.

- 2.2** In response to this request Kenneth Lawrie, Chief Executive wrote to Jim McFarlane, Chairman and Interim General Manager of Lothian Buses (Appendix 1) outlining the Council’s concerns which a dividend could potentially have on the delivery of bus services within Midlothian.
- 2.3** In his response via e-mail (Appendix 2) Jim McFarlane confirmed that similar concerns had been raised by East Lothian Council. In this response reference is made to a meeting of the Lothian Buses Regional Sub-Group where senior officials from Lothian Buses would outline how the company would respond to City of Edinburgh Councils request for an extraordinary dividend. Jim McFarlane also further confirmed Lothian Buses commitment to fleet investment and its network of services.

- 2.4 This meeting of the Regional Sub-Group took place on Thursday 21 January 2016 in Haddington. Each of the minority shareholders Midlothian Council, West Lothian Council and East Lothian Council expressed their serious concerns that the impact of meeting City of Edinburgh Council's request for an extraordinary dividend could have on the provision of services within their respective Council areas. Lothian Buses officials acknowledged these concerns and whilst they were unable at this stage to confirm what impact this request may or may not have on rural or landward bus services they did confirm that meeting this request for an extraordinary dividend would be extremely challenging.
- 2.5 The members of the Sub Regional Group requested that Lothian Buses arrange for further meetings when additional information was available.

### **3 Report Implications**

#### **3.1 Resource**

There are no direct resource implications as a consequence of this report.

However, there is a concern that in future, Lothian Buses may have to reconsider services within Midlothian which prove challenging to operate commercially.

#### **3.2 Risk**

The risk to the Council is the potential impact on services within the Midlothian Council area. Any reduction in services would impact on people who travel for leisure or work purposes.

#### **3.3 Single Midlothian Plan and Business Transformation**

Themes addressed in this report:

- ☐ Community safety
- ☐ Adult health, care and housing
- ☐ Getting it right for every Midlothian child
- ☐ Improving opportunities in Midlothian
- ☒ Sustainable growth
- ☐ Business transformation and Best Value
- ☐ None of the above

#### **3.4 Impact on Performance and Outcomes**

There is no direct impact on performance and outcomes as a consequence of this report.

### **3.5 Adopting a Preventative Approach**

By raising the Council's concerns directly with Lothian Buses there is an opportunity to ensure that future service provision is not compromised as a consequence of the request from City of Edinburgh Council for an extraordinary dividend.

### **3.6 Involving Communities and Other Stakeholders**

Discussions at this stage have involved Lothian Buses, and East Lothian and West Lothian Councils.

### **3.7 Ensuring Equalities**

At this time there are no equality issues. However if services were to be affected there would be a need to consider this issue at that time.

### **3.8 Supporting Sustainable Development**

The provision of suitable bus services is fundamental to ensuring that sustainable transport is available for the travelling public in Midlothian.

Any restrictions on current and potentially future services would impact on Midlothian's vision as a thriving and growing area.

### **3.9 IT Issues**

There are no direct IT issues as a result of this report.

## **4.0 Summary**

This report is bringing to Councils attention the concerns relating to the request from City of Edinburgh Councils request to Lothian Buses for an extraordinary dividend of £20m over the period 2017 – 2020. These concerns have been relayed directly to Lothian Buses who in turn acknowledge these concerns and have undertaken to keep the Council advised of progress on this issue.

## **5.0 Recommendations**

Council is requested to:-

- Note the request from City of Edinburgh Council to Lothian Buses for an extraordinary dividend over the period 2017 – 2020 to be considered.
- Note that concern has been raised directly with Lothian Buses in terms of the potential impact this could have on service delivery in Midlothian.

- Note Lothian Buses commitment to continued fleet investment and its network of services.
- Agree that the Director Resources will provide a further update report when information is available.

**29 February 2016**

**Report Contact:** Ricky Moffat  
ricky.moffat@midlothian.gov.uk

Tel No 0131 561 5306

**Background Papers**

Midlothian Council  
Midlothian House  
Buccleuch Street  
Dalkeith  
EH22 1DN

Chief Executive  
Kenneth Lawrie

Midlothian

21 December 2015

Mr Jim MacFarlane  
Chairman and Interim General Manager  
Lothian Buses Ltd  
55 Annandale Street  
Edinburgh  
EH7 4AZ



Dear Jim

**Majority Shareholder Dividend**

Further to recent media information and your response to my colleague Ricky Moffat regarding the request from City of Edinburgh Council for consideration to be given for an extraordinary dividend of £20 million over the next three years, I feel it is necessary that I write to formally raise and record the Council's concerns.

It was always Midlothian Council's understanding that Lothian Buses and the Edinburgh trams were two separate companies and would operate this way. The recent announcements suggest that one is increasingly dependent on the other in terms of its future strategic direction and this can only be to the detriment of Lothian Buses' future and areas outlying from Edinburgh.

Over the last few years Lothian Buses have made significant and noticeable improvements to customer services and vehicles. I am concerned that should you proceed with the above there may be a negative impact on buses used in the Midlothian area, and also the airport links and tourist buses. Overall, it is feared that in trying to meet the wishes of the City of Edinburgh Council this may come at a cost to the public transport users within Midlothian. As you are aware Midlothian residents are very reliant on the services provided by Lothian Buses.

Whilst I am aware that the Sub Regional Board meets in January, I would be happy to host a meeting at a mutually convenient time to discuss this particular issue as and when you were in a position to share pertinent and relevant information.

Yours sincerely

Kenneth Lawrie  
Chief Executive

Your Ref:  
Our Ref: KL/lb

Tel 0131 271 3002  
Fax 0131 271 3014  
[www.midlothian.gov.uk](http://www.midlothian.gov.uk)

**From:** McFarlane, Jim  
**Sent:** 13 January 2016 16:55  
**To:** Kenneth Lawrie; Lorraine Brown  
**Cc:** Strachan, Norman; Serafini, Nigel; Boyd, Sarah; Susan Deacon; Ricky Moffat; Dalglish, Ian  
**Subject:** CEC Extraordinary Dividend Request  
**Attachments:** 5.1.2 LB299 GM Report CEC Letter 20 Nov.pdf; 5.1.3 LB299 GM Report 30 Nov JMcF Letter to CEC.pdf; 576 - Chairman's Message.pdf

Dear Ken,

I received your letter early last week expressing concern on behalf of Midlothian Council that CEC's request for an extraordinary dividend £20m from LB may have an adverse impact on fares and our services in Midlothian. I understand these concerns and you may be aware that similar concerns have been received from East Lothian Council during recent meetings with their officers.

I would be very happy to come out to Midlothian Council to discuss the matter in the near future and it is our intention that the matter be discussed at next week's Lothian Buses Regional Sub-Group. Unfortunately since I am now in holiday I will not be present next week but senior LB executive colleagues who will be present will be able to explain how we intend to deal with the CEC request. Susan Deacon who will Chair the meeting is also very clear on the LB Board position.

In the meantime I attach the correspondence that has passed between CEC's Chief Executive and myself on the Matter. Also attached is a message that I conveyed to all LB staff pre-Christmas. As you will appreciate the CEC request has also generated concern within our workforce and my message quite deliberately stresses our continuing commitment to fleet investment and our network of services.

If you wish to make arrangements for me to visit Midlothian Council my PA Ashlea Meikle will be able to identify suitable dates in my absence.

With Best Regards

Jim

**Jim McFarlane**  
**Chairman & Interim General Manager**

**Lothian Buses Ltd**  
**55 Annandale Street**  
**Edinburgh**  
**EH7 4AZ**



Jim McFarlane  
Chair  
Lothian Buses  
Annandale Street  
Edinburgh  
EH7 4AZ

Our Ref: AK/dh

Your Ref:

Date: 20 November 2015

Dear Jim

#### Majority Shareholder Dividend Expectations

I refer to the Lothian Buses / City of Edinburgh Council budget consultation meeting held on 10 November 2015 at which it was requested that the majority shareholder confirm in writing its dividend expectations for the next 3-year business plan.

As approved by Council on 22 October the Council is budgeting for a dividend of £6m per annum starting from 2016 financial year. An annual increase in dividend in line with the Retail Price Index should be assumed for subsequent years.

At the Council meeting on 19 November a report on the Edinburgh Tram Extension was considered which raised the possibility of an extraordinary dividend of £20m being received from Lothian Buses during the period of the next business plan. In considering this report Council approved a motion which instructed the Chief Executive to:

'write to Lothian Buses to request details of any impacts such an extraordinary dividend would make on their future transport strategy, fleet modernisation plans, the likelihood of future fare increases, loss of other transport initiatives (hidden opportunity costs), and the confidence or otherwise of their ability to ensure the company can continue to meet its liabilities'.

Council has requested that a further report on the Tram Extension be considered at its meeting on 10 December. In order that report deadlines can be met, I would be grateful if you could provide an initial response to the issues raised above by Monday, 30 November.

Yours sincerely

A handwritten signature in black ink, appearing to read "A Kerr".

**ANDREW KERR**  
Chief Executive

Andrew Kerr, Chief Executive

Waverley Court, 4 East Market Street, Edinburgh EH8 8BG Tel 0131 469 3002 andrew.kerr@edinburgh.gov.uk



Our Ref: JMcF/GL

30 November 2015

Andrew Kerr  
Chief Executive  
The City of Edinburgh Council  
Waverley Court  
4 East Market Street  
EDINBURGH  
EH8 8BG

**Lothian Buses Limited**  
Annandale Street,  
Edinburgh, EH7 4AZ  
T: 0131 554 4494  
F: 0131 554 3942  
lothianbuses.com  
Registered in Scotland No. 96849  
Vat No. 793 0906 27

Dear Andrew,

I am responding to your letter of 20 November 2015.

First of all I appreciate having clarity in regard to the Council's annual dividend expectations over the next three years. This will assist the company with its future business planning.

I also note to Council's request, now confirmed that the company consider the possibility of a further extraordinary dividend of £20m over the period 2017-2020.

The extent to which the company can meet this additional dividend request will be factored in the financial modelling that we intend to undertake in support of the 2017-2020 strategic plan that will be submitted to the Council in September 2016.

The company respects the right of the Council as majority shareholder to make this extraordinary dividend request. Equally the council will acknowledge that the company can only make annual or extraordinary dividend payments if it has the financial strength to do so having first taken into account the ongoing cash flow requirements of the business.

Yours sincerely



Jim McFarlane  
Chairman & General Manager



## Staff Notice



# Lothian Buses

Jim McFarlane  
Chairman  
Lothian Buses  
55 Annandale Street  
Edinburgh  
EH7 4AZ

## Chairman's Message

As we approach the festive season and the end of the Company's financial year, I want to share with you a number of important elements of news.

Most importantly in relation to business performance, I am delighted to be able to say that 2015 has been another year of achievement for Lothian Buses. Although we did not quite meet our ambitious target of 120 million passenger journeys we are on course to exceed 118 million which was a record breaking total for 2014. Revenues from these passenger journeys together with prudent management of our costs also means that the company will complete the year in a healthy profitable position.

Other elements of our 2015 achievements have been reported before but some merit re-statement:-

- 40 new hybrid double deck vehicles introduced into our fleet.
- A complete replacement of our Airlink fleet with low emission euro 6 vehicles. The 12 former Airlink vehicles have also been refurbished and introduced into Lothian Country Buses routes 104 and 113 to meet growing passenger numbers.
- Passenger survey returns which position Lothian Buses at the top of the UK passenger satisfaction ratings with the company rated No. 1 for passenger value for money.
- 10 new engineering apprentices recruited.
- Every single bus that we presented for an MOT passed! For the first time our success rate was a remarkable 100%. The average across the UK bus industry is 75%.

In recognition of all of this the Lothian Buses Board at its meeting last Thursday expressed huge appreciation for the part staff played in delivering our 2015 achievements and asked that I convey this to you. In doing so the Board also acknowledged the challenges that are faced on a day to day basis in dealing with increasing traffic disruption as well as the additional work of supporting events and demonstrations – so a very big thank you to everyone for your part in so successfully keeping the city moving and for the significant contribution this makes to the Edinburgh economy.

Reflecting the positive state of our business the Board at its meeting last week also approved an ambitious budget for 2016. The Board is determined that the business does not stand still. Going into next year opportunities to expand our network of services will continue to be investigated. We will replace our on-bus ticketing equipment and continue with fleet investment including the complete replacement of the Edinburgh Bus Tours fleet. We hope to continue our successful partnership with the Scottish Government's Green Bus Fund. We also intend to progress plans for the creation of a new training facility at Longstone Depot.

Most importantly 2016 will see the arrival of a new Lothian Buses Managing Director, Richard Hall, following his recent appointment. Richard has considerable bus industry experience and is currently Managing Director for RATP in London where he leads 3700 people across 11 sites operating services for Transport for London as well as having a responsibility for the development of a commercial bus and coach operation which launched in 2015. A press announcement on Richard's appointment will be made in the next 24 hours alongside announcements regarding the new Chief Executive of Transport for Edinburgh and the new General Manager of Edinburgh Trams.

I am sure all of you will welcome Richard into the business when he arrives next March. Also new to the business is recently arrived Interim HR Director, Simon Allbutt. Meanwhile, Gareth Jones, Corporate Communications Manager, will leave with our best wishes in January to take up a new role with Camden Council in London.

Finally, my very best wishes for Christmas and the New Year to all of you and your families.

Jim

SN15/576  
22 December 2015