

REPORT TO: East Lothian Council

MEETING DATE: 15 December 2020

BY: Head of Infrastructure

SUBJECT: Reform of City of Edinburgh Council's Fully or Partly Owned Transport Companies

1 PURPOSE

- 1.1 To advise Council that the City of Edinburgh Council (CEC) has commenced a review of the governance arrangements for its transport Arms-length External Organisations (ALEOs) and to seek approval for the model favoured by Council Officers set out in this report

2 RECOMMENDATIONS

It is recommended that Council:

- 2.1 notes the Officer's preferred approach to support the retention of a separate successful limited company (Lothian Buses) that operates quality transport services across the Lothians including our capital city.
- 2.2 supports the proposal that the trams network comes under the control of Lothian Buses to govern both the operation of the bus and tram network and other transport systems in Lothians provided that:
- 2.2.1 agreement is reached that any future company model should continue to operate on a commercial basis and at arm's length from CEC, as majority shareholder (CEC currently have a 91% shareholding in Lothian Buses);
 - 2.2.2 that any proposal regarding the governance will protect the operational business of Lothian Buses; and
 - 2.2.3 that there should be minority shareholder representation in any new governance arrangements.

3 BACKGROUND

3.1 The City of Edinburgh Council has commenced a review of the governance arrangements for its transport ALEOs.

3.2 The City of Edinburgh Council considered a report at its Policy and Sustainability Committee on Thursday 9 July 2020 titled 'Reform of Transport Arm's Length Organisations' (these ALEOs are: Transport for Edinburgh Ltd, Edinburgh Trams Ltd and Lothian Buses Ltd). That report set out the current arrangements and options for future arrangements for the governance of these ALEOs, of which CEC is the majority shareholder. East Lothian Council is a minority shareholder of Lothian Buses Ltd, with a shareholding of 3%. The CEC report can be accessed via the following link to CEC's website:

[Agenda for Policy and Sustainability Committee on Thursday, 9th July, 2020, 10.00 am - Modern Council \(edinburgh.gov.uk\)](#)

3.3 At that meeting, CEC considered a proposal to create a single company to deliver future public transport services, which would realise a number of benefits, including maximising operational savings, and simplifying delivery methods for local and regional public transport services. In addition, CEC is seeking to engage the minority shareholding councils, which includes East Lothian Council, in developing its proposals which were agreed by its Policy and Sustainability Committee on 9 July 2020.

3.4 CEC have approval to progress engagement on the proposed reforms with each of the transport ALEOs, the minority shareholders in Lothian Buses and the recognised trade unions in each organisation. The options considered were:

- do nothing;
- adaption of the existing model; and
- creation of a single company model.

Their assessment of each is given in sections 4.9 to 4.12 of the CEC report.

3.5 CEC's preferred model is the creation of a single company and the reasons for that are explained in the CEC report at Section 4.12.3; the approach to achieving it is outlined in Sections 4.13 to 4.20. The key drivers for change are outlined in Section 5 of the report, as is the commitment to provide a detailed delivery plan and risk assessment once the final decision on the preferred approach is taken. The commitment to minority shareholder engagement is also given in Section 5 of the report. CEC has also confirmed that they will adjust their timetable for committee reporting until all of the minority shareholders have participated in the engagement process.

3.6 It is noted in the CEC Report that CEC are to consult with the other (minority) shareholders. Officers in the other minority shareholder councils

share Officers' concerns over governance arrangements and future representation and influence of the minority shareholders. Council Officers would look to ensure that any operating model protects the current business and services provided by Lothian Buses. Further Council Officers have concerns that by following the CEC model there may be a dilution of the service and there is a risk that under the CEC model the operating company may prioritise the trams provision/services to the detriment of the wider provision of buses through the Lothians. Therefore having the potential that future transport operations fail to adequately address Lothian wide transport operations and service requirements.

- 3.7 Council Officers would recommend that East Lothian Council, as a minority shareholder should express their opposition to the current proposal put forward by CEC. It should also be noted the historical success of Lothian Buses and would therefore recommend any operating model, which would provide adequate protection to Lothian Buses operations. Officers would therefore suggest that any reform to the current operating model is delivered through Lothian Buses and in such a way that the trams network comes under the control of Lothian Buses while preserving Lothian Buses current business and operations.
- 3.8 Any change to the governance structure is likely to require a new shareholders agreement and as a minority shareholder Officers would advise that East Lothian Council's rights are protected with representation within the new governance structure.

4 POLICY IMPLICATIONS

- 4.1 A new Lothian Buses Shareholder agreement may be required to facilitate whatever option is progressed as a result of the review.

5 INTEGRATED IMPACT ASSESSMENT

- 5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy

6 RESOURCE IMPLICATIONS

- 6.1 Financial - 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 has resulted in a significant reduction in income to Lothian buses and public transport in general.
- 6.2 Personnel – none

- 6.3 Other – as CEC develop their model there will be a requirement for legal resource to consider and protect East Lothian’s position as a minority shareholder and ensure there is minority shareholder’s representation.

7 BACKGROUND PAPERS

- 7.1 Report to City of Edinburgh Council’s Policy and Sustainability Committee on Thursday 9 July 2020 – ‘Reform of Transport Arm’s Length Organisations’

[Agenda for Policy and Sustainability Committee on Thursday, 9th July, 2020, 10.00 am - Modern Council \(edinburgh.gov.uk\)](#)

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