

# Transport and Environment Committee

10am, Tuesday, 30 August 2016

## Transport for Edinburgh - Governance

**Item number**  
**Report number**  
**Executive/routine**  
**Wards**

### Executive Summary

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Transport for Edinburgh (TfE) is the parent company for Lothian Buses (LB) and Edinburgh Trams (ET). TfE is an Arms Length External Organisation (ALEO) wholly owned by The City of Edinburgh Council (CEC). This arrangement is governed by a shareholder agreement between CEC and TfE.

The company, in its present form, was designed to satisfy a number of key requirements including creating a single economic entity allowing LB and ET to operate together and comply with the requirements of UK competition law and other legal requirements.

The TfE Board has instructed its Chief Executive to develop a company strategic plan, setting the strategic direction and outcomes for the company and its subsidiary companies LB and ET.

A Service Level Agreement (SLA) between CEC and TfE will be developed which will help further define the working and funding relationship between the Council and TfE.

TfE, as an ALEO, has the potential to develop commercial opportunities that may be applied to certain public transport operations and services currently managed by the

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Council, which could remove the need for ongoing Council funding. It is proposed that commercial business cases for this purpose are prepared to support these.

This report considers the future governance for TfE and working arrangements between the Council, TfE and LB and ET. It also details areas where TfE should start to develop business cases and plans to provide specific functions. Further opportunities may be identified in the future.

## Transport for Edinburgh - Governance

### 1. Recommendations

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- 1.1 It is recommended that the Committee:
  - 1.1.1 agrees that a Service Level Agreement (SLA) is developed in line with Audit Scotland guidance that will give the necessary authorities to Transport for Edinburgh (TfE) to ensure that operational plans are developed to meet the outcomes and objectives of the approved TfE Strategic Transport Plan;
  - 1.1.2 agrees that TfE develops commercial business plans for the management and operation of Edinburgh Bus Station, Park and Ride sites and City Operations (including CCTV, traffic and travel information and responses to facilitate efficient travel demand management) and integrated ticketing, communications and marketing, and that these proposals, and associated monitoring arrangements, are reported back to this Committee;
  - 1.1.3 agrees that TfE develops a plan to procure a city bike hire scheme at no/minimal cost to the Council;
  - 1.1.4 agrees that further discussions will be required with ET and LB, with any associated changes to the current governance arrangements being made as required and reported back to Committee for approval.
  - 1.1.5 notes the proposed working arrangements detailed in this report; and
  - 1.1.6 notes that financial arrangements are established as set out in Section 5 to manage TfE operating costs and that these will be reported to a future meeting of the Finance and Resources Committee.

### 2. Background

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- 2.1 TfE was established in October 2013 as the parent company for LB and ET. TfE is an ALEO wholly owned by CEC. This arrangement is governed by a number of agreements, including a shareholder agreement between CEC, TfE and Lothian Buses, dated 28 October 2013. TfE, ET and LB collectively form the TfE group of companies.
- 2.2 TfE has the potential to assist the Council in its vision of growing the use of public transport within and into, Edinburgh by facilitating better travel integration between different modes of transport. To fully achieve its potential in this regard, TfE requires certain authorities that are not currently in place. The extent and timescales for these will require to be agreed.

- 2.3 TfE potentially has the potential to develop commercial opportunities to transform some Council-run public transport operations and services. This may remove the need of ongoing Council funding over time and it is proposed these opportunities should be explored.

### 3. Main report

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- 3.1 At its meeting of 12 January 2016, Committee noted that the TfE Board had instructed its Chief Executive to develop a TfE Strategic Transport Plan setting the strategic direction and outcomes for the company and its subsidiaries.
- 3.2 Committee noted at its meeting on 12 January 2016 that the plan should be developed within the context of, and aligned with, the Council's Local Transport Strategy and Local Development Plan. The TfE Strategic Transport Plan will be reported to Committee for approval by late 2016 /early 2017.
- 3.3 It was also noted in the report that the TfE plan would provide an overarching framework for the development of detailed LB and ET operational plans which facilitate and support wider Council ambitions and in particular provide high quality integrated public transport which will assist with the planned growth and expansion of the city in a sustainable and environmentally acceptable way.

#### **Governance**

- 3.4 The current LB three year operational plan expires at the end of 2016 and the company is currently preparing a new three year plan. The shareholder agreement requires LB to submit a draft plan to the Council, rather than TfE, for approval. To assist LB with preparation of its plan, the Executive Director of Place has written to LB to provide guidance on the Council's key priorities and the TfE Board has instructed its Chief Executive to provide oversight and guidance to LB, thereby helping pave the way for Council approval.
- 3.5 Current governance arrangements do not provide authorities for TfE, other than to hold shares and develop a strategy in line with CEC Local Transport Strategy and the Local Development Plan.
- 3.6 The business of TfE as articulated in the Shareholder Agreement is to:
- Act as the holding company for the Council and hold the Council's shareholdings in Lothian Buses and ET;
  - Develop and provide an integrated network of public transport in Edinburgh and the Lothians;
  - Provide certain strategic and support functions (on an arms-length basis or at cost) to its Subsidiaries and Subsidiary Undertakings; and
  - Procure appropriate funding arrangements (on an arms length basis or at cost) to its Subsidiaries and Subsidiary Undertakings.

- 3.7 CEC currently does not provide detailed guidance to TfE as an ALEO via a SLA and it is recommended that this be developed in accordance with The Audit Commission Scotland 2011 Guidance on ALEOs. This would clarify TfE's status and the expectations of CEC for TfE.
- 3.8 The SLA will set out the operational relationship between the Council and TfE. It should give the necessary authorities to TfE over the TfE Group, that would enable TfE to ensure that LB and ET operational plans are developed to meet the outcomes and objectives of the approved TfE Strategic Transport Plan and clarify funding mechanisms. This may require consequential adjustments to the existing governance arrangements.

### **Working Arrangements**

- 3.9 Although the SLA will empower TfE to act on behalf of the Council, the Council will still require to work directly with LB and ET on some operational matters. Although still subject to discussion, it is intended that working arrangements would be as follows:
- The Council will liaise directly with Lothian Buses and ET on routine operational and planning matters. These would include; Traffic Orders, traffic management, and routine service changes.
  - TfE and LB/ET will liaise with each other on the delivery of Council and TfE strategy. Issues will include increasing pedestrian movement in the city centre, the integration of bus and tram journeys and the use of the bus station.
  - The Council, TfE, LB and ET will meet on a quarterly basis to review strategy development and delivery.

### **Functional Responsibilities**

- 3.10 The Council currently funds, manages and operates a number of public transport operations and services for example; Edinburgh Bus Station, Ingliston, Hermiston and Straiton Park and Ride sites, EdinTravel (a social media travel information service with 32k followers), and the provision of Real Time Passenger Information via BusTracker. The Council also wishes to implement a city bike hire scheme.
- 3.11 By potentially exploiting commercial opportunities, an ALEO such as TfE has the potential to maximise benefits and returns.
- 3.12 It is recommended that TfE develops detailed business cases to transform and maximise the commercial potential of these services and remove/reduce the requirement of ongoing council funding. The business cases should include associated monitoring arrangements. TfE should also be asked to develop a business case for a self-financing city bike hire scheme.

3.13 TfE will also work to:

- Grow public transport patronage;
- Optimise tram operation and patronage;
- Develop the delivery of functional support to the TfE Group;
- Lead integrated ticketing;
- Unify tram and bus control systems and integrate with CEC systems; and
- Contribute to policy development.

#### **4. Measures of success**

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4.1 CEC, TfE, LB and ET work closely to ensure that Edinburgh benefits from a high quality and profitable integrated public transport system which assists the Council to achieve its objectives and outcomes as set out in the Local Transport Strategy 2014-19.

#### **5. Financial impact**

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- 5.1 TfE holds the Council's majority shareholding in LB as well as ET and in turn TfE is wholly owned by CEC. The annual operating cost of TfE is currently £472,265.00 and there are no formal financial arrangements in place to cover these costs.
- 5.2 Going forward, it is proposed that TfE provide an annual detailed forecast of company operating costs to CEC for approval and that these costs are considered as part of the Council's budget process.
- 5.3 It is proposed that TfE will develop commercial business cases for the operation and management of Edinburgh Bus Station, Park and Ride Sites, EdinTravel and the provision of Real Time Passenger Information with the objective of removing the requirement for ongoing Council funding.

#### **6. Risk, policy, compliance and governance impact**

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6.1 This report contains recommendations that will strengthen governance arrangements for Transport for Edinburgh and its subsidiary companies and help safeguard the Council's investment in integrated transport in Edinburgh.

#### **7. Equalities impact**

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- 7.1 TfE and its companies provide high quality, accessible transport which helps promote social inclusion.
- 7.2 There are no equalities or human rights impacts arising directly from this report.

## 8. Sustainability impact

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- 8.1 The principle operations undertaken by TfE and its companies contribute greatly towards a high quality, accessible and well integrated public transport system. This reduces dependency on car travel, reduces congestion and emissions.

## 9. Consultation and engagement

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- 9.1 The key issues and recommendations contained in this report have been developed collaboratively between officers of the Council and TfE Chief Executive.

## 10. Background reading/external references

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- 10.1 None.

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## 11. Links

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**Coalition Pledges**

**Council Priorities**

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**Appendices**