

**TRANSPORT FOR EDINBURGH LIMITED**

**Consolidated Financial Statements**

**For the year ended 31 December 2020**

**Registered number SC443895**



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## TRANSPORT FOR EDINBURGH LIMITED

### Company Information

**Board of Directors:**

Lesley Macinnes (Chair)  
Karen Doran (Vice Chair)  
George Lowder  
James McFarlane  
Callum Laidlaw  
Donald MacLeod  
Claire Helen Innes Miller  
George Hazel  
Daisy Narayanan  
Charlene Wallace (resigned 14 January 2020)

**Company Registration:**

Registered Office      55 Annandale Street  
Edinburgh  
EH7 4AZ

Registration Number    SC443895

**Bankers:**

The Royal Bank of Scotland plc  
Barclays Bank plc

**Auditor:**

Azets Audit Services  
Chartered Accountants  
Exchange Place 3  
Semple Street  
Edinburgh  
EH3 8BL

# TRANSPORT FOR EDINBURGH LIMITED

## Strategic Report

For the year ended 31 December 2020

### Principal Activities

The principal activity of the Company is to act as a holding and a parent company for The City of Edinburgh Council's public transport companies; Lothian Buses, which operates over 700 buses in Edinburgh and The Lothians and for Edinburgh Trams, the City's Tram Operating Company, which operates 27 Trams between Edinburgh Airport and The City Centre. The Company is also directed to deliver an integrated transport network and transport projects for The City of Edinburgh and The Lothians. The Directors are aware that the activities of the Company are developed in line with The Transport for Edinburgh Strategy for Delivery 2017 - 2021, which was unanimously approved by The City of Edinburgh Council Transport and Environment Committee in January 2017 and the emerging City Mobility Plan 2030. The Company also delivers additional services for The City in line with the purpose of the Company and The Strategy, most notably: the procurement, launch and oversight of the Edinburgh Cycle Hire Scheme, leadership of the Edinburgh Wayfinding Project and Driver Innovation Safety Challenge (DISC) and the coordination of City wide, major event contingency planning, including, but not exclusively, the coordination of City wide planning for COP 26. Transport for Edinburgh Limited (TfE) collaborates with The University of Edinburgh on a number of Projects, including with the Data Driven Innovation Department to develop a clearer understanding of travel demand in, through and around The City. This Report should be read in conjunction with the Strategic Reports of Lothian Buses and Edinburgh Trams.

### Business Strategy

The core purpose of TfE is to deliver world class, integrated, environmentally friendly, and socially inclusive transport, which plays a central role in the future prosperity of Edinburgh and The Lothians. TfE will deliver results through a strong commercial focus and transport services through innovative collaborations, cooperation with our neighbours and partners and the coordination of activity. We will reduce costs to The City of Edinburgh Council by drawing down as much other available funding as possible, to enable the delivery of services, particularly around Active Travel and Innovation.

### Review of the Business

The Group retained a substantial share of the local public transport market in Edinburgh and the Lothians. The Directors consider that the results for the year are in line with expectations, with the main reason for the loss in the year being as a result of the significant downturn in patronage due to Covid-19 restrictions on travel. Edinburgh Trams have also taken on greater responsibility for tram and network maintenance from The City of Edinburgh Council in recent years and are paying a higher access fee for the use of assets including the tramway, trams and tram Depot. No grant funding was provided by The City of Edinburgh Council to TfE for the period April to December 2020. As shown in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, revenue has decreased by 22.6% over the previous year to £143.6m, while the loss after tax was £20.9m. The Statement of Financial Position shows the Group's financial strength at the year end, with net reserves of £70.3m.

The main item of capital expenditure in the year was £5m for the addition of 30 single deck buses to the fleet.

Trading to mid March 2020 was in line with budgeted expectations until the Covid-19 virus outbreak affected us all. Revenue streams took a severe decline instantly, as the Government used restrictions on movement and "lockdown" to try and limit the spread of the virus. This has had a huge impact on public transport patronage, with levels at the peak of lockdown down by over 90%. Services patterns and frequency have been adjusted to meet the demand from essential and key workers, but delivery of these services is loss inducing.

### Future Prospects

The Directors are of the opinion that the Group remains in a sound position to maintain its role as the major operator of buses, trams, open top tours and cycle hire in Edinburgh and the Lothians. In addition to bus and tram services, TfE procured a cycle hire scheme for the City and is at the heart of the City Wayfinding Project that helps residents, workers, students and visitors; walk, cycle and use public transport in Edinburgh. The Group has been deeply involved in the development of the "trams to Newhaven" project and will remain significantly engaged, whilst supporting Edinburgh Trams as it takes maintenance contracts "in house".

## TRANSPORT FOR EDINBURGH LIMITED

### Strategic Report (continued)

For the year ended 31 December 2020

#### Future Prospects (continued)

The Group continues to face significant operating and cost pressures. With the Covid-19 virus outbreak in March 2020, and the ongoing restrictions since, we have had to be extremely proactive in seeking to address and mitigate the impact of the related revenue decline and cost pressures in order to maintain our business and returns. We will continue to manage and monitor the performance of the business as the impact of the virus continues in 2021.

The Directors remain positive about the future, despite the significant challenges being brought about by the severe impact on the financial results of the Group. This will bring further, significant, challenges and require dedicated recovery plans, phased with the relaxation of Covid-19 measures, carefully tailored to restore confidence in the use of public transport.

#### Results and Dividends

	2020 £'000	2019 £'000
The results for the year are summarised below:		
Revenue	143,633	185,629
Loss before income tax expense	(21,271)	(16,873)
Income tax expense	321	75
Net loss for the year	(20,950)	(16,798)
Attributable to:		
Equity holders	(19,866)	(16,076)
Non-controlling interest	(1,084)	(722)
Dividend	-	7,000

The Group uses a wide range of key performance indicators (KPIs) across the business to monitor progress in achieving its objectives. These are shown in detail in the Company reports. The most important KPIs are:

	2020	2019	Change
Group operating margin – operating loss relative to revenue	-14.0%	-8.9%	-5.1%
Group patronage – year on year movement in passenger journeys	56.95m	131.65m	-74.7m

Group operating margin has decreased by 5.1% due to losses made in 2020 within Lothian Buses and Edinburgh Trams. Group patronage has decreased 74.7m year on year, wholly as a result of Covid-19.

#### Employees

Details of the number of employees and related costs can be found in note 7 of the financial statements. We value our staff and have a strong commitment to equal opportunities and partnership working with trade unions.

Training, development and promotion opportunities, where appropriate, are available to all employees. Employment practices are continuously reviewed and updated to ensure that non-discriminatory legislation and codes of practice apply equally to all current and potential employees. We recognise the need for ongoing training, not just for new recruits, but also on an ongoing, continuing, basis for existing staff. Training programmes include customer care and disability awareness. The training is an essential part of employee development and to ensure best practice. The Group recognises that employee involvement is fundamental to its success. Executive Directors have regular meetings with elected staff representatives and informal meetings at employee level from time to time. Employees are encouraged to contribute to discussions on specific areas of importance e.g. health and safety, staff catering and staff welfare. Applications for employment received from disabled persons are considered on an equal basis with other applications, subject to the nature and extent of the disability and the degree of physical fitness demanded of the post.

## TRANSPORT FOR EDINBURGH LIMITED

### Strategic Report (continued)

For the year ended 31 December 2020

#### Employees (continued)

We recognise the need to develop our staff and during 2021 we will again invest heavily in our Supervisors, Managers and Leaders to ensure they have the right skills and attributes to lead and inspire our staff. Diversity and inclusion training will continue in 2021, focussing on and celebrating difference within the workplace and the communities we serve. To ensure our ongoing commitment to good and progressive employee relations and engagement Lothian Buses has a People Function with dedicated People Managers in their main bus garages. Working alongside both operational and non-operational management they advise and guide on a wide range of employment matters, ensuring legal compliance and best practice is at the fore when dealing with employees. Edinburgh Trams has similarly invested in their People and Training functions.

#### Risks and Uncertainties

The Boards regularly review the Risk Registers, which detail and identify risks from all areas of operations. The TfE Risk Register is regularly reviewed, evaluated and managed by the TfE Audit and Risk Committee and TfE Board, with action plans collated and monitored throughout the year.

The Group is subject to risk factors both internal and external to its business. External risks include; political and economic conditions, competitive developments, supply interruptions, regulatory changes, service diversification, supply price increases, pension funding, environmental risks, strikes and litigation. Internal risks include; risks related to capital expenditure, regulatory compliance failure and failure of internal controls. The Boards and their respective Audit and Risk Committees, regularly review the process of identifying, evaluating and managing the significant risks that the Group faces. The Boards consider acceptance of appropriate risk to be an integral part of business and unacceptable levels of risk are avoided or reduced. The Group uses an advance contracting strategy to reduce the impact of future volatility in fuel prices. The strategy is targeted to fix the cost of fuel to the Group through a part volume fixed price contract.

2020 has highlighted the complexity of decisions surrounding Brexit. This subject is included within our Risk Register and will remain a significant subject, closely monitored and action taken where necessary to ensure all aspects of the business, from operations to employee engagement are fully understood and where necessary communicated by the company to our staff. Working in close partnership with our major suppliers, the Board has received confirmation that they have also taken all necessary steps to ensure they can continue to deliver an uninterrupted level of service to back up our main operations and where applicable have resources in stock to deal with both short term and long-term objectives. 2020 introduced a new risk in the form of Covid-19 and this is now on our Risk Register and is being managed in the best way possible in such difficult circumstances.

#### Transport ALEO Reform

On 9 July 2020 a report was taken to the Policy and Sustainability Committee of The City of Edinburgh Council (CEC) that set out the current arrangements for the management of the group of the Council's Transport ALEOs and highlighted challenges in continuing to manage existing arrangements. It was agreed that a reform process would be initiated and that initial consultation with the 3 companies (Transport for Edinburgh, Edinburgh Trams and Lothian Buses), Unite the Union and the minority Lothian Buses Shareholders (East Lothian, Midlothian and West Lothian) would be conducted. Responses to this initial consultation were considered by The Transport and Environment Committee of The City of Edinburgh Council on 12 November 2020, where it was agreed that a Short Life Working Group (SLWG) would be convened to develop a preferred course of action. The SLWG would comprise 2 Non-Executive Directors from each of the 3 Transport ALEOs, The Director of Place and CEC Officers. The SLWG is facilitated by Jacobs. The first SLWG was held on 2 December 2020. Transport for Edinburgh is represented by Dr George Hazel and Mr Donald Macleod. The SLWG has subsequently met a further four times: on 17 December 2020, 20 January 2021, 26 February 2021 and 4 March 2021. A legal Sub-Group met on 12 February 2021.

The purpose of this work is to identify an organisational structure that will deliver optimal integration of the Council's public transport companies, in order to ensure maximum delivery against Council policies and objectives. Whilst Transport for Edinburgh is fully engaged with this work, the implications for the businesses are not yet fully known, or understood, as no decisions have yet been taken. Broad principles, risks and opportunities have been identified. No transformation programme or timeframe for implementation have been confirmed.

## TRANSPORT FOR EDINBURGH LIMITED

### Strategic Report (continued)

For the year ended 31 December 2020

#### Corporate Social Responsibility

2020 has been a proactive year for TfE, Lothian Buses and Edinburgh Trams, both in environmental achievements and other partnerships.

Lothian remains committed to reducing its impact on the environment. Lothian has continued to achieve the goals set out in the 5 year Bus 2020 Environmental Strategy and continues to work towards cutting its emissions footprint by 42% and operating at a minimum of Euro 6 by the end of 2021. In 2020, Lothian purchased 30 new Euro 6 buses, to the fleet operating across several routes running throughout the city centre. These low emission buses emit up to 99% less harmful emissions and provide an enhanced passenger experience. Lothian has 3 fully electric cars/vans in our ancillary fleet. The investments in low emission vehicles support air quality improvements in its operational environment. Lothian ends 2020 with 98% of its bus fleet at Euro 5 standard or above.

Funding from the Scottish Government's Bus Emission Abatement Retrofit (BEAR3) programme is allowing Lothian to retrofit 188 buses from Euro 5 to Euro 6 standard, enabling us to continue to reduce our emissions in some of Edinburgh's key air quality management areas.

Lothian was awarded £1.7m by the Green Economy fund in 2020 which will be used to introduce four Alexander Dennis E400 City Electric Double Decker vehicles onto a city centre route. Discussions with Scottish Power Energy Network and Alexander Dennis have concluded and it is hoped that these vehicles will be introduced to the fleet in the Summer of 2021.

Lothian is maintaining their Gold certification standard awarded by Green Tourism to the Tour bus fleet, they continue to demonstrate that they have received top recognition for sustainable best practice. They continue to engage with Green Tourism and have begun working with them to design a corporate assessment programme and tool. They will be the first organisation in Scotland to undergo this type of assessment and accreditation and it will further demonstrate commitment to being a sustainable.

#### Streamlined Energy and Carbon Reporting

In accordance with the Streamlined Energy and Carbon Reporting (SECR) requirements outlined in the Companies Act (2006) for large quoted and unlisted companies, Transport for Edinburgh Limited is required to report on its Greenhouse Gas (GHG) emissions.

The following paragraphs detail information on annual GHG emissions, total energy consumption for Transport for Edinburgh Limited covering the Group's offices, depots, transport fleet, as well as energy efficiency and environmental management actions implemented during the financial year. This information is the Group's SECR disclosure for the 2020 financial year. These results will be our baseline GHG emissions which will be used as a benchmark for future performance comparison purposes.

#### Methodology

##### Scope of analysis and data collection

Over 2020 the Group has collected primary data for our offices and business travel activities including: electricity consumption (kWh), gas consumption (kWh), traction current consumption (kWh), vehicle bus fleet fuel consumption (litres) and vehicle fleet mileage. All primary data used within this report is from 1 January 2020 – 31 December 2020, covering our financial year. The scope of our GHG emissions calculation covers all of our operations and vehicle fleets, operated by the Lothian Buses Group and Edinburgh Trams.

##### Calculation Methodology

We have used the BEIS and Greenhouse Gas Protocol Corporate Reporting Standard (GHG Protocol) methodology for compiling this GHG data and have calculated our GHG emissions in accordance with the UK Government's reporting guidelines for Company Reporting. To ensure consistency in our reporting we are reporting all GHG emissions in units of CO<sub>2</sub>e (carbon dioxide equivalent) and have used 2020 GHG Conversion Factors for Company Reporting, published annually by Defra and BEIS.

## TRANSPORT FOR EDINBURGH LIMITED

### Strategic Report (continued)

For the year ended 31 December 2020

#### Corporate Social Responsibility (continued)

##### GHG Emissions Scopes

The following reporting scopes (as outlined by the Greenhouse Gas Protocol) are included within this disclosure:

- **Scope 1 Emissions:** direct emissions from sources which the Group owns or controls. This includes natural gas consumption in our offices, fuel consumed and annual mileage completed by our vehicle fleets.
- **Scope 2 Emissions:** indirect emissions relating solely to the generation of purchased electricity that is consumed by the Group across our sites and operations.
- **Scope 3 Emissions:** indirect emissions relating solely to the transmission and distribution of purchased electricity that is consumed by the Group across our sites and operations.

##### Energy Consumption

The table below displays our annual energy consumption for electricity, natural gas and vehicle fuel for the 2020 financial year. As per SECR requirements this information is presented in kilowatt hours (kWh).

<b>Emissions Source</b>	<b>GHG Scope (Protocol)</b>	<b>Reporting Units</b>	<b>1 January – 31 December 2020</b>
Vehicle Fleet Fuel	Scope 1	kWh	141,679,473
Trams Traction Usage	Scope 2	kWh	6,704,037
Electricity (Sites & Vehicles)	Scope 2&3	kWh	4,388,650
Natural Gas	Scope 1	kWh	3,433,360
Vehicle Fleet Mileage	Scope 1	kWh	25,194
<b>Total Energy Consumption</b>			<b>156,230,714</b>

##### GHG Emissions Reporting

In accordance with the SECR Emissions Reporting requirements outlined in the Companies Act for large companies our GHG disclosure for the 2020 financial year is listed below. Results have been split by Scope as outlined by the GHG Protocol calculation methodology.

<b>GHG Emissions Scope</b>	<b>Results (Units)</b>	<b>1 January – 31 December 2020</b>	<b>% of GHG Emissions</b>
Scope 1	tonnes CO <sub>2</sub> e	34,721.66	92.5%
Scope 2	tonnes CO <sub>2</sub> e	2,586.15	6.9%
Scope 3	tonnes CO <sub>2</sub> e	222.41	0.6%
<b>Total GHG Emissions</b>		<b>37,530.22</b>	<b>100.0%</b>
GHG Emissions Intensity 1	tonnes CO <sub>2</sub> e / £m Turnover	<b>261.34</b>	
GHG Emissions Intensity 2	tonnes CO <sub>2</sub> e / Employee	<b>13.54</b>	

##### Energy Efficiency and Environmental Management

As an operator of public transport across Edinburgh and the Lothians, we recognise that our largest environmental impact is associated with the operation of our vehicle fleets.

Lothian Buses is continuing to introduce more and more Euro 6 and electric vehicles into the PCV fleet, as part of the Bus 2020 programme which has continued throughout the 2020 financial year. Through the driver training programme we are also encouraging drivers to adopt efficient driving practices further reducing our environmental impact. Lothian Buses also has an internal environmental strategy which is working to reduce the environmental impact of our internal operations across the Group's offices and depots; focusing upon waste, water and energy consumption. During 2020, Lothian Buses finished a complete retrofit of all lighting to LED across all of the bus garages and offices, increasing the energy efficiency of the buildings.

Edinburgh Trams has 27 trams and 6 support vehicles in its fleet. Moving forwards the intention is to reduce the number of diesel operated vehicles, replacing them with 100% electric, environmentally friendly vehicles. The Network also utilises (where possible) energy efficient LED lighting for our tram stops and signalling indicators.

Since our operational inception in May 2014, Edinburgh Trams has taken massive strides in reducing waste through improved management processes; introducing where possible more environmentally effective measures. All waste from our Network is collected as one and then segregated at our Gogar Depot, minimising the amount of waste which is sent to landfill and increasing percentage of waste which is recycled.



## TRANSPORT FOR EDINBURGH LIMITED

### Strategic Report (continued)

For the year ended 31 December 2020

#### Corporate Social Responsibility (continued)

##### Energy Efficiency and Environmental Management (continued)

Water recycling is also a key part of our environmental strategy whereby we use recycled rainwater (following filtration) in our tram wash and toilets at our Gogar Depot.

Edinburgh Trams are looking to further minimise our environmental impact moving forwards and are considering a number of future projects including:

- Electric Vehicle Recharging points for use by company vehicles.
- Expanding the use of LED lighting in workshops and our car park.
- Prospect of moving to 100% "Green Energy" tariff for Traction.

Our Trams to Newhaven Energy Innovation Project looks to also maximise future environmental and energy efficiency possibilities which will also include elements previously mentioned such as electric recharging points for use by both Edinburgh Trams and CEC.

#### Charity engagements

During 2020, we continued where possible with our community and charity engagements. Lothian Buses' charity of choice is Support in Mind Scotland and they have managed to work in partnership with them remotely during the Covid-19 disruption, 2020 was the first year of a two-year partnership. Fundraising events were curtailed during the year due to Covid-19 restrictions but Lothian Buses ever popular Doors Open Day in September, saw over 19,000 virtual visitors. 2020 also saw Lothian Buses once again support the national Poppyscotland campaign across November with a specially liveried 'Poppy Bus' for the charity. Lothian Buses partnership with Police Scotland continues our behavioural change campaign and we continue to receive a positive response with the programme. TfE supported the One City Trust. Covid-19 lockdown curtailed all other charity fundraising activity.

#### Edinburgh Cycle Hire Scheme

The scheme maintains some 500 cycles and e bikes on street, flexing to variable demand throughout the year via 100 hire points across The City. There were 234,470 trips in 2020 (124,001 in 2019). The scheme has over 60,000 distinct users. The use of the scheme is striking considering that for much of 2020 some customer groups were not using the scheme due to COVID 19. This included international and domestic visitors and commuters who were working from home. In addition to the CAPEX and OPEX provided by our Operating Partner, TfE secured £295k of further grant funding for the scheme in 2020. This has helped procure additional docking points and equipment for the scheme and maintained an Outreach Programme, which had to be significantly revised for COVID 19 delivery. In 2020 the scheme was extended to deliver a "satellite" in Queensferry and into Musselburgh in East Lothian. Discussion and negotiation with the Operator Serco commenced on the extension of the scheme beyond the initial 3-year period.

#### Wayfinding

In 2020 TfE continued to lead The Edinburgh Wayfinding Project, securing external funding of some £75k. Due to COVID 19 the design of the new on street totems was finalised remotely and manufacture of the prototype totems was delayed, as the chosen manufacturer had to close their factory for a period, until safe, COVID compliant working practices could be adopted. Sponsorship for the Project has been withheld or deferred as Sponsors have gone out of business, closed or asked for deferred terms. The project supported the Tram to Newhaven support for business programme, project products were displayed in existing infrastructure where appropriate and are being adopted by The University of Edinburgh across their campus.

## **TRANSPORT FOR EDINBURGH LIMITED**

### **Strategic Report (continued)**

**For the year ended 31 December 2020**

#### **The Driver Innovation Safety Challenge (DISC) and FOCUS +**

The DISC Project continued with the support of UK Tram, Edinburgh Trams and the other strategic partners. Working with IHF Ltd a wearable device, known as Focus+, has been developed and initially trialled. The results of which fed into further development and trialling. There are now 7 Framework transport operators fully involved in the trial, with others waiting to be onboarded or expressing interest. Applications for Innovation UK funding were refined and submitted in 2020.

#### **The Edinburgh Festivals Transport Coordination Project**

In 2020 The Edinburgh Festivals Transport Coordination Project was significantly impacted by COVID 19. Consolidation of data collected from previous years was analysed and used to inform the Edinburgh Tourism Action Group Forever Edinburgh campaign and the Strategic Implementation Group's work on COVID 19 recovery and the consequent reworking of the Tourism Strategy 2030.

#### **Major Event Planning**

Transport for Edinburgh has a delegated coordinating authority for the City's planning and preparation for major events, including COP 26. It is anticipated that a large number of delegates will arrive in Scotland for COP 26 through Edinburgh hubs, including the airport and main line stations. Bus, tram and cycle services will be available to delegates staying in Edinburgh. Coordination of cross functional, multi-agency, strategic partner activity continued throughout 2020. For COP 26 this included the development and submission of business cases for additional CCTV and Rapid Electric Vehicle Charging for Ingliston Park and Ride. For UNICORN and associated contingency planning Transport for Edinburgh secured £500k funding from Scottish Government for the procurement of additional public safety equipment. This funding flowed directly to City of Edinburgh Council and was largely committed in 2020.

#### **Electric Scooter Trial**

In 2020 the DfT encouraged Local Authorities to consider conducting E Scooter trials. TfE worked with Transport Scotland, the DfT and others to develop a clear understanding of the legislative, regulatory, technical, practical, sustainability and wider factors associated with conducting such a trial. TfE kept the TfE board apprised of developments to inform decision making and maintained engagement with the DfT on pilot scheme progress.

#### **Edinburgh Trams**

Edinburgh Trams has a fleet of 27 trams operating seven days a week, normally offering services from every 3 minutes to 16 locations, connecting Edinburgh Airport to the heart of the City in under 35 minutes. Due to the impact on patronage due to Covid-19, the operational timetable was reduced to a 15 minute day service from April 2020 and a 30 minute service from 7pm onwards. Passenger trends were closely monitored and, where necessary, "Hot Spares" were deployed to maintain Social Distancing where services were busy.

Although passenger numbers reduced, a significant change in the traditional peak journeys from 7am to 9am and 4pm to 6pm to that of a more retail timescale of 12 till 2pm was recorded. Peaks such as these were accommodated via our Hot Spares strategy.

Government messaging of essential travel only and where possible avoid using public transport, had a significant effect on patronage, including amongst those who still had to travel to work or study. This messaging does not instil confidence in using public transport, so a return to 2019 patronage levels may take up to two years. Another significant impact on patronage was the loss of international and domestic visitor passengers. Whilst domestic travel may pick up later in 2021, it is anticipated that it will take much longer for levels of international visitors to be restored.

#### **Tram Patronage Overview 2014 Through 2020**

Patronage levels for our financial year ending December 2020 have recorded a 70% decrease v 2019, however during certain periods of the year patronage levels were reduced by over 90% v 2019.

## **TRANSPORT FOR EDINBURGH LIMITED**

### **Strategic Report (continued)**

**For the year ended 31 December 2020**

#### **Trams to Newhaven Project**

Work on the Trams to Newhaven project paused in March 2020 due to Covid-19 lockdown but resumed in June.

In late 2020, the Final Business Case (FBC) was updated and approved with the City of Edinburgh Council believing, despite the challenges of Covid-19, that Trams to Newhaven remained a viable proposition.

The Council's advisers, developed a series of possible scenarios to stress-test the findings in the original FBC. These ranged from a return to business as usual, to a permanent reduction in demand taking into account short-term Covid-19 impacts and views on future growth. In each of the scenarios, modelling suggested that the economic case for the project remained, with a benefit-to-cost ratio above one.

Financial assessment found that the project could still be delivered within the budgeted £207.3m and that, in all but one of the scenarios, the impact on the Council reserves, if the project was cancelled, would be greater than continuing with construction. Whilst it is possible there could be a future call on Council reserves to support financing costs, as a result of Covid-19, in each scenario the scheme will finance itself, albeit in different timeframes.

The refreshed FBC also highlighted that the completion will play a key role in the future growth and development of the city. Delivering the tram line to Newhaven will unlock a large area of the city for housing and economic development, while providing a low-carbon, clean mode of transport to densely populated communities.

In 2020, Edinburgh experienced a significant drop in demand for public transport, with long-term consequences expected, including a decline in income to the tram service. The review of the FBC took this into account, with even the most optimistic of scenarios projecting that passenger numbers will not return to pre-Covid levels until the mid-2020s. Finally, the review of the FBC acknowledged the impact of Covid-19 on Lothian Buses and does not rely on any further payment of the extraordinary dividend, which was anticipated in the original FBC.

The tram will support the delivery of city and transport policies such as; carbon net zero by 2030, Low Emission Zone and City Centre Transformation, which proposes a series of interventions to provide a more liveable, people-friendly city centre and requires a mode shift to public transport to help deliver a 10-15% reduction in city centre car traffic in the medium term and a 25-30% reduction in the longer term.

#### **Tram Asset Management**

Under the terms of the Operating Agreement CEC is responsible for the cost of any Asset Renewal and/or any other capital improvement projects.

Edinburgh Trams has produced an outline 10 year Asset Renewals Plan based on our knowledge and feedback from the maintenance providers. CEC has accepted and provided funding already for some of the individual projects within this plan, with the subsequent delivery of these projects supported by Edinburgh Trams.

The 2019 Heads of Terms (HoTs) contemplates that the Operating Agreement will be varied to cover off the impact of the novation of each of the maintenance contracts to Edinburgh Trams. It is envisaged that the variation and novations will be signed simultaneously. The HoTs contemplate that until such time that the full variation is agreed Edinburgh Trams will bear the full cost of these maintenance contracts, replacing the various Access Fees within the Operating Agreement. Accordingly, these are re-charged by CEC to Edinburgh Trams.

It is anticipated that the terms of the Operating Agreement variation will be agreed between Edinburgh Trams and CEC by 31 March 2021, as will the terms of the novation documentation between Edinburgh Trams, CEC and each of the maintenance providers. Both Edinburgh Trams and CEC have committed to this date.

For ease of administration (invoicing, etc) it is agreed that the effective date of this change will be 18 April 2021, this being the first day of a new period.

Following the novation Edinburgh Trams intends to review each contract and liaise with the individual suppliers to capture any changes required from the introduction of the Newhaven section and also to ensure that each provides value for money.

## TRANSPORT FOR EDINBURGH LIMITED

### Strategic Report (continued)

For the year ended 31 December 2020

#### Tram Business Strategy

Edinburgh Trams opened for service in 2014 with a principal strategy to exceed expectations, both commercially for the Shareholder and Owner through providing an outstanding service for the customer. Striving to deliver these remains fundamental to the future success of Edinburgh Trams, as the line continues to develop across The City, both stimulating and supporting the economic growth of Scotland's capital.

Firstly, our overlying strategy out with the above statement is to ensure that the Trams to Newhaven (TtN) Extension planned for completion in 2023 remains in scope with the Final Business Case and our main stakeholders' expectations.

Whilst the effects of Covid-19 seriously affected daily operations in 2020, the TtN project continued. Edinburgh Trams continued to support the TtN Project Team and the construction partners to ensure operational experience is embedded in the completed line to Newhaven, so that the current operation will dovetail seamlessly with the extended operation.

Edinburgh Trams recorded a loss before tax of £9.4m in 2020 against a loss of £9.8m in 2019. The new financial standards which were introduced from January 2019 (IFRS 16) mean that Edinburgh Trams now recognise the trams system as an asset within the balance sheet. For 2020 the financial impact was a charge of £7.4m with an interest charge of £1.7m being accounted for within the annual accounts.

2020 has brought unprecedented times for all businesses but, in particular for Edinburgh Trams, the Government guidelines advising the avoidance of Public Transport, added to the impact of the major financial challenges faced in the year. We understand the messaging and appreciate the financial support awarded from Transport Scotland in July 2020 to allow services to be maintained for essential and key workers and those others who still needed to use public transport.

In summary, Government Support via Transport Scotland from 5 July onwards has resulted in a value of £5.76m received to 26 December 2020. Benchmarked against 2019, Tram service income has reduced by almost £12m.


Edinburgh Trams made maximum use of the Coronavirus Job Retention Scheme (CJRS). Management action resulted in over 140 staff members (out of 185) being on the scheme at some point during period April – December 2020 resulting in £1m being reclaimed under the scheme.

Additional support has also been received from CEC in respect of credited maintenance costs covering the period at the start of the year. The asset renewals programme has also resulted in a recharge to CEC in respect of attained tram maintainer costs valued at £385k.

The accounting treatment of the tram system reflected in prior year accounts has been continued in accordance with IFRS 16. A "Right-of-Use" asset of £62.5m is recognised within "Property, Plant & Equipment" with a lease liability of £64m also being recorded. Under this agreement, costs in relation to the "Right-of-Use" asset are £7.4m for depreciation and £1.7m for interest.

New system implementations in 2020 have included new IT servers and hardware, Payroll Systems, updated HR Business programmes and modern Operations programmes. Additionally, under our renewals programme the development of a new bespoke training facility known as "The Academy" is well underway and will be fully functional in 2021. This facility will also incorporate our Tram Simulator Programme which will again give added resilience, robustness and added self-reliance to the business, as we deal with both current and future requirements.

This report was approved by the Board and signed on its behalf by:



George Lowder (Director)

**Date: 11th May 2021**

## TRANSPORT FOR EDINBURGH LIMITED

### Corporate Governance Report

For the year ended 31 December 2020

#### Basis of Principles Applied

For the year ended 31 December 2020, under The Companies (Miscellaneous Reporting) Regulations 2018 (SI 2018/860), the Company has applied these regulations in full and has followed the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council ('FRC') in December 2018 and available on the FRC website).

The new corporate governance reporting requirements apply for financial years starting on or after 1 January 2019 and Companies are able to adopt the Wates principles as an appropriate framework when making disclosures regarding corporate governance arrangements. The Principles applied are set out below.

#### Principle 1 - Purpose and Leadership

Transport for Edinburgh Limited was set up in 2013 as the holding company for the shares in Lothian Buses Limited (Lothian) and Edinburgh Trams Limited (Trams). Lothian Buses was founded in 1919 and is now in its 102<sup>nd</sup> year. Lothian is owned by the four Lothian local authorities which resulted in the dissolution of the former Lothian Regional Council at the time of the Local Government reorganisation in 1994. The Lothian Group is the principal operator of bus services within the City of Edinburgh, Midlothian and East Lothian Council areas. They also operate bus services in West Lothian and operate open top sightseeing tours in Edinburgh and the City Region, in addition to day tours by coach, private hire and excursions. Edinburgh Trams were founded in 2013 and have a fleet of 27 trams operating seven days a week, offering services from every three minutes to 16 locations, connecting Edinburgh Airport to the heart of Edinburgh in under 35 minutes.

Our vision is to be:

- The most customer led;
- Focussed and innovative public transport operators in Scotland;
- Delivering safe, compliant and reliable bus and tram services.

The Group's purpose, goals and targets were formalised during 2016 in the Strategy for Delivery for 2017-21, under the Board's direction, to guide the organisation's strategy, decisions, processes and culture. The Strategy builds on the Group's existing commitment to good governance and social responsibility.

The Directors and the Shareholding Council see themselves as actively engaged stewards of a socially responsible network of Bus and Tram services. The Directors and the Board maintain a visible presence in the Group, promoting a long-term ethos, inclusion, diversity, community engagement, social responsibility and environmental sustainability.

#### Principle 2 - Board Composition

Details of each Board Director can be found on page 2.

The Group has a separate Chair and Chief Executive to ensure that the balance of responsibilities, accountabilities and decision making across the Group are effectively maintained. The Chair plays a pivotal role in creating the conditions for overall Board and individual Director effectiveness.

The Board comprises a Chair, Vice Chair, Chief Executive, the Chairs from Lothian Buses and Edinburgh Trams and up to seven Directors of which four are Elected Members from leading political parties in Edinburgh. This size and composition is appropriate to our large and complex business. Independent Non-Executive Directors bring experience in transport, systems, procurement, politics, governance, public place making, finance and audit, in addition to perspectives and challenge from outside the sectors and environment in which the Group operates.

We consider there to be sufficient experience and diversity on the Board and recognise that this is not always easy to maintain within the industry as a whole. We are committed to making the Group an ever-more inclusive environment, thereby fostering a more diverse workforce which should increase diversity at the most senior levels. We demonstrated our commitment to this area through the Diversity & Inclusion Policy.

## **TRANSPORT FOR EDINBURGH LIMITED**

### **Corporate Governance Report (continued)**

**For the year ended 31 December 2020**

#### **Principle 2 - Board Composition (continued)**

The Directors have equal voting rights when making decisions, except the Chair, who has the casting vote. All Directors have access to the advice and services of the Company Secretary and may, if they wish, take professional advice at the company's expense.

The duties of the Board are executed partially through committees. Some of the Directors attend and act as chair to relevant committees so that they are able to challenge and influence a broad range of areas across the Group.

The Board ensures that the values, strategy and culture align, are implemented and are communicated consistently to the workforces - for example through regular Senior Leadership Team meetings and away days that are available to senior employees.

Directors update their skills, knowledge and familiarity with the Group by meeting with senior management, visiting sites (such as visits to depots) and by attending appropriate external seminars and training courses. There is an induction programme for all new Directors which is tailored to their specific experience and knowledge and which provides access to all parts of the business, including access to shareholders.

There is an annual Board Effectiveness Review around February of each year and it is attended by all the Directors to maintain impartiality and good governance. The 2020 Board Effectiveness Review assessed that the Board was competent and well run and had the potential to become even more effective by clearly aligning its agenda to strategic development, encouraging all Directors to share their thoughts, observations and instincts for the benefit of all, and engaging the whole Board more routinely in the active management of shareholder relations.

Since the last Board Effectiveness Review there has been a significant emphasis on strategic issues being considered on a regular basis, with operational matters and performance monitoring spread over the course of the annual Board programme.

The Executive Teams occasionally use externally facilitated sessions to assist executing actions and plans agreed for delivery. The Board considers these externally facilitated sessions important in the delivery of key areas and for strengthening overall output and performance.

#### **Principle 3 – Directors Responsibilities**

##### **Accountability**

Good governance supports open and fair business, ensures that the company has the right safeguards in place and makes certain that every decision it takes is underpinned by the right considerations. Whilst Board oversight is always maintained, key decisions are made by the individuals and committees with the most appropriate knowledge and industry experience. Each Board member has a clear understanding of their accountability and responsibilities. The TfE Board has a programme of a minimum of five principal meetings a year. The Board's key areas of focus in 2020 are included on pages 17 and 18.

The Board members act in accordance with best practice behaviours and values. As part of each Board meeting all members must declare any potential conflicts of interest. These declarations are collated by the Chair and communicated to the Audit & Risk Committee, if necessary. Where there are potential conflicts, appropriate safeguards are implemented.

## TRANSPORT FOR EDINBURGH LIMITED

### Corporate Governance Report (continued)

For the year ended 31 December 2020

#### Committees

The TfE Board delegates authority for the day-to-day management of the companies in the Group to the Executive Teams of Lothian Buses and Edinburgh Trams who meet weekly and are chaired by their respective Managing Directors and whose membership includes their other Executive Directors and key personnel. Leaders of each Business function (for example, Commercial, Human Resources, Health & Safety, etc) are invited to meetings as and when required.

The Directors are wholly independent in that they have no material business or relationships with the company that might influence their independence or judgement. In addition, certain governance responsibilities are delegated to other committees (Audit & Risk, Remuneration or Nomination). These committees include a mix of Directors who support effective decision making and independent challenge.

#### Integrity of Information

The Board receives regular and timely information (at least quarterly) on all key aspects of the business including health and safety, risks and opportunities, the financial performance of the Group, strategy, operational matters, market conditions and sustainability, all supported by a summary from the Managing Directors of both Lothian and Tram.

Key financial information is collated from the Group's various accounting systems. The Group's finance function is appropriately qualified and ensures the integrity and accurate timely production of this information. The finance function is also provided with the necessary training to keep up to date with regulatory changes. Financial information is currently externally audited by Azets on an annual basis and financial controls are reviewed and maintained by the Group's finance function. Other key information is prepared by the relevant internal function. Processes for collecting data, as well as the reporting of that data, is reviewed on a regular basis by the finance function with reporting thereon provided to the Audit & Risk Committee.

#### Principle 4 – Opportunity and Risk

The Board seeks out opportunity whilst mitigating risk.

#### Opportunity

Long term strategic opportunities are highlighted in the annual Group budget process which is presented to the Board at the end of every year. The Board seeks out opportunities drawn from the business plan, strategy and the committees to which it delegates. Short term opportunities to improve performance, resilience and liquidity are collated through quarterly review process which are attended by the Executive Teams of Lothian Buses and Edinburgh Trams.

#### Risk

The Audit & Risk Committee, consisting of certain Directors, ensures that inherent and emerging risks are identified and managed appropriately in a timely manner. Its focus is on monitoring the effectiveness of the Group's approach to risk identification, classification and mitigation. The Committee meets at least twice a year and reviews the risk register for any changes in underlying conditions. The Committee continues to refine and enhance the company's risk management framework and the content of the risk register and works to ensure consistency across all operations. A list of emerging risks is maintained by the Audit & Risk Committee and considered at each meeting – an emerging risk is included on the risk register once its likelihood and impact of occurrence becomes material to the Group.

The company's Strategic Report includes the key operational risks and uncertainties that are monitored by the Audit & Risk Committee. The risk register is presented to the Board at each meeting. Specific points raised by the Board are discussed in the subsequent Audit & Risk Committee and vice versa.

The company's systems and controls are designed to manage, rather than to entirely eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not an absolute assurance against a risk materialising.

## **TRANSPORT FOR EDINBURGH LIMITED**

### **Corporate Governance Report (continued)**

**For the year ended 31 December 2020**

#### **Responsibilities**

The Group has an operating framework which encapsulates the Group's operating rules, processes, best practice standards and delegated authorities. It is the fundamental platform to our internal control and governance framework.

Specifically, the Board approves any contract above a certain value (determined by the Board) or any transaction that requires an unbudgeted allocation of capital, to ensure that the appropriate level of diligence has been performed in understanding the obligations, risks and terms of the contract. This enables the Group to protect the integrity and long-term sustainability of all its businesses, to meet its strategic objectives and to create value for its shareholders, customers and suppliers.

#### **Principle 5 - Remuneration**

The Remuneration Committee's primary objective is to set remuneration at a level that will enhance the Group's resources by securing and retaining quality senior management who can deliver the Group's strategic ambitions in a manner consistent with both its purpose and the interests of its shareholders.

The Remuneration Committee has clearly defined terms of reference and is responsible for making recommendations to the Board concerning the Group's remuneration strategy, recruitment framework and long-term plans for senior executives. In doing so, the Committee takes advice from independent external consultants who provide updates on legislative requirements, best market practice and remuneration benchmarking, drawing on evidence from across the sectors in which the Group operates and from other comparable sectors. Pay is aligned with responsibilities and performance and takes in to account fair pay and conditions across the Group's workforce.

An independent review was last performed in 2020, which highlighted that the Group's remuneration policy for Directors and Senior Management is consistent with companies of a similar size and complexity, as well as other companies operating within comparable sectors. The next review is scheduled for March 2022. Directors' remuneration is disclosed on page 40 (note 7).

In 2020, the Group reported its Gender Pay Reporting which highlighted some specific areas of focus for 2020 and beyond. The Group is an active equal opportunities employer and promotes an environment free from discrimination, harassment and victimisation, where everyone receives equal treatment and career development regardless of age, gender, nationality, ethnic origin, religion, marital status, sexual orientation or disability. All decisions relating to employment practices (including remuneration) are objective, free from bias and based solely upon work criteria and individual merit.

#### **Principle 6 – Stakeholders**

The Board is clear that good governance and effective communication are essential on a day-to-day basis to deliver our purpose and to protect the Group's brand, reputation and relationships with all of our stakeholder community including shareholders, customers, employees, suppliers and the local communities in which we work and serve.

The Board continues to seek to align the Group's strategic direction with its purpose and to the shareholders' long-term aspirations for sustainability, growth, diversification, environmental targets and policy decisions. Lesley Macinnes (Chair) and George Lowder (Chief Executive) of the Board are the primary communication routes between the Board and the Company's shareholders. Together with James McFarlane (Chair of Lothian Buses) and Martin Dean (Chair of Edinburgh Trams) they work to ensure common goals amongst the wider shareholder group.

#### **External impacts**

The Board is committed to social responsibility, community engagement and environmental sustainability. It achieves this in part through its commitment to: a positive work culture (ensuring the safety, health and wellbeing of everyone who works in the Group); creating positive environmental and social impact; being an employer of choice where everyone is valued and respected; and seeking new ways to ensure the sustainability of the buildings we operate and maintain.



## TRANSPORT FOR EDINBURGH LIMITED

### Corporate Governance Report (continued)

For the year ended 31 December 2020

#### Stakeholders

The Board promotes accountability and transparency with all external stakeholders and with representatives of government and other opinion leaders, whilst maintaining an open and balanced presence in the media. The Group's fundamental belief in promoting the public good is demonstrated and supported by the Chair and Chief Executive's active engagement across industry bodies and our wider stakeholder community.

Every year the Group hosts local Doors Open Day's which are community events where the public get to come along to one of our depots and see a selection of our public service vehicles, both old and new, and enjoy a great day out.

The Group uses customer engagement surveys where the findings are used to improve customer engagement with knowledge being shared across all of our companies and divisions.

Lothian Buses has Earned Recognition Status which is an external audit and validation mainly of the Group's ability to perform its MOT testing to DVSA standards.

The Annual General Meeting held in June each year provides a briefing on the Group's financial performance and allows individuals to raise any questions or concerns.

The Executive Teams meet regularly with Union representatives of the Group to facilitate communication of current issues and the Group's plans and purpose. There is a Recognition and Procedural Agreement in place. The Board considers positive Union engagement a good barometer of the workforce's confidence in the Group's strategic direction, optimism in the future, working conditions and career opportunities. The Executive Teams have taken part in a number of initiatives over the past year to further improve employee relations by engaging further at both Group and divisional level, improving communication, expanding flexible benefits on offer, encouraging more flexible working practices and wellbeing initiatives where possible and updating the Group's intranet and internal TV screens as channels of communication to share information, best practice, achievements and success.

The Group provides both Gender Pay Reporting and Payment Practices & Performance Reporting, both of which are published externally. The Group maintains the additional analysis required to conduct this reporting and welcomes these routes of reporting as it is constantly looking to improve its engagement with stakeholders.

The Group communicates regularly with the Lothian Pension Fund, which operates the Company's defined benefit pension scheme, and Scottish Widows, which operates the Company's defined contribution schemes, both of which are wholly independent of the Company. These regular communications are key to ensuring that the decisions made by both the Company and the scheme reflect the interest of all stakeholders.

The Group's main websites ([www.transportforeдинburgh.com](http://www.transportforeдинburgh.com)), ([www.lothianbuses.com](http://www.lothianbuses.com)) and ([www.edinburghtrams.com](http://www.edinburghtrams.com)), intranet, TV screens and social media channels provide extensive and up-to-date news on recent developments.

**TRANSPORT FOR EDINBURGH LIMITED**  
**Corporate Governance Report (continued)**  
**For the year ended 31 December 2020**

**Company Board**

Details of individual Directors' attendance at Board and Committee meetings in 2020 are shown below:

Name of Director	Max no. of Board and Committee Meetings Director could attend	No. of Board and Committee Meetings attended	%. of Board and Committee Meetings attended
<b>Chair</b>			
Lesley Macinnes	7	7	100%
<b>Chief Executive</b>			
George Lowder	7	7	100%
<b>Directors</b>			
James McFarlane	7	6	86%
Karen Doran	7	7	100%
Callum Laidlaw	7	7	100%
Donald MacLeod	7	7	100%
Claire Helen Innes Miller	7	6	86%
George Hazel	7	7	100%
Daisy Narayanan	7	5	71%
<b>Observer</b>			
Paul Lawrence (City of Edinburgh Council)	7	7	100%

**Activities of the Board in 2020**

The Board operates a forward agenda of standing items appropriate to the Group's operating and reporting cycles. Items requiring Board approval or endorsement are highlighted clearly. Other items are for monitoring or reviewing progress against strategic priorities, risk management or the effectiveness of internal controls.

**During 2020 the Board:**

- Approved the Annual Accounts and Reports 2019;
- Approved the Group's 2021 budget
- Progressed the Group's business plans;
- Approved capital spend to support the 2021 budget and business plans;
- Received detailed reports on the Group's operating and financial performance;
- Gave due consideration to the Group's safety performance;
- Received updates on progress against strategic programmes and tested the overall strategy against the delivery of shareholders' long-term objectives;
- Frequently considered the evolving economic, political and market conditions relative to Brexit;
- Considered competitor behaviour;
- Considered and agreed in principle an acceptable level of resilience and liquidity;
- Reviewed the Group's forecast financing requirements, debt capacity and potential financing options that would enable the achievement of the desired resilience targets;
- Regularly reviewed key risks, together with the adequacy of mitigation controls;
- Assessed all material project delivery contracts and investment proposals in excess of approved budgets;
- Received regular updates and reports from the Chairs of the Audit and Risk, Remuneration and Nomination Committees on activities and recommendations of the Committees;

## TRANSPORT FOR EDINBURGH LIMITED

### Corporate Governance Report (continued)

For the year ended 31 December 2020

#### During 2020 the Board (continued):

- Considered the continued personal development of the Executive Team, including senior management succession planning;
- Reviewed the remuneration of the Chief Executive to ensure alignment with policy and shareholder returns;
- Considered the short and long terms trends in sustainability that would help to inform the wider business strategy and the Group's long-term business planning process;
- Considered the data and narrative relevant to the Group's Gender Pay Reporting and Payment Practices & Performance Reporting in preparation for external publication; and
- Approved the annual statements on the Group's policies on anti-slavery and human trafficking, anti-bribery and corruption.

#### Audit & Risk Committee

The Committee's primary concerns are the integrity of the Group's financial statements; the effectiveness of internal controls; the adequacy of internal audit reviews; the performance and independence of the external auditor and the Group's compliance with legal and regulatory requirements.

The Committee has clearly defined terms of reference, which are reviewed annually and are available from the Committee Chair. These outline the Committee's objectives and responsibilities relating to financial reporting, internal controls, risk management and the application of appropriate accounting standards and procedures. Specific responsibilities include reviewing and recommending for approval the annual financial statements, reviewing the Group's accounting policies, reviewing the effectiveness of internal controls, internal audit and risk management processes and reviewing the scope and results of the external audit.

Callum Laidlaw is the Committee Chair. The Committee comprised two other independent Non-Executive Directors; Karen Doran and Donald MacLeod. The Board is satisfied that the recent and relevant financial and risk experience of the Committee Chair and the Committee's members during 2020 followed the principles of good governance in relation to their skills, knowledge and experience.

#### External Auditors

Azets Audit Services were re-appointed external auditors at the AGM in June 2020. The Committee assesses the effectiveness of their performance every year after completion of the annual audit and in April 2020 the Committee evaluated their performance in relation to the 2019 audit. The evaluation takes the form of speaking to the staff involved in the audit process, including members of the financial, commercial, IT and payroll functions and also members of the Executive Teams. The calibre of the external auditors, their governance, independence and professionalism continues to receive good feedback. Both management and external auditors are committed to a positive working relationship that enhances the effective and efficient execution of the audit process. As a private company, the Group is not subject to external restrictions in terms of non-audit work provided by the external auditors, but for good governance has chosen to implement its own policy in relation to the level of their remuneration and the extent of their non-audit services.

At its meeting in April 2020 the Audit & Risk Committee was satisfied that the Group's external auditors' engagement policy had been complied with and concluded that the external auditors remained objective and independent and that the audit process was effective and robust.

Azets Audit Services were last reappointed external auditors in June 2017. The Audit Committee identifies re-tendering of the external audit service at least every five years as good practice.

## **TRANSPORT FOR EDINBURGH LIMITED**

### **Corporate Governance Report (continued)**

**For the year ended 31 December 2020**

#### **Remuneration Committee**

The Committee's primary objective is to set remuneration at a level that will enhance the Group's resources by attracting, retaining and motivating quality senior management who can deliver the Group's strategic ambitions within a framework that is aligned with shareholder interests.

The Committee firmly believes that the best people on the right remuneration, with an emphasis on performance, strengthens the Group's ability to face challenges emanating from economic and market change, and to deliver long-term sustainable value for all stakeholders.

In 2020, the Committee comprised three Independent Non-Executive Directors. The Committee was chaired by Steve Cassidy and the other members are Clair Miller and Karen Doran. There were no meetings during 2020.

#### **Nominations Committee**

The Board operates a Nominations Committee to ensure that the Board remains balanced and effective, that succession plans are in place, and that its structure, composition and skills remain aligned to the Group's strategic objectives. The Committee's primary objective, when necessary, is to identify and evaluate candidates for future appointments and, in doing so, it takes advice from independent external recruitment consultants. In 2020, the Committee comprised all of the Board. The Committee has no formal schedule of meetings and meets as required. There were no meetings held in 2020.

#### **Executive Teams**

The Executive Teams are responsible for the day-to-day management of the Group's business affairs under leadership of the Chief Executive and the Chair's of each Company in the Group. The Team's duties include formulating strategy proposals for Board approval and ensuring that the agreed strategy is implemented in a timely and effective manner.

The Executive Teams consist of individuals responsible for the key business units and functions. The Teams include the Directors and Head of Departments.

#### **Risk Register**

The Group operates a Risk Register to ensure that inherent and emerging risks are identified and managed in a timely manner and at an appropriate level. The Audit & Risk Committee and the Board review the Risk Register which is updated by the Executive Teams for each meeting. The Committee and Board respond to specific areas of risk and approve and promote standards and best practice processes where control weaknesses are considered to exist. The Risk Register allows the Group's approach to risk management and mitigation to be focused on the key risks affecting the main financial and operational performance issues.

## TRANSPORT FOR EDINBURGH LIMITED

For the year ended 31 December 2020

### Directors' Report

#### Directors

The Directors are as set out on page 2.

None of the Directors had any interest in the issued share capital during the year.

#### Conflicts of Interest

The Company's Articles permit the Board to consider and, if deemed fit, to authorise situations where a Director has an interest that conflicts, or may possibly conflict, with the interests of the Company. In the event that a Director becomes aware that they have an interest that may arise in a conflict they are required to notify the Board in writing. Internal controls are in place to ensure that any related party transactions involving Directors are conducted on an arm's length basis. Directors have a continuing duty to update changes to these conflicts. The Board considers that the procedures in place for reporting and considering conflicts of interest are effective.

#### Corporate Responsibility

Corporate responsibility continues to remain an integral part of the Group's business and long-term strategic plans. The Group's approach, priorities and objectives in the corporate responsibility arena, specific to the environment and communities in which we serve and operate, are communicated and embedded within the business as part of the Group's overarching strategic objectives.

#### Promoting the Success of the Company

Under Section 172 of the Companies Act 2006 the Directors have regard to responsible behaviour in the Company. The Directors have regard to the likely long-term consequences of decisions made, the interest of the Company's employees, the Company's business relationships with suppliers, customers and other stakeholders, the impact of the Company's operations on the local community and the environment, the Company's reputation for high standards of business conduct and the need to act fairly as between members of the Company.

#### Statement of Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and the Company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). Under Company Law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## TRANSPORT FOR EDINBURGH LIMITED

For the year ended 31 December 2020

### Directors' Report (continued)

#### Employees

The Group recognises the importance of engaging with employees to help them make their fullest contribution to the Group, which is fundamental to achieving the Group's strategy and long-term objectives. The Group uses a variety of media platforms to inform employees about the Group's activities, plans and developments together with the Group's purpose, goals and direction and actively takes on board employees' views and opinions. Further communication is effected through the use of in-house electronic bulletins, notice boards, social media as well as the Group's intranet and website.

The Group is committed to improving the skills of employees through training and development and through nurturing a culture in which employees feel valued for their contribution and motivated to achieve their full potential. Statistics relating to the average number of people employed by the Group during the year can be found in note 7 on page 40.

#### Share Capital

Details of the Company's share capital are set out in note 16 on page 45.

#### Articles of Association

The Company's Articles of Association may be amended by a special resolution of the Company's shareholders.

#### Disclosure of Information to the Auditor

Each of the Directors, whose names and functions are listed on page 2 confirm that, to the best of each person's knowledge and belief:

- there is no relevant audit information of which the Company's auditor is unaware;
- the Directors have taken all steps that they might to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information;
- the financial statements, prepared in accordance with IFRSs, give a true and fair view of the assets, liabilities, financial position and (loss)/profit of the Group and Company; and
- the Strategic Report contained in the annual report includes a fair review of the development and performance of the business and the position of the Company and Group, together with a description of the principal risks and uncertainties that they face.

#### Auditor

On 7 September 2020, Group Audit Services Limited trading as Scott Moncrieff Audit Services changed its name to Azets Audit Services Limited. The name they practice under is Azets Audit Services and accordingly they have signed their audit report in their new name.

The auditor, Azets Audit Services, is deemed to be reappointed under Section 487 (2) of the Companies Act 2006.

This report was approved by the Board and signed on its behalf by:



Date: 11<sup>th</sup> May 2021

George Lowder (Director)

## TRANSPORT FOR EDINBURGH LIMITED

### Independent Auditor's Report to the Members of Transport for Edinburgh Limited

For the year ended 31 December 2020

#### Opinion

We have audited the financial statements of Transport for Edinburgh Limited for the year ended 31 December 2020 which comprise the Consolidated and Company Statement of Profit or Loss and Other Comprehensive Income, Consolidated and Company Statements of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

#### Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## TRANSPORT FOR EDINBURGH LIMITED

### Independent Auditor's Report to the Members of Transport for Edinburgh Limited (continued)

For the year ended 31 December 2020

#### Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of our audit:

- the information given in the Strategic Report, the Corporate Governance Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

#### Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

#### Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 20, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

#### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.



## TRANSPORT FOR EDINBURGH LIMITED

### Independent Auditor's Report to the Members of Transport for Edinburgh Limited (continued)

For the year ended 31 December 2020

#### Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above and on the Financial Reporting Council's website, to detect material misstatements in respect of irregularities, including fraud.

We obtain and update our understanding of the entity, its activities, its control environment, and likely future developments, including in relation to the legal and regulatory framework applicable and how the entity is complying with that framework. Based on this understanding, we identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. This includes consideration of the risk of acts by the entity that were contrary to applicable laws and regulations, including fraud.

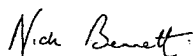
In response to the risk of irregularities and non-compliance with laws and regulations, including fraud, we designed procedures which included:

- Enquiry of management and those charged with governance around actual and potential litigation and claims as well as actual, suspected and alleged fraud;
- Reviewing minutes of meetings of those charged with governance;
- Assessing the extent of compliance with the laws and regulations considered to have a direct material effect on the financial statements or the operations of the company through enquiry and inspection;
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations;
- Performing audit work over the risk of management bias and override of controls, including testing of journal entries and other adjustments for appropriateness, evaluating the business rationale of significant transactions outside the normal course of business and reviewing accounting estimates for indicators of potential bias.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

#### Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



**Nick Bennett, Senior Statutory Auditor**  
For and on behalf of Azets Audit Services  
Statutory Auditor  
Exchange Place 3  
Semple Street  
Edinburgh  
EH3 8BL

Date: 11 May 2021

**TRANSPORT FOR EDINBURGH LIMITED**

**Consolidated and Company Statement of Profit or Loss and Other Comprehensive Income**

**For the year ended 31 December 2020**

	Note	Consolidated Group		Parent Entity	
		2020 £'000	2019 £'000	2020 £'000	2019 £'000
<b>Continuing operations</b>					
Revenue from operations	1i	106,649	185,629	115	748
Other income	1i,5	36,984	-	286	-
<b>Total revenue</b>		<b>143,633</b>	<b>185,629</b>	<b>401</b>	<b>748</b>
Administrative expenses		(163,737)	(193,749)	(418)	(464)
<b>(Loss)/profit from operations before exceptional items</b>		<b>(20,104)</b>	<b>(8,120)</b>	<b>(17)</b>	<b>284</b>
Exceptional pension past service costs	2	-	(8,403)	-	-
<b>(Loss)/profit from operations after exceptional items</b>		<b>(20,104)</b>	<b>(16,523)</b>	<b>(17)</b>	<b>284</b>
(Gain)/loss on disposal of property, plant and equipment	2	26	(132)	-	-
Finance income	3	690	1,895	-	-
Finance costs	4	(1,883)	(2,113)	-	-
<b>(Loss)/profit before income tax expense</b>		<b>(21,271)</b>	<b>(16,873)</b>	<b>(17)</b>	<b>284</b>
Income tax expense	6	321	75	-	(54)
<b>Net (loss)/profit for the year</b>		<b>(20,950)</b>	<b>(16,798)</b>	<b>(17)</b>	<b>230</b>
Attributable to:					
Equity holders	17	(19,866)	(16,076)	(17)	230
Non-controlling interest	18	(1,084)	(722)	-	-
<b>Other comprehensive (expense)/income:</b>					
<b>Those that are recyclable net of tax:</b>					
Net fair value movements on cash flow hedges	26	(2,266)	748	-	-
Deferred tax thereon	14	425	(127)	-	-
<b>Those that are not recyclable net of tax:</b>					
Revaluation gain on land and buildings	8	-	9,918	-	-
Deferred tax on revaluation of land and buildings	14	(40)	-	-	-
Actuarial loss on post-employment benefit obligations	23	(55,197)	(19,900)	-	-
Deferred tax thereon	14	10,521	5,077	-	-
<b>Total comprehensive (expense)/income for the year</b>		<b>(67,507)</b>	<b>(21,082)</b>	<b>(17)</b>	<b>230</b>
Attributable to:					
Equity holders		(62,237)	(19,975)	(17)	230
Non-controlling interest		(5,270)	(1,107)	-	-

The accompanying notes on pages 29 to 62 form part of these financial statements

**TRANSPORT FOR EDINBURGH LIMITED**

**Consolidated and Company Statement of Financial Position**

**As at 31 December 2020**

	Note	Consolidated Group		Parent Entity	
		2020 £'000	2019 £'000	2020 £'000	2019 £'000
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	8	192,098	210,759	-	-
Retirement benefit asset	23	-	35,606	-	-
Investments	20	-	-	22,955	14,624
Derivative financial assets	12	-	6	-	-
<b>Total non-current assets</b>		<u>192,098</u>	<u>246,371</u>	<u>22,955</u>	<u>14,624</u>
<b>Current assets</b>					
Inventories	9	799	776	-	-
Trade and other receivables	10	17,561	9,026	193	183
Derivative financial assets	10,12	-	235	-	-
Cash and cash equivalents	15	17,022	17,581	645	983
<b>Total current assets</b>		<u>35,382</u>	<u>27,618</u>	<u>838</u>	<u>1,166</u>
<b>Total assets</b>		<u>227,480</u>	<u>273,989</u>	<u>23,793</u>	<u>15,790</u>
<b>Equity and liabilities</b>					
<b>Equity attributable to equity holders of the parent</b>					
Share capital	16	22,955	14,624	22,955	14,624
Revaluation reserve	17	20,219	20,335	-	-
Other reserves	17	59,929	59,929	-	-
Retained earnings	17	(38,230)	22,223	783	800
Hedging reserve	17	(1,494)	181	-	-
Non-controlling interest	18	6,931	12,194	-	-
		<u>70,310</u>	<u>129,486</u>	<u>23,738</u>	<u>15,424</u>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Lease obligations	13	72,070	85,306	-	-
Deferred tax	14	247	10,932	-	-
Provisions	14	1,059	1,339	-	-
Derivative financial instruments	12	1,446	-	-	-
Retirement benefit liability	23	23,514	-	-	-
<b>Total non-current liabilities</b>		<u>98,336</u>	<u>97,577</u>	<u>-</u>	<u>-</u>
<b>Current liabilities</b>					
Trade and other payables	11	2,239	1,507	-	-
Lease obligations	13	17,344	15,944	-	-
Other financial liabilities	11	38,672	29,475	55	366
Derivative financial instruments	12	579	-	-	-
<b>Total current liabilities</b>		<u>58,834</u>	<u>46,926</u>	<u>55</u>	<u>366</u>
<b>Total liabilities</b>		<u>157,170</u>	<u>144,503</u>	<u>55</u>	<u>366</u>
<b>Total equity and liabilities</b>		<u>227,480</u>	<u>273,989</u>	<u>23,793</u>	<u>15,790</u>

The financial statements were authorised for issue by the Board of Directors on 11<sup>th</sup> May 2021 and were signed on its behalf by:



George Lowder, Director

Registered number SC443895

The accompanying notes on pages 29 to 62 form part of these financial statements

**TRANSPORT FOR EDINBURGH LIMITED**

**Consolidated Statement of Changes in Equity**

**As at 31 December 2020**

	Note	Share Capital £'000	Revaluation Reserve £'000	Other Reserves £'000	Retained Earnings £'000	Hedging Reserve £'000	Non-controlling Interest £'000	Total £'000
<b>Group</b>								
<b>Balance at 1 January 2019</b>		5,824	11,309	59,929	58,789	(384)	13,301	148,768
<b>Comprehensive income</b>								
Loss for the year		-	-	-	(16,076)	-	(722)	(16,798)
<b>Other comprehensive income</b>								
Revaluation gain in year	8	-	9,026	-	-	-	892	9,918
Actuarial loss on pension plan	23	-	-	-	(18,111)	-	(1,789)	(19,900)
Deferred tax thereon		-	-	-	4,621	-	456	5,077
Net fair value movements on cash flow hedges	26	-	-	-	-	681	67	748
Deferred tax thereon		-	-	-	-	(116)	(11)	(127)
Shares issued in year	16	8,800	-	-	-	-	-	8,800
Dividends	5	-	-	-	(7,000)	-	-	(7,000)
<b>Balance at 31 December 2019</b>		<u>14,624</u>	<u>20,335</u>	<u>59,929</u>	<u>22,223</u>	<u>181</u>	<u>12,194</u>	<u>129,486</u>

	Note	Share Capital £'000	Revaluation Reserve £'000	Other Reserves £'000	Retained Earnings £'000	Hedging Reserve £'000	Non-controlling Interest £'000	Total £'000
<b>Group</b>								
<b>Balance at 1 January 2020</b>		14,624	20,335	59,929	22,223	181	12,194	129,486
<b>Comprehensive income</b>								
Loss for the year		-	-	-	(19,866)	-	(1,084)	(20,950)
<b>Other comprehensive income</b>								
Realised on sale of land and buildings	8	-	(80)	-	73	-	7	-
Deferred tax on revaluation of land and buildings	14	-	(36)	-	-	-	(4)	(40)
Actuarial loss on pension plan	23	-	-	-	(50,235)	-	(4,962)	(55,197)
Deferred tax thereon	14	-	-	-	9,575	-	946	10,521
Net fair value movements on cash flow hedges	26	-	-	-	-	(2,062)	(204)	(2,266)
Deferred tax thereon	14	-	-	-	-	387	38	425
Shares issued in year	16	8,331	-	-	-	-	-	8,331
<b>Balance at 31 December 2020</b>		<u>22,955</u>	<u>20,219</u>	<u>59,929</u>	<u>(38,230)</u>	<u>(1,494)</u>	<u>6,931</u>	<u>70,310</u>

The accompanying notes on pages 29 to 62 form part of these financial statements

**TRANSPORT FOR EDINBURGH LIMITED**

**Consolidated Statement of Cash Flows**

**For the year ended 31 December 2020**

	<b>Consolidated Group</b>	
	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
<b>Cash flow from operating activities</b>		
<b>Loss from operations</b>	(20,104)	(16,523)
Adjustments for:		
Depreciation and amortisation	23,233	23,592
Defined benefit pension current service costs	10,757	10,365
Defined benefit pension past service costs	35	8,403
Benefit contributions	(6,202)	(6,954)
Changes in assets and liabilities:		
(Increase)/decrease in receivables and other financial assets	(9,635)	2,274
Increase/(decrease) in payables	10,856	(2,104)
Increase in inventories	(23)	(71)
Decrease in provisions	(280)	(272)
<b>Cash flows from operations</b>	8,637	18,710
Interest paid	(150)	(182)
Income tax received/(paid)	421	(865)
<b>Net cash flows from operating activities</b>	8,908	17,663
<b>Cash flow from investing activities</b>		
Purchase of property plant and equipment	(6,047)	(10,281)
Proceeds from disposal of property, plant and equipment	1,449	964
Interest received	23	46
<b>Net cash flows from investing activities</b>	(4,575)	(9,271)
<b>Cash flow from financing activities</b>		
Issue of share capital	8,331	8,800
Payments of lease liabilities	(13,223)	(14,580)
Dividends paid	-	(7,000)
<b>Net cash flows from financing activities</b>	(4,892)	(12,780)
Net decrease in cash and cash equivalents	(559)	(4,388)
Cash and cash equivalents at beginning of the year	17,581	21,969
<b>Cash and cash equivalents at end of the year</b>	17,022	17,581
Bank balances and cash	17,022	17,581

The accompanying notes on pages 29 to 62 form part of these financial statements

# TRANSPORT FOR EDINBURGH LIMITED

## Notes to the Financial Statements

For the year ended 31 December 2020

### 1. Statement of significant accounting policies

#### General information

Transport for Edinburgh is a limited company incorporated in Scotland. The address of its registered office and principal place of business are disclosed on page 2. The principal activities of the Company are described within the Strategic Report on page 3.

#### Basis of preparation

The consolidated financial statements of Transport for Edinburgh Limited have been prepared in accordance with IFRSs, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRSs. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and applicable financial instruments.

#### Adoption of new and revised standards

The following standards and interpretations are mandatory for the first time for the year ended 31 December 2020 but are either not applicable or have no material impact on the Group financial statements; IFRS 3, Amendments to IFRS 3 – definition of a business, IAS 1 and IAS 8, Amendments to IAS 1 and IAS 8 on the definition of material and Conceptual Framework, Revised Conceptual Framework for Financial Reporting.

The Group has adopted, where applicable, the following new and amended IFRSs as of 1 January 2020:

- IFRS 3, Amendments to IFRS 3 – definition of a business
- IAS 1 and IAS 8, Amendments to IAS 1 and IAS 8 on the definition of material
- Conceptual Framework for Financial Reporting (Revised)
- IBOR Reform and its Effects on Financial Reporting – Phase 1
- IFRS 16, Amendment – Covid-19 Related Rent Concessions

Other new standards, amendments to standards and interpretations that are mandatory for the first time in 2020 are considered to have no significant or material effect on the company's financial statements.

#### Guidance in issue but not in force

IAS 8 requires disclosure of guidance in issue but not in force. The minimum disclosure relates to guidance issued by 31 December 2020, and with potential effect.

International Accounting Standards and Interpretations	Effective for periods beginning on or after
• IBOR Reform and its Effects on Financial Reporting – Phase 2	1 January 2021
• Annual Improvements to IFRS: 2018 – 2020 Cycle	1 January 2022
• Conceptual Framework for Financial Reporting (Amendments to IFRS 3)	1 January 2022
• IAS 37; Provisions, Contingent Liabilities and Contingent Assets (Amendment – Onerous Contracts – Cost of Fulfilling a Contract)	1 January 2022
• IAS 16; Property, Plant and Equipment (Amendment – Proceeds before Intended Use)	1 January 2022
• IFRS 17; Insurance Contracts	1 January 2023
• IAS 1; Presentation of Financial Statements (Amendment – Classification of Liabilities as Current or Non-Current)	1 January 2023

The Directors have reviewed the requirements of the new standards and interpretations listed above and they are either not applicable or not expected to have a material impact on the Group financial statements in the period of initial application.

## TRANSPORT FOR EDINBURGH LIMITED

### Notes to the Financial Statements (continued)

For the year ended 31 December 2020

#### 1. Statement of significant accounting policies (continued)

The following significant accounting policies, which are consistent with the previous period unless otherwise stated, have been adopted in the preparation of this report:

##### a. Going concern

The directors are of the opinion that the Company and Group have adequate resources to enable it to undertake its planned activities for a period of at least one year from the date the financial statements are approved. The directors have revised forecasts and banking facilities accordingly. However, because not all future events or conditions can be predicted, this is not a guarantee as to the Company and Group's ability to continue as a going concern. For example, the ongoing effect of Covid-19 on financial stability is ever-changing and therefore it is difficult to evaluate all of the potential implications on the Company and Group's trade, customers, suppliers and wider economy.

Lothian Buses Limited, has confirmed that it will continue to provide financial support so as to allow its subsidiaries, Edinburgh Bus Tours Limited and East Coast Buses Limited, to continue to meet their liabilities as they fall due for at least twelve months from the date that the financial statements are approved. The ultimate parent undertaking, the City of Edinburgh Council, has confirmed that it will continue to provide sufficient financial support so as to allow Transport for Edinburgh Limited, Lothian Buses Limited and Edinburgh Trams Limited to continue to meet their liabilities as they fall due for at least twelve months from the date that the financial statements are approved.

##### b. Basis of consolidation

###### *Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interest are measured on the basis specified in another accounting standard, when applicable.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes directly attributable costs of investment.

The excess of the consideration over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary in the case of bargain purchase, the difference is recognised directly in the Statement of Profit or Loss and Other Comprehensive Income. Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

## TRANSPORT FOR EDINBURGH LIMITED

### Notes to the Financial Statements (continued)

For the year ended 31 December 2020

#### 1. Statement of significant accounting policies (continued)

##### c. Current and deferred income tax

The charge for income tax expense for the year is based on the results for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the Statement of Financial Position date.

Deferred tax is accounted for using the Statement of Financial Position liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the Statement of Profit or Loss except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future profits will be available against which deductible temporary differences can be utilised.

The amount of benefit brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

##### d. Property, plant and equipment

Each class of property, plant and equipment, with the exception of heritable property, is carried at cost less, where applicable, any accumulated depreciation.

Heritable property is carried at a revalued amount, being its fair value at the date of revaluation less subsequent depreciation on buildings and impairment losses recognised after the date of revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying value. The Directors believe the carrying amount as at 31 December 2020 to be in line with the fair value of the properties.

##### Acquisition of assets

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

In the event that settlement of all or part of the cash consideration given in the acquisition of an asset is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.



## TRANSPORT FOR EDINBURGH LIMITED

### Notes to the Financial Statements (continued)

For the year ended 31 December 2020

#### 1. Statement of significant accounting policies (continued)

##### d. Property, plant and equipment (continued)

###### Revaluations

Heritable properties were last revalued on 31 December 2019 by Graham and Sibbald. The fair values of the properties have been estimated using an active market. Heritable property is measured at fair value less accumulated depreciation on buildings and impairment losses recognised after the date of the revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is recognised in other comprehensive income and accumulated in equity in the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the Statement of Profit or Loss, in which case the increase is recognised in the Statement of Profit or Loss. A revaluation deficit is recognised in the Statement of Profit or Loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

###### Plant and equipment

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets' employment and subsequent disposal. The expected net cash flows have not been discounted to present values in determining recoverable amounts.

###### Depreciation

The depreciable amount of all fixed assets (excluding heritable property) and including capitalised leased assets are depreciated on a straight line basis over their estimated useful lives to the Company commencing from the time the asset is held ready for use. Improvements to non-heritable properties are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of assets are:

Class of fixed asset	Depreciation rate
Passenger vehicles	10 – 15 years
Other vehicles	4 years
Plant, machinery and other equipment	3 – 10 years
Leased property	Over the lease term, currently 6–25 years

###### Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

## TRANSPORT FOR EDINBURGH LIMITED

### Notes to the Financial Statements (continued)

For the year ended 31 December 2020

#### 1. Statement of significant accounting policies (continued)

##### e. Leases

###### *Activities as a Lessee*

For any new contracts, the Group considers whether a contract is, or contains a lease. To apply definition of a lease under IFRS 16, the Group assesses whether the contract meets three key evaluations: existence of an asset, the right to obtain the economic benefits from use of the asset and the right to direct use of the asset during the contracted period.

At lease commencement date, the Group recognises a right-of-use asset and a lease liability in the Statement of Financial Position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability and any initial direct costs. The Group depreciates a right-of-use asset on a straight-line basis over its estimated useful life commencing from the time the asset is brought into use. Ownership of certain leased assets will transfer to the Group at the end of their lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist. At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest.

The Group has elected to account for leases of low-value assets using the practical expedients basis. The payments for these leases are recognised as an expense in profit and loss on a straight-line basis over the lease term. On the Statement of Financial Position, right-of-use assets have been included in Property, plant and equipment and lease liabilities have been included in Lease obligations.

###### *Activities as a Lessor*

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

##### f. Impairment

The carrying value of all assets are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of all assets is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which it belongs, unless the asset's value in use can be estimated to be close to its fair value. An impairment exists when the carrying value of the asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

##### g. Inventories

Inventories, which includes vehicle spares and fuel, are stated at cost after making due allowance for obsolete and slow-moving items.

##### h. Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than two months and is net of bank overdrafts.

## TRANSPORT FOR EDINBURGH LIMITED

### Notes to the Financial Statements (continued)

For the year ended 31 December 2020

#### 1. Statement of significant accounting policies (continued)

##### i. Revenue and other income

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made.

Revenue is derived principally from the provision of transport services in the United Kingdom. Revenue is recognised upon the delivery of the service to the customer with reference to the stage of completion of travel provided under contractual terms and when relevant shown net of refunds. The majority of revenue is generated from cash fares received from customers at the point of travel when the revenue is recognised.

IFRS 15 states that the Group must identify revenue recognised from contracts with customers. This applies to M-Ticket and Ridacard income streams where income is received in advance of travel and therefore a contract is created with the customer with the obligation to provide future travel services. The income is initially accounted for as deferred income on the balance sheet and is recognised as revenue when the performance obligation is met by the Group. The performance obligation is considered to be met for M-Ticket income when the M-Ticket is activated on travel by the customer or when the M-Ticket expires. The performance obligation is considered to be met for Ridacard income when the period of right to travel for the customer has occurred.

All revenue recognised from the provision of transport services is based on pre determined ticket/service prices which are publically available at [www.lothianbuses.com](http://www.lothianbuses.com), [www.edinburghstour.com](http://www.edinburghstour.com), [www.eastcoastbuses.co.uk](http://www.eastcoastbuses.co.uk), [www.edinburghtrams.com](http://www.edinburghtrams.com)

Concessionary amounts are recognised in revenue in the period in which the service is provided.

All revenue is stated net of the amount of value added tax (VAT).

Interest income is recognised on an accruals basis.

The Group receives a Bus Services Operating Grant (BSOG) on mileage operated on local registered bus services to reimburse an element of the cost of operating such services.

Grants from government bodies and similar organisations are recognised where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are deducted from the initial purchase price in arriving at the carrying amount of the asset. The grant is recognised as income over the life of a depreciable asset by way of a reduced depreciation charge.

##### j. Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax (VAT), except:

- i. Where the amount of VAT incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. For receivables and payables, which are recognised inclusive of VAT.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the Statement of Cash Flows on a gross basis. The VAT component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

## TRANSPORT FOR EDINBURGH LIMITED

### Notes to the Financial Statements (continued)

For the year ended 31 December 2020

#### 1. Statement of significant accounting policies (continued)

##### k. Employee benefits

The Group contributes to a variety of money purchase schemes for employees and to a defined benefits scheme operated on behalf of local council employees.

Around half of the employees in Lothian Buses Limited participate in the Lothian Buses Pension Fund, which is part of the Local Government Pension Scheme administered by the City of Edinburgh Council. The Scheme is of the defined benefit type with the assets held in external funds managed by professional investment managers.

Contributions to the schemes are charged to the Statement of Profit or Loss and Other Comprehensive Income as they arise. The assets of the scheme are held separately from those of the Company in independently administered funds. The Group has fully adopted the accounting principles as required by International Accounting Standard 19 – Employee Benefits.

The asset or liability recognised in the Statement of Financial Position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in a currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligations.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

With effect from 1 January 2008 the scheme was closed to new employees who were offered the opportunity to join The Lothian Buses Group Personal Pension Plan.

##### Defined contribution scheme

From 1 January 2008 new employees were eligible to join The Lothian Buses Group Personal Pension Plan which is managed by Scottish Widows.

Employees of Edinburgh Bus Tours Limited, East Coast Buses Limited and Edinburgh Trams Limited participate in a Pension Fund, which is managed by Scottish Widows. These schemes are of the defined contribution type and contributions are charged to the Statement of Profit or Loss and Other Comprehensive Income as they arise.

##### Bonus plans

The Group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

## TRANSPORT FOR EDINBURGH LIMITED

### Notes to the Financial Statements (continued)

For the year ended 31 December 2020

#### 1. Statement of significant accounting policies (continued)

##### i. Critical accounting estimates and judgements

The Directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group. Key estimates are as follows:

##### ii. Impairment

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to an impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

##### iii. Retirement benefit costs

Measurement of defined benefit pension obligations requires estimation of a suitable discount rate, inflation rate, salary growth and assumptions about mortality rates.

##### iv. Depreciation

The depreciation rate that passenger vehicles are depreciated over is between 10-15 years.

##### v. Lease contracts

The Group has to determine whether or not a contract contains a lease. Once confirmed, the Group has to estimate an appropriate discount rate to use and the length of the lease term.

##### m. Financial instruments

###### Classification

The Group classifies its financial assets in the following category: loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

##### i. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

##### ii. Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

##### iii. Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

In the case of hedge accounting, the hedging relationship is documented at its inception. This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective.

## TRANSPORT FOR EDINBURGH LIMITED

### Notes to the Financial Statements (continued)

For the year ended 31 December 2020

#### 1. Statement of significant accounting policies (continued)

For the purpose of hedge accounting, all hedges are classified as cash flow hedges, as exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction is being hedged.

The effective portion of the gain or loss on the hedging instrument is recognised in the Statement of Other Comprehensive Income, while the ineffective portion is recognised in the Statement of Profit or Loss. Amounts recorded in the Statement of Other Comprehensive Income are transferred to the Statement of Profit or Loss when the hedged transaction affects profit or loss, such as when a hedge contract is being settled.

Hedge accounting is discontinued when the hedging instrument is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the period.

#### Recognition and measurement

Loans and receivables are subsequently carried at amortised cost. Derivative financial instruments are measured based on mark to market prices at the end of the reporting period.

#### n. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amount and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

#### o. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business, if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised at cost.

#### p. Trade receivables

Trade receivables are obligations to receive payment for goods or services that have been sold in the ordinary course of business to customers. Accounts receivable are classed as current debtors if payment is due within one year or less (or in the normal operating cycle of the business, if longer). If not, they are classed as non-current assets.

Trade receivables are recognised net of a provision for bad or doubtful debts (if applicable).

#### q. Share capital

Ordinary shares are classified as equity.

**TRANSPORT FOR EDINBURGH LIMITED**

**Notes to the Financial Statements (continued)**

**For the year ended 31 December 2020**

**2. Loss from operations**

	<b>Consolidated Group</b>		<b>Parent Entity</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Loss from operations has been determined after:				
Auditor's remuneration:				
Audit services	59	54	9	6
Non-audit services	18	17	2	2
Pension current service costs (note 23)	10,757	10,365	-	-
Pension past service costs* (note 23)	35	8,403	-	-
Depreciation and other amounts written off tangible fixed assets:				
Owned	12,865	13,907	-	-
Assets held under hire purchase leases	2,548	1,914	-	-
Right-of-use assets	7,820	7,771	-	-
Infrastructure maintenance	2,040	4,548	-	-
Gain/(loss) on disposal of property, plant and equipment	26	(132)	-	-
	<u>26</u>	<u>(132)</u>	<u>-</u>	<u>-</u>

\*The 2019 costs above for defined benefit pension past service costs of £8,403,000 consist of one-off non-cash amounts of £2,168,000 for the impact of Guaranteed Minimum Pension indexation and £6,235,000 for the impact of the McCloud judgement. Both of these figures were calculated by the Scheme Actuary and are book figures reflected in the financial statements under IAS 19 (see note 23).

**3. Finance income**

	<b>Consolidated Group</b>		<b>Parent Entity</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Investment income	23	46	-	-
Pension interest income (note 23)	667	1,849	-	-
	<u>690</u>	<u>1,895</u>	<u>-</u>	<u>-</u>

**4. Finance costs**

	<b>Consolidated Group</b>		<b>Parent Entity</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Lease charges	1,883	2,113	-	-
	<u>1,883</u>	<u>2,113</u>	<u>-</u>	<u>-</u>

**TRANSPORT FOR EDINBURGH LIMITED**

**Notes to the Financial Statements (continued)**

**For the year ended 31 December 2020**

**5. Other income**

	Consolidated Group		Parent Entity	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Other grants	274	-	274	-
Coronavirus Job Retention Scheme income	15,977	-	12	-
Transport Scotland Covid-19 support income	20,733	-	-	-
	<u>36,984</u>	<u>-</u>	<u>286</u>	<u>-</u>

**6. Income tax expense**

	Consolidated Group		Parent Entity	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Current tax:				
Deferred tax	221	(75)	-	-
Adjustment in respect of prior years	(542)	-	-	-
Corporation tax Group relief	-	-	-	54
	<u>(321)</u>	<u>(75)</u>	<u>-</u>	<u>54</u>

The effective tax rate for the year ended 31 December 2020 is calculated at 19% (2019: 19%) of the estimated assessable results for the year. The (credit)/charge for the year can be reconciled to the (loss)/profit per the income statement as follows:

	Consolidated Group		Parent Entity	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
(Loss)/profit for the year before taxation	(21,271)	(16,873)	(17)	284
(Loss)/profit for the year at the effective rate of corporation tax of 19% (2019 – 19%)	(4,041)	(3,206)	(3)	54
Effects of:				
Expenses not deductible for tax purposes	880	2,292	-	-
Income not taxable for tax purposes	(127)	(355)	-	-
Income not taxable for tax purposes – fixed assets	11	68	-	-
Adjust deferred tax to average rate of 19% (2019 – 19%)	569	122	-	-
Adjustment to the tax charge in respect of previous periods	(542)	-	-	-
Other tax adjustments, reliefs and transfers	(16)	737	-	-
Deferred tax not recognised	2,945	967	3	-
	<u>(321)</u>	<u>(75)</u>	<u>-</u>	<u>54</u>



**TRANSPORT FOR EDINBURGH LIMITED**

**Notes to the Financial Statements (continued)**

**For the year ended 31 December 2020**

**7. Employee benefits expense**

The Company had an average of 4 employees during the year (2019: 3). The average number of persons employed by the Group (including Directors) during the year was 2,772 (2019: 2,832). The aggregate payroll costs were as follows:

	<b>Consolidated Group</b>		<b>Parent Entity</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Wages and salaries	80,649	90,535	223	194
Social security costs	7,753	9,044	25	23
Other pension costs	7,652	8,448	2	1
	<u>96,054</u>	<u>108,027</u>	<u>250</u>	<u>218</u>

Other pension costs comprise contributions to defined benefit schemes of £5,923,000 (2019: £6,681,000) and to defined contribution schemes of £1,729,000 (2019: £1,767,000) for the Group and £nil (2019: £nil) and £2,000 (2019: £1,000) for the Company respectively.

<u>Directors' remuneration</u>	<b>Consolidated Group</b>		<b>Parent Entity</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Aggregate emoluments and benefits	176	183	152	146
Highest paid Director's emoluments and benefits	152	146	152	146

One Director received emoluments from the Company (2019: one). One Director (2019: two) received the emoluments above from subsidiary companies, relative to serving on this Company's Board. No Director is accruing retirement benefits under a defined benefit scheme (2019: none). Directors' remuneration costs disclosed above exclude employers national insurance costs of £21,725 (2019: £21,392). The highest paid Director has an accrued pension of £nil per annum (2019: £nil) and an accrued lump sum of £nil (2019: £nil) at the end of the year. The Directors of Transport for Edinburgh Limited are also considered to be the Company's key management personnel.

**8. Property, plant and equipment**

<b>Group</b>	<b>Heritable &amp; Right-of-use Properties £'000</b>	<b>Passenger Vehicles £'000</b>	<b>Other Vehicles £'000</b>	<b>Plant &amp; Equipment £'000</b>	<b>Total £'000</b>
<b>Cost or valuation</b>					
<b>At 1 January 2020</b>	123,443	167,020	422	15,489	306,374
Additions	29	5,052	26	940	6,047
Disposals	(80)	(18,053)	(130)	-	(18,263)
<b>At 31 December 2020</b>	<u>123,392</u>	<u>154,019</u>	<u>318</u>	<u>16,429</u>	<u>294,158</u>
<b>Accumulated depreciation</b>					
<b>At 1 January 2020</b>	(9,074)	(77,472)	(317)	(8,752)	(95,615)
Charge for the year	(7,820)	(13,612)	(57)	(1,744)	(23,233)
Eliminated on disposal	-	16,658	130	-	16,788
<b>At 31 December 2020</b>	<u>(16,894)</u>	<u>(74,426)</u>	<u>(244)</u>	<u>(10,496)</u>	<u>(102,060)</u>
<b>Net book value</b>					
<b>At 31 December 2020</b>	<u>106,498</u>	<u>79,593</u>	<u>74</u>	<u>5,933</u>	<u>192,098</u>
<b>Net book value</b>					
<b>At 31 December 2019</b>	<u>114,369</u>	<u>89,548</u>	<u>105</u>	<u>6,737</u>	<u>210,759</u>

**TRANSPORT FOR EDINBURGH LIMITED**

**Notes to the Financial Statements (continued)**

**For the year ended 31 December 2020**

**8. Property, plant and equipment (continued)**

Group	Heritable & Right-of-use Properties £'000	Passenger Vehicles £'000	Other Vehicles £'000	Plant & Equipment £'000	Total £'000
<b>Cost or valuation</b>					
<b>At 1 January 2019</b>	26,639	152,894	341	12,177	192,051
Revaluation	9,918	-	-	-	9,918
Additions	86,886	26,750	86	3,349	117,071
Disposals	-	(12,624)	(5)	(37)	(12,666)
<b>At 31 December 2019</b>	<u>123,443</u>	<u>167,020</u>	<u>422</u>	<u>15,489</u>	<u>306,374</u>
<b>Accumulated depreciation</b>					
<b>At 1 January 2019</b>	(1,303)	(74,706)	(283)	(7,301)	(83,593)
Charge for the year	(7,771)	(14,294)	(39)	(1,488)	(23,592)
Eliminated on disposal	-	11,528	5	37	11,570
<b>At 31 December 2019</b>	<u>(9,074)</u>	<u>(77,472)</u>	<u>(317)</u>	<u>(8,752)</u>	<u>(95,615)</u>
<b>Net book value</b>					
<b>At 31 December 2019</b>	<u>114,369</u>	<u>89,548</u>	<u>105</u>	<u>6,737</u>	<u>210,759</u>
<b>Net book value</b>					
<b>At 31 December 2018</b>	<u>25,336</u>	<u>78,188</u>	<u>58</u>	<u>4,876</u>	<u>108,458</u>

The net book value of the revalued assets, had they not been revalued and remained to be carried under the cost model, would be £15,994,494 at the year end. The Group's heritable properties were last valued on 31 December 2019 by an independent valuer, Graham and Sibbald Chartered Surveyors. Valuations were made on the basis of recent market transactions on an arms' length basis. The revaluation surplus net of applicable deferred income taxes was credited to other comprehensive income and is shown in 'revaluation reserve' in shareholder's equity.

The Directors are satisfied that the fair value of heritable properties does not differ materially from the book value as at 31 December 2020 and therefore no depreciation has been charged for the year.

**TRANSPORT FOR EDINBURGH LIMITED**

**Notes to the Financial Statements (continued)**

**For the year ended 31 December 2020**

**9. Inventories**

	<b>Consolidated Group</b>		<b>Parent Entity</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Raw materials (fuel)	433	366	-	-
Finished goods	366	410	-	-
	<u>799</u>	<u>776</u>	<u>-</u>	<u>-</u>

**10. Trade and other receivables**

	<b>Consolidated Group</b>		<b>Parent Entity</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Trade receivables	2,804	1,573	40	1
Other receivables	2,892	347	-	-
Prepayments and accrued income	2,698	2,455	153	182
VAT recoverable	3,651	1,550	-	-
Corporation tax recoverable	345	1,445	-	-
Derivative financial asset	-	235	-	-
Amounts due from Parc Craigmillar Limited	349	-	-	-
Amounts due from Shawfair Land Limited	180	-	-	-
Amounts due from City of Edinburgh Council	4,585	1,626	-	-
Amounts due from West Lothian Council	32	23	-	-
Amounts due from East Lothian Council	12	7	-	-
Amounts due from other related parties	13	-	-	-
	<u>17,561</u>	<u>9,261</u>	<u>193</u>	<u>183</u>
Non-current	-	-	-	-
Current	<u>17,561</u>	<u>9,261</u>	<u>193</u>	<u>183</u>
	<u>17,561</u>	<u>9,261</u>	<u>193</u>	<u>183</u>

The Directors consider the fair value of receivables to be in line with carrying values.

**TRANSPORT FOR EDINBURGH LIMITED**

**Notes to the Financial Statements (continued)**

**For the year ended 31 December 2020**

**11. Current liabilities**

	<b>Consolidated Group</b>		<b>Parent Entity</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Trade and other payables	2,239	1,507	5	-
Other payables	4,060	4,945	-	-
Taxation and social security	2,278	2,670	1	6
Lease obligations (note 13)	17,344	15,944	-	-
Accruals and deferred income	14,343	6,647	49	306
Derivative financial instruments	579	-	-	-
Corporation tax payable	98	-	-	-
Amounts due to subsidiary companies	-	-	-	54
Amounts due to City of Edinburgh Council	17,893	15,213	-	-
	<u>58,834</u>	<u>46,926</u>	<u>55</u>	<u>366</u>
Accrued expenses	1,462	2,339	32	306
Income received in advance	12,881	4,308	17	-
	<u>14,343</u>	<u>6,647</u>	<u>49</u>	<u>306</u>

**12. Derivative financial instruments**

	<b>Consolidated Group</b>		<b>Parent Entity</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>(Liabilities)/assets</b>				
No later than one year	(579)	235	-	-
Later than one year but no later than five years	(1,446)	6	-	-
	<u>(2,025)</u>	<u>241</u>	<u>-</u>	<u>-</u>
<b>Analysed as:</b>				
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>(Liabilities)/assets</b>				
Current	(579)	235	-	-
Non-current	(1,446)	6	-	-

**TRANSPORT FOR EDINBURGH LIMITED**

**Notes to the Financial Statements (continued)**

**For the year ended 31 December 2020**

**13. Lease obligations**

**As a lessee**

The Group has leases for several properties, passenger vehicles and related infrastructure. With the exception of leases of low-value immaterial underlying assets, each lease is reflected in the Statement of Financial Position within Property, plant and equipment and Lease obligations. Payments made under such leases are expensed on straight-line basis. The Group classifies its right-of-use assets in a consistent manner to property, plant and equipment (note 8). For lease interest expense see finance costs (note 4).

Leases of properties have a remaining lease term ranging from 6 to 25 years. Leases of passenger vehicles are generally 3 to 5 years. Leases of Trams and their related infrastructure run until 31 May 2029 with an option to renew. Tram lease payments are renegotiated every 5 years. All other lease payments are fixed and all lease contracts are non-cancellable. The Group does not sublet any of the properties under lease contract.

Analysed as:	Consolidated Group		Parent Entity	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Current	17,344	15,944	-	-
Non-current	72,070	85,306	-	-

The lease liabilities are secured on the related underlying assets. The undiscounted maturity analysis of lease liabilities as at 31 December is as follows:

	Consolidated Group		Parent Entity	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Within one year	19,383	18,058	-	-
Between 2 and 5 years	43,379	49,472	-	-
Over 5 years	36,237	45,254	-	-
Total undiscounted liabilities	98,999	112,784	-	-

**14. Provisions**

	Consolidated Group		Parent Entity	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
<i>Deferred tax liabilities</i>				
At beginning of the year	10,932	15,957	-	-
Charge/(credit) for the year to profit or loss	221	(75)	-	-
Credit to other comprehensive income	(10,906)	(4,950)	-	-
At end of the year	247	10,932	-	-

The elements of deferred tax are as follows:

Accelerated capital allowances	4,878	4,945	-	-
Short term timing differences	221	(107)	-	-
Pension scheme	(4,468)	6,053	-	-
Fair value movements on cash flow hedges	(384)	41	-	-
	247	10,932	-	-

Included in the accounts as follows:

Provision for liabilities and charges	247	10,932	-	-
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**TRANSPORT FOR EDINBURGH LIMITED**

**Notes to the Financial Statements (continued)**

**For the year ended 31 December 2020**

**14. Provisions (continued)**

<u>Claims</u>	Consolidated Group		Parent Entity	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
At the beginning of the year	1,339	1,611	-	-
Charge for the year	695	1,233	-	-
Paid during the year	(975)	(1,505)	-	-
At the end of the year	<u>1,059</u>	<u>1,339</u>	<u>-</u>	<u>-</u>

**Claims**

Settlement of such claims is dependent on negotiation and, potentially, litigation with third parties, the time frame of which cannot be predicted accurately.

Under the terms of our insurance Edinburgh Trams liability exposure is limited to £120,000 in any given calendar year.

Under the terms of the Operating Agreement between CEC and Edinburgh Trams the latter is required to reimburse the former up to a maximum of £120,000 per annum in respect of claims within all policy excesses. This will include any claims for injury to cyclists where the cause of the injury is a result of negligence on the part of Edinburgh Trams. As matters stand no allegations of negligence have been made against Edinburgh Trams as the operator or in respect of its maintenance operations.

**15. Cash and cash equivalents**

	Consolidated Group		Parent Entity	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Cash at bank and in hand	<u>17,022</u>	<u>17,581</u>	<u>645</u>	<u>983</u>

**16. Share capital**

	Consolidated Group		Parent Entity	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
<b>Allotted, called up and fully paid</b>				
Ordinary shares of £1 each				
<b>At 1 January</b>	14,624	5,824	14,624	5,824
Issued in year	8,331	8,800	8,331	8,800
<b>At 31 December</b>	<u>22,955</u>	<u>14,624</u>	<u>22,955</u>	<u>14,624</u>
<b>Being</b>				
Ordinary shares of £1 each	15,824	5,824	5,824	5,824
B Ordinary shares of £1 each	17,131	8,800	17,131	8,800
	<u>22,955</u>	<u>14,624</u>	<u>22,955</u>	<u>14,624</u>

On 4 June 2020 B Ordinary Shares of 8,331,000 were issued of £1 each.

**TRANSPORT FOR EDINBURGH LIMITED**

**Notes to the Financial Statements (continued)**

**For the year ended 31 December 2020**

**17. Reserves**

<u>Group</u>	Revaluation Reserve £'000	Other Reserves £'000	Hedging Reserve £'000	Retained Earnings £'000
<b>At 1 January 2019</b>	11,309	59,929	(384)	58,789
Loss for the year	-	-	-	(16,076)
Revaluation gain on land and buildings	9,026	-	-	-
Actuarial loss on pension plan	-	-	-	(18,111)
Deferred tax thereon	-	-	-	4,621
Net fair value movements on cash flow hedges	-	-	681	-
Deferred tax thereon	-	-	(116)	-
Dividends	-	-	-	(7,000)
<b>At 31 December 2019</b>	<u>20,335</u>	<u>59,929</u>	<u>181</u>	<u>22,223</u>
Loss for the year	-	-	-	(19,866)
Realised on sale of land and buildings	(80)	-	-	73
Deferred tax on revaluation of land and buildings	(36)	-	-	-
Actuarial loss on pension plan	-	-	-	(50,235)
Deferred tax thereon	-	-	-	9,575
Net fair value movements on cash flow hedges	-	-	(2,062)	-
Deferred tax thereon	-	-	387	-
<b>At 31 December 2020</b>	<u><u>20,219</u></u>	<u><u>59,929</u></u>	<u><u>(1,494)</u></u>	<u><u>(38,230)</u></u>
 <b><u>Company</u></b>				
<b>At 1 January 2019</b>	-	-	-	7,570
Profit for the year	-	-	-	230
Dividends	-	-	-	(7,000)
<b>At 31 December 2019</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>800</u>
Loss for the year	-	-	-	(17)
<b>At 31 December 2020</b>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>783</u></u>

In 2013 the Company acquired Lothian Buses Limited. The excess of the book value of the Group's share of Lothian Buses Limited's assets and liabilities at the time of acquisition over the consideration has been allocated to other reserves, in accordance with the Company's accounting policy for subsidiaries previously held under common control.

**TRANSPORT FOR EDINBURGH LIMITED**  
**Notes to the Financial Statements (continued)**

**For the year ended 31 December 2020**

**18. Non-controlling interest**

	<b>Non-controlling interest £'000</b>
<b>At 1 January 2019</b>	13,301
Share of loss for the year	(722)
Share of revaluation gain on land and buildings	892
Share of cash flow hedges	67
Share of deferred tax thereon	(11)
Share of actuarial loss for the year	(1,789)
Share of deferred tax thereon	456
	12,194
<b>At 31 December 2019</b>	12,194
Share of loss for the year	(1,084)
Share of realised gain on sale of land and buildings	7
Share of deferred tax on revaluation of land and buildings	(4)
Share of cash flow hedges	(204)
Share of deferred tax thereon	38
Share of actuarial loss for the year	(4,962)
Share of deferred tax thereon	946
	6,931
<b>At 31 December 2020</b>	6,931



## TRANSPORT FOR EDINBURGH LIMITED

### Notes to the Financial Statements (continued)

For the year ended 31 December 2020

#### 19. Commitments

In December 2020 the Board of Lothian Buses Limited gave approval for expenditure of £21.2m on new buses for 2021. These double deck vehicles are expected to be delivered in between Summer and Winter 2021.

#### 20. Principal subsidiaries

Subsidiaries:	Country of incorporation	Nature of business	Proportion of ordinary shares held by parent
Edinburgh Trams Ltd	UK	Transport	100%
Lothian Buses Ltd	UK	Transport	91.01%
<b>Subsidiaries of Lothian Buses Limited:</b>			
East Coast Buses Ltd	UK	Transport	100%
Edinburgh Bus Tours Ltd	UK	Transport	100%
Lothian Region Transport Ltd	UK	Dormant	100%
Majestic Tours Edinburgh Ltd	UK	Dormant	100%
Edinburgh City Transport Ltd	UK	Dormant	100%
City Sightseeing Edinburgh Ltd	UK	Dormant	100%
Lothian Coaches Ltd	UK	Dormant	100%
Lothian Country Buses Ltd	UK	Dormant	100%
Leith Walk Property Ltd	UK	Dormant	100%
Mactours Ltd	UK	Dormant	100%
Lothian Trams Ltd	UK	Dormant	100%
Lothian Transport Ltd	UK	Dormant	100%
Trams for Edinburgh Ltd	UK	Dormant	100%
Edinburgh Buses Ltd	UK	Dormant	100%
Edinburgh Bus and Tram Ltd	UK	Dormant	100%

All subsidiary undertakings are included in the consolidation. The registered address of all of the above subsidiary undertakings is 55 Annandale Street, Edinburgh, EH7 4AZ. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held.

**TRANSPORT FOR EDINBURGH LIMITED**

**Notes to the Financial Statements (continued)**

**For the year ended 31 December 2020**

**21. Related party transactions**

**Group**

The Group is controlled by the City of Edinburgh Council (incorporated in the UK), which owns 100% of the Company's shares and it is also the ultimate parent. The following transactions were entered into with related parties:

*(a) Sale of goods and services*

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
City of Edinburgh Council (ultimate parent)	1,255	2,006
Midlothian Council (shareholder)	36	31
East Lothian Council (shareholder)	117	154
West Lothian Council (shareholder)	38	23
	1,446	2,214
	1,446	2,214

*(b) Purchase of goods and services*

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
City of Edinburgh Council (ultimate parent)	20,891	9,408
East Lothian Council (shareholder)	46	-
West Lothian Council (shareholder)	56	56
	20,993	9,464
	20,993	9,464

The above related party transactions are for the receipt of route support and management services and include payments for rent and rates etc. All transactions are conducted on an arm's length basis.

*(c) Reimbursement of expenses incurred:*

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
City of Edinburgh Council (ultimate parent)	314	694
	314	694
	314	694

*(d) Year-end balances arising from sales/purchases of goods/services*

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
<b>Receivables from related parties</b>		
City of Edinburgh Council (ultimate parent)	4,585	1,626
East Lothian Council (shareholder)	12	7
West Lothian Council (shareholder)	32	23
Parc Craigmillar Limited (CEC group company)	349	-
Shawfair Land Limited (CEC group company)	180	-
Other related parties (CEC group companies)	13	-
<b>Payables to related parties</b>		
City of Edinburgh Council (ultimate parent)	(17,893)	(15,213)
	(17,893)	(15,213)
	(17,893)	(15,213)

Lothian Buses Limited (a subsidiary company), provides an unlimited guarantee to the Royal Bank of Scotland (RBS), that it will pay any outstanding amounts due to RBS should its fellow subsidiary company (Edinburgh Bus Tours Limited and East Coast Buses Limited) be unable to make a payment on its outstanding loans or borrowings.

## **TRANSPORT FOR EDINBURGH LIMITED**

### **Notes to the Financial Statements (continued)**

**For the year ended 31 December 2020**

#### **22. Controlling interest**

By virtue of its controlling interest in the Company's equity capital, the City of Edinburgh Council is the ultimate controlling party.

Group accounts are available to the public from the following address:

Director of Finance  
City of Edinburgh Council  
Waverley Court  
Edinburgh  
EH8 8BG

#### **23. Retirement benefits obligation**

Some employees of the Group are members of the Lothian Buses Pension Fund, part of the Local Government Pension Scheme, administered by the City of Edinburgh Council. This is a pension scheme providing benefits based on final pensionable pay, contributions being charged to the profit and loss so as to spread the cost of pensions over employees' working lives with the Group. The contributions are determined by a qualified actuary. The Lothian Buses Pension Fund was merged into the main Lothian Pension Fund on 31 January 2019 with the members benefits being unaffected.

The valuation of the pension fund is carried out triennially. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 31 December 2020 by Hymans Robertson LLP. The present value of the defined benefit obligation, and related current service cost and past service cost, were measured using the Projected Unit Credit Method.

**TRANSPORT FOR EDINBURGH LIMITED**

**Notes to the Financial Statements (continued)**

**For the year ended 31 December 2020**

**23. Retirement benefits obligation (continued)**

**Scheme assets**

The Group's share of the fair value of the scheme's assets which are not intended to be realised in the short term and may be subject to significant change before they are realised, were comprised as follows:

	%	Value at 2020 £'000	%	Value at 2019 £'000
<b>Equity Securities:</b>				
Consumer	7%	40,640	5%	27,896
Manufacturing	8%	47,303	8%	45,335
Energy and Utilities	3%	17,568	4%	22,695
Financial Institutions	4%	20,860	4%	22,351
Health and Care	4%	23,852	3%	18,094
Information Technology	3%	16,234	2%	11,830
Other	5%	29,281	4%	22,150
<b>Debt Securities:</b>				
Corporate Bonds	22%	124,430	19%	112,241
UK Government	12%	72,307	23%	133,518
<b>Private Equity:</b>				
All	0%	2,165	7%	37,242
<b>Real Estate:</b>				
UK Property	6%	32,769	17%	99,859
Overseas Property	0%	408	0%	1,041
<b>Investment Funds and Unit Trusts:</b>				
Equities	1%	4,365	1%	5,235
Bonds	5%	26,579	1%	7,619
Infrastructure	12%	71,044	-	-
Other	0%	(270)	1%	7,624
<b>Cash and Cash Equivalents:</b>				
All	8%	46,084	1%	5,176
	<u>100%</u>	<u>575,619</u>	<u>100%</u>	<u>579,906</u>

The amounts recognised in the statement of financial position are determined as follows:

	2020 £'000	2019 £'000
Fair value of plan assets	575,619	579,906
Present value of scheme liabilities	(599,133)	(544,300)
(Liability)/asset in the scheme	(23,514)	35,606
Net pension (liability)/asset	<u>(23,514)</u>	<u>35,606</u>

**TRANSPORT FOR EDINBURGH LIMITED**

**Notes to the Financial Statements (continued)**

**For the year ended 31 December 2020**

**23. Retirement benefits obligation (continued)**

The movement in the defined benefit obligation over the year is as follows:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
At 1 January	544,300	455,042
Current service cost	10,757	10,365
Past service cost	35	8,403
Interest cost on obligation	10,875	13,189
Plan participants contributions	1,520	1,758
Unfunded benefits paid	(279)	(273)
Benefits paid	(13,118)	(11,697)
Actuarial losses arising from changes in financial assumptions	82,235	67,301
Actuarial gains arising from changes in demographic assumptions	(32,742)	-
Other actuarial (gains)/losses	(4,450)	212
	<u>599,133</u>	<u>544,300</u>

The movement in the fair value of plan assets of the year is as follows:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
At 1 January	579,906	520,513
Benefits paid	(13,118)	(11,697)
Interest income on plan assets	11,542	15,038
Contributions by employer	5,923	6,681
Contributions by member	1,520	1,758
Contributions in respect of unfunded benefits	279	273
Unfunded benefits paid	(279)	(273)
Return on assets excluding amounts included in net interest	(10,154)	47,613
	<u>575,619</u>	<u>579,906</u>

The amounts recognised in the Statement of Profit or Loss and Other Comprehensive Income are as follows:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Interest received on pension scheme assets	(11,542)	(15,038)
Interest cost on pension scheme liabilities	10,875	13,189
	<u>(667)</u>	<u>(1,849)</u>
Finance income	(667)	(1,849)
Current service cost	10,757	10,365
Past service cost	35	8,403
	<u>10,125</u>	<u>16,919</u>

**TRANSPORT FOR EDINBURGH LIMITED**

**Notes to the Financial Statements (continued)**

**For the year ended 31 December 2020**

**23. Retirement benefits obligation (continued)**

Amounts recognised in other comprehensive income:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Actuarial losses in the defined benefit obligation	(45,043)	(67,513)
Actuarial (losses)/gains in the fair value of defined benefit assets	(10,154)	47,613
	(55,197)	(19,900)

The principal actuarial assumptions used in this valuation were:

	<b>2020</b>	<b>2019</b>
Inflation/pension increase rate	2.5%	2.2%
Salary increase rate	3.0%	3.9%
Discount rate	1.3%	2.0%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. Best estimate has been interpreted to mean that the proposed assumptions are 'neutral' – there is an equal chance of actual experience being better or worse than the assumptions proposed.

The pension increase assumption is in line with the Consumer Price Index (CPI). The CPI assumption is calculated as RPI less 0.5% (2019: 1%).

The sensitivity of the overall pension liability to changes in the weighted principal assumptions is:

Change in assumption	Approximate increase to employer asset		Approximate increase to employer asset	
	%		£'000	
	2020	2019	2020	2019
0.5% decrease in real discount rate	9%	10%	56,444	55,604
0.5% increase in the salary increase rate	1%	2%	7,658	10,527
0.5% increase in the pension increase rate	8%	8%	47,237	43,749

The financial assumptions used for reporting under the Accounting Standard are the responsibility of the Employer. These assumptions are largely prescribed at any point and reflect market conditions at the reporting date. Changes in market conditions that result in changes in the net discount rate can have a significant effect on the value of the liabilities reported.

A reduction in the net discount rate will increase the assessed value of liabilities as a higher value is placed on benefits paid in the future. A rise in the net discount rate will have an opposite effect of a similar magnitude. There is also uncertainty around life expectancy of the UK population – the value of current and future pension benefits will depend on how long they are assumed to be in payment.

**TRANSPORT FOR EDINBURGH LIMITED**

**Notes to the Financial Statements (continued)**

**For the year ended 31 December 2020**

**23. Retirement benefits obligation (continued)**

Accounting standards require the discount rate to be set with reference to the yields on high quality corporate bonds irrespective of the actual investment strategy of the Fund. As such, the figures illustrated are unlikely to reflect either the actual eventual cost of providing the benefits or the likely level of contributions to fund the Employer's obligations to the Fund.

**Mortality rates:**

Baseline life expectancy is based in member specific Vita Curves that are tailored to each individual within the Fund. Future longevity improvements are based on those inherent in the PFA 92 and PMA 92 tables using year of birth projections. Based on these assumptions, the average future life expectancy at age 65 are summarised below:

	<b>Male</b>	<b>Female</b>
Current pensioners	20.5	23.3
Future pensioners	22.0	25.2

The average duration of the benefit obligation at 31 December 2020 is 18 years (2019: 19 years). This number can be analysed as follows:

	<b>2020</b>	<b>2019</b>
Active members	24 years	23.1 years
Deferred members	25 years	22.1 years
Retired members	13 years	11.7 years

Contributions to post employment benefit plans for the year ended 31 December 2021 are expected to be £3,251,000.

**24. Operating leases**

**As a lessor**

Lease arrangements, where the Group acts as the Lessor, are for properties which are leased for periods of up to fifteen years. Property lease arrangements generally contain clauses for periodic reassessment of rentals payable, typically each three or five years.

**Gross lease receipts:**

	<b>Consolidated Group</b>		<b>Parent Entity</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Minimum lease receipts under non-cancellable leases due:				
No later than one year	89	89	-	-
Later than one year but no later than five years	267	295	-	-
Later than five years	141	202	-	-
	<u>497</u>	<u>586</u>	<u>-</u>	<u>-</u>

The total annual lease income received in the year ended 31 December 2020 was £87,000 (2019: £122,000).

## TRANSPORT FOR EDINBURGH LIMITED

### Notes to the Financial Statements (continued)

For the year ended 31 December 2020

#### 25. Financial risk management

The Group's financial instruments consist mainly of deposits with banks, government bonds, short term investments, accounts receivable and payable, loans to and from associated entities and derivatives. Financial Instruments do not include prepayments, VAT, taxation, social security and deferred income.

The main purpose of non-derivative financial instruments is in respect to the Group's trading activities and to raise finance for Group operations.

Derivative instruments are used by the Group for hedging purposes. Such instruments used by the Group are commodity swap agreements. The Group does not speculate in the trading of derivative instruments.

The totals for each category of financial instruments, measured in accordance with IFRS 9 as detailed in the accounting policies to these financial statements, are as follows:

	Note	Consolidated Group		Parent Entity	
		2020 £'000	2019 £'000	2020 £'000	2019 £'000
<b>Financial assets</b>					
Cash and cash equivalents	15	17,022	17,581	645	983
Trade and other receivables	10	10,867	3,576	40	1
<b>Total financial assets</b>		<b>27,889</b>	<b>21,157</b>	<b>685</b>	<b>984</b>
<b>Financial liabilities</b>					
Current liabilities	11	42,998	39,948	37	306
Non-current lease obligations	13	72,070	85,306	-	-
<b>Total financial liabilities</b>		<b>115,068</b>	<b>125,254</b>	<b>37</b>	<b>306</b>

Derivatives that are designated as effective hedging instruments are not shown in the above table. Information on the carrying value of such derivatives is provided in note 26.

#### Financial risk management

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. There have been no changes to the Group's exposures to risk or the methods used to measure and manage these risks during the year. The Group's overall risk management strategy seeks to assist the consolidated Group in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

#### Capital management

The Group aims to manage its overall capital structure to ensure it continues to operate as a going concern. The Group's capital structure represents the equity attributable to the shareholders of the Group together with cash equivalents.



## TRANSPORT FOR EDINBURGH LIMITED

### Notes to the Financial Statements (continued)

For the year ended 31 December 2020

#### 25. Financial risk management (continued)

##### Financial risk exposures and management

The main risks that the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate risk. These are managed as follows:

##### a. Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance sheet date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the Consolidated Statement of Financial Position and notes to the financial statements. Credit risk is managed on a Group basis and reviewed regularly by senior management. It arises from exposures to customers and amounts owed by Group undertakings.

Senior management monitors credit risk by actively assessing the rating quality and liquidity of counter parties:

- only banks and institutions with an acceptable credit rating are utilised;
- all potential customers are rated for credit worthiness taking into account their size, market position and financial standing;
- customers that do not meet the Group's strict credit policies may only purchase in-cash or using recognised credit cards.

The credit risk for all counter parties included in trade and other receivables at 31 December 2020 is not rated.

##### b. Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- preparing forward-looking cash flow analysis in relation to its operational, investing and financing activities; and
- ensuring that adequate unutilised borrowing facilities are maintained.

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows as presented in the table (to settle financial liabilities) reflects the earliest contractual settlement dates:

**TRANSPORT FOR EDINBURGH LIMITED**

**Notes to the Financial Statements (continued)**

**For the year ended 31 December 2020**

**25. Financial risk management (continued)**

**b. Liquidity risk (continued)**

**Financial liability and financial asset maturity analysis**

Group	Note	Within 1 Year 2020 £'000	1 to 5 Years 2020 £'000	Total 2020 £'000
<b>Financial liabilities due for payment</b>				
Current liabilities	11,12	25,654	-	25,654
Lease obligations	13	17,344	72,070	89,414
Total expected outflows		<u>42,998</u>	<u>72,070</u>	<u>115,068</u>
<b>Financial assets — cash flows realisable</b>				
Cash and cash equivalents	15	17,022	-	17,022
Trade and other receivables	10	10,867	-	10,867
Total anticipated inflows		<u>27,889</u>	-	<u>27,889</u>
Net outflow of financial instruments		<u>(15,109)</u>	<u>(72,070)</u>	<u>(87,179)</u>

**Financial liability and financial asset maturity analysis**

Group	Note	Within 1 Year 2019 £'000	1 to 5 Years 2019 £'000	Total 2019 £'000
<b>Financial liabilities due for payment</b>				
Current liabilities	11,12	24,004	-	24,004
Lease obligations	13	15,944	85,306	101,250
Total expected outflows		<u>39,948</u>	<u>85,306</u>	<u>125,254</u>
<b>Financial assets — cash flows realisable</b>				
Cash and cash equivalents	15	17,581	-	17,581
Trade and other receivables	10	3,576	-	3,576
Total anticipated inflows		<u>21,157</u>	-	<u>21,157</u>
Net outflow of financial instruments		<u>(18,791)</u>	<u>(85,306)</u>	<u>(104,097)</u>

**TRANSPORT FOR EDINBURGH LIMITED**

**Notes to the Financial Statements (continued)**

**For the year ended 31 December 2020**

**25. Financial risk management (continued)**

**b. Liquidity risk (continued)**

Company	Note	Within 1 Year 2020 £'000	1 to 5 Years 2020 £'000	Total 2020 £'000
<b>Financial liabilities due for payment</b>				
Current liabilities	11,12	37	-	37
Total expected outflows		<u>37</u>	<u>-</u>	<u>37</u>
<b>Financial assets — cash flows realisable</b>				
Cash and cash equivalents	15	645	-	645
Trade and other receivables	10	40	-	40
Total anticipated inflows		<u>685</u>	<u>-</u>	<u>685</u>
Net inflow of financial instruments		<u>648</u>	<u>-</u>	<u>648</u>

Company	Note	Within 1 Year 2019 £'000	1 to 5 Years 2019 £'000	Total 2019 £'000
<b>Financial liabilities due for payment</b>				
Current liabilities	11,12	306	-	306
Total expected outflows		<u>306</u>	<u>-</u>	<u>306</u>
<b>Financial assets — cash flows realisable</b>				
Cash and cash equivalents	15	983	-	983
Trade and other receivables	10	1	-	1
Total anticipated inflows		<u>984</u>	<u>-</u>	<u>984</u>
Net inflow of financial instruments		<u>678</u>	<u>-</u>	<u>678</u>

## TRANSPORT FOR EDINBURGH LIMITED

### Notes to the Financial Statements (continued)

For the year ended 31 December 2020

#### 25. Financial risk management (continued)

##### c. Market risk

##### Fuel price risk

The Group is exposed to commodity price risk. The Group's operations as at 31 December 2020 consume approximately 15.2m litres of diesel fuel per annum. As a result, the Group's results are exposed to movements in the underlying price of fuel. During the year however, all of this diesel fuel was hedged with none being exposed to fuel price volatility.

The Group's objective in managing commodity price risk is to reduce the risk that movements in fuel prices result in adverse movements in its results and cash flow. The Group has a policy of managing the volatility in its fuel costs by maintaining an advance contracting strategy to fix the cost of fuel through a derivative financial instrument.

At the settlement date of the contract, where the price of fuel is below the agreed contract price, the Group are liable for the difference in price for the volume of the commodity agreed in the contract. Where the value of the commodity is above the price agreed, the Group have a financial asset based on the difference in price over the volume of the contract. The net cash flows on settlement of the contracts are paid or received at the end of each month. The swap agreements carrying value is exposed to the movement in the underlying price of fuel. Consequently, the Group's results are exposed as movements in the contract value are taken through the Statement of Other Comprehensive Income. A 1p decrease in the underlying price of fuel increases the overall net liability of the fixed contracts by approximately £400,000. Likewise, if the price of fuel was to increase above the underlying price of the contracts, then this would result in an increase in the overall net asset.

However, the impact through the Group's Statement of Other Comprehensive Income would be offset by the impact of price fluctuations on the total costs incurred in purchasing the commodity. Any gain or loss on the fuel price contract should partly offset the corresponding impact of price increases / decreases of fuel.

**TRANSPORT FOR EDINBURGH LIMITED**

**Notes to the Financial Statements (continued)**

**For the year ended 31 December 2020**

**26. Derivative financial instruments**

Derivative financial instruments that are measured in the balance sheet at fair value are disclosed by level of the following fair value measurement hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – Inputs for the assets or liability that are not based on observable market data (that is unobservable inputs).

The following table presents the Group's derivatives financial instruments that are measured at fair value within the hierarchy at 31 December 2020.

	Note	Level 2	
		2020 £'000	2019 £'000
<b>(Liabilities)/assets</b>			
<b>Derivative financial instruments</b>	12	<u>(2,025)</u>	<u>241</u>

The Group uses cash flow hedges to hedge the commodity price risk. The derivative instrument used is a commodity swap.

**Carrying value and fair value of derivative financial instruments**

Derivative financial instruments are classified on the balance sheet as follows:

	Note	2020 £'000	2019 £'000
<b>Non-current (liabilities)/assets</b>			
Fuel derivatives	12	(1,446)	6
<b>Current (liabilities)/assets</b>			
Fuel derivatives	12	<u>(579)</u>	<u>235</u>
<b>Total net carrying value</b>		<u><u>(2,025)</u></u>	<u><u>241</u></u>

The fair value of derivative financial instruments is equal to their carrying value, as shown in the above table.

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2020

26. Derivative financial instruments (continued)

The movements in the fair value of fuel derivatives in the year were as follows:

	2020 £'000	2019 £'000
<b>Fuel derivatives</b>		
Fair value at the start of the year	241	(507)
Changes in the fair value during the year	(4,303)	1,543
Cash paid/(received) during the year	2,037	(795)
	<u>241</u>	<u>(507)</u>
Fair value at the end of the year	<u>(2,025)</u>	<u>241</u>

The fair value of derivatives split by maturity was as follows:

	Assets/ (liabilities) £'000
<b>As at 31 December 2020</b>	
Within one year	(579)
1 to 2 years	(1,347)
2 to 3 years	(99)
	<u>(2,025)</u>

27. Movements in financing (assets)/liabilities arising from financing activities

	Current Loans & Borrowings £'000	Non-current Loans & Borrowings £'000	Derivative Financial Liabilities £'000	Derivative Financial Assets £'000	Total £'000
At 1 January 2019	1,949	5,196	507	-	7,652
<u>Cash flows</u>					
New leases	12,330	16,820	-	-	29,150
Repayment of lease liabilities	(14,580)	-	-	-	(14,580)
Net receipts from derivative instruments	-	-	795	-	795
<u>Non-cash flows</u>					
New leases	301	79,234	-	-	79,535
Change in fair value during the year	-	-	(1,543)	-	(1,543)
Split in aging profile	15,944	(15,944)	241	(241)	-
	<u>15,944</u>	<u>85,306</u>	<u>-</u>	<u>(241)</u>	<u>101,009</u>
At 31 December 2019	15,944	85,306	-	(241)	101,009
At 1 January 2020	15,944	85,306	-	(241)	101,009
<u>Cash flows</u>					
Repayment of lease liabilities	(13,223)	-	-	-	(13,223)
Net payments on derivative instruments	-	-	(3,003)	-	(3,003)
<u>Non-cash flows</u>					
Leases	1,387	-	-	-	1,387
Change in fair value during the year	-	-	5,269	-	5,269
Split in aging profile	13,236	(13,236)	(241)	241	-
	<u>17,344</u>	<u>72,070</u>	<u>2,025</u>	<u>-</u>	<u>91,439</u>
At 31 December 2020	17,344	72,070	2,025	-	91,439

**TRANSPORT FOR EDINBURGH LIMITED**

**Notes to the Financial Statements (continued)**

**For the year ended 31 December 2020**

**28. Post balance sheet events**

**B Shares**

On 30 March 2021 a payment of £10.923m was received from City of Edinburgh Council in respect of the purchase of B Shares in Edinburgh Trams.