**TRANSPORT FOR EDINBURGH LIMITED**

**Consolidated Financial Statements**

**For the year ended 31 December 2021**

**Registered number SC443895**

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## TRANSPORT FOR EDINBURGH LIMITED

### Company Information

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| **Board of Directors:** | Lesley Macinnes (Chair)<br>Karen Doran (Vice Chair)<br>George Lowder<br>James McFarlane<br>Callum Laidlaw<br>Donald MacLeod<br>Claire Helen Innes Miller<br>George Hazel<br>Andrew Neal (appointed 22 April 2021)<br>Daisy Narayanan (resigned 16 May 2021) | |
| **Company Registration:** | Registered Office | 55 Annandale Street<br>Edinburgh<br>EH7 4AZ |
| | Registration Number | SC443895 |
| **Bankers:** | The Royal Bank of Scotland plc | |
| **Auditor:** | Azets Audit Services<br>Chartered Accountants<br>Exchange Place 3<br>Semple Street<br>Edinburgh<br>EH3 8BL | |

**TRANSPORT FOR EDINBURGH LIMITED**

**Strategic Report**

**For the year ended 31 December 2021**

## 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 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 and the City's response to the death of His Royal Highness, Prince Philip, The Duke of Edinburgh. 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. Considerable time, effort and resource has been committed throughout 2021, to continued COVID response and recovery. TfE has continued to have much more detailed and regular dialogue with Transport Scotland regarding COVID effects and commensurate funding support and the consequences of the Under 22 Concession Scheme for Edinburgh Trams That work, particularly being agile and leveraging all available funding support, has significantly contributed to the results outlined within this Strategic Report, which 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 effect on patronage, due to the ongoing Covid-19 pandemic and related restrictions on travel. Edinburgh Trams have also taken on greater responsibility for tram 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. As shown in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, revenue has increased by 9.5% over the previous year to £157.3m, while the loss after tax was £19.3m. The Statement of Financial Position shows the Group's financial strength at the year end, with net reserves of £132.0m. Capital expenditure in the year was £22.6m. The main additions were 98 double deck vehicles to the bus fleet.

With the Covid-19 virus outbreak in March 2020, and varying degrees of restrictions ever since, we have had to be extremely proactive in seeking to address and mitigate the impact of the related effect on revenue and cost pressures, in order to maintain our business and returns. Revenue streams continued to be significantly affected during the year with the Governments various restrictions on travel and movement. This continues to have a huge impact on public transport patronage. Services patterns and frequency have been adjusted several times 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 and open top tours in Edinburgh and the Lothians. In addition to bus and tram services, the TfE procured cycle hire scheme for the City ran until September 2021, when the initial 3-year contract concluded. The City of Edinburgh Council are working with TfE to develop options to re-procure a new cycle hire

## Future Prospects (continued)

scheme. TfE 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. New, prototype totems have been designed, manufactured, delivered and installed, further totems will be procured and installed in 2022. TfE continues to have delegated coordinating authority for the City's response to major events. 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 they begin to mobilise, in preparation for the commencement of revenue service in 2023.

The Directors are of the opinion that the Group remains in a sound position to maintain its role as one of the main operators of public transport in Edinburgh and the Lothians. Trading to date in 2022 is in line with budgeted expectations and the Directors remain confident in the ability of the business to change and adapt quickly in the short-term despite the continuing challenges being brought about by the ongoing impact of the Covid-19 pandemic on the trading of the Group. This still brings significant challenges and requires daily issues and actions to be addressed straight away, whilst continuing to focus on the core delivery of reliable and high quality services, which provide value for money options for travel. We continue to take a medium to long term view of capital investment.

| **Results** | **2021 £'000** | **2020 £'000** |
|---|---|---|
| The results for the year are summarised below: | | |
| Revenue | 157,307 | 143,633 |
| Loss before income tax expense | (15,937) | (21,271) |
| Income tax expense | (3,394) | 321 |
| Net loss for the year | (19,331) | (20,950) |
| Attributable to: | | |
| Equity holders | (18,382) | (19,866) |
| Non-controlling interest | (949) | (1,084) |

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:

| | **2021** | **2020** | **Change** |
|---|---|---|---|
| Group operating margin – operating loss relative to revenue | -9.2% | -14.0% | +4.8% |
| Group patronage – year on year movement in passenger journeys | 62.95m | 56.95m | +6.0m |

Group operating margin has increased by 4.8%. Group patronage has increased by 6.0m year on year, as a result of an overall improvement in the ongoing Covid-19 pandemic and related restrictions on travel.

## 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

### Employees (continued)

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. We recognise the need to develop our staff and during 2022 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 2022, 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, Brexit, 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 diesel fuel prices. The strategy is targeted to fix the cost of diesel fuel to the Group through a part volume fixed price contract.

2020 introduced a new risk in the form of Covid-19 and this subject is now a separate item on our Risk Register and continues to be actively managed and monitored in the best way possible in such difficult circumstances.

### Transport Arms Length External Organisations (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. The report highlighted the challenges in managing existing governance 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 was facilitated by Jacobs. The first SLWG was held on 2 December 2020. Transport for Edinburgh was represented by Dr George Hazel and Mr Donald Macleod, Lothian Buses by Jim McFarlane and Susan Deacon and Edinburgh Trams by Martin Dean and Peter Cushing. The SLWG subsequently met a further five times: on 17 December 2020, 20 January 2021, 26 February 2021, 4 March 2021 and 22 October 2021. A legal Sub-Group met on 12 February 2021.

The purpose of the reform work is to identify an organisational structure that will deliver optimal integration of the Council's public transport companies, in order to ensure optimal delivery against Council policies and objectives. Whilst the Transport for Edinburgh Group is fully engaged with this work, the implications for the businesses are not yet fully known, or understood, as no final, detailed, decisions, have yet been taken. Broad principles, risks and opportunities have been identified. The City of Edinburgh Council supported the intention to reform and a governance structure for delivery of the reform was agreed on 26 August 2021. This included the formation of an Implementation Board, with representatives of the 3 companies, that would oversee progress on 8 work strands. In December 2021 Grant Thornton Ltd were engaged to develop a programme for Reform.

## Corporate Social Responsibility

2021 has been a proactive year for TfE, Lothian Buses and Edinburgh Trams, both in environmental achievements and other partnerships.

Despite a challenging 2021, Lothian Buses has still been able to meet many of the goals set out in its Bus 2020 Strategy. Most notably they achieved their goal to be operating at a minimum of Euro 6 by the end of 2021. Since 2016, Lothian Buses has removed 3,000+ tonnes of $CO_2$, over 400kg of particulates and over 70 tonnes of Nitrogen Oxides from its carbon footprint. Funding from the Scottish Government's Bus Emission Abatement Retrofit (BEAR3) programme allowed Lothian Buses to retrofit 188 buses from Euro 5 to Euro 6 standard, enabling Lothian to continue to reduce its emissions in some of Edinburgh's key air quality management areas. This has further helped Lothian to be prepared for the Low Emission Zones being introduced by the City of Edinburgh Council in the near future. By maintaining Gold certification standard awarded by Green Tourism to Lothian's Tour bus fleet, Lothian continue to demonstrate that they have received top recognition for sustainable best practice. Following this achievement, Lothian began working closely with Green Tourism to develop a new, innovative and forward thinking environmental strategy. This new sustainability strategy, which builds on the bus 2020 Strategy, includes an evaluative online "Sustainability Assessment" platform which has been designed to allow Lothian to demonstrate environmental performance to internal and external stakeholders in real time. This helps to prioritise actions in key areas and provides Lothian with a robust sustainability framework for 2022 and beyond. In 2021, Lothian added 94 new double deck buses to its fleet operating across several routes running throughout the city centre. These low emission Euro 6 buses emit up to 99% less harmful emissions and provide an enhanced passenger experience. Lothian also introduced 4 electric double deck buses (funded by Scottish Power Energy Networks) into its fleet in the Summer of 2021. Continued investment in low and zero emission vehicles heavily supports air quality improvements in Lothian's operational environment.

Edinburgh Trams has installed EV charging points at the Gogar Tram Depot and is moving the support fleet to electric vehicles. They have engaged with academic institutions to understand the opportunities associated with returning electricity not used for tram propulsion to the grid.

## 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 2021 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 2021 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 2021 – 31 December 2021, 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 $CO_2e$ (carbon dioxide equivalent) and have used 2021 GHG Conversion Factors for Company Reporting, published annually by Defra and BEIS.

## 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 2021 financial year. As per SECR requirements this information is presented in kilowatt hours (kWh).

| Emissions Source | GHG Scope (Protocol) | Reporting Units | 2021 | Restated* 2020 | Year on Year % change |
|---|---|---|---|---|---|
| Vehicle Fleet Fuel | Scope 1 | kWh | 140,532,735 | 141,679,473 | -0.8% |
| Trams Traction Usage | Scope 2 | kWh | 7,540,529 | 6,704,037 | +12.5% |
| Electricity (Sites & Vehicles) | Scope 2&3 | kWh | 4,599,267 | 4,388,650 | +4.8% |
| Natural Gas | Scope 1 | kWh | 4,449,942 | 3,869,455 | +15.0% |
| Tram Vehicle Fleet Mileage | Scope 1 | kWh | 52,262 | 25,195 | +107.4% |
| **Total Energy Consumption** | | | **157,174,735** | **156,666,810** | **+0.3%** |

### GHG Emissions Reporting

In accordance with the SECR Emissions Reporting requirements outlined in the Companies Act for large companies our GHG disclosure for the 2021 financial year is listed below. Results have been split by Scope as outlined by the GHG Protocol calculation methodology.

| GHG Emissions Scope | Results (Units) | 2021 | Restated* 2020 | Year on Year % change |
|---|---|---|---|---|
| Scope 1 | tonnes $CO_2e$ | 34,561.19 | 34,721.66 | -0.5% |
| Scope 2 | tonnes $CO_2e$ | 2,577.64 | 2,586.15 | -0.3% |
| Scope 3 | tonnes $CO_2e$ | 228.11 | 222.41 | +2.6% |
| **Total GHG Emissions** | | **37,366.94** | **37,530.22** | **-0.4%** |
| GHG Emissions Intensity 1 | tonnes $CO_2e$ / £m Turnover | **237.25** | **261.34** | **-9.2%** |
| GHG Emissions Intensity 2 | tonnes $CO_2e$ / Employee | **14.89** | **13.54** | **+10.0%** |

*2020 figures have been restated to reflect gas consumption data that has subsequently become available.

### 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.

During 2021 Lothian Buses has made significant efforts to reduce GHG emissions from its vehicles. Lothian received funding from the Scottish Governments BEAR 3 Fund, which was used to retrofit 188 Euro 5 diesel buses to Euro 6 standards. This retrofit programme ensured that almost all of the bus fleet meets Euro 6 standard and will therefore comply with Edinburgh's forthcoming Low Emission Zone. In addition Lothian introduced 4 fully electric double deck buses to its fleet, fully funded via Scottish Power's Green Economy Fund, and these buses operate on main city centre routes. Through Lothian's driver training programme, they are also encouraging drivers to adopt efficient driving practices, further reducing the environmental impact. Arrangements have been made to replace a number of diesel ancillary vans with electric equivalents which is expected to occur in the first half of 2022.

Edinburgh Trams has 27 trams and a small number of 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 tram stops and signalling indicators.

### Corporate Social Responsibility (continued)

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

Edinburgh Trams fully recognises the importance of how our operational business impacts on the environment and our responsibilities that go with being a major operator of transport within the City of Edinburgh.

In 2021 Edinburgh Trams signed up to the Edinburgh Climate Compact which is a commitment for the business to achieve Net Zero Carbon emissions by 2030. This will be delivered through incorporation of the ECC's Net Zero objectives into our current ISO 14001 Certified, Environmental Management System.

Development of our waste contractor's data portal has also been completed which allows us to easily track the various waste streams recovered from the depot, and ensure transparent records are maintained.

All general waste from our Depot and Tram Stops is returned to Gogar Depot, where it is then compacted and processed as waste to energy off site. Materials such as metal, paper and wood are segregated on site and sent for recycling. Oils, grease, contaminated rags and other absorbent materials are also disposed of using a specialised third party. This methodology maximises potential recycling and minimises waste sent to landfill.

Water Recycling is also a major component of our environmental management system. Rainwater (also known as Grey Water) is collected via various methods and recycled for use in our Depot Toilets and Tram Wash (after filtration).

### Charity Engagements

During 2021, we continued where possible with our community and charity engagements. Lothian Buses' charity of choice is Support in Mind Scotland and Lothian has managed to work in partnership with them remotely during the ongoing Covid-19 disruption. 2021 was the second year of the partnership which has since been extended to cover 2022 as well. 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 the behavioural change campaign and Lothian Buses continues to receive a positive response via the programme. Covid-19 restrictions have curtailed all other charity fundraising activity.

### Edinburgh Cycle Hire Scheme

The Edinburgh Cycle Hire Scheme (ECHS) continued to operate throughout 2021, until 17 September 2021, when the initial 3 year contract with the operator Serco concluded. Despite 14 months of extensive negotiations with Serco and detailed consideration of the options for the continuation of the ECHS, by the TfE Board and TfE Audit and Risk Committee, a mutually agreeable solution could not be reached between Serco, TfE and CEC. The ECHS was fully decommissioned by Christmas 2021. Funding had been agreed for a security upgrade of the existing cycles and City of Edinburgh funding had been identified to help offset operating costs. The decision was, however, taken not to extend the Serco contract and instead to re-procure a new ECHS. In the interim the City of Edinburgh Council is providing support to other cycling initiatives and The University of Edinburgh will operate a smaller e bike scheme for students and staff. TfE is supporting this work. During the 3 years of the ECHS the scheme had some 70,000 distinct Users, who completed half a million journeys. In 2020 the scheme was the fastest growing in the UK The data from the ECHS will inform any future procurement.

### Wayfinding

In 2021 TfE continued to lead The Edinburgh Wayfinding Project. After considerable COVID imposed project delays, new prototype totems were manufactured, delivered and installed in late 2021. TfE continues to work with CEC and future Sponsors, especially Essential Edinburgh, to procure the next batch of new totems for the City.

### Electric Scooter Trial

TfE continued to keep the TfE Board appraised of developments in the DfT E Scooter trials throughout 2021.

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

The DISC Project continued in 2021 with the support of UK Tram, Edinburgh Trams, other UK tram Operators and strategic partners. Working with IHF Ltd a wearable device, known as Focus+, has been developed and trialled. There are now 7 Framework transport operators fully involved in the trial, with others waiting to be onboarded or expressing interest. Further funding was secured from the Scottish Government Innovation Fund in 2021. The COVID related delays incurred 2021, will result in the trial period running on into 2022.

**The Edinburgh Festivals Transport Coordination Project**

In 2021 The Edinburgh Festivals Transport Coordination Project continued to be significantly impacted by COVID and was effectively stalled. This work may be resurrected as a component of wider City strategies and policy implementation.

**Major Event Planning**

TfE has a delegated coordinating authority for the City's planning and preparation for major events, that included COP 26. TfE convened and led an Edinburgh Working Group throughout 2021, comprising key City of Edinburgh Council Teams, Strategic Partners, blue light services and a raft of other organisations and institutions. UK Government funding was drawn down to support this work, including, but not exclusively to enhance mobile CCTV coverage and transport planning. The City coped with a large number of Heads of State and Delegates who stayed in Edinburgh for COP 26 and travelled daily to and from Glasgow. The City also coped with the planned and unplanned activity, demonstrations, protests and disruption that accompanied the event.

Other TfE coordination of cross functional, multi-agency, strategic partner activity continued throughout 2021. In particular Operation FORTH BRIDGE was activated and the City responded in a timely and appropriate way.

**Edinburgh Trams**

Edinburgh Trams is the Operator and Infrastructure Manager of the city's trams, operating an award-winning, world class, integrated, environmentally friendly and socially inclusive transport system, playing a central role in the future prosperity of Edinburgh and the Lothians. 2021 has brought many challenges, most notable the ongoing continued effects of the COVID pandemic. Restrictions in travel, public confidence when using public transport and our obligations to adhere to Government regulations and guidelines, have collectively resulted in an overall patronage decrease against full Pre Covid operations. With patronage recovery levels ranging from 8% in January, to a high of 68% in November. New restrictions imposed in December resulted in a retrograde recovery rate of 53%. Overall, for the year a total of 2.57m passenger journeys were recorded, representing 35% of Pre Covid levels of patronage.

Ongoing support from Scottish Government has been most welcomed via a mechanism brokered by TfE with Transport Scotland. A cumulative package of support totalling £17.5m but covering a period of 21 months from July 2020 to March 2022 has been approved. With challenging times continuing to affect our service, the Management Team at Edinburgh Trams Limited (ETL) will continue to explore all avenues of support from Government from April 2022 onwards. As part of this support, ETL are required to operate a minimum 15min service, with the first and last tram timetabled to operate being met. This service requirement was more than met with a return to a standard 7 min, main day service in June 2021.The funding received once again recognises the important role Edinburgh Trams plays in provision of public transport for commuters, essential and key workers as well as an overarching service catering for both vital shopping trips and where possible, leisure related activities.

Edinburgh Trams has a fleet of 27 trams operating seven days a week, normally offering services from every three minutes to 16 locations, connecting Edinburgh Airport to the heart of the City in under 35 minutes. The impact of COVID has once again affected the Operational Service with a reduction to a 15 minute day service from January to May. Passenger volumes and changes due to imposed COVID restrictions resulted in a main day 7 minute service returning in June 2021. This was delivered ahead of patronage demand to give space and confidence to customers. Additional commercial data analysis was implemented in the year to monitor passenger movements and once again where necessary our "Hot Spares" were deployed to assist and maintain Social Distancing, thus increasing public confidence during their journey experience.

**Edinburgh Trams (continued)**

The transformation of travel patterns experienced in 2020 where peak journey times moved from standard weekday 7am-9am and 4pm-6pm persisted throughout 2021. The previous standard pattern of Monday-Friday 9am-5pm has not returned, with many Edinburgh businesses and organisations promoting, or supporting, continued work from home options, more commonly known now as “Blended Working”. Overall, in the year, the time period between 12noon and 3pm proved most popular, mostly retail related, as opposed to business and office travel. Weekend travel is recovering ahead of main day Monday-Friday, especially in the latter months of the year, however, the journey to Pre Covid levels will remain seriously affected by matters outwith ETL control. Government messaging of “essential travel only” remained in place with additional restrictions on Air Travel also effecting patronage. International visitors\travel has recovered more slowly than domestic\local travel and it is envisaged this will remain the case for the start of 2022.

In the year, only 20% of passenger journeys occurred in the first five months of the year, with 80% falling in the remaining seven months. Operationally ETL ensured the service was available all year round, a feat, only accomplished with the effort, willingness and professionalism of all our staff and management.

April 2021 marked the successful novation of maintenance contract responsibilities from the City of Edinburgh Council (CEC) to ETL. This milestone once again demonstrates the confidence the Council have in the Management Team at ETL and gives further autonomy to allow for additional efficiencies and costs saving to be explored and maximised.

**Tram Asset Management**

Under the terms of the Operating Agreement as varied on 30th April 2021, CEC is responsible for the cost of Asset Renewals. Edinburgh Trams is required to provide CEC with a long-term outlook by way of a ten-year plan, this is based upon the expert knowledge of ETL staff and on information provided by the providers of the maintenance contracts which are held and managed by ETL. The ten-year plan includes expected renewal activities and an estimated cost for these activities for the subsequent ten years. The ten-year plan is rolling and must be provided to CEC by 31st October each year thus enabling CEC to manage their own long term financial planning.

Further to this ETL is required to submit to CEC a draft Annual Asset Renewals Plan by 31st July each year which provides more detail and more accurate costings for the activities, that ETL recommends be funded by CEC in the subsequent CEC financial year (running April to March). This allows for an iterative process and ultimately enables CEC to have sufficient understanding of the plan so that they can apply for funding via their own budgeting process.

CEC is required to formally confirm to ETL those activities which have been approved and for which they have been able to secure funding, and in addition to advice on the route for procurement for each activity, the options being:

i) ETL to procure via one of the maintenance contracts.
ii) ETL to procure via another third party.
iii) CEC to procure.

Due to a lag in the process, in July 2021 ETL formally submitted two draft Annual Asset Renewal Plans for the CEC financial years 2021-22 and 2022-23. Following a series of discussions between ETL and CEC we have received confirmation that all activities apart from two (one in each of the plans) have been approved. Further discussion is required as to how the two items not yet approved can be funded. ETL is in the process of delivering the 2021-22 plan, all of the items are either for procurement by ETL via the maintenance contracts or are being delivered in-house by ETL.

A process has been agreed between ETL and CEC whereby prior to generating and issuing any change documentation or purchase orders to our suppliers, we have in place a purchase order from CEC to cover the expected cost. This provides ETL with the security that any cost incurred can be re-charged and recovered quickly, minimising the impact upon our cashflow. Any changes to the plan throughout the year, including price changes are discussed and captured via an agreed change process within the four-weekly Contract Liaison Meeting.

### Trams to Newhaven Project

Work to complete the construction of the Trams to Newhaven project is on track and handover for operational commencement is expected in Spring 2023.

Prior to the opening Edinburgh Trams are required to make available trams and drivers for the testing and commissioning of the extension, meaning that we have already commenced the recruitment of additional drivers by way of a ramp-up. In addition, we have commenced discussions with our maintenance providers with a view to varying their contracts to accommodate the additional maintenance requirements.

Edinburgh Trams have supported City Edinburgh Council in an exercise to assess the impact of the COVID pandemic upon future revenues. CEC have sought to set aside additional budget to support Edinburgh Trams with £7m being allocated for their 2023/24 financial year and £9.25m for their 2024/25 financial year.

### Maintenance Support

On 30 April 2021 in line with a variation to our Operating Agreement with CEC, the three maintenance contracts novated from CEC to Edinburgh Trams, these being: vehicle maintenance with Construcciones Y Auxiliar De Ferrocarriles S.A. (CAF), ticketing equipment maintenance with Flowbird Transport Ltd (Flowbird) and infrastructure maintenance with a consortium between Siemens Mobility Ltd and Bilfinger Construction UK Ltd.

Edinburgh Trams are now fully responsible for the management of these contracts and for the full payment of the maintenance costs, made directly to our maintenance providers.

Since the novation of these contracts, we have put in place additional financial controls to ensure that any costs arising, outwith the base contract fee, for additional, or out of scope works, are approved by staff members with the appropriate delegated authority and are properly communicated to the Finance Team so that the necessary provisions can be made.

### Moving Forward

The business demands for 2022 and beyond will continue to be testing and tough with recovery times stemming from various factors relating to the continued impact and effects of COVID and the end of support from Transport Scotland. Recovery rates for the start of 2022 remain low as Government Guidelines continue to endorse face coverings and working from home policies.

In 2022 we will continue to support CEC on the ETYN project whilst ensuring Edinburgh Trams Operational readiness for commencement of operational service in Spring 2023. Activities include:-

- Extensive recruitment campaigns
- Review and amendments of the maintenance contracts to ensure they are fit for purpose for ETYN.
- Decommissioning of York Place to allow for connection to new Picardy Place Tram Stop
- Testing and commissioning of new ETYN line
- Familiarisation training for all current employees for new line.

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

**Date: 24 June 2022** **George Lowder (Director)**

**TRANSPORT FOR EDINBURGH LIMITED**

**Corporate Governance Report**

**For the year ended 31 December 2021**

## Basis of Principles Applied

For the year ended 31 December 2021, 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).

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 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 regular services 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 Councils 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.

## 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 normally a Board Effectiveness Review at the beginning of each year and it is attended by all the Directors to maintain impartiality and good governance. The 2021 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 current strategic issues and recovery planning being considered on a regular basis, with normal 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 2021 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.

### 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.

**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 benchmarking review was last performed in 2020. This 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 benchmarking review is due is due to be undertaken in the first half of 2022. Directors' remuneration is disclosed on page 40 (note 7).

In 2021, the Group reported its Gender Pay Reporting which highlighted some specific areas of focus for 2021 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.

## 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 schemes reflect the interest of all stakeholders.

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

## Company Board

Details of individual Directors' attendance at Board and Committee meetings in 2021 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 |
|---|---|---|---|
| **Chair** | | | |
| Lesley Macinnes | 7 | 6 | 86% |
| **Chief Executive** | | | |
| George Lowder | 12 | 12 | 100% |
| **Directors** | | | |
| James McFarlane | 7 | 7 | 100% |
| Karen Doran | 12 | 11 | 92% |
| Callum Laidlaw | 10 | 8 | 80% |
| Donald MacLeod | 10 | 10 | 100% |
| Claire Helen Innes Miller | 9 | 7 | 78% |
| George Hazel | 7 | 6 | 86% |
| Daisy Narayanan (resigned 16 May 2021) | 5 | 4 | 80% |
| Andrew Neal (appointed 22 April 2021) | 5 | 5 | 100% |
| **Observer** | | | |
| Paul Lawrence (City of Edinburgh Council) | 7 | 7 | 100% |

## Activities of the Board in 2021

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 2021 the Board:**

- Approved the Annual Accounts and Reports 2020;
- Approved the Group’s 2022 budget
- Approved capital spend to support the 2022 budget;
- Progressed the Group’s business plan;
- Progressed the Group’s recovery plan;
- Received detailed reports on the Group’s operating and financial performance;
- Gave due consideration to the Group’s health and 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;

**During 2021 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.
- To receive updates on ALEO reform proposals and the activities of the short life working group.

**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 being 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 2021 followed the principles of good governance in relation to their skills, knowledge and experience. There were four meetings during 2021.

**External Auditors**

Azets Audit Services were re-appointed external auditors at the AGM in June 2021. The Committee assesses the effectiveness of their performance every year after completion of the annual audit and in April 2021 the Committee evaluated their performance in relation to the 2020 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 2021 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.

### 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.

The Committee comprises three Independent Non-Executive Directors. In 2021 the Committee was chaired by Karen Doran and the two other members were Claire Miller and Daisy Narayanan (until 16 May 2021) with Andrew Neal taking over from 22 April 2021. There were two meetings during 2021.

### 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 2021, 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 2021.

### 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.

### 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 parent Company financial statements in accordance with UK adopted International Accounting Standards. 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.

## 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 results 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

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: 24 June 2022**

**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 2021**

## Opinion

We have audited the financial statements of Transport for Edinburgh Limited (the "parent company") and its subsidiaries (the "group") for the year ended 31 December 2021 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 UK adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and parent company's affairs as at 31 December 2021 and of the group's results for the year then ended;
- the group financial statements have been properly prepared in accordance with UK adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with UK adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006 and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements 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 group and parent 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.

## Emphasis of matter - Basis of preparation

We draw attention to note 1 in the financial statements, which describes the basis of preparation. The directors have prepared the financial statements using a non-going concern basis of accounting as they consider that the parent company is not a going concern. Our opinion is not modified in respect of this matter.

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.

### 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 group and the parent company and their 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 parent company 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 group and parent 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 group or the parent 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.

**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: 24 June 2022**

## TRANSPORT FOR EDINBURGH LIMITED

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

### For the year ended 31 December 2021

| | | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | Note | 2021 £'000 | 2020 £'000 | 2021 £'000 | 2020 £'000 |
| **Continuing operations** | | | | | |
| Revenue from operations | 1i | 110,032 | 106,649 | 153 | 115 |
| Other income | 1i,5 | 47,275 | 36,984 | 277 | 286 |
| Total revenue | | 157,307 | 143,633 | 430 | 401 |
| Administrative expenses | | (171,765) | (163,737) | (447) | (418) |
| **Loss from operations** | | (14,458) | (20,104) | (17) | (17) |
| Gain on disposal of property, plant and equipment | 2 | 850 | 26 | - | - |
| Impairment of investment in subsidiary | 2,20 | - | - | (28,054) | - |
| Finance income | 3 | 4 | 690 | - | - |
| Finance costs | 4 | (2,333) | (1,883) | - | - |
| **Loss before income tax expense** | | (15,937) | (21,271) | (28,071) | (17) |
| Income tax expense | 6 | (3,394) | 321 | 3 | - |
| **Net loss for the year** | | (19,331) | (20,950) | (28,068) | (17) |
| Attributable to: | | | | | |
| Equity holders | 17 | (18,382) | (19,866) | (28,068) | (17) |
| Non-controlling interest | 18 | (949) | (1,084) | - | - |
| **Other comprehensive income/(expense):** | | | | | |
| **Those that are recyclable net of tax:** | | | | | |
| Net fair value movements on cash flow hedges | 26 | 3,305 | (2,266) | - | - |
| Deferred tax thereon | 14 | (704) | 425 | - | - |
| **Those that are not recyclable net of tax:** | | | | | |
| Deferred tax on revaluation of land and buildings | 14 | (13) | (40) | - | - |
| Actuarial gain/(loss) on post-employment benefit obligations | 23 | 84,943 | (55,197) | - | - |
| Deferred tax thereon | 14 | (17,401) | 10,521 | - | - |
| **Total comprehensive income/(expense) for the year** | | 50,799 | (67,507) | (28,068) | (17) |
| Attributable to: | | | | | |
| Equity holders | | 45,443 | (62,237) | (28,068) | (17) |
| Non-controlling interest | | 5,356 | (5,270) | - | - |

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 2021

| | | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | Note | 2021 £'000 | 2020 £'000 | 2021 £'000 | 2020 £'000 |
| **Assets** | | | | **Recoverable value** | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 8 | 190,667 | 192,098 | - | - |
| Retirement benefit asset | 23 | 51,733 | - | - | - |
| Investments | 20 | - | - | 5,824 | 22,955 |
| Derivative financial assets | 12 | 392 | - | - | - |
| **Total non-current assets** | | 242,792 | 192,098 | 5,824 | 22,955 |
| **Current assets** | | | | | |
| Inventories | 9 | 949 | 799 | - | - |
| Trade and other receivables | 10 | 10,403 | 17,561 | 46 | 193 |
| Derivative financial assets | 10,12 | 888 | - | - | - |
| Cash and cash equivalents | 15 | 26,547 | 17,022 | 733 | 645 |
| **Total current assets** | | 38,787 | 35,382 | 779 | 838 |
| **Total assets** | | 281,579 | 227,480 | 6,603 | 23,793 |
| **Equity and liabilities** | | | | | |
| **Equity attributable to equity holders of the parent** | | | | | |
| Share capital | 16 | 33,878 | 22,955 | 33,878 | 22,955 |
| Revaluation reserve | 17 | 20,207 | 20,219 | - | - |
| Other reserves | 17 | 59,929 | 59,929 | - | - |
| Retained earnings | 17 | 4,858 | (38,230) | (27,285) | 783 |
| Hedging reserve | 17 | 873 | (1,494) | - | - |
| Non-controlling interest | 18 | 12,287 | 6,931 | - | - |
| | | 132,032 | 70,310 | 6,593 | 23,738 |
| **Liabilities** | | | | | |
| **Non-current liabilities** | | | | | |
| Lease obligations | 13 | 76,024 | 72,070 | - | - |
| Deferred tax | 14 | 22,514 | 247 | - | - |
| Provisions | 14 | 786 | 1,059 | - | - |
| Derivative financial instruments | 12 | - | 1,446 | - | - |
| Retirement benefit liability | 23 | - | 23,514 | - | - |
| **Total non-current liabilities** | | 99,324 | 98,336 | - | - |
| **Current liabilities** | | | | | |
| Trade and other payables | 11 | 3,842 | 2,239 | - | - |
| Lease obligations | 13 | 18,732 | 17,344 | - | - |
| Other financial liabilities | 11 | 27,649 | 38,672 | 10 | 55 |
| Derivative financial instruments | 12 | - | 579 | - | - |
| **Total current liabilities** | | 50,223 | 58,834 | 10 | 55 |
| **Total liabilities** | | 149,547 | 157,170 | 10 | 55 |
| **Total equity and liabilities** | | 281,579 | 227,480 | 6,603 | 23,793 |

The financial statements were authorised for issue by the Board of Directors on 24 June 2022 and were signed on its behalf by:

Registered number SC443895

**George Lowder, Director**

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 2021**

| | Note | Share Capital £'000 | Revaluation Reserve £'000 | Other Reserves £'000 | Retained Earnings £'000 | Hedging Reserve £'000 | Non-controlling Interest £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | |
| **Balance at 1 January 2020** | | 14,624 | 20,335 | 59,929 | 22,223 | 181 | 12,194 | 129,486 |
| **Comprehensive income** | | | | | | | | |
| Loss for the year | | - | - | - | (19,866) | - | (1,084) | (20,950) |
| **Other comprehensive income** | | | | | | | | |
| 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 |
| **Balance at 31 December 2020** | | 22,955 | 20,219 | 59,929 | (38,230) | (1,494) | 6,931 | 70,310 |

| | Note | Share Capital £'000 | Revaluation Reserve £'000 | Other Reserves £'000 | Retained Earnings £'000 | Hedging Reserve £'000 | Non-controlling Interest £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | |
| **Balance at 1 January 2021** | | 22,955 | 20,219 | 59,929 | (38,230) | (1,494) | 6,931 | 70,310 |
| **Comprehensive income** | | | | | | | | |
| Loss for the year | | - | - | - | (18,382) | - | (949) | (19,331) |
| **Other comprehensive income** | | | | | | | | |
| Deferred tax on revaluation of land and buildings | 14 | - | (12) | - | - | - | (1) | (13) |
| Actuarial gain on pension plan | 23 | - | - | - | 77,307 | - | 7,636 | 84,943 |
| Deferred tax thereon | 14 | - | - | - | (15,837) | - | (1,564) | (17,401) |
| Net fair value movements on cash flow hedges | 26 | - | - | - | - | 3,008 | 297 | 3,305 |
| Deferred tax thereon | 14 | - | - | - | - | (641) | (63) | (704) |
| Shares issued in year | 16 | 10,923 | - | - | - | - | - | 10,923 |
| **Balance at 31 December 2021** | | 33,878 | 20,207 | 59,929 | 4,858 | 873 | 12,287 | 132,032 |

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 2021**

| | Consolidated Group | |
|---|---|---|
| | **2021** | **2020** |
| | **£'000** | **£'000** |
| **Cash flow from operating activities** | | |
| **Loss from operations** | (14,458) | (20,104) |
| Adjustments for: | | |
| Depreciation and amortisation | 22,565 | 23,233 |
| Defined benefit pension current service costs | 12,696 | 10,757 |
| Defined benefit pension past service costs | 181 | 35 |
| Benefit contributions | (3,547) | (6,202) |
| Changes in assets and liabilities: | | |
| Decrease/(increase) in receivables and other financial assets | 7,720 | (9,635) |
| (Decrease)/increase in payables | (9,315) | 10,856 |
| Increase in inventories | (150) | (23) |
| Decrease in provisions | (273) | (280) |
| **Cash flows from operations** | 15,419 | 8,637 |
| Interest paid | (399) | (150) |
| Income tax received | 100 | 421 |
| **Net cash flows from operating activities** | 15,120 | 8,908 |
| **Cash flow from investing activities** | | |
| Purchase of property plant and equipment | (22,583) | (6,047) |
| Proceeds from disposal of property, plant and equipment | 2,287 | 1,449 |
| Interest received | 4 | 23 |
| **Net cash flows from investing activities** | (20,292) | (4,575) |
| **Cash flow from financing activities** | | |
| Issue of share capital | 10,923 | 8,331 |
| New hire purchase lease liabilities | 24,494 | - |
| Payments of lease liabilities | (20,720) | (13,223) |
| **Net cash flows from financing activities** | 14,697 | (4,892) |
| Net increase/(decrease) in cash and cash equivalents | 9,525 | (559) |
| Cash and cash equivalents at beginning of the year | 17,022 | 17,581 |
| **Cash and cash equivalents at end of the year** | 26,547 | 17,022 |
| Bank balances and cash | 26,547 | 17,022 |

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 2021**

## 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 2021 but are either not applicable or have no material impact on the Group financial statements; IFRS 16; Leases, Amendment – Covid-19 Related Rent Concessions (issued on 28 May 2020) effective for annual periods beginning on or after 1 June 2020. The Group has adopted, where applicable, the following new and amended IFRSs as of 1 January 2021:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to Interest Rate Benchmark Reform and its effects on Financial Reporting – Phase 2

Other new standards, amendments to standards and interpretations that are mandatory for the first time in 2021 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 2021, and with potential effect.

| **International Accounting Standards and Interpretations** | **Effective for periods beginning on or after** |
|---|---|
| • IFRS 16; Leases, Amendment – Covid-19 Related Rent Concessions beyond 30 June 2021 (issued on 31 March 2021) | 1 April 2021 |
| • Annual Improvements to IFRS: 2018 – 2020 Cycle | 1 January 2022 |
| • IFRS 3; Business Combinations (Amendment - Conceptual Framework) | 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 & Equipment (Amendment – Proceeds before Intended Use) | 1 January 2022 |
| • IFRS 17; Insurance Contracts (including amendments issued on 25 June 2020) | 1 January 2023 |
| • IAS 1; Presentation of Financial Statements (Amendment – Classification of Liabilities as Current or Non-Current, including deferral of effective date) | 1 January 2023 |
| • IAS 1; Presentation of Financial Statements and IFRS Practice Statement 2 (Amendment – Disclosure of Accounting Policies) (issued on 12 February 2021) | 1 January 2023 |
| • IAS 8; Accounting Policies (Amendment – Changes in Accounting Estimates and Errors: Definition of Accounting Estimates) (issued on 12 February 2021) | 1 January 2023 |
| • IAS 12; Income Taxes (Amendment – Deferred Tax related to Assets and Liabilities arising from a Single Transaction) (issued on 7 May 2021) | 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.

## 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 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 accordingly.

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. However, it is the City of Edinburgh Council's intention to wind up Transport for Edinburgh Limited in the future as part of their Transport companies Arm's Length External Organisation (ALEO) reform. As a result of this decision the company's balance sheet has been valued at recoverable value as at 31 December 2021.

### 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 values 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.

## 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 2021 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.

## 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.

**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.

## 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, www.edinburghtour.com, www.eastcoastbuses.co.uk, 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.

## 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 also 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.

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

### l. 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:

i. 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.

ii. 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.

iii. Depreciation

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

iv. 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.

**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.

## 2. Loss from operations

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Loss from operations has been determined after: | | | | |
| Auditor's remuneration: | | | | |
| Audit services | 67 | 59 | 9 | 9 |
| Non-audit services | 15 | 18 | 1 | 2 |
| Pension current service costs (note 23) | 12,696 | 10,757 | - | - |
| Pension past service costs (note 23) | 181 | 35 | - | - |
| Depreciation and other amounts written off tangible fixed assets: | | | | |
| Owned | 10,987 | 12,865 | - | - |
| Assets held under hire purchase leases | 3,751 | 2,548 | - | - |
| Right-of-use assets | 7,827 | 7,820 | - | - |
| Infrastructure maintenance | 4,470 | 2,040 | - | - |
| Impairment of investment in subsidiary (note 20) | - | - | 28,054 | - |
| Gain on disposal of property, plant and equipment | 850 | 26 | - | - |

## 3. Finance income

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Investment income | 4 | 23 | - | - |
| Pension interest income (note 23) | - | 667 | - | - |
| | 4 | 690 | - | - |

## 4. Finance costs

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Lease charges | 1,967 | 1,883 | - | - |
| Pension interest cost (note 23) | 366 | - | - | - |
| | 2,333 | 1,883 | - | - |

## 5. Other income

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2021 £'000 | 2020 £'000 | 2021 £'000 | 2020 £'000 |
| Other grant income | 277 | 274 | 277 | 274 |
| Coronavirus Job Retention Scheme income | 2,498 | 15,977 | - | 12 |
| Transport Scotland Covid-19 support income | 44,500 | 20,733 | - | - |
| | 47,275 | 36,984 | 277 | 286 |

## 6. Income tax expense

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2021 £'000 | 2020 £'000 | 2021 £'000 | 2020 £'000 |
| Current tax: | | | | |
| Deferred tax | 4,149 | 221 | - | - |
| Adjustment in respect of prior years | (754) | (542) | (3) | - |
| Corporation tax Group relief | (1) | - | - | - |
| Tax on results for the year | 3,394 | (321) | (3) | - |

The effective tax rate for the year ended 31 December 2021 is calculated at 19% (2020: 19%) of the estimated assessable results for the year. The charge/(credit) for the year can be reconciled to the loss per the income statement as follows:

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2021 £'000 | 2020 £'000 | 2021 £'000 | 2020 £'000 |
| Loss for the year before taxation | (15,937) | (21,271) | (28,071) | (17) |
| Loss for the year at the effective rate of corporation tax of 19% (2020 – 19%) | (3,028) | (4,041) | (5,333) | (3) |
| Effects of: | | | | |
| Losses carried back | 380 | - | - | - |
| Expenses not deductible for tax purposes | 1 | 880 | 5,330 | - |
| Income not taxable for tax purposes | 1,843 | (127) | - | - |
| Fixed assets differences | (1,297) | 11 | - | - |
| Adjust deferred tax to average rate of 19% (2020 – 19%) | (60) | 569 | - | - |
| Adjustment to the tax charge in respect of previous periods | (754) | (542) | (3) | - |
| Other tax adjustments, reliefs and transfers | (10) | (16) | 3 | - |
| Deferred tax not recognised | 6,319 | 2,945 | - | 3 |
| Tax charge/(credit) for the year | 3,394 | (321) | (3) | - |

## 7. Employee benefits expense

The Company had an average of 3 employees during the year (2020: 4). The average number of persons employed by the Group (including Directors) during the year was 2,509 (2020: 2,772).
The aggregate payroll costs were as follows:

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Wages and salaries | 79,887 | 80,649 | 232 | 223 |
| Social security costs | 7,834 | 7,753 | 27 | 25 |
| Other pension costs | 5,069 | 7,652 | 2 | 2 |
| | 92,790 | 96,054 | 261 | 250 |

Other pension costs comprise contributions to defined benefit schemes of £3,280,000 (2020: £5,923,000) and to defined contribution schemes of £1,789,000 (2020: £1,729,000) for the Group and £nil (2020: £nil) and £2,000 (2020: £2,000) for the Company respectively.

| *Directors' remuneration* | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Aggregate emoluments and benefits | 178 | 176 | 154 | 152 |
| Highest paid Director's emoluments and benefits | 154 | 152 | 154 | 152 |

One Director received emoluments from the Company (2020: one). One Director (2020: one) 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 (2020: none). Directors' remuneration costs disclosed above exclude employers national insurance costs of £21,938 (2020: £21,725). The highest paid Director has an accrued pension of £nil per annum (2020: £nil) and an accrued lump sum of £nil (2020: £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

| **Group** | **Heritable & Right-of-use Properties £'000** | **Passenger Vehicles £'000** | **Other Vehicles £'000** | **Plant & Equipment £'000** | **Total £'000** |
|---|---|---|---|---|---|
| **Cost or valuation** | | | | | |
| **At 1 January 2021** | 123,392 | 154,019 | 318 | 16,429 | 294,158 |
| Additions | - | 20,500 | 45 | 2,038 | 22,583 |
| Disposals | - | (24,345) | (122) | - | (24,467) |
| **At 31 December 2021** | 123,392 | 150,174 | 241 | 18,467 | 292,274 |
| **Accumulated depreciation** | | | | | |
| **At 1 January 2021** | (16,894) | (74,426) | (244) | (10,496) | (102,060) |
| Charge for the year | (7,827) | (12,861) | (38) | (1,839) | (22,565) |
| Eliminated on disposal | - | 22,905 | 113 | - | 23,018 |
| **At 31 December 2021** | (24,721) | (64,382) | (169) | (12,335) | (101,607) |
| **Net book value** | | | | | |
| **At 31 December 2021** | 98,671 | 85,792 | 72 | 6,132 | 190,667 |
| **Net book value** | | | | | |
| **At 31 December 2020** | 106,498 | 79,593 | 74 | 5,933 | 192,098 |

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

| Group | Heritable & Right-of-use Properties £'000 | Passenger Vehicles £'000 | Other Vehicles £'000 | Plant & Equipment £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost or valuation** | | | | | |
| **At 1 January 2020** | 123,443 | 167,020 | 422 | 15,489 | 306,374 |
| Additions | 29 | 5,052 | 26 | 940 | 6,047 |
| Disposals | (80) | (18,053) | (130) | - | (18,263) |
| **At 31 December 2020** | 123,392 | 154,019 | 318 | 16,429 | 294,158 |
| **Accumulated depreciation** | | | | | |
| **At 1 January 2020** | (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 |
| **At 31 December 2020** | (16,894) | (74,426) | (244) | (10,496) | (102,060) |
| **Net book value** | | | | | |
| **At 31 December 2020** | 106,498 | 79,593 | 74 | 5,933 | 192,098 |
| **Net book value** | | | | | |
| **At 31 December 2019** | 114,369 | 89,548 | 105 | 6,737 | 210,759 |

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 2021 and therefore no depreciation has been charged for the year.

## 9. Inventories

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2021 £'000 | 2020 £'000 | 2021 £'000 | 2020 £'000 |
| Raw materials (fuel) | 595 | 433 | - | - |
| Finished goods | 354 | 366 | - | - |
| | 949 | 799 | - | - |

## 10. Trade and other receivables

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2021 £'000 | 2020 £'000 | 2021 £'000 | 2020 £'000 |
| Trade receivables | 665 | 2,804 | 34 | 40 |
| Other receivables | 1,983 | 2,892 | - | - |
| Prepayments and accrued income | 1,741 | 2,698 | 9 | 153 |
| VAT recoverable | 3,352 | 3,651 | - | - |
| Corporation tax recoverable | 907 | 345 | - | - |
| Derivative financial asset | 888 | - | - | - |
| Amounts due from Parc Craigmillar Limited | - | 349 | - | - |
| Amounts due from Shawfair Land Limited | - | 180 | - | - |
| Amounts due from City of Edinburgh Council | 1,700 | 4,585 | - | - |
| Amounts due from West Lothian Council | 11 | 32 | - | - |
| Amounts due from East Lothian Council | 44 | 12 | - | - |
| Amounts due from other related parties | - | 13 | - | - |
| | 11,291 | 17,561 | 43 | 193 |

| | | | | |
|---|---|---|---|---|
| Non-current | - | - | - | - |
| Current | 11,291 | 17,561 | 43 | 193 |
| | 11,291 | 17,561 | 43 | 193 |

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

## 11. Current liabilities

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | £'000 | £'000 | £'000 | £'000 |
| Trade and other payables | 3,842 | 2,239 | - | 5 |
| Other payables | 4,419 | 4,060 | - | - |
| Taxation and social security | 3,158 | 2,278 | 1 | 1 |
| Lease obligations (note 13) | 18,732 | 17,344 | - | - |
| Accruals and deferred income | 9,028 | 14,343 | 9 | 49 |
| Derivative financial instruments | - | 579 | - | - |
| Corporation tax payable | - | 98 | - | - |
| Amounts due to subsidiary companies | - | - | - | - |
| Amounts due to City of Edinburgh Council | 11,044 | 17,893 | - | - |
| | 50,223 | 58,834 | 10 | 55 |

| | | | | |
|---|---|---|---|---|
| Accrued expenses | 1,629 | 1,462 | 9 | 32 |
| Income received in advance | 7,399 | 12,881 | - | 17 |
| | 9,028 | 14,343 | 9 | 49 |

## 12. Derivative financial instruments

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | £'000 | £'000 | £'000 | £'000 |
| **Assets/(liabilities)** | | | | |
| No later than one year | 888 | (579) | - | - |
| Later than one year but no later than five years | 392 | (1,446) | - | - |
| | 1,280 | (2,025) | - | - |

| **Analysed as:** | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | £'000 | £'000 | £'000 | £'000 |
| **Assets/(liabilities)** | | | | |
| Current | 888 | (579) | - | - |
| Non-current | 392 | (1,446) | - | - |

## 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** | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Current | 18,732 | 17,344 | - | - |
| Non-current | 76,024 | 72,070 | - | - |

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** | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Within one year | 20,645 | 19,383 | - | - |
| Between 2 and 5 years | 55,130 | 43,379 | - | - |
| Over 5 years | 27,294 | 36,237 | - | - |
| Total undiscounted liabilities | 103,069 | 98,999 | - | - |

## 14. Provisions

| | **Consolidated Group** | | **Parent Entity** | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| *Deferred tax liabilities* | | | | |
| At beginning of the year | 247 | 10,932 | - | - |
| Charge for the year to profit or loss | 4,149 | 221 | - | - |
| Charge/(credit) to other comprehensive income | 18,118 | (10,906) | - | - |
| At end of the year | 22,514 | 247 | - | - |
| | | | | |
| The elements of deferred tax are as follows: | | | | |
| Accelerated capital allowances | 9,334 | 4,878 | - | - |
| Short term timing differences | (126) | 221 | - | - |
| Pension scheme | 12,933 | (4,468) | - | - |
| Fair value movements on cash flow hedges | 320 | (384) | - | - |
| Revaluation gain | 53 | - | - | - |
| | 22,514 | 247 | - | - |
| | | | | |
| Included in the accounts as follows: | | | | |
| Provision for liabilities and charges | 22,514 | 247 | - | - |

## 14. Provisions (continued)

| Claims | Consolidated Group 2021 £'000 | Consolidated Group 2020 £'000 | Parent Entity 2021 £'000 | Parent Entity 2020 £'000 |
|---|---|---|---|---|
| At the beginning of the year | 1,059 | 1,339 | - | - |
| Charge for the year | 909 | 695 | - | - |
| Paid during the year | (1,182) | (975) | - | - |
| At the end of the year | 786 | 1,059 | - | - |

**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 Limited only.

## 15. Cash and cash equivalents

| | Consolidated Group 2021 £'000 | Consolidated Group 2020 £'000 | Parent Entity 2021 £'000 | Parent Entity 2020 £'000 |
|---|---|---|---|---|
| Cash at bank and in hand | 26,547 | 17,022 | 733 | 645 |

## 16. Share capital

| | Consolidated Group 2021 £'000 | Consolidated Group 2020 £'000 | Parent Entity 2021 £'000 | Parent Entity 2020 £'000 |
|---|---|---|---|---|
| ***Allotted, called up and fully paid*** | | | | |
| Ordinary shares of £1 each | | | | |
| **At 1 January** | 22,955 | 14,624 | 22,955 | 14,624 |
| Issued in year | 10,923 | 8,331 | 10,923 | 8,331 |
| **At 31 December** | 33,878 | 22,955 | 33,878 | 22,955 |
| **Being** | | | | |
| Ordinary shares of £1 each | 5,824 | 5,824 | 5,824 | 5,824 |
| B Ordinary shares of £1 each | 28,054 | 17,131 | 28,054 | 17,131 |
| | 33,878 | 22,955 | 33,878 | 22,955 |

On 21 May 2021 B Ordinary Shares of 10,923,000 were issued of £1 each.

## 17. Reserves

| Group | Revaluation Reserve £'000 | Other Reserves £'000 | Hedging Reserve £'000 | Retained Earnings £'000 |
|---|---|---|---|---|
| **At 1 January 2020** | 20,335 | 59,929 | 181 | 22,223 |
| 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 | - |
| **At 31 December 2020** | 20,219 | 59,929 | (1,494) | (38,230) |
| Loss for the year | - | - | - | (18,382) |
| Deferred tax on revaluation of land and buildings | (12) | - | - | - |
| Actuarial gain on pension plan | - | - | - | 77,307 |
| Deferred tax thereon | - | - | - | (15,837) |
| Net fair value movements on cash flow hedges | - | - | 3,008 | - |
| Deferred tax thereon | - | - | (641) | - |
| **At 31 December 2021** | 20,207 | 59,929 | 873 | 4,858 |

| Company | Revaluation Reserve £'000 | Other Reserves £'000 | Hedging Reserve £'000 | Retained Earnings £'000 |
|---|---|---|---|---|
| **At 1 January 2020** | - | - | - | 800 |
| Loss for the year | - | - | - | (17) |
| **At 31 December 2020** | - | - | - | 783 |
| Loss for the year | - | - | - | (28,068) |
| **At 31 December 2021** | - | - | - | (27,285) |

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.

## 18. Non-controlling interest

| | Non-controlling interest £'000 |
|---|---|
| **At 1 January 2020** | 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 |
| **At 31 December 2020** | 6,931 |
| Share of loss for the year | (949) |
| Share of deferred tax on revaluation of land and buildings | (1) |
| Share of cash flow hedges | 297 |
| Share of deferred tax thereon | (63) |
| Share of actuarial gain for the year | 7,636 |
| Share of deferred tax thereon | (1,564) |
| **At 31 December 2021** | 12,287 |

## 19. Commitments

In December 2021 the Board of Lothian Buses Limited gave approval for expenditure of £2.75m on upgrading bus equipment in 2022.

## 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% |
| | | | |
| **Subsidiaries of Lothian Buses Limited:** | | | |
| 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.

**Impairment**

Given the City of Edinburgh Council's intention to wind up Transport for Edinburgh Limited in the future as part of their Transport Companies Arm's Length External Organisation (ALEO) reform, the company's balance sheet has been valued at recoverable value as at 31 December 2021.

An impairment review was carried out and the following provision has been recognised in the profit or loss:

| **Investments in subsidiaries** | **2021 £'000** |
|---|---|
| At 1 January 2021 | 22,955 |
| Share capital issued in year (Edinburgh Trams Limited) | 10,923 |
| Impairment provision in year (Edinburgh Trams Limited) (note 2) | (28,054) |
| At 31 December 2021 | 5,824 |

## 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* | **2021 £'000** | **2020 £'000** |
|---|---|---|
| City of Edinburgh Council (Ultimate Parent) | 685 | 1,255 |
| Midlothian Council (Shareholder) | 43 | 36 |
| East Lothian Council (Shareholder) | 666 | 117 |
| West Lothian Council (Shareholder) | 11 | 38 |
| UK Tram Limited (Director in Common) | 35 | - |
| | 1,440 | 1,446 |

| *(b) Purchase of goods and services* | **2021 £'000** | **2020 £'000** |
|---|---|---|
| City of Edinburgh Council (Ultimate Parent) | 14,939 | 20,891 |
| East Lothian Council (Shareholder) | 42 | 46 |
| West Lothian Council (Shareholder) | 60 | 56 |
| UK Tram Limited (Director in Common) | 17 | - |
| | 15,058 | 20,993 |

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:* | **2021 £'000** | **2020 £'000** |
|---|---|---|
| City of Edinburgh Council (Ultimate Parent) | 3,555 | 314 |

| *(d) Year-end balances arising from sales/purchases of goods/services* | **2021 £'000** | **2020 £'000** |
|---|---|---|
| Receivables from related parties | | |
| City of Edinburgh Council (Ultimate Parent) | 1,700 | 4,585 |
| East Lothian Council (Shareholder) | 44 | 12 |
| West Lothian Council (Shareholder) | 11 | 32 |
| Parc Craigmillar Limited (CEC Group Company) | - | 349 |
| Shawfair Land Limited (CEC Group Company) | - | 180 |
| Other related parties (CEC Group Companies) | - | 13 |
| Payables to related parties | | |
| City of Edinburgh Council (Ultimate Parent) | (11,044) | (17,893) |

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.

## 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.

## 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 2021 £'000 | % | Value at 2020 £'000 |
|---|---|---|---|---|
| **Equity Securities:** | | | | |
| Consumer | 8% | 50,830 | 7% | 40,640 |
| Manufacturing | 9% | 55,953 | 8% | 47,303 |
| Energy and Utilities | 3% | 20,387 | 3% | 17,568 |
| Financial Institutions | 4% | 22,891 | 4% | 20,860 |
| Health and Care | 4% | 26,349 | 4% | 23,852 |
| Information Technology | 3% | 18,409 | 3% | 16,234 |
| Other | 5% | 32,123 | 5% | 29,281 |
| **Debt Securities:** | | | | |
| Corporate Bonds | 21% | 128,579 | 22% | 124,430 |
| UK Government | 13% | 81,606 | 12% | 72,307 |
| Other | 3% | 19,776 | - | - |
| **Private Equity:** | | | | |
| All | 0% | 2,271 | 0% | 2,165 |
| **Real Estate:** | | | | |
| UK Property | 5% | 29,674 | 6% | 32,769 |
| Overseas Property | 0% | 222 | 0% | 408 |
| **Investment Funds and Unit Trusts:** | | | | |
| Equities | 1% | 6,073 | 1% | 4,365 |
| Bonds | 3% | 20,894 | 5% | 26,579 |
| Infrastructure | 10% | 63,941 | 12% | 71,044 |
| Other | 1% | 3,477 | 0% | (270) |
| **Cash and Cash Equivalents:** | | | | |
| All | 7% | 45,618 | 8% | 46,084 |
| | 100% | 629,073 | 100% | 575,619 |

| The amounts recognised in the statement of financial position are determined as follows: | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Fair value of plan assets | 629,073 | 575,619 |
| Present value of scheme liabilities | (577,340) | (599,133) |
| Asset/(liability) in the scheme | 51,733 | (23,514) |
| Net pension asset/(liability) | 51,733 | (23,514) |

## 23. Retirement benefits obligation (continued)

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

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| At 1 January | 599,133 | 544,300 |
| Current service cost | 12,696 | 10,757 |
| Past service cost | 181 | 35 |
| Interest cost on obligation | 7,788 | 10,875 |
| Plan participants contributions | 1,470 | 1,520 |
| Unfunded benefits paid | (267) | (279) |
| Benefits paid | (13,324) | (13,118) |
| Actuarial (gains)/losses arising from changes in financial assumptions | (21,908) | 82,235 |
| Actuarial gains arising from changes in demographic assumptions | (578) | (32,742) |
| Other actuarial gains | (7,851) | (4,450) |
| At 31 December | 577,340 | 599,133 |

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

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| At 1 January | 575,619 | 579,906 |
| Benefits paid | (13,324) | (13,118) |
| Interest income on plan assets | 7,422 | 11,542 |
| Contributions by employer | 3,280 | 5,923 |
| Contributions by member | 1,470 | 1,520 |
| Contributions in respect of unfunded benefits | 267 | 279 |
| Unfunded benefits paid | (267) | (279) |
| Return on assets excluding amounts included in net interest | 54,606 | (10,154) |
| At 31 December | 629,073 | 575,619 |

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

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Interest received on pension scheme assets | (7,422) | (11,542) |
| Interest cost on pension scheme liabilities | 7,788 | 10,875 |
| Finance cost/(income) | 366 | (667) |
| Current service cost | 12,696 | 10,757 |
| Past service cost | 181 | 35 |
| | 13,243 | 10,125 |

## 23. Retirement benefits obligation (continued)

Amounts recognised in other comprehensive income:

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Actuarial gains/(losses) in the defined benefit obligation | 30,337 | (45,043) |
| Actuarial gains/(losses) in the fair value of defined benefit assets | 54,606 | (10,154) |
| | 84,943 | (55,197) |

The principal actuarial assumptions used in this valuation were:

| | 2021 | 2020 |
|---|---|---|
| Inflation/pension increase rate | 2.9% | 2.5% |
| Salary increase rate | 3.4% | 3.0% |
| Discount rate | 1.9% | 1.3% |

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 0.45% (2020: 0.5%).

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 | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| 0.5% decrease in real discount rate | 9% | 9% | 52,745 | 56,444 |
| 0.5% increase in the salary increase rate | 1% | 1% | 7,250 | 7,658 |
| 0.5% increase in the pension increase rate | 8% | 8% | 44,790 | 47,237 |

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.

## 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:

| | **Male** | **Female** |
|---|---|---|
| Current pensioners | 20.5 | 23.3 |
| Future pensioners | 21.9 | 25.2 |

The average duration of the benefit obligation at 31 December 2021 is 18 years (2020: 18 years). This number can be analysed as follows:

| | **2021** | **2020** |
|---|---|---|
| Active members | 24 years | 24 years |
| Deferred members | 25 years | 25 years |
| Retired members | 13 years | 13 years |

Contributions to post employment benefit plans for the year ended 31 December 2022 are expected to be £2,319,000.

## 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:** | **Consolidated Group** | | **Parent Entity** | |
|---|---|---|---|---|
| | **2021 £'000** | **2020 £'000** | **2021 £'000** | **2020 £'000** |
| Minimum lease receipts under non-cancellable leases due: | | | | |
| No later than one year | 82 | 89 | - | - |
| Later than one year but no later than five years | 247 | 267 | - | - |
| Later than five years | 79 | 141 | - | - |
| | 408 | 497 | - | - |

The total annual lease income received in the year ended 31 December 2021 was £92,000 (2020: £87,000).

## 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 | |
|---|---|---|---|---|---|
| | | 2021 | 2020 | 2021 | 2020 |
| | | £'000 | £'000 | £'000 | £'000 |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 15 | 26,547 | 17,022 | 733 | 645 |
| Trade and other receivables | 10 | 5,291 | 10,867 | 34 | 40 |
| **Total financial assets** | | 31,838 | 27,889 | 767 | 685 |
| **Financial liabilities** | | | | | |
| Current liabilities | 11 | 39,666 | 42,998 | 9 | 37 |
| Non-current lease obligations | 13 | 76,024 | 72,070 | - | - |
| **Total financial liabilities** | | 115,690 | 115,068 | 9 | 37 |

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.

## 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 2021 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.

## 25. Financial risk management (continued)

### b. Liquidity risk (continued)

**Financial liability and financial asset maturity analysis**

| Group | Note | Within 1 Year 2021 £'000 | 1 to 5 Years 2021 £'000 | Total 2021 £'000 |
|---|---|---|---|---|
| **Financial liabilities due for payment** | | | | |
| Current liabilities | 11,12 | 20,934 | - | 20,934 |
| Lease obligations | 13 | 18,732 | 76,024 | 94,756 |
| Total expected outflows | | 39,666 | 76,024 | 115,690 |
| **Financial assets — cash flows realisable** | | | | |
| Cash and cash equivalents | 15 | 26,547 | - | 26,547 |
| Trade and other receivables | 10 | 5,291 | - | 5,291 |
| Total anticipated inflows | | 31,838 | - | 31,838 |
| Net outflow of financial instruments | | (7,828) | (76,024) | (83,852) |

**Financial liability and financial asset maturity analysis**

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

## 25. Financial risk management (continued)

### b. Liquidity risk (continued)

| Company | Note | Within 1 Year 2021 £'000 | 1 to 5 Years 2021 £'000 | Total 2021 £'000 |
|---|---|---|---|---|
| **Financial liabilities due for payment** | | | | |
| Current liabilities | 11,12 | 9 | - | 9 |
| Total expected outflows | | 9 | - | 9 |
| **Financial assets — cash flows realisable** | | | | |
| Cash and cash equivalents | 15 | 733 | - | 733 |
| Trade and other receivables | 10 | 34 | - | 34 |
| Total anticipated inflows | | 767 | - | 767 |
| Net inflow of financial instruments | | 758 | - | 758 |

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

## 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 2021 consume approximately 19.4m 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 decreases the overall net asset of the fixed contracts by approximately £300,000. 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.

## 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.

| | Note | Level 2 | |
|---|---|---|---|
| | | **2021** | **2020** |
| **Assets/(liabilities)** | | **£'000** | **£'000** |
| **Derivative financial instruments** | 12 | 1,280 | (2,025) |

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 | 2021 £'000 | 2020 £'000 |
|---|---|---|---|
| **Non-current assets/(liabilities)** | | | |
| Fuel derivatives | 12 | 392 | (1,446) |
| **Current assets/(liabilities)** | | | |
| Fuel derivatives | 12 | 888 | (579) |
| **Total net carrying value** | | 1,280 | (2,025) |

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

## 26. Derivative financial instruments (continued)

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

| **Fuel derivatives** | **2021 £'000** | **2020 £'000** |
|---|---|---|
| Fair value at the start of the year | (2,025) | 241 |
| Changes in the fair value during the year | 3,980 | (4,303) |
| Cash (received)/paid during the year | (675) | 2,037 |
| Fair value at the end of the year | 1,280 | (2,025) |

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

| **As at 31 December 2021** | **Assets/ (liabilities) £'000** |
|---|---|
| Within one year | 888 |
| 1 to 2 years | 524 |
| 2 to 3 years | (132) |
| | 1,280 |

## 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 2020 | 15,944 | 85,306 | - | (241) | 101,009 |
| Cash flows | | | | | |
| Repayment of lease liabilities | (13,223) | - | - | - | (13,223) |
| Net payments on derivative instruments | - | - | (3,003) | - | (3,003) |
| Non-cash flows | | | | | |
| 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 | - |
| At 31 December 2020 | 17,344 | 72,070 | 2,025 | - | 91,439 |
| At 1 January 2021 | 17,344 | 72,070 | 2,025 | - | 91,439 |
| Cash flows | | | | | |
| Repayment of lease liabilities | (20,369) | - | - | - | (20,369) |
| New hire purchase leases in year | 4,899 | 19,595 | - | - | 24,494 |
| Net receipts on derivative instruments | - | - | - | 675 | 675 |
| Non-cash flows | | | | | |
| Leases | 1,217 | - | - | - | 1,217 |
| Change in fair value during the year | - | - | - | (3,980) | (3,980) |
| Split in aging profile | 15,641 | (15,641) | (2,025) | 2,025 | - |
| At 31 December 2021 | 18,732 | 76,024 | - | (1,280) | 93,476 |

## 28. Post balance sheet events

### B Shares

On 25 March 2022 a payment of £8.0m was received from City of Edinburgh Council in respect of the purchase of B Shares in Edinburgh Trams, through Transport for Edinburgh Limited.

## 29. Contingent liabilities

On 12 October 2021, following the closure of the Edinburgh Cycle Hire Scheme as a consequence of not renewing the concession contract with the scheme's operator Serco, the parent company received a request for a refund of £481,128 in relation to Green Economy Fund grant funding. This funding was provided by Scottish Power Energy Networks for infrastructure for the Edinburgh Cycle Hire Scheme. It has since been agreed that £81,391 of this sum relates to Outreach that has been delivered, resulting in £399,737 granted for scheme infrastructure, that was committed to purchasing docks and baseplates for the scheme. Discussions are ongoing with the claimant to find a mutually agreeable resolution, including repurposing as much of this infrastructure as possible. Due to uncertainty surrounding the outcome of the claim and any potential refund of grant funding, this potential liability has not been recognised in the financial statements on the balance sheet, as it remains contingent on discussions still being held at the date of the approval of the financial statements.