TRANSPORT FOR EDINBURGH LIMITED

Consolidated Financial Statements

For the year ended 31 December 2022

Registered number SC443895

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Company Information

Board of Directors:	Scott Arthur (Chair) (appointed 30 June 2022) Jule Bandel (appointed 30 June 2022) Alan Beal (appointed 30 June 2022) Karen Doran (resigned 30 June 2022) George Hazel Callum Laidlaw (resigned 30 June 2022) George Lowder Lesley Macinnes Donald MacLeod James McFarlane Claire Helen Innes Miller (resigned 30 June 2022) Andrew Neal	
Company Registration:	Registered Office	55 Annandale Street Edinburgh EH7 4AZ
	Registration Number	SC443895
Bankers:	The Royal Bank of Scotland plc	
Auditor:	Azets Audit Services Chartered Accountants Exchange Place 3 Semple Street Edinburgh EH3 8BL	

TRANSPORT FOR EDINBURGH LIMITED

Strategic Report

For the year ended 31 December 2022

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 approximately 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, the City Mobility Plan 2030 and other City of Edinburgh Council policies: including, but not exclusively, the Public Transport and Active Travel Action Plans, Low Emission Zone, City Centre Transformation and Circulation Plans and the objective of achieving Carbon Net Zero by 2030. The Company also delivers additional services for The City in line with the purpose of the Company, the Strategy and City Plans and Policies. Most notably in 2022: support to Interim Cycling Schemes, especially the University of Edinburgh e bike scheme (UniCycles), leadership of the Edinburgh Wayfinding Project and the Driver Innovation Safety Challenge (DISC) and the coordination of City wide, major event contingency planning. Specifically in 2022, coordination of the City's response to the death of Her Majesty, Queen Elizabeth II and preparations for the 2023 World Cycling Championships.

Considerable time, effort and resource has been committed throughout 2022, to continued COVID recovery and the impact of the introduction from 1 February 2022 of the Under 22s Concessionary Bus Travel Scheme (U22 Scheme). TfE has continued to have much more detailed and regular dialogue with Transport Scotland regarding these and other matters, particularly the absence of Scottish Government U22 Scheme funding for Edinburgh Trams and the implications and consequences of this. Throughout 2022 TfE has remained fully engaged with the Trams to Newhaven Project and the City of Edinburgh Council's Programme to reform the Council's publicly owned transport companies. This Strategic Report should be read in conjunction with the Strategic Reports of Lothian Buses and Edinburgh Trams.

Business Strategy

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

The Group retained a substantial share of the local public transport market in Edinburgh and the Lothians. Although it must be noted that patronage has not completely returned to pre COVID levels and patterns of use of public transport are different to those seen before COVID. The Directors consider that the results for the year are in line with expectations, with the main reason for the loss in the year resulting from the significant effect on patronage, due to the Covid-19 pandemic and changing travel patterns. Edinburgh Trams have continued to develop their responsibility for tram network maintenance and renewals 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 15.4% over the previous year to £181.5m, while the loss after tax was £6.5m. The Statement of Financial Position shows the Group's financial strength at the year end, with net reserves of £123.7m. Capital expenditure in the year was £2.9m. The main additions were 4 new double deck vehicles to the Lothian Buses fleet, together with investment in a new computer aided dispatch automatic vehicle location real time information system. As summarised below, our revenue from operations has improved slightly on 2021, which had varying degrees of Covid-19 lock downs, restrictions on travel and physical distancing measures. Throughout 2022 Lothian Buses continued to receive some funding support from Scottish Government via Transport Scotland. This support is due to end on 31 March 2023. Funding support is detailed below within other income and the Group is grateful for this financial assistance during these times of ongoing economic turbulence and a continued challenging operating environment.

Under 22 Concessionary Travel Scheme (U22 Scheme)

Since the commencement of the U22 Scheme on 1 February 2022, 89% of those eligible in the City of Edinburgh have enrolled in the scheme. Edinburgh has regularly been at the top of the Local Authority league table for enrolment. Lothian Buses has been reimbursed at concessionary rates throughout 2022.

Under 22 Concessionary Travel Scheme (U22 Scheme) (continued)

Following negotiation with the City of Edinburgh Council, Edinburgh Trams will be reimbursed at concessionary rates for the period 1 February 2022 until the end of the 2022/23 financial year by City of Edinburgh Council. This support will end on 31 March 2023.

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. TfE has remained engaged with the City of Edinburgh Council, Stakeholders and Partners regarding the further extension of the tram network to establish a north to south line, the continuation of interim cycling schemes and the future procurement of a new cycle hire scheme for the City. TfE leads the Edinburgh Wayfinding Project that helps residents, workers, students and visitors; walk, cycle and use public transport in Edinburgh. The first tranche of new totems were installed in the City Centre in 2022 with the support of Project Sponsors. Further totems will be procured and installed in 2023. TfE continues to have delegated coordinating authority for the City's response to major events. Trading to date in 2023 is in line with budgeted expectations and the Directors remain confident in the ability of the businesses to change and adapt quickly in the short-term. External factors still bring significant challenges and require daily issues to be addressed, 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	**2022**	**2021**
	£'000	**£'000**
The results for the year are summarised below:		
Revenue	181,518	157,307
Loss before income tax expense	(7,180)	(15,937)
Income tax	664	(3,394)
Net loss for the year	(6,516)	(19,331)
Attributable to:		
Equity holders	(6,924)	(18,382)
Non-controlling interest	408	(949)

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:

	2022	**2021**	**Change**
Group operating margin – operating loss relative to revenue	-3.6%	-9.2%	+5.6%
Group patronage – year on year movement in passenger journeys	98.25m	62.95m	+35.3m

Group operating margin has increased by 5.6%. Group patronage has increased by 35.3m year on year as a result of an overall improvement in the effects of the Covid-19 pandemic and the cessation of all government restrictions.

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. In 2022 TfE and Edinburgh Trams were accredited as Living Wage Employers.

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 and continuing basis for existing staff.

Employees (continued)

Training programmes include customer care and disability awareness. The training is an essential part of employee development and helps 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 such as health and safety, staff catering and staff welfare. Applications for employment received from disabled persons are considered on an equal basis with other applications, subject to the nature and extent of the disability and the degree of physical fitness demanded of the post. We recognise the need to develop our staff and during 2023 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. Health and wellbeing training will continue in 2023. To ensure our ongoing commitment to good and progressive employee relations and engagement Lothian Buses and Edinburgh Trams have a People Function with dedicated People Managers in the main bus depots and at the Gogar tram depot. 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.

Risks and Uncertainties

The Boards regularly review the Risk Registers, which detail and identify risks from all areas of operations. The TfE Risk Register is regularly reviewed, evaluated and managed by the TfE Audit and Risk Committee and TfE Board, with action plans collated and monitored throughout the year. The Group is subject to risk factors both internal and external to its business. External risks include, political and economic conditions, competitive developments, supply chain interruptions, regulatory and legislative changes, service diversification, supply price increases, pension funding, environmental risks, strikes, congestion, construction and litigation. Internal risks include, risks related to capital expenditure, regulatory compliance failure and the 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 risks are treated or transferred.

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.

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 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 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 CEC Transport and Environment Committee considered a further report on 19 August 2021, proposing that Lothian Buses be reconstituted, to be responsible for the management of all Council-owned public transport modes in the city whilst retaining the brands and services of each of the transport companies. The proposed governance and process for this work was outlined in the Report and an

Transport Arms Length External Organisations (ALEO) Reform (continued)

Implementation Board was to be convened to oversee the work. Volunteers for the Implementation Board were sought on the 11 November 2021. The composition of the Implementation Board was confirmed on 31 December 2021, with 2 Non-Executive Members from TfE, 3 from Lothian Buses and 2 from Edinburgh Trams, Separately, Grant Thornton Ltd were procured and instructed to develop a detailed Project Plan and began interviewing key Stakeholders. Between January and May 2022, a Letter of Engagement was agreed with Grant Thornton Ltd. This was finally signed by all parties on 11 May 2022. An ALEO Reform Workshop was facilitated by Grant Thornton on 6 June 2022, where an initial Grant Thornton very high-level Project Plan was considered. Following this Workshop CEC proposed the process be accelerated. Concern was expressed that such an accelerated plan increased risks, especially, but not solely, because of the concurrency with Tram to Newhaven mobilisation, testing and commissioning and opening for service. Some of the other Grant Thornton Proposals were also challenged. It was considered that further, formal, project management support was required. This was procured through a separate bid process, in which Grant Thornton did not compete.

The Implementation Board continued to meet throughout the latter half of 2022 and on 14 October 2022 the Implementation Board was informed that CEC had engaged Turner and Townsend, supported by Anturas Consulting, to develop a detailed Project Execution Plan. This Plan dated January 2023 was made available to the Chair and circulated to the Board. Concurrently the Implementation Board has been stood down and a Transformation Project Board established. TfE is not represented on the Transformation Board, which held an inaugural meeting on 24 February 2023 and is now meeting monthly. The current key work strand relates to establishing the scope and methodology for due diligence.

Corporate Social Responsibility

2022 has been a proactive year for TfE, Lothian Buses and Edinburgh Trams, both in environmental achievements and other partnerships.

Despite a challenging 2022, Lothian Buses has still been able to meet many of the goals set out in its Strategy. They achieved their goal to be operating at a minimum of Euro 6 by the end of 2021. 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 in 2021, enabling Lothian to continue to reduce its emissions in some of Edinburgh’s key air quality management areas. This helped Lothian to be compliant with the Low Emission Zones introduced by the City of Edinburgh Council. 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 is working closely with Green Tourism to develop a new, innovative and forward-thinking environmental strategy. This new sustainability 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. In 2022, Lothian added 4 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. Continued investment in low and zero emission vehicles heavily supports air quality improvements in Lothian’s operational environment.

Edinburgh Trams continued to acknowledge all government guidelines in relation to Covid-19 recommendations and guidance which were strictly adhered to. The lifting of restrictions in full saw an immediate return to increased passenger numbers, as confidence in the use of public transport returned. Our enhanced cleaning regime remained through to the year including the fogging of areas in the tram depot on a regular basis.
Edinburgh Trams continued to support the Edinburgh Climate Commission, making good progress with our internal environmental objectives. In 2022 Edinburgh Trams met five of five newly introduced Environmental Key Performance Indicators (EKPI’s), with a large reduction in emissions generated by our electricity supplier for our use of both Traction and Non-Traction Power.

During 2022 we reviewed our domestic vehicle options with a view to operating an environmentally friendly fleet as possible. With availability, progressive technology and cost factors we postponed the timing of the purchase of new vehicles until 2023. Edinburgh Trams has installed 10 EV charging points at the Gogar Tram Depot.

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 covering the Group's offices, depots and transport fleet, as well as energy efficiency and environmental management actions implemented during the financial year.

Scope of Analysis and Data Collection

Over 2022 the TfE 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 – 31 December 2022, 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 2022 GHG Conversion Factors for Company Reporting, published annually by Defra and BEIS.

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 2022 financial year. As per SECR requirements this information is presented in kilowatt hours (kWh).

Emissions Source	GHG Scope (Protocol)	Reporting Units	2022	Restated* 2021	Year on Year % change
Vehicle Fleet Fuel	Scope 1	kWh	194,021,370	204,365,689	-5.1%
Trams Traction Usage	Scope 2	kWh	7,918,300	7,540,529	+5.0%
Electricity (Sites & Vehicles)	Scope 2&3	kWh	4,741,969	4,599,267	+3.1%
Natural Gas	Scope 1	kWh	3,816,731	4,449,942	-14.2%
Tram Vehicle Fleet Mileage	Scope 1	kWh	39,330	31,089	+26.5%
Total Energy Consumption			**210,537,700**	**220,986,516**	**-4.7%**

GHG Emissions Reporting

In accordance with the SECR Emissions Reporting requirements outlined in the Companies Act for large companies our GHG disclosure for the 2022 financial year is listed below. Results have been split by Scope as outlined by the GHG Protocol calculation methodology.

GHG Emissions Scope	Results (Units)	2022	Restated* 2021	Year on Year % change
Scope 1	tonnes CO_2e	49,454.27	49,800.91	-0.7%
Scope 2	tonnes CO_2e	2,037.30	2,112.34	-3.6%
Scope 3	tonnes CO_2e	69.80	70.82	-1.4%
Total GHG Emissions		**51,561.37**	**51,984.07**	**-0.8%**
GHG Emissions Intensity 1	tonnes CO_2e / £m Turnover	**284.16**	**331.13**	**-14.2%**
GHG Emissions Intensity 2	tonnes CO_2e / Employee	**20.17**	**20.47**	**-1.5%**

*2021 figures have been restated to reflect vehicle fleet fuel data that has subsequently become available.

Streamlined Energy and Carbon Reporting (continued)

This information is the Group's SECR disclosure for the 2022 year. These results will be our baseline GHG emissions which will be used as a benchmark for future performance comparison purposes.

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 2022 Lothian Buses has continued to make efforts to reduce GHG emissions from its vehicles. In 2021 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 all of the bus fleet meets Euro 6 standard and complied with Edinburgh's Low Emission Zone. Lothian has 4 fully electric double deck buses in 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 during 2023.

Edinburgh Trams fully recognise the importance of how the operational business impacts the environment and the responsibilities that go with being a major operator of public transport within the City of Edinburgh. Good progress has been made with both Edinburgh Trams and their Maintainers' environmental objectives in 2022, that have been designed to both, reduce our Green House Gas (GHG) emissions and the overall impact on the environment. All environmental reports have also been appropriately closed out on the Edinburgh Trams Environmental Communications Log. These ranged from contractors not complying with the waste management processes, to oil spills on the Depot and invasive plant species being identified at new locations on the network.

Edinburgh Trams Non-Traction Energy recorded a 43% reduction GHG emissions against the previous year. This was achieved by a reduction in emissions per kwh generated by our electricity supplier and the replacement of £100k of depot lighting to LED lighting. Traction Energy recorded a 37% reduction in Traction Power GHG emissions against the previous year. This was predominantly achieved by a reduction in emissions per kwh generated by our electricity supplier.

Charity Engagements

During 2022, we continued where possible with our community and charity engagements.

Lothian Buses' charity of choice was Support in Mind Scotland and they managed to work in partnership with them more, when the Covid-19 restrictions ended in April 2022. It was the last year of the partnership, which was extended to cover 2022 due to disruption during the Covid-19 pandemic. Lothian Buses once again supported the national Poppy Scotland campaign in November with a specially liveried 'Poppy Bus' for the charity. Lothian Buses partnership with Police Scotland continues through the behavioural change campaign and Lothian Buses continues to receive a positive response via the programme. Covid-19 restrictions curtailed all other charity fundraising activity.

Edinburgh Trams' charity of choice in 2022 was Breast Friends who will be the beneficiary of the Festive Campaign which resulted in over £1,000 being donated. Other beneficiaries from Edinburgh Trams in 2022 were Poppy Scotland and the Edinburgh Cat and Dog Home. Edinburgh Trams also helped raise thousands of pounds for St John Scotland, a charity providing CPR training, increasing public access to defibrillators, training Community First Responders or transporting patients to hospitals.

Edinburgh Cycle Hire Scheme

During 2022 TfE worked with City of Edinburgh Council and their appointed Contractor Turner & Townsend to support the development of a detailed Options Appraisal for a future Edinburgh Cycle Hire scheme (ECHS) utilising the data and experience gathered from the 2018 to 2021 ECHS. The Options Appraisal was considered by the Council's Transport and Environment Committee on 2 February 2023.

Edinburgh Cycle Hire Scheme (continued)

Throughout 2022 a number of Interim Cycle Schemes were initiated and delivered in line with 11 November 2021 Council decisions, funded by the Council, including All-Ability Cycling, Break the Cycle, University Training and E-bike Programme and Cargo Bike Movement. Given TfE's involvement in the ECHS and other cycling schemes, TfE seconded an appropriately qualified officer to the Council's Active Travel Team to support the establishment and delivery of the Interim Schemes. TfE compiled and delivered a detailed report for ECHS Funders to demonstrate the continued benefit and value of their original investments in the ECHS, through the Interim Schemes and repurposing of the ECHS infrastructure. TfE worked closely with the University of Edinburgh, Serco and the Energy Saving Trust to establish the University e bike scheme, "Unicycles" and the opportunities to expand this scheme. No decisions on expansion have yet been made, but a viable possibility exists.

Wayfinding

TfE continues to lead the Edinburgh Wayfinding Project which supports the hierarchy of walking, wheeling, cycling and the use of public transport. Following the successful installation of prototype totems in late 2021 a further tranche of new totems were installed in the City Centre in 2022 with the support of four Project Sponsors. Further totems will be procured and installed in 2023. TfE continues to bid for external funding to support the expansion of the Project. City Partners and Council Teams are using the Wayfinding materials and incorporating them into their own digital displays. TfE continues to liaise with city development projects to encourage the incorporation of the Wayfinding totems and materials and concurrent removal of obsolete wayfinding and street clutter.

The Driver Innovation Safety Challenge (DISC) and FOCUS+

The DISC Project continued in 2022 with the support of UK Tram, Edinburgh Trams, other UK tram operators and strategic partners. The wearable device, developed by IHF Ltd, known as Focus+, has been further developed following feedback from the volunteer, pilot participants. The system has achieved near real time data transmission and algorithmic learning, to build a picture of participant wellbeing, so that changes can be automatically and instantly recognised. Software, firmware and hardware improvements have been delivered in 2022. Further, more rigorous fatigue testing, final proof of concept and external independent validation will be conducted in 2023.

The Edinburgh Festivals Transport Coordination Project

In 2022 The Edinburgh Festivals Transport Coordination Project convened the group, including operators, ahead of the summer festival period, to understand likely demand and how public transport provision would be impacted by planned and potential industrial action.

Major Event Planning

TfE has a delegated coordinating authority for the City's planning and preparation for some major events. Through 2022 and until September the TfE led Edinburgh Working Group, comprising key City of Edinburgh Council Teams, Strategic Partners, blue light services and a raft of other organisations and institutions, continued to meet monthly to develop the City plans for Operation UNICORN, the death of Her Majesty, Queen Elizabeth II, in Scotland, or elsewhere, known as Operation KINGFISHER. Operation UNICORN was activated on Thursday 8 September and ran in Edinburgh until Wednesday 14 September 2022. TfE coordinated city wide activity at the Bronze command level throughout and continued to deliver regular, albeit altered, services and additional Operation UNICORN specific services, in support of Partners and the operation more generally.

Throughout 2022 TfE has engaged with Transport Scotland and other Strategic Partners on the planning for the 2023 World Cycling Championships. The City of Edinburgh will be impacted by the Mens' Elite Road Race that starts in Holyrood on 6 August 2023, with a route that heads Northwest and across the Forth Crossing en route to Glasgow.

Edinburgh Trams

Edinburgh Trams is the Operator and Infrastructure Manager of the city's trams. It offers an award-winning, world class, integrated, environmentally friendly and socially inclusive mode of transport whilst playing a central role in the future prosperity of Edinburgh and the Lothians.

Edinburgh Trams has a fleet of 27 trams and operates seven days a week now serving 15 stops, due to the closure of the tram stop at York Place in February 2022, to allow for the connecting of the existing tram track to the extended line to Newhaven.

Whilst receiving support from Transport Scotland Edinburgh Trams were required to operate the first and last published timetabled tram and at least a 15-minute service in-between.

In June 2022 Edinburgh Trams resumed normal timetabled service, running from every seven minutes. This was delivered ahead of patronage demand to give space and confidence to customers. Additional commercial data analysis was implemented to monitor passenger movements, and where necessary, “hot spares” were once again deployed to guarantee social distancing; thus, public confidence increased.

2022 was a challenging year and can be split into two; the first half of the year saw the remaining limitations and restrictions of continuing effects of COVID which reflected on public confidence during the initial months; the second half, by contrast, proved more fruitful in terms of usage as a result of the lifting of such restrictions in April and May. The total patronage for the year was reported as 4.8m with a split of 40% recovery in the first half of the year rising to 60% in the second half.

Following the relaxation of travel restrictions, premium fares in relation to airport travel, recovered extremely well and exceeded City Zone recovery, resulting in higher revenue recovery rate versus patronage, including some weeks whereby revenues recovered to over 90% in comparison to 2019 pre-covid.

Recovery within the City Zone was hindered by employers in the City continuing to allow staff to work from home on either a hybrid, or permanent, basis. It has taken until late October/early November for Edinburgh Trams to witness the return of the AM peak travel time zone. Until then, the mid-day and evenings (based on Monday to Friday operations) recorded the highest usage. Although recovery remains behind pre-Covid levels with regard to patronage, Edinburgh Trams have taken some comfort that the busiest hour in the day is once more between 8am and 9am.

Weekend travel remains above average recovery levels and in addition Edinburgh Trams offered free tram travel to all, following the renewed Hogmanay celebrations that Edinburgh is famous for, with thousands using the service on 31 December to safely see themselves home, or back to their place of residence, whilst holidaying in Edinburgh. Some people now see this journey as part of their Edinburgh festive stay and Edinburgh Trams receive many commendations and notes of thanks for providing this free service on Hogmanay.

Edinburgh Trams, with support from CEC, participated in the Under 22's (U22's) Free Travel Scheme from the 31 January 2022 which was aimed at U22's bus travel throughout Scotland. This was a scheme promoted by Transport Scotland via Scottish Government. It is extremely disappointing to report the funding offered by Transport Scotland was not extended to the Light Rail Industry in Scotland (Edinburgh Trams and the Glasgow Subway) despite our best efforts to have both included in the scheme. For 2022 only, CEC have agreed to fund the acceptance of all U22's cards for Edinburgh residents, but only until 31 March 2023.

In terms of COVID financial support, Transport Scotland provided financial support throughout the transport industry in general, including Edinburgh Trams. This funding ended on 31 March 2022 for the light rail sector, whilst Scottish Government continued to provide assistance to other sectors, including bus, beyond that date. This effected Edinburgh Trams in terms of fares protocols as it constrained Edinburgh Tram's ability to increase fares, creating a suppression out with Edinburgh Trams control.

The value of COVID funding support provided by Transport Scotland to Edinburgh Trams for January to March 2022 was £1.96m bringing the full support value throughout the Covid-19 pandemic to £17.5m.

Edinburgh Trams (continued)

With the cessation of further support from Government from April 2022 onwards, the Tram team worked to explore every avenue of financial gain whilst continuing to provide a safe and high-quality journey experience for passengers. Edinburgh Trams has a one team approach with members of the management team and non-operational staff often found providing support on the network during events and incidents. Edinburgh Trams have received many messages of support surrounding the working environment and team effort in assisting, when required, at the coal face. All staff are involved in event management for planned events such as major Rugby matches or concerts at Murrayfield and Ingliston to assist customers at tram stops when the City Centre experiences congestion, all to meet and exceed the customers' expectations.

The above support contributed to patronage recovery in the second half of the year and helped rebuild public confidence to use trams again. This is endorsed by the reporting of a significant increase in tram patronage numbers during the same period.

In order, to maximise advertising opportunities, Edinburgh Trams Marketing Team worked hard to achieve the full fleet in commercial tram wraps for November and December. The final tram advertising position was +3% by the end of December 2022.

2022 also saw the successful launch of a more comprehensive website and its associated app that allows Edinburgh Trams to monitor and quickly cross reference both authority and permission to carry out works on, or near the tramway, in a safe and controlled manner. Until 2022 costs associated with working within the controlled area around the tram system had been absorbed by Edinburgh Trams. This new app allows Edinburgh Trams to recharge costs incurred, but also makes it possible for contractors to fully complete a request, upload proof of accreditations and risk assessments to undertake agreed works and then pay for the services. This app will continue to be developed throughout 2023.

Tram Asset Management

Under the terms of the Operating Agreement as varied on 30 April 2021, CEC is responsible for the cost of Asset Renewals. As per the Operating Agreement, Edinburgh Trams submitted the draft Annual Asset Renewals Plan which provides more detail and more accurate costings for renewal activities on 29 July 2022. CEC reviewed the information provided and the estimated costs and approved all the activities in the draft plan.

Further to this, Edinburgh Trams submitted to CEC, as per the Operating Agreement, the ten-year plan that includes expected renewal activities and an estimated cost for these activities for the subsequent ten years on 31 October 2022.

As per previous years, a process has been agreed between Edinburgh Trams and CEC whereby prior to generating and issuing any change documentation or purchase orders to suppliers, Tram have in place a purchase order from CEC to cover the expected cost. This provides Edinburgh Trams with the security that any cost incurred can be re-charged and recovered quickly, minimising the impact upon 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. Both processes have been embedded in both organisations and all payments or changes are agreed in a timely manner.

Tram Asset Management

The key activities of the 2022/23 Tram Asset Renewals Plan (CEC financial year runs April to March) that were completed in 2022 were:

The replacement of obsolete equipment in the Edinburgh Tram Operator Control Centre (OCC) that was required for the Trams to Newhaven project. The preferred supplier, Siemens, replaced end-of-life hardware and operating systems at the OCC. Part of the project was also the replacement of the Radio Base-stations due to obsolescence and to increase storage capacity for the CCTV footage recording. This project ensured that the Trams to Newhaven section can be included in the existing network and that the network is serviceable and maintainable for the foreseeable future.

The renewal of obsolete lighting units in the depot workshop. The replacement of the lights is driven by safety concerns. The new units installed are LEDs and connected through a smart system that allows Edinburgh Trams to achieve energy efficiencies.

Ticketing Equipment renewals. Early in the project it was identified that in order to achieve economies of scale and significantly improve the ticketing equipment and the offered functionalities, a decision was made to combine the existing Renewals budget and the Trams to Newhaven ticketing budget. This project is divided into four phases:

- **Phase 1** is the like-for-like replacement and enhancement of Platform Validators for the existing line and the development of a cloud based back office.
- **Phase 2** is the like-for-like replacement and enhancement of the Handheld devices used by the Ticketing Services assistants.
- **Phase 3** is the installation of all ticketing equipment on the eight Trams to Newhaven tram stops.
- **Phase 4** is the introduction of the ‘Account Based Ticketing’ (ABT) system. This is an integrated fare capping system between buses and trams where customers can use contactless payments (tapping on and off with their cards) on the Platform Validators.

The Platform Validators were installed in April 2022 and the Handheld devices were introduced at the end of 2022. Phase 3 is expected to be completed by Q2 2023 in line with the Trams to Newhaven go live schedule and Phase 4 is expected to be completed by the end of 2023.

Tram Maintenance Support

Edinburgh Trams remains fully responsible for the management of the maintenance contracts with the following contractors:

- Construcciones Y Auxiliar De Ferrocarriles S.A. (CAF) for tram maintenance.
- Flowbird Transport Ltd for ticketing equipment maintenance.
- Infraco, a consortium between Siemens Mobility Ltd and Bilfinger Construction UK, for infrastructure maintenance.

Edinburgh Trams are responsible for the full payment of the maintenance costs which are made directly to the maintenance providers. Edinburgh Trams continue to meet with all the maintainers formally every four weeks to monitor their performance and to agree payment in terms of their individual contracts. As part of that monitoring process Edinburgh Trams also carry out annual audits of the maintainers to ensure compliance with the contract and to review their procedures for managing their works (e.g. fatigue and competence management and safety process, amongst others).

Within their business’ planning objectives, Edinburgh Trams also monitor Key Performance Indicators to track both their own performance and that of the maintainers and after each period end send a report to the City of Edinburgh Council (CEC). That information is collated in the annual report to CEC.

In 2022, Edinburgh Trams commenced an implementation process to introduce Leadmind to the tram fleet, which will automatically apply the brakes when significant over-speeding occurs. At the same time, Edinburgh Trams are also installing battery powered emergency lighting on the Tram fleet, following recommendations from the RAIB report 18/2017 about the overturning of a tram at Sandilands junction. This work is planned to be completed by December 2023.

Trams to Newhaven Project

Work to complete the construction of the Trams to Newhaven (TtN) Project remains on track for operational handover in late spring 2023. Throughout 2022 and into 2023 Edinburgh Trams has been mobilising to ensure they are able to provide the resources required for the testing and commissioning phase and to ensure operational readiness from the point of handover. Throughout the year, HR and Training Departments have worked to recruit, and train the required staff, in particular drivers. Despite the prevailing labour market conditions, where many employers within the City and beyond, experienced difficulty in filling vacancies, ETL's response rate to our recruitment campaign was encouragingly strong, to the extent that the HR team closed the application process earlier than excepted, demonstrating that Edinburgh Trams is perceived as an attractive employer. Edinburgh Trams has also worked to ensure that maintenance coverage is in place for both the additional volume of trams required and for the additional infrastructure.

In summary:

- Edinburgh Trams completed the training of drivers as a requirement for the Testing & Commissioning of TtN.
- Edinburgh Trams supported the successful completion of this 'Operation Milestone Delivery' for planned removal of York Place tram stop (OM1 & OM2) and Electrification of TtN (OM4).
- Edinburgh Trams continue to make timely progress to Early Tram Movements (OM3a) and Signal Integration (OM7a).

Future Developments

Due for opening in Spring 2023 the team at Edinburgh Trams are fully committed to ensuring the Trams to Newhaven extension is a success and a system that both residents and guests to Edinburgh will be proud of. The primary focus will be on the testing and commissioning and the opening of the Newhaven extension, ensuring it delivers on the high standards already set by the current line, bringing an exciting new chapter in the growth and development of public transport in Edinburgh. The expansion to Newhaven will add eight New Tram Stops, Two Electric Sub Stations providing a further Eight Kilometres of track.

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

Date: 19 May 2023

G Lowder

George Lowder (Director)

TRANSPORT FOR EDINBURGH LIMITED

Corporate Governance Report

For the year ended 31 December 2022

Basis of Principles Applied

For the year ended 31 December 2022, 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 parent and holding company for the City of Edinburgh Council 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 TfE Strategy for Delivery has largely been adopted withing the City Mobility Plan 2030 and its supporting Action Plans. These policy documents provide the strategic context for the TfE Group activities.

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, Chief Executive, the Chairs from Lothian Buses and Edinburgh Trams or their representative and up to seven Directors, of which four are Elected Members from the leading political parties in the Edinburgh Administration. This size and composition of the TfE Board is appropriate for the business. Across the TfE Group 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 the 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. Appointed 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 Lothian Buses Board Effectiveness Review at the beginning of each year and it is attended by all the Directors to maintain impartiality and good governance. The last Lothian Buses 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. Given that the Edinburgh Trams Board is smaller, comprising 5 Directors, effectiveness reviews are conducted through Chair led bilateral discussions and discussion at the Board.

Since the last Lothian Buses Board Effectiveness Review there has been a significant emphasis on current strategic issues and recovery planning, 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 meetings a year. The Board’s key areas of focus in 2022 are included on pages 19 and 20.

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 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 Chief Executive and 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, Communications) are invited to meetings as and when required.

The Directors are wholly independent, in that they have no material business or relationships with the Companies 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 Buses and Edinburgh Trams.

Key financial information is collated from the Group's various accounting systems. The TfE Group's finance function is provided by Lothian Buses appropriately qualified staff, who ensure the integrity and accurate timely production of information. The finance function is also provided with the necessary training to keep up to date with regulatory changes. Financial information is externally audited 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 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. 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 Committees, consisting of certain Directors, ensure that inherent and emerging risks are identified and managed appropriately in a timely manner. Focus is on monitoring the effectiveness of the Group's approach to risk identification, classification and mitigation. The Committees meet at least twice a year to review the risk registers for any changes in underlying conditions. The Committees continues to refine and enhance the Groups' risk management framework and the content of the risk registers and works to ensure consistency across all operations. A list of emerging risks is also maintained by the Audit & Risk Committees 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 risks identified by Edinburgh Trams and Lothian Buses that cannot be mitigated, treated or tolerated by the companies are escalated to the TfE Audit and Risk Committee for their consideration and subsequent consideration by the TfE Board for escalation to the City of Edinburgh Council if required. The Group'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.

In respect of any potential legal challenges, including Saughton, the companies have been fully compliant, assisting all relevant parties with ongoing enquiries and investigations. All requests for information have been being supplied in a timely manner.

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 Boards approve any contract above a certain value (determined by the Boards) 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 Group Remuneration Committees' 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 TfE, Lothian Buses and Edinburgh Trams Remuneration Committees have clearly defined terms of reference and are responsible for making recommendations to the Boards concerning the Group's remuneration strategy, recruitment framework and long-term plans for senior executives. It should be noted that the Board of Edinburgh trams sits separately as the Edinburgh Trams Remuneration Committee. In doing so, the Committees take advice from independent external consultants from time to time, who provide updates on legislative requirements, market best 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 into account fair pay and conditions across the Group's workforce. An independent benchmarking review was last performed in 2022 for Lothian Buses and internally by the Edinburgh Trams Remuneration Committee in 2020 using data from external experts and recruiters. This highlighted that the remuneration policy for Lothian Buses and Edinburgh Trams Directors and Senior Management is consistent with companies of a similar size and complexity, as well as other companies operating within comparable sectors. Directors' remuneration is disclosed on page 42 (note 7). The TfE Remuneration Committee also takes into account public sector and other Arms Length Company pay awards.

In 2022, the Group reported its Gender Pay Reporting which highlighted some specific areas of focus for 2022 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. In 2022 TfE and Edinburgh Trams achieved Living Wage Employer accreditation.

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' aspirations for sustainability, growth, diversification, environmental targets and policy decisions. Scott Arthur (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.

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, 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 2022 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			
Scott Arthur (appointed 30 June 2022)	3	3	100%
Lesley Macinnes (stood down as Chair on 30 June 2022)	5	3	60%
Chief Executive			
George Lowder	8	8	100%
Directors			
James McFarlane	4	4	100%
Karen Doran (resigned 30 June 2022)	4	2	50%
Callum Laidlaw (resigned 30 June 2022)	4	4	100%
Donald MacLeod	7	7	100%
George Hazel	4	2	50%
Andrew Neal	5	4	80%
Julia Bandel (appointed 30 June 2022)	3	3	100%
Alan Beal (appointed 30 June 2022)	3	3	100%
Claire Helen Innes Miller (resigned 30 June 2022)	2	1	50%
Observer			
Paul Lawrence (City of Edinburgh Council)	4	3	75%

Activities of the Board in 2022

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 2022 the Board:

- Approved the 2021 Annual Accounts and Reports.
- Approved the Group's 2023 budget.
- Approved capital expenditure to support the 2023 budget.
- 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 and Remuneration and Committees on activities and recommendations of the Committees.

During 2022 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.
- Received updates on ALEO reform proposals and the activities of the related working groups.

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.

Donald MacLeod is the Committee Chair. The Committee comprises two other independent Non-Executive Directors being Karen Doran and Callum Laidlaw until Jule Bandel and Alan Beal took over on 30 June 2022. The Board is satisfied that the recent and relevant financial and risk experience of the Committee Chair and the Committee's Members during 2022 followed the principles of good governance in relation to their skills, knowledge and experience. There were three meetings during 2022.

External Auditors

Azets Audit Services were re-appointed external auditors in June 2022. The Board assesses the effectiveness of their performance every year after completion of the annual audit and each year the Board evaluate their performance in relation to that 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 continue 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 May 2022 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 & Risk Committee identifies re-tendering of the external audit service around every five to seven 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 2022 the Committee was chaired by Andrew Neal and the two other members were Karen Doran and Claire Miller until Lesley Macinnes and Scott Arthur took over on 30 June 2022. There was one meeting during 2022.

Nominations Committee

The Lothian Buses 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. The Committee has no formal schedule of meetings and meets as required. There were no meetings held in 2022.

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 Chairs 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 Heads of Department.

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' Report

Directors

The Directors are as set out on page 2.

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

Conflicts of Interest

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

Corporate Responsibility

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

Promoting the Success of the Company

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

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and 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 achieved through the use of in-house electronic bulletins, notice boards and 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 42.

Share Capital

Details of the Company's share capital are set out in note 16 on page 47.

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: 19 May 2023

G L Lowder

George Lowder (Director)

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

For the year ended 31 December 2022

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 2022 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 and Company 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 2022 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;
- the parent company financial statements have been properly prepared in accordance with UK adopted International Accounting Standards; 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 22, 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.

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.

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.

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

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

Date: 19 May 2023

TRANSPORT FOR EDINBURGH LIMITED

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

For the year ended 31 December 2022

		Consolidated Group		Parent Entity	
	Note	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Continuing operations					
Revenue from operations	1i	159,240	110,032	-	153
Other income	1i,5	22,278	47,275	204	277
Total revenue		181,518	157,307	204	430
Administrative expenses		(188,049)	(171,765)	(365)	(447)
Loss from operations		(6,531)	(14,458)	(161)	(17)
Gain on disposal of property, plant and equipment	2	192	850	-	-
Impairment of investment in subsidiary	2,20	-	-	(8,000)	(28,054)
Finance income	3	972	4	-	-
Finance costs	4	(1,813)	(2,333)	-	-
Loss before income tax expense		(7,180)	(15,937)	(8,161)	(28,071)
Income tax expense	6	664	(3,394)	-	3
Net loss for the year		(6,516)	(19,331)	(8,161)	(28,068)
Attributable to:					
Equity holders	17	(6,924)	(18,382)	(8,161)	(28,068)
Non-controlling interest	18	408	(949)	-	-
Other comprehensive (expense)/income:					
Those that are recyclable net of tax:					
Net fair value movements on cash flow hedges	26	1,056	3,305	-	-
Deferred tax thereon	14	(264)	(704)	-	-
Those that are not recyclable net of tax:					
Revaluation of land and buildings	8	704	-	-	-
Deferred tax thereon	14	(35)	(13)	-	-
Actuarial loss on post-employment benefit obligations	23	(17,688)	84,943	-	-
Deferred tax thereon	14	6,421	(17,401)	-	-
Total comprehensive (expense)/income for the year		(16,322)	50,799	(8,161)	(28,068)
Attributable to:					
Equity holders		(15,848)	45,443	(8,161)	(28,068)
Non-controlling interest		(474)	5,356	-	-

The accompanying notes on pages 31 to 64 form part of these financial statements

TRANSPORT FOR EDINBURGH LIMITED

Consolidated and Company Statement of Financial Position

As at 31 December 2022

		Consolidated Group		Parent Entity	
		2022	2021	2022	2021
	Note	**£'000**	**£'000**	**£'000**	**£'000**
Assets				**Recoverable**	**Recoverable**
Non-current assets				**value**	**value**
Property, plant and equipment	8	172,187	190,667	-	-
Retirement benefit asset	23	26,047	51,733	-	-
Investments	20	-	-	5,824	5,824
Derivative financial assets	12	1,158	392	-	-
Total non-current assets		199,392	242,792	5,824	5,824
Current assets					
Inventories	9	992	949	-	-
Trade and other receivables	10	12,878	10,403	33	46
Derivative financial assets	10,12	1,178	888	-	-
Cash and cash equivalents	15	32,700	26,547	653	733
Total current assets		47,748	38,787	686	779
Total assets		247,140	281,579	6,510	6,603
Equity and liabilities					
Equity attributable to equity holders of the parent					
Share capital	16	41,878	33,878	41,878	33,878
Revaluation reserve	17	20,816	20,207	-	-
Other reserves	17	59,929	59,929	-	-
Retained earnings	17	(12,320)	4,858	(35,446)	(27,285)
Hedging reserve	17	1,594	873	-	-
Non-controlling interest	18	11,813	12,287	-	-
		123,710	132,032	6,432	6,593
Liabilities					
Non-current liabilities					
Lease obligations	13	62,498	76,024	-	-
Deferred tax	14	16,034	22,514	-	-
Provisions	14	1,080	786	-	-
Total non-current liabilities		79,612	99,324	-	-
Current liabilities					
Trade and other payables	11	3,713	3,842	59	-
Lease obligations	13	13,379	18,732	-	-
Other financial liabilities	11	26,726	27,649	19	10
Total current liabilities		43,818	50,223	78	10
Total liabilities		123,430	149,547	78	10
Total equity and liabilities		247,140	281,579	6,510	6,603

The financial statements were authorised for issue by the Board of Directors on 19 May 2023 and were signed on its behalf by:

Registered number SC443895

George Lowder, Director

The accompanying notes on pages 31 to 64 form part of these financial statements

TRANSPORT FOR EDINBURGH LIMITED

Consolidated Statement of Changes in Equity

As at 31 December 2022

	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

	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 2022		33,878	20,207	59,929	4,858	873	12,287	132,032
Comprehensive income								
(Loss)/profit for the year		-	-	-	(6,924)	-	408	(6,516)
Other comprehensive income								
Revaluation of land and buildings	8	-	641	-	-	-	63	704
Deferred tax thereon	14	-	(32)	-	-	-	(3)	(35)
Actuarial loss on pension plan	23	-	-	-	(16,098)	-	(1,590)	(17,688)
Deferred tax thereon	14	-	-	-	5,844	-	577	6,421
Net fair value movements on cash flow hedges	26	-	-	-	-	961	95	1,056
Deferred tax thereon	14	-	-	-	-	(240)	(24)	(264)
Shares issued in year	16	8,000	-	-	-	-	-	8,000
Balance at 31 December 2022		41,878	20,816	59,929	(12,320)	1,594	11,813	123,710

The accompanying notes on pages 31 to 64 form part of these financial statements

TRANSPORT FOR EDINBURGH LIMITED

Consolidated and Company Statement of Cash Flows

For the year ended 31 December 2022

	Note	Consolidated Group 2022 £'000	Consolidated Group 2021 £'000	Parent Entity 2022 £'000	Parent Entity 2021 £'000
Cash flow from operating activities					
Loss from operations		(6,531)	(14,458)	(161)	(17)
Adjustments for:					
Depreciation and amortisation		21,967	22,565	-	-
Defined benefit pension current service costs		11,371	12,696	-	-
Defined benefit pension past service costs		-	181	-	-
Defined benefit pension contributions		(2,475)	(3,547)	-	-
Changes in assets and liabilities:					
(Increase)/decrease in receivables and other financial assets		(2,591)	7,720	13	150
(Decrease)/increase in payables		(1,057)	(9,315)	68	(45)
Increase in inventories		(43)	(150)	-	-
Increase/(decrease) in provisions		294	(273)	-	-
Cash flows from operations		20,935	15,419	(80)	88
Interest paid		(405)	(399)	-	-
Income tax received		416	100	-	-
Net cash flows from operating activities		20,946	15,120	(80)	88
Cash flow from investing activities					
Purchase of property plant and equipment		(2,922)	(22,583)	-	-
Proceeds from disposal of property, plant and equipment		331	2,287	-	-
Interest received		74	4	-	-
Net cash flows from investing activities		(2,517)	(20,292)	-	-
Cash flow from financing activities					
Issue of share capital		8,000	10,923	8,000	10,923
New share capital in subsidiary		-	-	(8,000)	(10,923)
New hire purchase lease liabilities		-	24,494	-	-
Payments of lease liabilities		(20,276)	(20,720)	-	-
Net cash flows from financing activities		(12,276)	14,697	-	-
Net increase/(decrease) in cash and cash equivalents		6,153	9,525	(80)	88
Cash and cash equivalents at beginning of year		26,547	17,022	733	645
Cash and cash equivalents at end of year		32,700	26,547	653	733
Bank balances and cash		32,700	26,547	653	733

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 2022 but are either not applicable or have no material impact on the Group financial statements; Amendment to IFRS 16; Leases: Covid-19 Related Rent Concessions beyond 30 June 2021 (issued on 31 March 2021).

The Group has adopted, where applicable, the following new and amended IFRSs as of 1 January 2022:

- Amendments issued on 14 May 2020 - to IFRS 3; Business Combinations, IAS 16; Property, Plant & Equipment, IAS 37; Provisions, Contingent Liabilities & Contingent Assets and Annual Improvements 2018-2020.

Other new standards, amendments to standards and interpretations that are mandatory for the first time in 2022 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 2022, and with potential effect.

International Accounting Standards and Interpretations	Effective for periods beginning on or after
• IFRS 17; Insurance Contracts (including amendments issued on 25 June 2020)	1 January 2023
• Amendments to IAS 1; Presentation of Financial Statements and IFRS Practice Statement 2 (Disclosure of Accounting Policies) (issued on 12 February 2021)	1 January 2023*
• Amendments to IAS 8; Accounting Policies (Changes in Accounting Estimates and Errors: Definition of Accounting Estimates) (issued on 12 February 2021)	1 January 2023*
• Amendments to IAS 12; Income Taxes (Deferred Tax related to Assets and Liabilities arising from a Single Transaction) (issued on 7 May 2021)	1 January 2023*
• Extension of the temporary exemption from applying IFRS 9 (Amendments to IFRS 4)	1 January 2023
• Amendments to IAS 1; Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current and Classification of Liabilities as Current or Non-Current - Deferral of Effective date, issued on 23 January 2020 and 15 July respectively.	1 January 2024*

*Not yet adopted by the UK Endorsement Board

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.

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 one year 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 2022.

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 2022 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 2022 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 Network Support Grant (NSG) (previously BSOG) from Transport Scotland 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	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Loss from operations has been determined after:				
Auditor's remuneration:				
Audit services	104	67	18	9
Non-audit services	15	15	1	1
Pension current service costs (note 23)	11,371	12,696	-	-
Pension past service costs (note 23)	-	181	-	-
Depreciation and other amounts written off tangible fixed assets:				
Owned	10,328	10,987	-	-
Assets held under hire purchase leases	3,820	3,751	-	-
Right-of-use assets	7,819	7,827	-	-
Infrastructure maintenance	4,914	4,470	-	-
Impairment of investment in subsidiary (note 20)	-	-	8,000	28,054
Gain on disposal of property, plant and equipment	192	850	-	-

3. Finance income

	Consolidated Group		Parent Entity	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Investment income	74	4	-	-
Pension interest income (note 23)	898	-	-	-
	972	4	-	-

4. Finance costs

	Consolidated Group		Parent Entity	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Lease charges	1,813	1,967	-	-
Pension interest cost (note 23)	-	366	-	-
	1,813	2,333	-	-

5. Other income

	Consolidated Group		Parent Entity	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Other grant income	2,214	277	204	277
Coronavirus Job Retention Scheme income	-	2,498	-	-
Transport Scotland Covid-19 support income	20,064	44,500	-	-
	22,278	47,275	204	277

6. Income tax expense

	Consolidated Group		Parent Entity	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Current tax:				
Deferred tax	(358)	4,149	-	-
Adjustment in respect of prior years	(297)	(754)	-	(3)
Corporation tax Group relief	(9)	(1)	-	-
Tax on results for the year	(664)	3,394	-	(3)

The effective tax rate for the year ended 31 December 2022 is calculated at 19% (2021: 19%) of the estimated assessable results for the year. The (credit)/charge for the year can be reconciled to the loss per the income statement as follows:

	Consolidated Group		Parent Entity	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Loss for the year before taxation	(6,880)	(15,937)	(8,161)	(28,071)
Loss for the year at the effective rate of corporation tax of 19% (2021 – 19%)	(1,307)	(3,028)	(1,551)	(5,333)
Effects of:				
Losses carried back	-	380	-	-
Expenses not deductible for tax purposes	1,692	1	1,520	5,330
Income not taxable for tax purposes	(171)	1,843	-	-
Fixed assets differences	(174)	(1,297)	-	-
Remeasurement of deferred tax for change in tax rates	532	(60)	-	-
Adjustment to the tax charge in respect of previous periods	(302)	(754)	-	(3)
Other tax adjustments, reliefs and transfers	(14)	(10)	-	3
Deferred tax not recognised	(920)	6,319	31	-
Tax (credit)/charge for the year	(664)	3,394	-	(3)

7. Employee benefits expense

The Company had an average of 2 employees during the year (2021: 3). The average number of persons employed by the Group (including Directors) during the year was 2,558 (2021: 2,509).
The aggregate payroll costs were as follows:

	Consolidated Group		Parent Entity	
	2022	**2021**	**2022**	**2021**
	£'000	**£'000**	**£'000**	**£'000**
Wages and salaries	86,371	79,887	183	232
Social security costs	9,281	7,834	24	27
Other pension costs	4,256	5,069	1	2
	99,908	92,790	208	261

Other pension costs comprise contributions to defined benefit schemes of £2,221,000 (2021: £3,280,000) and to defined contribution schemes of £2,035,000 (2021: £1,789,000) for the Group and £nil (2021: £nil) and £1,000 (2021: £2,000) for the Company respectively.

	Consolidated Group		Parent Entity	
Directors' remuneration	**2022**	**2021**	**2022**	**2021**
	£'000	**£'000**	**£'000**	**£'000**
Aggregate emoluments and benefits	181	178	157	154
Highest paid Director's emoluments and benefits	157	154	157	154

One Director received emoluments from the Company (2021: one). One Director (2021: 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 (2021: none). Directors' remuneration costs disclosed above exclude employers national insurance costs of £23,414 (2021: £21,938). The highest paid Directors' remuneration costs disclosed above exclude employers national insurance costs of £21,226 (2021: £19,832). The highest paid Director has an accrued pension of £nil per annum (2021: £nil) and an accrued lump sum of £nil (2021: £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 2022	123,392	150,174	241	18,467	292,274
Additions	-	857	19	2,046	2,922
Disposals	-	(418)	(22)	-	(440)
Revaluation	704	-	-	-	704
At 31 December 2022	124,096	150,613	238	20,513	295,460
Accumulated depreciation					
At 1 January 2022	(24,721)	(64,382)	(169)	(12,335)	(101,607)
Charge for the year	(7,819)	(12,249)	(32)	(1,867)	(21,967)
Eliminated on disposal	-	279	22	-	301
At 31 December 2022	(32,540)	(76,352)	(179)	(14,202)	(123,273)
Net book value					
At 31 December 2022	91,556	74,261	59	6,311	172,187
Net book value					
At 31 December 2021	98,671	85,792	72	6,132	190,667

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 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

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 2022 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 2022 and therefore no depreciation has been charged for the year.

Right-of-use assets

	Consolidated Group			
	2022 Heritable Properties £'000	2021 Heritable Properties £'000	2022 Passenger Vehicles £'000	2021 Passenger Vehicles £'000
Group				
Net book value at 1 January	7,580	8,003	101,643	87,918
Additions	-	-	-	24,880
Depreciation charge for year	(415)	(423)	(11,224)	(11,155)
Net book value at 31 December	7,165	7,580	90,419	101,643

Further information regarding right-of-use assets included with heritable properties and passenger vehicles above can be found in note 13.

There is no Company property, vehicles, plant or equipment.

9. Inventories

	Consolidated Group		Parent Entity	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Raw materials (fuel)	572	595	-	-
Finished goods	420	354	-	-
	992	949	-	-

10. Trade and other receivables

	Consolidated Group		Parent Entity	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Trade receivables	371	665	15	34
Other receivables	377	1,983	-	-
Prepayments and accrued income	6,086	1,741	11	9
VAT recoverable	2,794	3,352	4	-
Corporation tax recoverable	791	907	3	3
Derivative financial asset	1,178	888	-	-
Amounts due from City of Edinburgh Council	2,424	1,700	-	-
Amounts due from West Lothian Council	32	11	-	-
Amounts due from East Lothian Council	3	44	-	-
	14,056	11,291	33	46

Non-current	-	-	-	-
Current	14,056	11,291	33	46
	14,056	11,291	33	46

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

11. Current liabilities

	Consolidated Group		Parent Entity	
	2022	**2021**	**2022**	**2021**
	£'000	**£'000**	**£'000**	**£'000**
Trade and other payables	3,713	3,842	59	-
Other payables	3,540	4,419	-	-
Taxation and social security	2,951	3,158	-	1
Lease obligations (note 13)	13,379	18,732	-	-
Accruals and deferred income	8,516	9,028	19	9
Amounts due to City of Edinburgh Council	11,719	11,044	-	-
	43,818	50,223	78	10

Accrued expenses	2,350	1,629	19	9
Income received in advance	6,166	7,399	-	-
	8,516	9,028	19	9

12. Derivative financial instruments

	Consolidated Group		Parent Entity	
	2022	**2021**	**2022**	**2021**
	£'000	**£'000**	**£'000**	**£'000**
Assets				
No later than one year	1,178	888	-	-
Later than one year but no later than five years	1,158	392	-	-
	2,336	1,280	-	-

Analysed as:	Consolidated Group		Parent Entity	
	2022	**2021**	**2022**	**2021**
	£'000	**£'000**	**£'000**	**£'000**
Assets				
Current	1,178	888	-	-
Non-current	1,158	392	-	-

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 3 to 22 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**	
	2022	**2021**	**2022**	**2021**
	£'000	**£'000**	**£'000**	**£'000**
Current	13,379	18,732	-	-
Non-current	62,498	76,024	-	-

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**	
	2022	**2021**	**2022**	**2021**
	£'000	**£'000**	**£'000**	**£'000**
Within one year	14,926	20,645	-	-
Between 2 and 5 years	49,146	55,130	-	-
Over 5 years	18,374	27,294	-	-
Total undiscounted liabilities	82,446	103,069	-	-

14. Provisions

	Consolidated Group		**Parent Entity**	
	2022	**2021**	**2022**	**2021**
	£'000	**£'000**	**£'000**	**£'000**
Deferred tax liabilities				
At beginning of the year	22,514	247	-	-
(Credit)/charge for the year to profit or loss	(358)	4,149	-	-
(Credit)/charge to other comprehensive income	(6,122)	18,118	-	-
At end of the year	16,034	22,514	-	-
The elements of deferred tax are as follows:				
Accelerated capital allowances	8,966	9,334	-	-
Short term timing differences	(116)	(126)	-	-
Pension scheme	6,512	12,933	-	-
Fair value movements on cash flow hedges	584	320	-	-
Revaluation gain	88	53	-	-
	16,034	22,514	-	-
Included in the accounts as follows:				
Provision for liabilities and charges	16,034	22,514	-	-

14. Provisions (continued)

Claims	Consolidated Group 2022 £'000	Consolidated Group 2021 £'000	Parent Entity 2022 £'000	Parent Entity 2021 £'000
At the beginning of the year	786	1,059	-	-
Charge for the year	1,322	909	-	-
Paid during the year	(1,028)	(1,182)	-	-
At the end of the year	1,080	786	-	-

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 2022 £'000	Consolidated Group 2021 £'000	Parent Entity 2022 £'000	Parent Entity 2021 £'000
Cash at bank and in hand	32,700	26,547	653	733

16. Share capital

	Consolidated Group 2022 £'000	Consolidated Group 2021 £'000	Parent Entity 2022 £'000	Parent Entity 2021 £'000
Allotted, called up and fully paid				
Ordinary shares of £1 each				
At 1 January	33,878	22,955	33,878	22,955
Issued in year	8,000	10,923	8,000	10,923
At 31 December	41,878	33,878	41,878	33,878
Being				
Ordinary shares of £1 each	5,824	5,824	5,824	5,824
B Ordinary shares of £1 each	36,054	28,054	36,054	28,054
	41,878	33,878	41,878	33,878

On 25 March 2022 B Ordinary Shares of 8,000,000 were issued of £1 each.

17. Reserves

Group	Revaluation Reserve £'000	Other Reserves £'000	Hedging Reserve £'000	Retained Earnings £'000
At 1 January 2021	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
Loss for the year	-	-	-	(6,924)
Revaluation of land and buildings	641	-	-	-
Deferred tax thereon	(32)	-	-	-
Actuarial loss on pension plan	-	-	-	(16,098)
Deferred tax thereon	-	-	-	5,844
Net fair value movements on cash flow hedges	-	-	961	-
Deferred tax thereon	-	-	(240)	-
At 31 December 2022	20,816	59,929	1,594	(12,320)

Company	Revaluation Reserve £'000	Other Reserves £'000	Hedging Reserve £'000	Retained Earnings £'000
At 1 January 2021	-	-	-	783
Loss for the year	-	-	-	(28,068)
At 31 December 2021	-	-	-	(27,285)
Loss for the year	-	-	-	(8,161)
At 31 December 2022	-	-	-	(35,446)

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 2021	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
Share of profit for the year	408
Share of revaluation of land and buildings	63
Share of deferred tax thereon	(3)
Share of cash flow hedges	95
Share of deferred tax thereon	(24)
Share of actuarial loss for the year	(1,590)
Share of deferred tax thereon	577
At 31 December 2022	11,813

19. Commitments

In December 2022 the Board of Lothian Buses Limited gave approval for expenditure of £12m for expenditure on new buses.

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 2022.

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

Investments in subsidiaries	**2022 £'000**	**2021 £'000**
At 1 January	5,824	22,955
Share capital issued in year (Edinburgh Trams Limited)	8,000	10,923
Impairment provision in year (Edinburgh Trams Limited) (note 2)	(8,000)	(28,054)
At 31 December	5,824	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	**2022 £'000**	**2021 £'000**
City of Edinburgh Council (Ultimate Parent)	734	685
Midlothian Council (Shareholder)	-	43
East Lothian Council (Shareholder)	162	666
West Lothian Council (Shareholder)	3	11
UK Tram Limited (Director in Common)	1	35
	900	1,440

(b) Purchase of goods and services	**2022 £'000**	**2021 £'000**
City of Edinburgh Council (Ultimate Parent)	11,962	14,939
East Lothian Council (Shareholder)	45	42
West Lothian Council (Shareholder)	57	60
UK Tram Limited (Director in Common)	51	17
	12,115	15,058

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:	**2022 £'000**	**2021 £'000**
City of Edinburgh Council (Ultimate Parent)	2,590	3,555

(d) Year-end balances arising from sales/purchases of goods/services	**2022 £'000**	**2021 £'000**
Receivables from related parties		
City of Edinburgh Council (Ultimate Parent)	2,424	1,700
East Lothian Council (Shareholder)	32	44
West Lothian Council (Shareholder)	3	11
Payables to related parties		
City of Edinburgh Council (Ultimate Parent)	(11,719)	(11,044)

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 2022 £'000	%	Value at 2021 £'000
Equity Securities:				
Consumer	7%	36,397	8%	50,830
Manufacturing	8%	39,811	9%	55,953
Energy and Utilities	4%	18,061	3%	20,387
Financial Institutions	3%	17,711	4%	22,891
Health and Care	4%	21,486	4%	26,349
Information Technology	2%	12,011	3%	18,409
Other	4%	21,523	5%	32,123
Debt Securities:				
Corporate Bonds	4%	22,126	21%	128,579
UK Government	44%	228,880	13%	81,606
Other	2%	8,212	3%	19,776
Private Equity:				
All	0%	1,311	0%	2,271
Real Estate:				
UK Property	3%	17,198	5%	29,674
Overseas Property	0%	527	0%	222
Investment Funds and Unit Trusts:				
Equities	1%	4,338	1%	6,073
Bonds	2%	11,871	3%	20,894
Infrastructure	8%	42,344	10%	63,941
Other	-%	-	1%	3,477
Cash and Cash Equivalents:				
All	4%	21,120	7%	45,618
	100%	524,927	100%	629,073

The amounts recognised in the statement of financial position are determined as follows:	2022 £'000	2021 £'000
Fair value of plan assets	524,927	629,073
Present value of scheme liabilities	(358,486)	(577,340)
Restrictions on assets recognised	(140,394)	-
Asset in the scheme	26,047	51,733
Net pension asset	26,047	51,733

23. Retirement benefits obligation (continued)

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

	2022 £'000	2021 £'000
At 1 January	577,340	599,133
Current service cost	11,371	12,696
Past service cost	-	181
Interest cost on obligation	10,950	7,788
Plan participants contributions	1,363	1,470
Unfunded benefits paid	(254)	(267)
Benefits paid	(13,763)	(13,324)
Actuarial gains arising from changes in financial assumptions	(225,909)	(21,908)
Actuarial gains arising from changes in demographic assumptions	(2,454)	(578)
Other actuarial gains	(158)	(7,851)
At 31 December	358,486	577,340

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

	2022 £'000	2021 £'000
At 1 January	629,073	575,619
Benefits paid	(13,763)	(13,324)
Interest income on plan assets	11,848	7,422
Contributions by employer	2,221	3,280
Contributions by member	1,363	1,470
Contributions in respect of unfunded benefits	254	267
Unfunded benefits paid	(254)	(267)
Return on assets excluding amounts included in net interest	(105,815)	54,606
At 31 December	524,927	629,073

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

	2022 £'000	2021 £'000
Interest received on pension scheme assets	(11,848)	(7,422)
Interest cost on pension scheme liabilities	10,950	7,788
Finance (income)/cost	(898)	366
Current service cost	11,371	12,696
Past service cost	-	181
	10,473	13,243

23. Retirement benefits obligation (continued)

Amounts recognised in other comprehensive income:

	2022 £'000	2021 £'000
Actuarial gains in the defined benefit obligation	228,521	30,337
Actuarial (losses)/gains in the fair value of defined benefit assets	(105,815)	54,606
Restrictions on assets recognised	(140,394)	-
	(17,688)	84,943

The principal actuarial assumptions used in this valuation were:

	2022	2021
Inflation/pension increase rate	3.05%	2.90%
Salary increase rate	3.55%	3.40%
Discount rate	4.75%	1.90%

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 0.35% over medium durations (2021: 0.45%).

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	
	2022	2021 Restated	2022	2021 Restated
0.1% decrease in real discount rate	2%	2%	6,201	10,549
0.1% increase in the salary increase rate	0%	0%	821	1,450
0.1% increase in the pension increase rate	2%	2%	5,462	8,958

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	20.3	23.1
Future pensioners	21.6	25.0

The average duration of the benefit obligation at 31 December 2022 is 18 years (2021: 18 years). This number can be analysed as follows:

	2022	**2021**
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 2023 are expected to be £2,190,000.

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**	
	2022 £'000	**2021 £'000**	**2022 £'000**	**2021 £'000**
Minimum lease receipts under non-cancellable leases due:				
No later than one year	62	82	-	-
Later than one year but no later than five years	247	247	-	-
Later than five years	17	79	-	-
	326	408	-	-

The total annual lease income received in the year ended 31 December 2022 was £92,000 (2021: £92,000).

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	
		2022	2021	2022	2021
		£'000	£'000	£'000	£'000
Financial assets					
Cash and cash equivalents	15	32,700	26,547	653	733
Trade and other receivables	10	3,207	5,291	15	34
Total financial assets		35,907	31,838	668	767
Financial liabilities					
Current liabilities	11	34,701	39,666	19	9
Non-current lease obligations	13	62,498	76,024	-	-
Total financial liabilities		97,199	115,690	19	9

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 2022 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 2022 £'000	1 to 5 Years 2022 £'000	Total 2022 £'000
Financial liabilities due for payment				
Current liabilities	11,12	21,322	-	21,322
Lease obligations	13	13,379	62,498	75,877
Total expected outflows		34,701	62,498	97,199
Financial assets — cash flows realisable				
Cash and cash equivalents	15	32,700	-	32,700
Trade and other receivables	10	3,207	-	3,207
Total anticipated inflows		35,907	-	35,907
Net inflow/(outflow) of financial instruments		1,206	(62,498)	(61,292)

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)

25. Financial risk management (continued)

b. Liquidity risk (continued)

Company	Note	Within 1 Year 2022 £'000	1 to 5 Years 2022 £'000	Total 2022 £'000
Financial liabilities due for payment				
Current liabilities	11,12	19	-	19
Total expected outflows		19	-	19
Financial assets — cash flows realisable				
Cash and cash equivalents	15	653	-	653
Trade and other receivables	10	15	-	15
Total anticipated inflows		668	-	668
Net inflow of financial instruments		649	-	649

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

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 2022 consume approximately 19.6m 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 will partly offset the corresponding impact of price increases/decreases of fuel. There is an economic relationship between the hedged items and the hedging instruments as the terms of commodity swap contracts match the terms of the expected forecast transactions (i.e., notional amount and expected payment date). The Group has established a hedge ratio of 0.55:1 for the hedging relationships as per existing hedge strategy the group protects that friction of their expected exposure to the risk components. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks. The hedge ineffectiveness can arise from changes to the forecasted amount of cash flows of hedged items and hedging instruments.

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	2022 £'000	2021 £'000
Assets			
Heritable properties (Level 3)	8	91,556	98,671
Derivative financial instruments (Level 2)	12	2,336	1,280

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	2022 £'000	2021 £'000
Non-current assets			
Fuel derivatives	12	1,158	392
Current assets			
Fuel derivatives	12	1,178	888
Total net carrying value		2,336	1,280

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	**2022 £'000**	**2021 £'000**
Fair value at the start of the year	1,280	(2,025)
Changes in the fair value during the year	7,806	3,980
Cash received during the year	(6,750)	(675)
Fair value at the end of the year	2,336	1,280

No hedging ineffectiveness has been recognised in the profit and loss account.

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

As at 31 December 2022		**Assets £'000**
Within one year	(Notional Amount of 15,600,000)	1,178
1 to 2 years	(Notional Amount of 12,800,000)	1,189
2 to 3 years	(Notional Amount of 4,620,000)	(31)
		2,336

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 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
At 1 January 2022	18,732	76,024	-	(1,280)	93,476
Cash flows					
Repayment of lease liabilities	(19,920)	-	-	-	(19,920)
Net receipts on derivative instruments	-	-	-	6,750	6,750
Non-cash flows					
Leases	1,041	-	-	-	1,041
Change in fair value during the year	-	-	-	(7,806)	(7,806)
Split in aging profile	13,526	(13,526)	-	-	-
At 31 December 2022	13,379	62,498	-	(2,336)	73,541

28. Post balance sheet events

B Shares

On 29 March 2023 a payment of £12.0m was received from City of Edinburgh Council in respect of the purchase of B Shares in Edinburgh Trams, through Transport for Edinburgh Limited.