

TRANSPORT FOR EDINBURGH LIMITED

Consolidated Financial Statements

For the year ended 31 December 2023

Registered number SC443895

TRANSPORT FOR EDINBURGH LIMITED

Consolidated Financial Statements

For the year ended 31 December 2023

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TRANSPORT FOR EDINBURGH LIMITED

Company Information

Board of Directors: Scott Arthur (Chair)
Jule Bandel
Alan Beal
George Hazel
George Lowder
Lesley Macinnes
Donald MacLeod (resigned 31 December 2023)
James McFarlane
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 2023

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 Newhaven. 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 delivers additional services for The City, most notably in 2023: continuing to partner with the University of Edinburgh to extend the e bike scheme (UniCycles), leadership of the Edinburgh Wayfinding Project, tram advertising, the Driver Innovation Safety Challenge (DISC), the coordination of City wide, major event contingency planning and the European Urban Logistics as an On Demand Service (ULaADS) Project.

Throughout 2023 TfE has continued to lobby Scottish Government, Transport Scotland, and City of Edinburgh Council regarding the impact of the introduction from 1 February 2022 of the Under 22s Concessionary Bus Travel Scheme (U22 Scheme), particularly on Edinburgh Trams. TfE has much more detailed and regular dialogue with Transport Scotland regarding these and other matters, especially the absence of Scottish Government U22 Scheme funding for Edinburgh Trams and the implications and consequences of this.

Throughout 2023 TfE has remained fully engaged with the Trams to Newhaven Project, the Council Programme to reform the Council's publicly owned transport companies and the initial dialogue regarding the North/South tram line from Granton to the Southeast of the City and possibly beyond.

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 fully 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 patronage improving year on year despite 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 10.1% over the previous year to £207.3m, while the profit after tax was £4.1m. The Statement of Financial Position shows the Group's financial strength at the year end, with net reserves of £150.8m. Capital expenditure in the year was £7.1m. The main additions to the Lothian Buses fleet were 2 new coaches, expenditure on electric vehicle charging infrastructure and payments towards a new real time information system which represent continued investment in our systems and upgrading infrastructure for the longer term as we work towards a greener business. As summarised below, our revenue from operations has improved slightly on 2022, which still had varying degrees of Covid-19 lock downs, restrictions on travel and physical distancing measures. At the start of 2023, Lothian Buses continued to receive funding support from Scottish Government via Transport Scotland's Network Support Grant plus. This extra support ended on 31 March 2023. Funding support is detailed below within other income and the Group was extremely grateful for this financial assistance during times of economic turbulence and a continued challenging operating environment.

TRANSPORT FOR EDINBURGH LIMITED

Strategic Report (continued)

For the year ended 31 December 2023

Under 22 Concessionary Travel Scheme (U22 Scheme)

Since the commencement of the U22 Scheme on 1 February 2022, some 85,000 of those eligible in the City of Edinburgh have enrolled in the scheme. Edinburgh remains at the top of the Local Authority league table for enrolment. Lothian Buses has continued to be reimbursed at concessionary rates throughout 2023.

Following negotiation with the City of Edinburgh Council, Edinburgh Trams was reimbursed at concessionary rates for the period 1 February 2022 until the end of FY 2022/23 by City of Edinburgh Council. This support ended on 31 March 2023. It has now been decided by the City of Edinburgh Council that it will not be reinstated for FY 2024/25 and going forward. The Board of Edinburgh Trams kept the carriage of U22s under review throughout 2023. The decision to continue to carry U22s on Edinburgh Trams resulted in a total of foregone revenue of £276k, with £68K recovered from the City of Edinburgh Council, for the period January to March 2023. There would, however, have been higher concomitant costs to Lothian Buses, if Edinburgh Trams had not carried U22s, that would likely not have been fully covered by the resulting concessionary fares reimbursement to Lothian Buses. The Board of Edinburgh Trams currently recommend the continued carriage of U22s on trams but will keep this under review. The projected foregone revenue in 2024 is expected to be ITRO £400k, with no current prospect of reimbursement from Scottish Government or the City of Edinburgh Council.

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. A second tranche of new totems were installed in the City Centre in 2023 with the support of Project Sponsors. Existing infrastructure has been utilised where new totems cannot be installed. Project Partners, including the City of Edinburgh Council continue to make use of the Wayfinding products. Further totems will be procured and installed in 2024.

Trading to date in 2024 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. A dividend of £2.9m from Lothian Buses Limited was declared in December 2023 and was paid on 28 March 2024, so recognised as income by the Company and eliminated on consolidation.

Results	2023	2022
	£'000	£'000
The group results for the year are summarised below:		Restated
Revenue	207,339	188,251
Profit/(loss) before income tax expense	4,739	(7,180)
Income tax	(617)	664
Net profit/(loss) for the year	4,122	(6,516)
Attributable to:		
Equity holders	2,811	(6,924)
Non-controlling interest	1,311	408

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:

	2023	2022	Change
		Restated	
Group operating margin – operating loss relative to revenue	-1.4%	-3.5%	+2.1%
Group patronage – year on year movement in passenger journeys	119.3m	98.25m	+21.05m

Group operating margin has increased by 2.1%. Group patronage has increased by 21.05m year on year as a result of an overall improvement in journeys made after the cessation of all government restrictions.

TRANSPORT FOR EDINBURGH LIMITED

Strategic Report (continued)

For the year ended 31 December 2023

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. TfE and Edinburgh Trams are accredited 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.

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 2024 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 2024. 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.

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Strategic Report (continued)

For the year ended 31 December 2023

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

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 best 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 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 key work strand relates to establishing the scope and methodology for due diligence.

Subsequent meetings of the Transformation Project Board took place on 21 April, 19 May, 30 June, and 1 September 2023 to agree due diligence and data sharing arrangements.

On 25 September the Edinburgh Trams Board met with CEC Chief Executive, Andrew Kerr and the Senior Responsible Officer, Hannah Ross, to discuss the Edinburgh Trams Board's continued concerns regarding the emerging plan for reform. These concerns were provided prior to the meeting via a draft letter. The SRO subsequently provided assurance that these concerns would be considered during implementation.

In early October, following further legal advice the proposed approach to reform was again revised to retain a shareholding entity for legal and regulatory reasons, but not as an executive TOPCO. The proposed legal construct is therefore almost identical to the current one.

On 12 October 2023 the City of Edinburgh Council Transport and Environment Committee considered a further Report which recommended:

- Approval of the revised approach to the integration of Edinburgh Trams and Lothian Buses as set out in the report.
- Agreement to the closure of Transport for Edinburgh in its current form.
- Agreement that Council Officers should draft revisions to all relevant documentation including the shareholder agreement and operating contract; and
- Agreement that terms of reference for a new Shareholder Forum be developed with the Lothian Buses Minority Shareholders.

TRANSPORT FOR EDINBURGH LIMITED

Strategic Report (continued)

For the year ended 31 December 2023

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

It was originally proposed that Edinburgh Trams would be a subsidiary of a reconstituted Lothian Buses. Following further professional and legal advice, an alternative model, which uses an operating contract rather than a subsidiary model, would be the preferred approach. This would give Lothian Buses the authority to manage the Edinburgh Trams business contractually, rather than via a shareholding interest in Edinburgh Trams. Edinburgh Trams would remain the operator of the tram line, as has always been the case. The matter of ensuring, under this model, that the revised Lothian Buses Board will have full multi modal responsibility has been considered. This will be managed and assured through provisions in the updated Memorandum and Articles of Association and in the operating contract with Edinburgh Trams. To minimise the risk of challenge under the Competition Act, it is considered prudent to interpose a shareholding structure between the Council and Lothian Buses and Edinburgh Trams on the other. This would solely be a shareholding entity.

Following the Transport and Environment Committee's approval of the Report by 7 votes to 4, the Edinburgh Trams Board wrote to The Council Leader, Transport Convenor and CEC CEO on 20 October raising that the Edinburgh Trams previously articulated concerns had not been discussed by the Committee and reiterated these concerns. The CEC Director of Place responded on 31 October 2023 emphasising the urgency of completing due diligence and moving ahead with the Committee's decision. It has subsequently been confirmed that Turner and Townsend and Anturas Consulting have been stood down from the process and next steps will be taken forward by CEC Officers and Lothian Buses with external support as required.

On 24 and 26 April it was confirmed by CEC that TfE will close as an operational company but will continue as a company for the purposes of holding shares in Lothian Buses and Edinburgh Trams. TfE will not retain any corporate or executive functionality.

Corporate Social Responsibility

We continue to be proactive both in terms of environmental achievements and other partnerships.

When Lothian Buses acquired 4 new double deck buses in 2022, operating across routes running throughout the city centre, it added to their low emission Euro 6 fleet where each bus emits up to 99% less harmful emissions and provides an enhanced passenger experience. Lothian Buses are prepared for the Low Emission Zones being enforced by the City of Edinburgh Council in June 2024. Lothian Buses also continues to conduct extensive research into zero emission technology and how to best implement it, making good use of zero emission demo vehicles from Volvo and Wrightbus during 2023. Additional charging infrastructure continues to be added in more bus depots to allow for the use of new electric vans in the ancillary vehicle fleet. During 2022 the Group's Privilege Ridacard scheme for staff was enhanced. The scheme now allows staff to nominate one friend or family member to receive a discounted annual Ridacard assisting and improving access to public transport and is therefore helping to reducing reliance on car travel. In collaboration with Green Tourism, Lothian Buses completed their annual environmental and sustainability assessment in October 2023 which recognised areas of progress and identified some points for improvement. Lothian Buses is dedicated to a sustainable future and is constantly looking for ways to reduce its environmental impact. In 2023 all first-year engineering apprentices participated in a challenge with the organisation Fuel Change. Fuel Change is a non-profit organisation dedicated to engaging the next generation in sustainability, through participation in organised challenges, helping young people develop skills they may require in future. Over the next few years there are commitments to upgrade the bus fleet further using zero emission technology. During 2024, Lothian Buses will have more zero emission ancillary vans introduced and expect delivery of 50 zero emission double deck buses. Continued investment in zero emission technology both in terms of time and money heavily supports air quality improvements in our operational environment and community. Lothian Buses will complete the Energy Savings Opportunities Scheme (ESOS) Phase 3 process by June 2024, after which any energy saving ideas will be reported and incorporated into our site upgrade programme.

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Strategic Report (continued)

For the year ended 31 December 2023

In Edinburgh Trams, being members of the Edinburgh Climate Compact, they continue to implement emission reduction measures and hosted a group meeting in December 2023. Suitable progress has been made with both own and Maintainer environmental objectives in 2023, which have been designed to reduce GHG emissions and overall impact on the environment. Zero Non-Conformities were raised against ISO 14001 certified Environmental Management System by BSI (external auditor) with all internally raised audit actions being fully closed out on the Master Action Tracker. Edinburgh Trams continue to support the Edinburgh Climate Commission, making timely progress with internal Environmental objectives. In 2023, Edinburgh Trams met five of five newly introduced Environmental Key Performance Indicators (EKPIs), with a significant reduction in emissions generated by their electricity supplier for use of both Traction and Non-Traction Power. In 2023, a decision was made to purchase new electric vehicles as they strive for an environmentally friendly fleet, and an additional vehicle was delivered in January 2024.

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. This information is the Group's SECR disclosure for the 2023 year. 2021 is our baseline GHG emissions year used as a benchmark for future performance comparison purposes.

Scope of Analysis and Data Collection

Over 2023 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 2023, covering our financial year. The scope of our GHG emissions calculation covers all our operations and vehicle fleets, operated by the Lothian Buses Group and Edinburgh Trams.

Calculation Methodology

We have used the DESNZ 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 CO₂e (carbon dioxide equivalent) and have used 2023 GHG Conversion Factors for Company Reporting, published annually by Defra and DESNZ.

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 2023 financial year. As per SECR requirements this information is presented in kilowatt hours (kWh).

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Strategic Report (continued)

For the year ended 31 December 2023

Streamlined Energy and Carbon Reporting (continued)

Emissions Source	GHG Scope (Protocol)	Reporting Units	% change		
			2023	2021	v's Baseline
Vehicle Fleet Fuel	Scope 1	kWh	204,464,553	204,365,689	+0.05%
Trams Traction Usage	Scope 2	kWh	9,963,717	7,540,529	+32.1%
Electricity (Sites & Vehicles)	Scope 2&3	kWh	4,872,882	4,599,267	+5.9%
Natural Gas	Scope 1	kWh	2,955,912	4,449,942	-33.6%
Tram Vehicle Fleet Mileage	Scope 1	kWh	40,314	31,089	+29.7%
Total Energy Consumption			222,297,378	220,986,516	+0.6%

GHG Emissions Reporting

In accordance with the SECR Emissions Reporting requirements outlined in the Companies Act for large companies our GHG disclosure for the 2023 financial year is listed below. Results have been split by Scope as outlined by the GHG Protocol calculation methodology.

GHG Emissions Scope	Results (Units)	2023	2021	% change v's Baseline
Scope 1	tonnes CO ₂ e	49,300.01	49,800.91	-1.0%
Scope 2	tonnes CO ₂ e	2,587.90	2,112.34	+22.5%
Scope 3	tonnes CO ₂ e	73.53	70.82	+3.8%
Total GHG Emissions		51,961.44	51,984.07	-0.04%
GHG Emissions Intensity 1	tonnes CO ₂ e / £m Turnover	250.53	331.13	-24.3%
GHG Emissions Intensity 2	tonnes CO ₂ e / Employee	19.30	20.46	-5.7%

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 2023 Lothian Buses made significant efforts to reduce GHG emissions from their vehicles. Through their driver training programme, they are encouraging drivers to adopt efficient driving practices, further reducing the environmental impact. To support employees and encourage increased uptake of public transport they extended the provision of the Privilege Ridacard during 2022. Arrangements continue to be made to replace all diesel ancillary vans and support vehicles with electric equivalents. Lothian Buses also has an internal environmental strategy which works to reduce the environmental impact of internal operations across offices and garages; focusing on waste, water and energy consumption and has made significant progress in these areas. During 2023 Lothian Buses engaged with an energy consultant and conducted an internal energy audit to better understand their buildings and started to investigate renewable energy options for all sites. They also continued work on the electric bus depot project at Central Garage. Additionally, they worked with Powering Futures to develop a bespoke Lothian sustainability challenge for first year engineering apprentices, focussing on reducing gas consumption. In terms of vehicle fleet, in 2023 Lothian Buses managed to introduce an initial fleet of 28 electric vans and commenced a scoping project to try to convert 18 tour buses to zero emissions electric drive.

Edinburgh Trams fully recognises the importance of how their operational business impacts the environment and their responsibilities that go with being a major transport operator. As members of the Edinburgh Climate Compact, they continue to implement emission reduction measures and hosted a group meeting in December 2023. Satisfactory progress has been made with both own and Maintainer environmental objectives in 2023, which have been designed to both reduce Greenhouse Gas (GHG) emissions and overall impact on the environment. Zero non-conformities were raised against ISO 14001 certified Environmental Management System by BSI, our external auditor, with all internally raised audit actions being fully closed out on the Master Action Tracker. All environmental reports were also appropriately actioned in 2023. We witnessed a general rise in noise reports from residents in the newly opened Trams to Newhaven section; however, all noise monitoring and investigations have been managed in line with our Noise and Vibration Procedure.

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Strategic Report (continued)

For the year ended 31 December 2023

Climate Change and Task Force on Climate-related Financial Disclosures

As the group operates efficient passenger transport in the Lothian Region we recognise that we have an equally important role in playing our part in tackling climate change. Climate change is a significant crisis facing the global community and one we will need to continue to confront head-on. We should not underestimate the challenges that a more extreme climate will have on our lives, the economy, and our environment.

The group recognises the recommendations of the Financial Stability Board's (FSB) Task Force on Climate-related Financial Disclosures (TCFD) as one of the most effective frameworks for organisations to analyse, understand and ultimately disclose climate-related financial information against. The TCFD's recommendations set out how organisations across sectors and geographies can assess and disclose their Governance, Strategy, Risk Management, Metrics and Targets related to climate change. The TCFD's aim is for these disclosures to promote the management of climate-related financial risk and opportunities across the economy and financial system. While the TCFD recommendations were designed for the private sector with the aim of providing markets with clear, comprehensive, high-quality climate-related information for decision-making, the public sector similarly requires climate-related information for decision-making and accountability to annual report users. The TCFD principles are being adopted more broadly across different sectors and by international standard setters. The TCFD's recommendations are for more effective climate-related disclosures to promote more informed decisions and in turn enable stakeholders to understand better the concentrations of carbon-related assets and exposures to climate-related risks and how companies are transitioning to a lower carbon economy.

With climate-related risks and opportunities being relevant for organisations across all sectors, TCFD encourages all organisations to implement the recommendations. The UK government formally endorsed the TCFD framework and has mandated TCFD-aligned disclosure for large entities in the UK private sector. Climate-related risk is a non-diversifiable risk that affects nearly all industries and sectors.

The TCFD published their recommendations which proposed the following:

- Four widely adoptable recommendations across four thematic areas (Governance, Strategy, Risk Management and Metrics & Targets);
- Eleven recommended disclosures structured around the thematic areas representing the core elements of the organisations operations with the disclosures intended to interlink and inform each other;
- General and sector-specific guidance for applying the framework;

Seven key principles for effective disclosure (relevant; specific and complete; clear, balanced and understandable; consistent over time; comparable across the sector, industry or portfolio; reliable, verifiable and objective; and timely).

Scope

The group is following the scope and guidance of central government where Arms-Length Bodies are required to follow the guidance where they have:

- More than 500 employees; or
- Total operating income exceeding £500m; or
- Been instructed to.

The group brings itself into scope under the first point above having approximately 2,700 employees (note 7).

TRANSPORT FOR EDINBURGH LIMITED

Strategic Report (continued)

For the year ended 31 December 2023

Climate Change and Task Force on Climate-related Financial Disclosures (continued)

Implementation approach

Following this guidance the group will adopt a phased approach, as follows:

Phase 1 – Governance focus

- General principles including scoping;
- Governance recommendation and recommended disclosures (a) and (b);
- Metrics and Targets recommended disclosure (b) - where data is available; and
- TCFD Compliance Statement requirements.

Phase 2 – Risk Management and Metrics & Targets

- Further Metrics and Targets recommendations and recommended disclosures (a) and (c); and
- Risk Management recommendations and recommended disclosures (a) to (c).

Phase 3 - Strategy

- Strategy recommendation and recommended disclosures (a) to (c).

The implementation timetable, focus of each phase and requirements are as follows:

Phase 1 – Governance focus

- Period - covering fiscal year 2023/24, so specifically TfE annual report for 31 December 2023;
- Focus – High-level overview; and
- Requirements – provide a TCFD Compliance Statement and the recommended disclosures for Governance and Metrics & Targets where available from existing reporting processes on a comply or explain basis.

Phase 2 – Risk Management and Metrics & Targets

- Period - covering fiscal year 2024/25, so specifically TfE annual report for 31 December 2024;
- Focus – Qualitative disclosures with existing qualitative disclosures; and
- Requirements – provide a TCFD Compliance Statement and the recommended disclosures for Governance, Risk Management and Metrics & Targets on a comply or explain basis.

Phase 3 - Strategy

- Period - covering fiscal year 2025/26, so specifically TfE annual report for 31 December 2025;
- Focus – Qualitative disclosures with technical requirements where TCFD-aligned disclosure is fully implemented; and
- Requirements – provide a TCFD Compliance Statement and the recommended disclosures for Governance, Risk Management, Strategy and Metrics & Targets with wider reporting on a comply or explain basis.

Comply or explain disclosure basis

The TCFD framework is principles-based. In scope reporting entities must apply a “comply or explain” basis for disclosure; complying with each of the required TCFD’s recommended disclosures or explaining non-compliance against each of the requirements. The group will be applying the requirements on a comply or explain basis for each separate phase of implementation.

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Strategic Report (continued)

For the year ended 31 December 2023

Climate Change and Task Force on Climate-related Financial Disclosures (continued)

Compliance Statement

The compliance statement is an overall statement of the extent of consistency with the TCFD's recommended disclosures. The group complies with material recommendations and recommended disclosures under phase 1 of the phased implementation above and will report on compliance with future phases in the coming years. The group considers whether climate-related issues are material, both in terms of value and nature, to the primary users of the accounts.

The group has reported on climate-related financial disclosures consistent with HM Treasury's TCFD-aligned disclosure application guidance which interprets and adapts the framework for the UK public sector. The group has complied with the TCFD recommendations and recommended disclosures for phase 1 being:

- Governance (a) and (b); and
- Metrics & Targets (b).

This is in line with central governments TCFD-aligned disclosure implementation timetable. The group plan to make disclosures for Strategy, Risk Management and further Metrics & Targets in future reporting periods in line with central government implementation timetable.

Overview of TCFD Framework

GOVERNANCE

Recommendations:

Disclose the organisations governance around climate-related risks and opportunities.

Recommended disclosures:

- (a) Describe the Board's oversight of climate-related risks and opportunities.
- (b) Describe management's role in assessing and managing climate-related risks and opportunities.

STRATEGY

Recommendations:

Disclose the actual and potential impacts of climate-related risks and opportunities on the group's strategy and financial planning where such information is material.

Recommended disclosures:

- (a) Describe the climate-related risks and opportunities the group has identified over the short, medium and long term.
- (b) Describe the impact of climate-related risks and opportunities on the group's business, strategy and financial planning.
- (c) Describe the resilience of the group's strategy taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

RISK MANAGEMENT

Recommendations:

Disclose how the group identifies, assesses and manages climate-related risks.

Recommended disclosures:

- (a) Describe the group's processes for identifying and assessing climate-related risks.
- (b) Describe the group's processes for managing climate-related risks.
- (c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the group's overall risk management.

METRICS & TARGETS

Recommendations:

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Recommended disclosures:

- (a) Disclose the metrics used by the group to assess climate-related risks and opportunities in line with group strategy and risk management process.
- (b) Disclose Scope 1, Scope 2, and if appropriate, Scope 3 GHG emissions and the related risks.
- (c) Describe the targets used by the group to manage climate-related risks and opportunities and performance against targets.

TRANSPORT FOR EDINBURGH LIMITED

Strategic Report (continued)

For the year ended 31 December 2023

Climate Change and Task Force on Climate-related Financial Disclosures (continued)

Overview of TCFD Framework (continued)

GOVERNANCE

Recommendations: Disclose the organisations governance around climate-related risks and opportunities.

These principally qualitative disclosures are designed to assist primary annual report users to assess the adequacy and effectiveness of the group's Board to oversee, evaluate and manage climate-related issues.

Recommended disclosure for Governance (a) on Board's oversight of climate-related issues

The Board have ultimate responsibility for identifying, assessing, and managing Environmental, Social and Governance (ESG) risks and opportunities including those relating to climate change. The Board considers the direct and indirect impact of climate change when establishing, reviewing, and refreshing the overall strategy for the business. The Board will, where necessary, delegate managerial responsibilities to the Audit & Risk Committee. The Finance Director has oversight of climate-related reporting including ensuring compliance with TCFD-aligned disclosure requirements. The Engineering Director and Chief Engineer are responsible for the group's fleet and asset portfolio including assessing and managing the impact of climate change on these assets and operations. Reporting into the Engineering Director is the group's Sustainability Officer who is responsible for the day-to-day operational tasks relating to ESG reporting and risk management. They meet regularly with the Audit & Risk Committee to raise potential risks which require further mitigation including climate-related risks and opportunities. Potential material climate-related risks which could have a significant financial impact on our business are recorded in the Enterprise Risk Management (ERM) register. These risks are reviewed by Senior Management every quarter and appropriate mitigating actions undertaken where necessary. We are considering adding climate change as a principal risk in our ERM register, recognising its strategic and significant importance to our business.

We are committed to ensuring that our Board is well informed about climate change and sustainability related issues. We plan to provide comprehensive training sessions to the Board on the latest scientific developments, emerging regulatory frameworks, and leading practices in sustainability reporting management to help inform their understanding of their fiduciary responsibilities in relation to climate-related financial disclosures.

The Board and Audit & Risk Committee meet a minimum of four times per year and climate-related issues can be brought to any of these meetings. If the Board feels any risk warrants further consideration and/or further work is required, then the Audit & Risk Committee is responsible for undertaking and overseeing these actions. The Board and Audit & Risk Committee consider climate-related issues when reviewing and guiding strategy, major investment plans, risk management, annual budgets, the business plan, and objectives, monitoring implementation and approving all capital expenditure/investment while considering any related grants available. For example, Lothian's Fleet decarbonisation strategy and related capital expenditure required to electrify the fleet and operations have been approved by the Board and is further detailed below.

The first phase of the strategy, from now until the end of 2025, is dedicated to fleet investment and related infrastructure. Lothian's existing fleet replacement programme has facilitated the removal of around 12,000 tonnes of carbon dioxide from our carbon footprint in the last ten years. The strategy takes a phased and structured approach and Lothian's expertise, coupled with partnership working and funding opportunities will deliver a full switch from conventional diesel to zero emission vehicles and infrastructure. Our easy access fleet is among the most modern and environmentally friendly in the UK and includes the city's first double-deck zero emission electric buses which were introduced in the Summer of 2021 thanks to support from Scottish Power Energy Network's "Green Economy Fund".

Recommended disclosure for Governance (b) on Management's Role in assessing and managing climate-related issues

As part of the fleet replacement side of the strategy, investment was committed in September 2023 for the purchase of 50 new double deck electric vehicles (to be introduced in two batches across 2024) together with the required infrastructure for Central and Marine depots. This investment enhances our commitment to reduce emissions and improve air quality in our operating environment. Management is further considering vehicles which are fully electric with overnight charging capability that will cover the entire daily service with one charge. Hydrogen fuel cells are also being considered that will be refuelled at the end of service and fully electric with opportunity charging facilities within the route. Management is also currently scoping an innovative project to explore the feasibility of repowering mid-life diesel buses to electric. If successful, this technology will allow some acceleration of the net zero plan.

TRANSPORT FOR EDINBURGH LIMITED

Strategic Report (continued)

For the year ended 31 December 2023

Climate Change and Task Force on Climate-related Financial Disclosures (continued)

GOVERNANCE (continued)

Recommended disclosure for Governance (b) on Management's Role in assessing and managing climate-related issues (continued)

The Board and Audit & Risk Committee monitor and oversee progress against goals and targets for addressing climate-related issues by getting regular updates from the Engineering Director on Lothian's decarbonisation plan, driving towards Net Zero fleet emissions by 2035. Progress on electrification of the fleet against plan is monitored based on the number of and type of electric vehicles adopted. We are currently developing further climate-related KPIs and metrics to integrate into decision making and to notify the Board to track progress against material climate-related risks and opportunities.

The Board is acutely aware of the effects its services have on our environment and communities and its responsibilities in achieving local and national government climate change targets. Our majority shareholder the City of Edinburgh Council has its own climate policies and specific strategies for tackling climate-related issues and Lothian Buses is working with our stakeholders to ultimately become fully net zero. Developed in partnership with the Scottish Environmental Protection Agency (SEPA) and Transport Scotland, Edinburgh's Low Emission Zone aims to improve air quality for people across the city by tackling air pollution from vehicles. It aligns with other strategic transport projects, including the City Centre Transformation and City Mobility Plan. Only the cleanest vehicles can travel into the Low Emission Zone from 1 June 2024 and all our fleet meet Euro 6 standard and have done since 2020.

We have noted above our management level roles are assigned oversight for Lothian's climate-related risks and opportunities. Our Chief Engineer and Sustainability Officer have day-to-day working responsibility for assessing and managing climate-related issues and ESG reporting via our sustainable procurement and environmental policies, as well as through our Major Incident Procedure which considers climate/extreme weather events. The Management level role who is responsible for managing a given major incident depends on the nature of the event. For example, were an issue to affect a facility or depot then management responsibility would be assigned to the affected Facility Manager, after being assessed by the Head of Operations and/or the Engineering Director. Management are informed of climate issues within the business through the above Major Incident Procedure in collaboration with the operational teams and Sustainability Officer. Management within the engineering and facilities functions remain active in keeping themselves informed about climate-related issues and monitor various channels whilst speaking to their industry colleagues and suppliers. Management also considers waste management, water, energy, and business travel usage through getting best value and service from suppliers and via the use of initiatives across depots to reduce these. Lothian has diverted waste from our general waste stream and all canteens and office spaces have recycling points for paper, plastic, food and general waste with clear signage. We use biodegradable food packaging products from a local supplier Vegware where the compostable packaging made from plants can be disposed of in our food waste channel.

The Sustainability Officer monitors utilities usage data and Lothian is currently developing a utilities usage log to track and disseminate this information. Individual facilities are responsible for monitoring the fuel efficiency of the fleet and this data is communicated up to management. As noted above Lothian monitor progress against the decarbonisation strategy through the adoption of electric vehicles. Lothian also reports Scope 1, Scope 2 and Scope 3 (category 3) emissions annually. Lothian is currently developing tools and processes to enable regular communication and dissemination of this information to Management and the Board.

Lothian will conduct scenario analysis (as recommended by TCFD) during 2024, to identify and assess climate-related risks and uncertainties Lothian may face in the future under different climate scenarios.

METRICS & TARGETS

Recommendations: Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Metrics and targets are essential for monitoring performance and tracking progress. The Climate Change Act commits the UK Government by law to reduce Greenhouse Gas (GHG) emissions and similar legislation and requirements have been set by devolved administrations with the City of Edinburgh Council having their own aspirations and net zero commitments. The groups metrics and targets are provided in the tables above within the Streamlined Energy and Carbon Reporting sections and the use of GHG reporting allows primary users of the accounts to track the group's performance.

TRANSPORT FOR EDINBURGH LIMITED

Strategic Report (continued)

For the year ended 31 December 2023

Climate Change and Task Force on Climate-related Financial Disclosures (continued)

METRICS & TARGETS (continued)

Recommended disclosure for Metrics & Targets (b) on Emissions reporting - Disclose Scope 1, Scope 2, and if appropriate, Scope 3 GHG emissions and the related risks.

Our stakeholders require a clear understanding of the group's methods for assessing and tracking climate-related risks and opportunities. The GHG metrics disclosed by the group will enable stakeholders to make informed evaluations of performance, level of vulnerability to climate-related issues and progress made in effectively managing and/or adapting to these issues.

GHG emissions have been calculated in line with the GHG Protocol methodology and disclosures relating to Scope 1, 2 and 3 can be found in the tables above within the Streamlined Energy and Carbon Reporting section.

Overall group GHG Emissions for Scope 1, 2 and 3 for the year ended 31 December 2023 are 51,961.44 tonnes CO_{2e}. Of our total GHG emissions Scope 1 accounts for 94.88%, Scope 2 accounts for 4.98% and Scope 3 accounts for 0.14%. Our GHG Emissions CO_{2e} Intensity per £M turnover is 250.53 tonnes CO_{2e} and per employee is 19.3 tonnes CO_{2e}. Overall, a 0.04% decrease in total GHG emissions can be observed when compared to our baseline year (2021). Absolute emissions have reduced by 0.04% compared to 2021.

Charity Engagements

During 2023, we continued where possible with our community and charity engagements.

Lothian Buses charity of choice was VOCAL (Voice of Carers Across Lothian) and they managed to work with them more and more throughout the year and this will continue for 2024 as part of a 2 year partnership. 2023 saw Lothian Buses once again support the national Poppyscotland campaign across November with a specially liveried 'Poppy Bus' for the charity. The partnership with Police Scotland continues the behavioural change campaign and Lothian Buses continue to receive a positive response via the programme.

Edinburgh Trams charity of choice for 2023 remained as Breast Friends. The charity visited the Tram depot to sell goods to raise funds and awareness among the team. Another beneficiary was Poppy Scotland, which received £500 raised by utilising previous marketing materials to top up the usual annual donation. Edinburgh Trams also helped raise thousands of pounds for St John Scotland, a charity organisation providing CPR training, increasing public access to defibrillators, being Community First Responders or transporting patients to hospitals. St John Scotland is truly a charity Edinburgh Trams are proud to support. St John Scotland, Breast Friends and NSPCC Scotland also benefitted from 'bucket collections' during special events at Murrayfield.

Edinburgh Cycle Hire Scheme

During 2023 TfE continued to work with the University of Edinburgh to expand the University e bike scheme, "Unicycles" The scheme was extended to include over 80 e bikes by the end of 2023, with the support of Serco, Pashley, The Edinburgh Bicycle cooperative, Edinburgh Trams, and Fuller Battery Ltd. The opportunity exists to generate a further e bike fleet of some 30 e bikes. Unfortunately, current concerns regarding the flammability of lithium e bike batteries are delaying the delivery of this opportunity. A pool of e bike spares has been established with the Edinburgh Bicycle Cooperative, sufficient to maintain the e bike fleet for the foreseeable future.

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 installation of a tranche of new totems in the City Centre in 2022 with the support of four Project Sponsors, further totems were procured and installed in 2023 with the support of two further project Sponsors. Existing infrastructure was also used to host the new Wayfinding mapping. 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 the concurrent removal of obsolete wayfinding and street clutter. Further totems will be installed in 2024 with the support of Project Sponsors, including the National Galleries of Scotland.

TRANSPORT FOR EDINBURGH LIMITED

Strategic Report (continued)

For the year ended 31 December 2023

The Driver Innovation Safety Challenge (DISC) and FOCUS+

The DISC Project continued in 2023 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 continued to be delivered. Most importantly, a final proof of concept and external independent validation was conducted that verified the device does what it aims to achieve. The results of the validation, providing a 98% confidence level in the device were presented to the Project Board in December 2023. The results were endorsed by the Project Board paving the way to commercialisation of the device in 2024. It is anticipated that Edinburgh Trams will be an early adopter of this innovative safety enhancing device.

The Edinburgh Festivals Transport Coordination Project

In 2023 The Edinburgh Festivals Transport Coordination Group, including operators, met ahead of the Summer Festival period, to understand likely additional demand and how public transport provision would be enhanced to meet the additional demand.

Major Event Planning

TfE has a delegated coordinating authority for the City's planning and preparation for certain major events. Throughout 2023 TfE engaged with Transport Scotland and other Strategic Partners on the planning for the 2023 World Cycling Championships. The City of Edinburgh was impacted by the Men's Elite Road Race that started in Holyrood on 6 August 2023, with a route Northwest and across the Forth Crossing en route to Glasgow. Throughout 2023 TfE engaged with Transport Scotland, transport operators, blue light services, and others with regard to the management of "grey space" and the safe provision of public transport around major events.

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.

In a landmark year for the operator, 2023 saw the launch of tram services to Newhaven in June which has opened a new travel option for communities in Leith and those wishing to travel to and from other key locations along the new route.

The opening of the new line has proved popular with both new and existing customers, with Tram patronage increasing by 92.1% in 2023 when compared to 2022, from 4.780m to 9.183m. Even ahead of the launch, the network was well on the road to a full post-pandemic recovery. In the five months prior to the launch of trams to Newhaven, patronage rose to 2.19m from 1.34m, an increase of 63% over the previous five months.

Once again, Edinburgh Trams has continued supporting many famous Edinburgh events, including providing all-night travel at weekends during the iconic festival season, late services for the Royal Edinburgh Military Tattoo and free travel on trams at Hogmanay. Major sporting and cultural events at Murrayfield have also been supported, including international rugby and music concerts. Notably, a major event at Murrayfield, the extension to Leith and the Edinburgh Festival all contributed to Edinburgh Trams recording its busiest day ever, with over 56,000 passengers using the tram on 26 August 2023.

Airport ticket sales have also seen a marked increase over the past year, with just under 1m departures from the airport recorded, up 40% on 2022, while online ticket sales have become increasingly popular, attracting over £1.8m in terms of cash receipts. Time and money have been invested in promoting this sales channel, highlighting the flexibility and value for money of pre-purchase tickets such as airport tickets, zone bundles and 3, 4, 5 Day "Tram Only" tickets.

Edinburgh Trams also continue to support the "Free Travel for the Under 22" scheme without support from the Scottish Government. Edinburgh Trams continue lobbying to be included in the scheme, as they believe it effectively promotes public transport, social inclusion and an environmentally friendly mode of public transport. The cost to the Scottish Government of supporting this scheme would have been just under £400k for 2023 and Edinburgh Trams will continue to lobby for them and other Scottish light rail systems to be included. Tram travel for

TRANSPORT FOR EDINBURGH LIMITED

Strategic Report (continued)

For the year ended 31 December 2023

Edinburgh Trams (continued)

Under 22s was subsidised from January to March 2023 by the City of Edinburgh Council but reimbursement ceased from April 2023 and has not been reinstated. Acceptance of Under 22 passes has continued as refusal may lead to confusion and confrontation between pass holders and Ticketing Services Assistants.

Tram advertising has also proved a valuable revenue stream, especially in the second half of the year. Although a five-year deal with Parabola came to an end at the start of 2023, the marketing team secured a major campaign with OVO Energy while CR Smith continued to advertise. We envisage that in 2024, as the confidence of the retail market improves, sales from tram advertising will exceed £500k.

A decision not to reinstate Metro newspapers was also taken in the year 2023 based on staffing and potential waste costs. We will review the situation again in June 2024.

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 the activities on 28 July 2023. CEC reviewed the information provided and requested to move from an annual, fully budgeted approach to a condition-based approach, on the renewal of non-safety critical assets. Edinburgh Trams introduced a Red/Amber/Green (RAG) status on all the activities and resubmitted the plan in December 2023. CEC is currently reviewing this information.

Edinburgh Trams also 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 22 December 2023.

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.

The key activities of the 2023/2024 Asset Renewals Plan (CEC financial year is running April to March) that were completed in 2023 are:

- The replacement of the track switches in three different locations: Airport, York Place and Shandwick Place. In September 2023, the Airport track switch was successfully replaced as part of a two-day closure organised by the business to address multiple activities. The replacement of the two track switches in York Place and then in Shandwick Place commenced at the end of October 2023 and was successfully completed by 11 November 2023. Both activities required extended nightshifts and therefore trams were only running between the Airport and Haymarket from 1900 to 0700. This was the first time that track switches were renewed in the network and the first activities that required changes in the timetable. The lessons learned from both activities will be utilised to ensure that services run safely, with minimum disruption to passengers.
- The renewal of obsolete lighting units in the depot car park. The replacement of the lights is driven by safety concerns that can be generated should the existing lights fail. The new lighting units installed are LEDs and connected through a smart system that allows Edinburgh Trams to achieve energy efficiencies. This project is part of a three-phased project where Phase 1 is the replacement of the depot workshop lights completed in 2022, Phase 2 is the replacement of the depot car park lights that was completed this year and Phase 3 is the replacement of the depot office lights, scheduled for 2024.
- The replacement of the Rail Sealant and Structure sealant activities was successfully completed in 2023. Both activities are part of a multiyear programme, and this was the first year that Edinburgh Trams project managed the activities. The main benefits were the financial implications but also better control and coordination over the activities scheduled across the network.

TRANSPORT FOR EDINBURGH LIMITED

Strategic Report (continued)

For the year ended 31 December 2023

Tram Asset Management (continued)

- Ticketing equipment renewals. In order to achieve economies of scale and significantly improve the ticketing equipment and their offered functionalities, a decision was made to combine the existing Renewals budget and the Trams to Newhaven ticketing budget. This project has been divided into four phases.
 - Phase 1 'Like for like' replacement and enhancement of Platform Validators for the existing line and the development of a cloud-based back office.
 - Phase 2 'Like for like' replacement and enhancement of the handheld devices used by the Ticketing Services Assistants.
 - Phase 3 Installation of all ticketing equipment on the eight Trams to Newhaven tram stops.
 - Phase 4 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 handheld devices were introduced in April 2023. Phase 3 was successfully completed in Q2 2023 prior to Trams to Newhaven going live. The focus now is on Phase 4, which commenced in Q2 2023 and is scheduled for completion in Q2 2024. This is quite a complex project as the Edinburgh Trams ABT will be integrated with the existing Lothian Buses ABT system, therefore all the back-office changes are being completed in a phased and controlled manner to ensure minimum disruption for the businesses and customers.

In terms of internal projects, due to the increased number of staff recruited in the run-up to the launch of services to Newhaven, we invested in refurbishing the depot's existing staff canteen. A new kitchen set-up and new furniture have increased capacity, enabling more staff to prepare meals and enjoy comfortable breaks.

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). The contracts with the Maintainers were amended to take account of the additional maintenance requirements for the Newhaven line.

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. Edinburgh Trams are also installing battery-powered emergency lighting on the Tram fleet, following recommendations from the RAIB Sandilands report. This work is planned to be completed by July 2024.

TRANSPORT FOR EDINBURGH LIMITED

Strategic Report (continued)

For the year ended 31 December 2023

Trams to Newhaven Project

The Trams to Newhaven project was handed over for operational service on 7 June 2023. Edinburgh Trams delivered the resources required for the testing and commissioning phase and supported the project through to operation. Under the Safety Validation of Change process, the final Operational Milestone (OM9) certificate was issued at CONDITIONAL status.

The issuing of the FULL status certificate is dependent on the final delivery of:

- Closure of Punch List items.
- Delivery of the Health & Safety File.

Future Developments

The Edinburgh Trams team are fully committed to ensuring that the expanded network continues to be a success and a system that residents, tourists and our employees can be proud of.

A primary focus now is on ensuring that all outstanding defects are resolved in a safe and efficient way to then enable Edinburgh Trams to further enhance services and provide additional capacity across the network. The growth in ridership across the city from Newhaven to the Airport is clear to see and Edinburgh Trams need to provide additional capacity to ensure that customers continue to enjoy a positive experience.

The first half of 2024 will also see the introduction of Account Based Ticketing (ABT), bringing Edinburgh Trams in line with other operators in the city. The introduction of the tap on tap off system will also enable quicker and easier transactions for customers.

Working in partnership with CEC, the next step for Edinburgh Trams will be reviewing proposals for extending the network from Granton to the southeast of the City as part of the city's billion-pound regeneration programme. It has been noted that this area has the lowest car use in the city, implying that residents rely on public transport and an extended line would complement and enhance the travel needs of both Edinburgh residents and visitors.

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

Date: 10 May 2024



George Lowder (Director)

TRANSPORT FOR EDINBURGH LIMITED

Corporate Governance Report

For the year ended 31 December 2023

Basis of Principles Applied

For the year ended 31 December 2023, 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.

TRANSPORT FOR EDINBURGH LIMITED

Corporate Governance Report (continued)

For the year ended 31 December 2023

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 every two to three years 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 business 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 2023 are included on pages 24 and 25.

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.

TRANSPORT FOR EDINBURGH LIMITED

Corporate Governance Report (continued)

For the year ended 31 December 2023

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, People, 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.

TRANSPORT FOR EDINBURGH LIMITED

Corporate Governance Report (continued)

For the year ended 31 December 2023

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 47 (note 7). The TfE Remuneration Committee also takes into account public sector and other Arms Length Company pay awards.

In 2023, the Group reported its Gender Pay Reporting which highlighted some specific areas of focus for 2023 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. To date, TfE and Edinburgh Trams have achieved Living Wage Employer accreditation with Lothian Buses getting this in 2024.

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.

TRANSPORT FOR EDINBURGH LIMITED

Corporate Governance Report (continued)

For the year ended 31 December 2023

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 last few years 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.

TRANSPORT FOR EDINBURGH LIMITED
Corporate Governance Report (continued)
For the year ended 31 December 2023

Company Board

Details of individual Directors' attendance at Board and Committee meetings in 2023 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	5	5	100%
Chief Executive			
George Lowder	10	10	100%
Directors			
James McFarlane	4	4	100%
Lesley Macinnes	5	5	100%
Donald MacLeod	9	9	100%
George Hazel	4	4	100%
Andrew Neal	5	5	100%
Jule Bandel	9	6	67%
Alan Beal	9	9	100%
Observer			
Paul Lawrence (City of Edinburgh Council)	4	3	75%
Jamie Robertson* (City of Edinburgh Council)	-	1	100%

* Attended in Paul Lawrence's place

Activities of the Board in 2023

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 2023 the Board:

- Approved the 2022 Annual Accounts and Reports.
- Approved the Group's 2024 budget.
- Approved capital expenditure to support the 2024 budget.
- Progressed the Group's business 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 evolving economic, political and market conditions.
- 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.

TRANSPORT FOR EDINBURGH LIMITED

Corporate Governance Report (continued)

For the year ended 31 December 2023

During 2023 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 was the Committee Chair during 2023 before his resignation on the 31 December 2023. The Committee comprises two other independent Non-Executive Directors being Jule Bandel and Alan Beal. George Lowder also attends. The Board is satisfied that the recent and relevant financial and risk experience of the Committee Chair and the Committee's Members followed the principles of good governance in relation to their skills, knowledge and experience. There were five meetings during 2023.

External Auditors

Azets Audit Services were re-appointed external auditors in June 2023. 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 2023 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.

TRANSPORT FOR EDINBURGH LIMITED

Corporate Governance Report (continued)

For the year ended 31 December 2023

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 2023 the Committee was chaired by Andrew Neal and the two other members were Lesley Macinnes and Scott Arthur. George Lowder also attends. There was one meeting during 2023.

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 was one meeting held in 2023.

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.

TRANSPORT FOR EDINBURGH LIMITED

For the year ended 31 December 2023

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.

TRANSPORT FOR EDINBURGH LIMITED

For the year ended 31 December 2023

Directors' Report (continued)

Employees

The Group recognises the importance of engaging with employees to help them make their fullest contribution to the Group, which is fundamental to achieving the Group's strategy and long-term objectives. The Group uses a variety of media platforms to inform employees about the Group's activities, plans and developments together with the Group's purpose, goals and direction and actively takes on board employees' views and opinions. Further communication is 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 46.

Share Capital

Details of the Company's share capital are set out in note 16 on page 52.

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: 10 May 2024



George Lowder (Director)

TRANSPORT FOR EDINBURGH LIMITED

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

For the year ended 31 December 2023

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 2023 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 material accounting policy information. 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 2023 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.

Conclusions relating to going concern

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

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

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

Other information

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

We have nothing to report in this regard.

TRANSPORT FOR EDINBURGH LIMITED

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

For the year ended 31 December 2023

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 27, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

TRANSPORT FOR EDINBURGH LIMITED

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

For the year ended 31 December 2023

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

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

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

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

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

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

Use of our report

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



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

Date: 14 May 2024

TRANSPORT FOR EDINBURGH LIMITED

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

For the year ended 31 December 2023

	Note	Consolidated Group		Parent Entity	
		2023 £'000	2022 £'000 Restated	2023 £'000	2022 £'000
Continuing operations					
Revenue from operations	1i	200,224	159,240	-	-
Other income	1i,5	7,115	29,011	96	204
Total revenue		207,339	188,251	96	204
Administrative expenses		(210,213)	(194,782)	(266)	(365)
Loss from operations		(2,874)	(6,531)	(170)	(161)
Gain on disposal of property, plant and equipment	2	335	192	-	-
Impairment of investment in subsidiary	2,20	-	-	(12,000)	(8,000)
Finance income	3	8,701	972	2,912	-
Finance costs	4	(1,423)	(1,813)	-	-
Profit/(loss) before income tax expense		4,739	(7,180)	(9,258)	(8,161)
Income tax expense	6	(617)	664	39	-
Net profit/(loss) for the year		4,122	(6,516)	(9,219)	(8,161)
Attributable to:					
Equity holders	17	2,811	(6,924)	(9,219)	(8,161)
Non-controlling interest	18	1,311	408	-	-
Other comprehensive income/(expense):					
Those that are recyclable net of tax:					
Net fair value movements on cash flow hedges	26	(4,041)	1,056	-	-
Deferred tax thereon	14	1,010	(264)	-	-
Those that are not recyclable net of tax:					
Revaluation of land and buildings	8	-	704	-	-
Deferred tax thereon	14	-	(35)	-	-
Actuarial gain on post-employment benefit obligations	23	20,703	(17,688)	-	-
Deferred tax thereon	14	(6,413)	6,421	-	-
Total comprehensive income/(expense) for the year		15,381	(16,322)	(9,219)	(8,161)
Attributable to:					
Equity holders		13,058	(15,848)	(9,219)	(8,161)
Non-controlling interest		2,323	(474)	-	-

The accompanying notes on pages 37 to 70 form part of these financial statements

TRANSPORT FOR EDINBURGH LIMITED

Consolidated and Company Statement of Financial Position

As at 31 December 2023

	Note	Consolidated Group		Parent Entity	
		2023 £'000	2022 £'000	2023 £'000 Recoverable value	2022 £'000 Recoverable value
Assets					
Non-current assets					
Property, plant and equipment	8	159,375	172,187	-	-
Retirement benefit asset	23	51,699	26,047	-	-
Investments	20	-	-	5,824	5,824
Derivative financial assets	12	-	1,158	-	-
Total non-current assets		211,074	199,392	5,824	5,824
Current assets					
Inventories	9	989	992	-	-
Trade and other receivables	10	11,436	12,878	2,963	33
Derivative financial assets	10,12	-	1,178	-	-
Cash and cash equivalents	15	47,915	32,700	456	653
Total current assets		60,340	47,748	3,419	686
Total assets		271,414	247,140	9,243	6,510
Equity and liabilities					
Equity attributable to equity holders of the parent					
Share capital	16	53,878	41,878	53,878	41,878
Revaluation reserve	17	20,816	20,816	-	-
Other reserves	17	59,929	59,929	-	-
Retained earnings	17	3,496	(12,320)	(44,665)	(35,446)
Hedging reserve	17	(1,165)	1,594	-	-
Non-controlling interest	18	13,849	11,813	-	-
		150,803	123,710	9,213	6,432
Liabilities					
Non-current liabilities					
Lease obligations	13	50,016	62,498	-	-
Derivative financial liability	12	1,016	-	-	-
Deferred tax	14	22,159	16,034	-	-
Provisions	14	1,121	1,080	-	-
Total non-current liabilities		74,312	79,612	-	-
Current liabilities					
Trade and other payables	11	3,897	3,713	-	59
Other financial liabilities	11	28,951	26,726	30	19
Derivative financial liability	11,12	689	-	-	-
Lease obligations	13	12,762	13,379	-	-
Total current liabilities		46,299	43,818	30	78
Total liabilities		120,611	123,430	30	78
Total equity and liabilities		271,414	247,140	9,243	6,510

The financial statements were authorised for issue by the Board of Directors on 10 May 2024 and were signed on its behalf by:

Registered number SC443895


George Lowder, Director

The accompanying notes on pages 37 to 70 form part of these financial statements

TRANSPORT FOR EDINBURGH LIMITED
Consolidated Statement of Changes in Equity
As at 31 December 2023

	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		<u>41,878</u>	<u>20,816</u>	<u>59,929</u>	<u>(12,320)</u>	<u>1,594</u>	<u>11,813</u>	<u>123,710</u>

	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 2023		41,878	20,816	59,929	(12,320)	1,594	11,813	123,710
Comprehensive income								
Profit for the year		-	-	-	2,811	-	1,311	4,122
Other comprehensive income								
Actuarial gain on pension plan	23	-	-	-	18,842	-	1,861	20,703
Deferred tax thereon	14	-	-	-	(5,837)	-	(576)	(6,413)
Net fair value movements on cash flow hedges	26	-	-	-	-	(3,678)	(363)	(4,041)
Deferred tax thereon	14	-	-	-	-	919	91	1,010
Shares issued in year	16	12,000	-	-	-	-	-	12,000
Dividends	28	-	-	-	-	-	(288)	(288)
Balance at 31 December 2023		<u>53,878</u>	<u>20,816</u>	<u>59,929</u>	<u>3,496</u>	<u>(1,165)</u>	<u>13,849</u>	<u>150,803</u>

The accompanying notes on pages 37 to 70 form part of these financial statements

TRANSPORT FOR EDINBURGH LIMITED

Consolidated and Company Statement of Cash Flows

For the year ended 31 December 2023

	Note	Consolidated Group		Parent Entity	
		2023 £'000	2022 £'000	2023 £'000	2022 £'000
Cash flow from operating activities					
Loss from operations		(2,874)	(6,531)	(170)	(161)
Adjustments for:					
Depreciation and amortisation		19,561	21,967	-	-
Defined benefit pension current service costs		5,284	11,371	-	-
Defined benefit pension contributions		(2,400)	(2,475)	-	-
Changes in assets and liabilities:					
Decrease/(increase) in receivables and other financial assets		651	(2,591)	19	13
Increase/(decrease) in payables		2,706	(1,057)	(48)	68
Decrease/(increase) in inventories		3	(43)	-	-
Increase in provisions		41	294	-	-
Cash flows from operations		<u>22,972</u>	<u>20,935</u>	<u>(199)</u>	<u>(80)</u>
Interest paid		(196)	(405)	-	-
Income tax received		308	416	2	-
Net cash flows from operating activities		<u>23,084</u>	<u>20,946</u>	<u>(197)</u>	<u>(80)</u>
Cash flow from investing activities					
Purchase of property plant and equipment		(7,141)	(2,922)	-	-
Proceeds from disposal of property, plant and equipment		727	331	-	-
Interest received		868	74	-	-
Net cash flows from investing activities		<u>(5,546)</u>	<u>(2,517)</u>	<u>-</u>	<u>-</u>
Cash flow from financing activities					
Issue of share capital		12,000	8,000	12,000	8,000
New share capital in subsidiary		-	-	(12,000)	(8,000)
New hire purchase lease liabilities		-	-	-	-
Payments of lease liabilities		(14,323)	(20,276)	-	-
Net cash flows from financing activities		<u>(2,323)</u>	<u>(12,276)</u>	<u>-</u>	<u>-</u>
Net increase/(decrease) in cash and cash equivalents		15,215	6,153	(197)	(80)
Cash and cash equivalents at beginning of year		32,700	26,547	653	733
Cash and cash equivalents at end of year		<u>47,915</u>	<u>32,700</u>	<u>456</u>	<u>653</u>
Bank balances and cash		<u>47,915</u>	<u>32,700</u>	<u>456</u>	<u>653</u>

The accompanying notes on pages 37 to 70 form part of these financial statements

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements

For the year ended 31 December 2023

1. Material 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 2023 but are either not applicable or have no material impact on the Group financial statements; IFRS 17; Insurance Contracts, Amendments to IFRS 17 and initial application of IFRS 17 & IFRS 9 – Comparative Information.

The Group has adopted, where applicable, the following new and amended IFRSs as of 1 January 2023:

- Amendments to IAS 1; Presentation of Financial Statements and IFRS Practice Statement 2 - Disclosure of Accounting Policies
- Amendments to IAS 8; Accounting Policies - Changes in Accounting Estimates and Errors: Definition of Accounting Estimates
- Amendments to IAS 12; Income Taxes - Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- Amendments to IAS 12; Income Taxes - International Tax Reform on Pillar Two model rules.

Other new standards, amendments to standards and interpretations that are mandatory for the first time in 2023 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 2023, and with potential effect.

International Accounting Standards and Interpretations

Effective for periods beginning on or after

- | | |
|---|-----------------|
| • Amendments to IAS 7; Statement of Cash Flows and IFRS 7 Financial Instruments (Disclosures – Supplier Finance Arrangements) | 1 January 2024* |
| • Amendments to IFRS 16; Leases (Lease Liability in a Sale and Leaseback) | 1 January 2024* |
| • Amendments to IAS 1; Presentation of Financial Statements: Deferral of effective date Amendment, Classification of Liabilities as Current or Non-Current and Non-Current Liabilities with Covenants | 1 January 2024* |
| • Lack of exchangeability (Amendment to IAS21). | 1 January 2025 |

*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.

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

1. Material 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 close Transport for Edinburgh Limited in its current form, in the future as part of their Transport companies Arm's Length External Organisation (ALEO) reform. It was confirmed by CEC that TFE will close as an operational company but will continue as a company for the purposes of holding shares in Lothian Buses and Edinburgh Trams. TFE will not retain any corporate or executive functionality. As a result of this decision the company's balance sheet has been valued at recoverable value as at 31 December 2023.

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.

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

1. Material 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 2023 to be in line with the fair value of the properties.

Acquisition of assets

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

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

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

1. Material 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.

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

1. Material 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 the definition of a lease under IFRS 16, the Group assesses whether the contract meets three key evaluations: existence of an asset, the right to obtain the economic benefits from use of the asset and the right to direct use of the asset during the contracted period.

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

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

Activities as a Lessor

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

f. Impairment

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

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

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

g. Inventories

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

h. Cash and cash equivalents

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

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

1. Material 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. Income on these contracts was £22,411,633 (2022: £17,521,388) for the group and £nil (2022: £nil) for the company.

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 help keep fares down and therefore benefit passengers while contributing to the maintenance of the overall bus network.

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.

Restatement

During the Covid-19 pandemic and up until 31 March 2023 part of the group received restart grants and NSG+ support in addition to BSOG/NSG being received from Transport Scotland. These extra amounts were included in other income. When these extra amounts ceased it became apparent and made sense for the newly named Network Support Grants (previously BSOG) to be included in other income. This has been the case for 2023 and the figures for other income and diesel fuel costs within administrative expenses for 2022 have been grossed up by £6,733,136 for the group and £nil for the company. The profit for the year and all other figures for 2022 are unaffected.

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

1. Material accounting policies (continued)

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.

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. 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.

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.

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.

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

1. Material accounting policies (continued)

I. Critical accounting estimates and judgements

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

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.

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

1. Material accounting policies (continued)

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

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

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

Recognition and measurement

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

n. Offsetting financial instruments

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

o. Trade payables

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

Trade payables are recognised at cost.

p. Trade receivables

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

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

q. Share capital

Ordinary shares are classified as equity.

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

2. Loss from operations

	Consolidated Group		Parent Entity	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Loss from operations has been determined after:				
Auditor's remuneration:				
Audit services	114	104	18	18
Non-audit services	20	15	1	1
Pension current service costs (note 23)	5,284	11,371	-	-
Depreciation and other amounts written off tangible fixed assets:				
Owned	9,492	10,328	-	-
Assets held under hire purchase leases	2,235	3,820	-	-
Right-of-use assets	7,834	7,819	-	-
Infrastructure maintenance	6,687	4,914	-	-
Impairment of investment in subsidiary (note 20)	-	-	12,000	8,000
Gain on disposal of property, plant and equipment	(335)	(192)	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

3. Finance income

	Consolidated Group		Parent Entity	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Bank interest	861	74	-	-
Dividend income from subsidiary	-	-	2,912	-
Interest on corporation tax repayments	7	-	-	-
Pension interest income (note 23)	7,833	898	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>8,701</u>	<u>972</u>	<u>2,912</u>	<u>-</u>

4. Finance costs

	Consolidated Group		Parent Entity	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Lease charges	1,423	1,813	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

5. Other income

	Consolidated Group		Parent Entity	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
		Restated		
Other sundry income and grants	191	2,214	96	204
Transport Scotland – Network Support Grants	6,924	26,797	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>7,115</u>	<u>29,011</u>	<u>96</u>	<u>204</u>

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

6. Income tax expense

	Consolidated Group		Parent Entity	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Current tax:				
Deferred tax	722	(358)	-	-
Adjustment in respect of prior years	(105)	(297)	1	-
Corporation tax Group relief	-	(9)	(40)	-
	<u>617</u>	<u>(664)</u>	<u>(39)</u>	<u>-</u>
Tax on results for the year	<u><u>617</u></u>	<u><u>(664)</u></u>	<u><u>(39)</u></u>	<u><u>-</u></u>

The effective tax rate for the year ended 31 December 2023 is calculated at 23.52% (2022: 19%) of the estimated assessable results for the year. The charge/(credit) for the year can be reconciled to the loss per the income statement as follows:

	Consolidated Group		Parent Entity	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Profit/(loss) for the year before taxation	4,739	(7,180)	(9,258)	(8,161)
Profit/(loss) for the year at the effective rate of corporation tax of 23.52% (2022 – 19%)	1,115	(1,364)	(2,177)	(1,551)
Effects of:				
Chargeable gains	2	-	-	-
Expenses not deductible for tax purposes	744	1,692	2,822	1,520
Income not taxable for tax purposes	(1,842)	(171)	(685)	-
Fixed assets differences	20	(174)	-	-
Remeasurement of deferred tax for change in tax rates	797	532	-	-
Adjustment to the tax charge in respect of previous periods	(105)	(297)	1	-
Other tax adjustments, reliefs and transfers	-	38	-	-
Deferred tax not recognised	(114)	(920)	-	31
	<u>617</u>	<u>(664)</u>	<u>(39)</u>	<u>-</u>
Tax charge/(credit) for the year	<u><u>617</u></u>	<u><u>(664)</u></u>	<u><u>(39)</u></u>	<u><u>-</u></u>

7. Employee benefits expense

The average number of persons employed by the Group (including Directors) during the year was 2,692 (2022: 2,558). The Company had an average of 2 employees during the year (2022: 2).

	Consolidated Group		Parent Entity	
	2023	2022	2023	2022
	No.	No.	No.	No.
Drivers	1,842	1,826	-	-
Operations	451	393	-	-
Engineers	256	232	-	-
Management and admin	143	107	2	2
	<u>2,692</u>	<u>2,558</u>	<u>2</u>	<u>2</u>
	<u><u>2,692</u></u>	<u><u>2,558</u></u>	<u><u>2</u></u>	<u><u>2</u></u>

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

7. Employee benefits expense (continued)

The aggregate payroll costs were as follows:

	Consolidated Group		Parent Entity	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Wages and salaries	97,173	86,371	188	183
Social security costs	10,033	9,281	23	24
Other pension costs	6,147	4,256	2	1
	113,353	99,908	213	208
	113,353	99,908	213	208

Other pension costs comprise contributions to defined benefit schemes of £2,126,000 (2022: £2,221,000) and to defined contribution schemes of £4,021,000 (2022: £2,035,000) for the Group and £nil (2022: £nil) and £2,000 (2022: £1,000) for the Company respectively.

<i>Directors' remuneration</i>	Consolidated Group		Parent Entity	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Aggregate emoluments and benefits	193	181	161	157
Highest paid Director's emoluments and benefits	161	157	161	157

One Director received emoluments from the Company (2022: one). One Director (2022: 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 (2022: none). Directors' remuneration costs disclosed above exclude employers national insurance costs of £23,876 (2022: £23,414). The highest paid Directors' remuneration costs disclosed above exclude employers national insurance costs of £20,709 (2022: £21,226). The highest paid Director has an accrued pension of £nil per annum (2022: £nil) and an accrued lump sum of £nil (2022: £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

	Heritable & Right-of-use Properties £'000	Passenger Vehicles £'000	Other Vehicles £'000	Plant & Equipment £'000	Total £'000
Group					
Cost or valuation					
At 1 January 2023	124,096	150,613	238	20,513	295,460
Additions	246	578	55	6,262	7,141
Disposals	-	(4,327)	(29)	-	(4,356)
	124,342	146,864	264	26,775	298,245
Accumulated depreciation					
At 1 January 2023	(32,540)	(76,352)	(179)	(14,202)	(123,273)
Charge for the year	(7,834)	(10,125)	(37)	(1,565)	(19,561)
Eliminated on disposal	-	3,935	29	-	3,964
	(40,374)	(82,542)	(187)	(15,767)	(138,870)
Net book value					
At 31 December 2023	83,968	64,322	77	11,008	159,375
Net book value					
At 31 December 2022	91,556	74,261	59	6,311	172,187

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

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 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	<u>124,096</u>	<u>150,613</u>	<u>238</u>	<u>20,513</u>	<u>295,460</u>
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	<u>(32,540)</u>	<u>(76,352)</u>	<u>(179)</u>	<u>(14,202)</u>	<u>(123,273)</u>
Net book value					
At 31 December 2022	<u>91,556</u>	<u>74,261</u>	<u>59</u>	<u>6,311</u>	<u>172,187</u>
Net book value					
At 31 December 2021	<u>98,671</u>	<u>85,792</u>	<u>72</u>	<u>6,132</u>	<u>190,667</u>

The net book value of the revalued assets, had they not been revalued and remained to be carried under the cost model, would be £15,994,494 at the year end. The Group's heritable properties were last valued on 31 December 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 2023 and therefore no depreciation has been charged for the year.

Right-of-use assets

Group	Consolidated Group			
	2023 Heritable Properties £'000	2022 Heritable Properties £'000	2023 Passenger Vehicles £'000	2022 Passenger Vehicles £'000
Net book value at 1 January	7,165	7,580	90,419	101,643
Additions	246	-	-	-
Remove - hire purchase repaid	-	-	(20,485)	-
Depreciation charge for year	(430)	(415)	(9,639)	(11,224)
Net book value at 31 December	<u>6,981</u>	<u>7,165</u>	<u>60,295</u>	<u>90,419</u>

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

The parent Company does not hold any property, vehicles, plant or equipment.

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

9. Inventories

	Consolidated Group		Parent Entity	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Raw materials (fuel)	583	572	-	-
Finished goods	406	420	-	-
	<u>989</u>	<u>992</u>	<u>-</u>	<u>-</u>
	<u><u>989</u></u>	<u><u>992</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

10. Trade and other receivables

	Consolidated Group		Parent Entity	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Trade receivables	1,094	371	-	15
Other receivables	562	377	2,912	-
Prepayments and accrued income	2,007	6,086	11	11
VAT recoverable	4,250	2,794	-	4
Corporation tax recoverable	-	791	40	3
Derivative financial asset	-	1,178	-	-
Amounts due from City of Edinburgh Council	3,415	2,424	-	-
Amounts due from West Lothian Council	64	32	-	-
Amounts due from East Lothian Council	44	3	-	-
	<u>11,436</u>	<u>14,056</u>	<u>2,963</u>	<u>33</u>
	<u><u>11,436</u></u>	<u><u>14,056</u></u>	<u><u>2,963</u></u>	<u><u>33</u></u>
Non-current	-	-	-	-
Current	11,436	14,056	2,963	33
	<u>11,436</u>	<u>14,056</u>	<u>2,963</u>	<u>33</u>
	<u><u>11,436</u></u>	<u><u>14,056</u></u>	<u><u>2,963</u></u>	<u><u>33</u></u>

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

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

11. Current liabilities

	Consolidated Group		Parent Entity	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Trade and other payables	3,897	3,713	-	59
Other payables	4,460	3,540	-	-
Taxation and social security	3,488	2,951	11	-
Lease obligations (note 13)	12,762	13,379	-	-
Accruals and deferred income	6,994	8,516	19	19
Derivative financial asset	689	-	-	-
Dividends	288	-	-	-
Amounts due to City of Edinburgh Council	13,721	11,719	-	-
	<u>46,299</u>	<u>43,818</u>	<u>30</u>	<u>78</u>
Accrued expenses	3,337	2,350	19	19
Income received in advance	3,657	6,166	-	-
	<u>6,994</u>	<u>8,516</u>	<u>19</u>	<u>19</u>

12. Derivative financial instruments

	Consolidated Group		Parent Entity	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
(Liabilities)/assets				
No later than one year	(689)	1,178	-	-
Later than one year but no later than five years	(1,016)	1,158	-	-
	<u>(1,705)</u>	<u>2,336</u>	<u>-</u>	<u>-</u>

Analysed as:

	Consolidated Group		Parent Entity	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
(Liabilities)/assets				
Current	(689)	1,178	-	-
Non-current	(1,016)	1,158	-	-
	<u>(1,705)</u>	<u>2,336</u>	<u>-</u>	<u>-</u>

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

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 2 to 21 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	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Current	12,762	13,379	-	-
Non-current	50,016	62,498	-	-

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	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Within one year	14,089	14,926	-	-
Between 2 and 5 years	44,026	49,146	-	-
Over 5 years	9,587	18,374	-	-
Total undiscounted liabilities	67,702	82,446	-	-

14. Provisions

	Consolidated Group		Parent Entity	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
<i>Deferred tax liabilities</i>				
At beginning of the year	16,034	22,514	-	-
Charge/(credit) for the year to profit or loss	722	(358)	-	-
Charge/(credit) to other comprehensive income	5,403	(6,122)	-	-
At end of the year	22,159	16,034	-	-

The elements of deferred tax are as follows:

Accelerated capital allowances	9,778	8,966	-	-
Short term timing differences	(206)	(116)	-	-
Pension scheme	12,925	6,512	-	-
Fair value movements on cash flow hedges	(426)	584	-	-
Revaluation gain	88	88	-	-
	22,159	16,034	-	-
Included in the accounts as follows:				
Provision for liabilities and charges	22,159	16,034	-	-

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

14. Provisions (continued)

<u>Claims</u>	Consolidated Group		Parent Entity	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
At the beginning of the year	1,080	786	-	-
Charge for the year	1,443	1,322	-	-
Paid during the year	(1,402)	(1,028)	-	-
	1,121	1,080	-	-
At the end of the year	1,121	1,080	-	-

Claims

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

Edinburgh Trams Limited's 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		Parent Entity	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Cash at bank and in hand	47,915	32,700	456	653

16. Share capital

	Consolidated Group		Parent Entity	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £1 each				
At 1 January	41,878	33,878	41,878	33,878
Issued in year	12,000	8,000	12,000	8,000
	53,878	41,878	53,878	41,878
At 31 December	53,878	41,878	53,878	41,878
Being				
Ordinary shares of £1 each	5,824	5,824	5,824	5,824
B Ordinary shares of £1 each	48,054	36,054	48,054	36,054
	53,878	41,878	53,878	41,878
	53,878	41,878	53,878	41,878

On 29 March 2023 B Ordinary Shares of 12,000,000 were issued of £1 each.

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

17. Reserves

<u>Group</u>	Revaluation Reserve £'000	Other Reserves £'000	Hedging Reserve £'000	Retained Earnings £'000
At 1 January 2022	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	<u>20,816</u>	<u>59,929</u>	<u>1,594</u>	<u>(12,320)</u>
Profit for the year	-	-	-	2,811
Actuarial gain on pension plan	-	-	-	18,842
Deferred tax thereon	-	-	-	(5,837)
Net fair value movements on cash flow hedges	-	-	(3,678)	-
Deferred tax thereon	-	-	919	-
At 31 December 2023	<u><u>20,816</u></u>	<u><u>59,929</u></u>	<u><u>(1,165)</u></u>	<u><u>3,496</u></u>
 <u>Company</u>				
At 1 January 2022	-	-	-	(27,285)
Loss for the year	-	-	-	(8,161)
At 31 December 2022	<u>-</u>	<u>-</u>	<u>-</u>	<u>(35,446)</u>
Loss for the year	-	-	-	(9,219)
At 31 December 2023	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>(44,665)</u></u>

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

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

18. Non-controlling interest

	Non-controlling interest £'000
At 1 January 2022	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
	11,813
At 31 December 2022	11,813
Share of profit for the year	1,311
Share of cash flow hedges	(363)
Share of deferred tax thereon	91
Share of actuarial gain for the year	1,861
Share of deferred tax thereon	(576)
Share of dividend	(288)
	13,849
At 31 December 2023	13,849

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

19. Commitments

In December 2023 the Board of Lothian Buses Limited gave approval for expenditure of £23.3m for 50 new electric buses for delivery in 2024.

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 close Transport for Edinburgh Limited in its current form, 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 2023.

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

Investments in subsidiaries	2023 £'000	2022 £'000
At 1 January	5,824	5,824
Share capital issued in year (Edinburgh Trams Limited)	12,000	8,000
Impairment provision in year (Edinburgh Trams Limited) (note 2)	(12,000)	(8,000)
At 31 December	<u>5,824</u>	<u>5,824</u>

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

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:

<i>(a) Sale of goods and services</i>	2023 £'000	2022 £'000
City of Edinburgh Council (Ultimate Parent)	543	734
Midlothian Council (Shareholder)	-	-
East Lothian Council (Shareholder)	750	162
West Lothian Council (Shareholder)	145	3
UK Tram Limited (Director in Common)	-	1
	1,438	900
 <i>(b) Purchase of goods and services</i>	 2023 £'000	 2022 £'000
City of Edinburgh Council (Ultimate Parent)	15,384	11,962
East Lothian Council (Shareholder)	39	45
West Lothian Council (Shareholder)	78	57
UK Tram Limited (Director in Common)	34	51
	15,535	12,115
 <i>(c) Reimbursement of expenses incurred:</i>	 2023 £'000	 2022 £'000
City of Edinburgh Council (Ultimate Parent)	4,187	2,590
	4,187	2,590
 <i>(d) Year-end balances arising from sales/purchases of goods/services</i>	 2023 £'000	 2022 £'000
<u>Receivables from related parties</u>		
City of Edinburgh Council (Ultimate Parent)	3,415	2,424
East Lothian Council (Shareholder)	44	32
West Lothian Council (Shareholder)	64	3
	3,523	2,459
<u>Payables to related parties</u>		
City of Edinburgh Council (Ultimate Parent)	(13,721)	(11,719)
	(13,721)	(11,719)

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

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

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 triennial actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 31 December 2023 by Hymans Robertson LLP. The present value of the defined benefit obligation, and related current service cost and past service cost, were measured using the Projected Unit Credit Method.

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

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 2023 £'000	%	Value at 2022 £'000
Equity Securities:				
Consumer	5%	27,180	7%	36,397
Manufacturing	6%	30,772	8%	39,811
Energy and Utilities	3%	13,200	4%	18,061
Financial Institutions	3%	13,530	3%	17,711
Health and Care	3%	15,961	4%	21,486
Information Technology	2%	10,975	2%	12,011
Other	3%	16,107	4%	21,523
Debt Securities:				
Corporate Bonds	4%	18,143	4%	22,126
UK Government	44%	229,636	44%	228,880
Other	2%	9,963	2%	8,212
Private Equity:				
All	7%	38,655	0%	1,311
Real Estate:				
UK Property	11%	57,621	3%	17,198
Overseas Property	2%	7,693	0%	527
Investment Funds and Unit Trusts:				
Equities	0%	535	1%	4,338
Bonds	3%	15,955	2%	11,871
Infrastructure	-%	-	8%	42,344
Other	0%	39	-%	-
Cash and Cash Equivalents:				
All	2%	12,401	4%	21,120
	<u>100%</u>	<u>518,366</u>	<u>100%</u>	<u>524,927</u>

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

	2023 £'000	2022 £'000
Fair value of plan assets	518,366	524,927
Present value of scheme liabilities	(405,698)	(358,486)
Restrictions on assets recognised	(60,969)	(140,394)
Asset in the scheme	<u>51,699</u>	<u>26,047</u>
Net pension asset	<u><u>51,699</u></u>	<u><u>26,047</u></u>

TRANSPORT FOR EDINBURGH LIMITED
Notes to the Financial Statements (continued)
For the year ended 31 December 2023

23. Retirement benefits obligation (continued)

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

	2023	2022
	£'000	£'000
At 1 January	358,486	577,340
Current service cost	5,284	11,371
Interest cost on obligation	16,779	10,950
Plan participants contributions	1,319	1,363
Unfunded benefits paid	(274)	(254)
Benefits paid	(16,442)	(13,763)
Actuarial gains arising from changes in financial assumptions	(204)	(225,909)
Actuarial gains arising from changes in demographic assumptions	(4,155)	(2,454)
Other actuarial losses/(gains)	44,905	(158)
	<hr/>	<hr/>
At 31 December	405,698	358,486
	<hr/> <hr/>	<hr/> <hr/>

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

	2023	2022
	£'000	£'000
At 1 January	524,927	629,073
Benefits paid	(16,442)	(13,763)
Interest income on plan assets	24,612	11,848
Contributions by employer	2,126	2,221
Contributions by member	1,319	1,363
Contributions in respect of unfunded benefits	274	254
Unfunded benefits paid	(274)	(254)
Unfunded benefits paid	(11,992)	-
Return on assets excluding amounts included in net interest	(6,184)	(105,815)
	<hr/>	<hr/>
At 31 December	518,366	524,927
	<hr/> <hr/>	<hr/> <hr/>

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

	2023	2022
	£'000	£'000
Interest received on pension scheme assets	(24,612)	(11,848)
Interest cost on pension scheme liabilities	16,779	10,950
	<hr/>	<hr/>
Finance income	(7,833)	(898)
Current service cost	5,284	11,371
	<hr/>	<hr/>
	(2,549)	10,473
	<hr/> <hr/>	<hr/> <hr/>

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

23. Retirement benefits obligation (continued)

Amounts recognised in other comprehensive income:

	2023	2022
	£'000	£'000
Actuarial (losses)/gains in the defined benefit obligation	(40,546)	228,521
Actuarial losses in the fair value of defined benefit assets	(18,176)	(105,815)
Restrictions on assets recognised movement in year	79,425	(140,394)
	20,703	(17,688)
	20,703	(17,688)

The principal actuarial assumptions used in this valuation were:

	2023	2022
Inflation/pension increase rate	2.85%	3.05%
Salary increase rate	3.35%	3.55%
Discount rate	4.55%	4.75%

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 (2022: 0.35%).

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	
	2023	2022	2023	2022
0.1% decrease in real discount rate	2%	2%	6,512	6,201
0.1% increase in the salary increase rate	0%	0%	934	821
0.1% increase in the pension increase rate	1%	2%	5,665	5,462

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

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

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

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	19.1	21.4
Future pensioners	20.4	24.2

The average duration of the benefit obligation at 31 December 2023 is 15 years (2022: 18 years). This number can be analysed as follows:

	2022	2022
Active members	21 years	24 years
Deferred members	20 years	25 years
Retired members	11 years	13 years

Contributions to post employment benefit plans for the year ended 31 December 2024 are expected to be £2,126,000.

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	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Minimum lease receipts under non-cancellable leases due:				
No later than one year	76	62	-	-
Later than one year but no later than five years	249	247	-	-
Later than five years	-	17	-	-
	325	326	-	-
	325	326	-	-

The total annual lease income received in the year ended 31 December 2023 was £118,000 (2022: £92,000).

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

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	
		2023	2022	2023	2022
		£'000	£'000	£'000	£'000
Financial assets					
Cash and cash equivalents	15	47,915	32,700	456	653
Trade and other receivables	10	5,179	3,207	-	15
		53,094	35,907	456	668
Financial liabilities					
Current liabilities	11	38,465	34,701	19	19
Non-current lease obligations	13	50,016	62,498	-	-
		88,481	97,199	19	19
		88,481	97,199	19	19

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

Financial risk management

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

Capital management

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

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

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 2023 is not rated.

b. Liquidity risk

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

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

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

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

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

25. Financial risk management (continued)

b. Liquidity risk (continued)

Financial liability and financial asset maturity analysis

Group	Note	Within 1 Year 2023 £'000	1 to 5 Years 2023 £'000	Total 2023 £'000
Financial liabilities due for payment				
Current liabilities	11,12	25,703	-	25,703
Lease obligations	13	12,762	50,016	62,778
Total expected outflows		<u>38,465</u>	<u>50,016</u>	<u>88,481</u>
Financial assets — cash flows realisable				
Cash and cash equivalents	15	47,915	-	47,915
Trade and other receivables	10	5,179	-	5,179
Total anticipated inflows		<u>53,094</u>	<u>-</u>	<u>53,094</u>
Net inflow/(outflow) of financial instruments		<u>14,629</u>	<u>(50,016)</u>	<u>(35,387)</u>

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		<u>34,701</u>	<u>62,498</u>	<u>97,199</u>
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		<u>35,907</u>	<u>-</u>	<u>35,907</u>
Net inflow/(outflow) of financial instruments		<u>1,206</u>	<u>(62,498)</u>	<u>(61,292)</u>

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

25. Financial risk management (continued)

b. Liquidity risk (continued)

Company	Note	Within 1 Year 2023 £'000	1 to 5 Years 2023 £'000	Total 2023 £'000
Financial liabilities due for payment				
Current liabilities	11,12	19	-	19
Total expected outflows		<u>19</u>	<u>-</u>	<u>19</u>
Financial assets — cash flows realisable				
Cash and cash equivalents	15	456	-	456
Trade and other receivables	10	-	-	-
Total anticipated inflows		<u>456</u>	<u>-</u>	<u>456</u>
Net inflow of financial instruments		<u>437</u>	<u>-</u>	<u>437</u>

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		<u>19</u>	<u>-</u>	<u>19</u>
Financial assets — cash flows realisable				
Cash and cash equivalents	15	653	-	653
Trade and other receivables	10	15	-	15
Total anticipated inflows		<u>668</u>	<u>-</u>	<u>668</u>
Net inflow of financial instruments		<u>649</u>	<u>-</u>	<u>649</u>

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

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 2023 consume approximately 19.4m litres of diesel fuel per annum. As a result, the Group's results are exposed to movements in the underlying price of fuel. During the year however, all of this diesel fuel was hedged with none being exposed to fuel price volatility.

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

At the settlement date of the contract, where the price of fuel is below the agreed contract price, the Group are liable for the difference in price for the volume of the commodity agreed in the contract. Where the value of the commodity is above the price agreed, the Group have a financial asset based on the difference in price over the volume of the contract. The net cash flows on settlement of the contracts are paid or received at the end of each month. The swap agreements carrying value is exposed to the movement in the underlying price of fuel. Consequently, the Group's results are exposed as movements in the contract value are taken through the Statement of Other Comprehensive Income. A 1p decrease in the underlying price of fuel decreases the overall net asset of the fixed contracts by approximately £300,000. Likewise, if the price of fuel was to increase above the underlying price of the contracts, then this would result in an increase in the overall net asset.

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

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

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	2023 £'000	2022 £'000
Assets/(liabilities)			
Heritable properties (Level 3)	8	83,968	91,556
Derivative financial instruments (Level 2)	12	(1,705)	2,336
		<u> </u>	<u> </u>

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

Carrying value and fair value of derivative financial instruments

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

	Note	2023 £'000	2022 £'000
Non-current assets			
Fuel derivatives	12	(1,016)	1,158
Current assets			
Fuel derivatives	12	(689)	1,178
Total net carrying value		<u> </u> <u> </u>	<u> </u> <u> </u>

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

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

26. Derivative financial instruments (continued)

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

Fuel derivatives	2023 £'000	2022 £'000
Fair value at the start of the year	2,336	1,280
Changes in the fair value during the year	(2,857)	7,806
Cash received during the year	(1,184)	(6,750)
	(1,705)	2,336
	(1,705)	2,336

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 2023	Assets £'000
Within one year (Notional Amount of 19,270,000)	(689)
1 to 2 years (Notional Amount of 9,480,000)	(681)
2 to 3 years (Notional Amount of 4,860,000)	(335)
	(1,705)
	(1,705)

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 2022	18,732	76,024	-	(1,280)	93,476
<u>Cash flows</u>					
Repayment of lease liabilities	(19,920)	-	-	-	(19,920)
Net receipts on derivative instruments	-	-	-	6,750	6,750
<u>Non-cash flows</u>					
Leases	1,041	-	-	-	1,041
Change in fair value during the year	-	-	-	(7,806)	(7,806)
Split in aging profile	13,526	(13,526)	-	-	-
	13,379	62,498	-	(2,336)	73,541
At 31 December 2022	13,379	62,498	-	(2,336)	73,541
At 1 January 2023	13,379	62,498	-	(2,336)	73,541
<u>Cash flows</u>					
Repayment of lease liabilities	(14,256)	-	-	-	(14,256)
Net receipts on derivative instruments	-	-	1,184	-	1,184
<u>Non-cash flows</u>					
Leases	911	-	-	-	911
New leases in year	246	-	-	-	246
Change in fair value during the year	-	-	2,857	-	2,857
Split in aging profile	12,482	(12,482)	(2,336)	2,336	-
	12,762	50,016	1,705	-	64,483
At 31 December 2023	12,762	50,016	1,705	-	64,483

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

28. Dividends

	2023	2022
	£'000	£'000
<i>Ordinary share capital</i>		
Non-controlling interest Final Dividend of £1.2019p per share declared (2022: £nil)	288	-
	<u>288</u>	<u>-</u>

The final dividend of £287,500 payable by a subsidiary to non-controlling interests was approved on 14 December 2023 and was paid on 28 March 2024.

29. Post balance sheet events

Acquisition

On 12 February 2024 a subsidiary, Lothian Buses Limited, paid £3,446,532 to acquire the entire issued share capital of Eve Coaches Limited (Company No: SC229701).

B Shares

On 26 March 2024 a payment of £8m was received from the City of Edinburgh Council in respect of the purchase of B Shares in Edinburgh Trams Limited, through Transport for Edinburgh Limited.