

Lothian Buses - City of Edinburgh Council Request for Extraordinary Dividend - Update**Report by Ricky Moffat, Head of Commercial Operations****1 Purpose of Report**

This report provides the Council with an update on the discussions held with City of Edinburgh Council, East and West Lothian Council's and Lothian Buses following the Council meeting on Tuesday 22 March 2016.

2 Background**2.1 At its meeting of Tuesday 22 March 2016 the Council agreed to:-**

- a) Note the request from City of Edinburgh Council to Lothian Buses for an extraordinary dividend over the period 2017 – 2020 to be considered.*
- b) Note that concern has been raised directly with Lothian Buses in terms of the potential impact this could have on service delivery in Midlothian.*
- c) Note Lothian Buses commitment to continued fleet investment and its network of services.*
- d) Agree that the Director Resources will provide a further update report*

3 Update**3.1 City of Edinburgh Council Motion**

At its meeting of 19 November 2015 the City of Edinburgh Council considered a report on the Edinburgh Tram extension which raised the possibility of an extraordinary dividend of £20m being received from Lothian Buses during the period of the next business plan covering 2017 - 2020. In considering this report City of Edinburgh Council approved a motion which instructed the Chief Executive of the City of Edinburgh Council to;

“write to Lothian Buses to request details of any impacts such an extraordinary dividend would make on their future transport strategy, fleet modernisation plans, the likelihood of future fare increases, loss of other transport initiatives (hidden opportunity costs), and the confidence or otherwise of their ability to ensure the company can continue to meet its liabilities”.

3.2 Lothian Buses Shareholding

Lothian Buses are wholly owned by the four former Lothian Authorities, with a shareholding as follows;

Authority	Share holding	Holding
Edinburgh	5,824,000	91.01%
Midlothian	350,000	5.47%
East Lothian	200,000	3.12%
West Lothian	25,000	0.40%
TOTAL	6,399,000	100.00%

Following representations by Midlothian Council and East and West Lothian Council's, Lothian Buses agreed to establish a Sub Regional Board with the first meeting being held on 14 May 2014.

3.3 Local Authority Meeting

A meeting was held on Monday 25 April 2016 at the headquarters of Midlothian Council. Unfortunately City of Edinburgh Council leader extended his apologies for this meeting. However, both East Lothian and West Lothian Council leaders shared Midlothian's concerns the impact of Lothian Buses achieving City of Edinburgh's call for an extra ordinary dividend could have on the company and potentially its effect within the respective communities.

At the conclusion of this meeting the three authorities agreed to issue a joint letter to City of Edinburgh Council expressing their concerns. (This letter is included at Appendix 1)

3.4 Lothian Buses Sub Regional Board Meeting

At the meeting of the Lothian Buses Sub Regional Board held on the 30 June 2016, Jim McFarlane the General Manager of Lothian Buses stated that any dividend could only be made if the company has the financial strength to do so. He further stated that it was his intention to write to City of Edinburgh Council to advise that meeting this expectation is less likely, particularly given issues linked to congestion in the City and the impact on tour buses and subsequently fare income.

3.5 Response from City Of Edinburgh Council

In response to the letter outlined in 3.3 above an email was received from Andrew Burns, Leader of City of Edinburgh Council dated 27 July 2016 (included as Appendix 2).

This response confirms that City of Edinburgh Council share the concerns expressed by the other Lothian authorities. It is further stated that "If the City of Edinburgh Council thought that this Lothian Buses request would undermine "growth potential by placing demands to provide dividends over and above those which the

business can sustain" then we most certainly would not have made the request in the first place".

The City of Edinburgh Council are awaiting a response from Lothian Buses before considering this matter further at a Council meeting in September 2016.

4 Report Implications

4.1 Resource

There are no direct resource implications as a consequence of this report.

4.2 Risk

The risk to the Council is the potential impact on services within the Midlothian Council area. Any reduction in services would impact on people who travel for leisure or work purposes.

4.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

- ☐ Community safety
- ☐ Adult health, care and housing
- ☐ Getting it right for every Midlothian child
- ☐ Improving opportunities in Midlothian
- ☒ Sustainable growth
- ☐ Business transformation and Best Value
- ☐ None of the above

4.4 Impact on Performance and Outcomes

There is no direct impact on performance and outcomes as a consequence of this report.

4.5 Adopting a Preventative Approach

By highlighting the Council's concerns directly with Lothian Buses, the former Lothian Authorities including City of Edinburgh Council there has been an opportunity to ensure that future service provision is not compromised as a consequence of the request from City of Edinburgh Council for an extraordinary dividend.

4.6 Involving Communities and Other Stakeholders

Discussions at this stage have involved Lothian Buses, East Lothian, West Lothian, and City of Edinburgh Councils.

4.7 Ensuring Equalities

At this time there are no equality issues. However if services were to be affected in the future there would be a need to consider this issue at that time.

4.8 Supporting Sustainable Development

The provision of suitable bus services is fundamental to ensuring that sustainable transport is available for the travelling public in Midlothian.

Any restrictions on current and potentially future services would impact on Midlothian's vision as a thriving and growing area.

4.9 IT Issues

There are no direct IT issues as a result of this report.

5.0 Summary

This report is bringing to Councils attention the discussions and correspondence relating to the request from City of Edinburgh Council to Lothian Buses for an extraordinary dividend of £20m over the period 2017 – 2020. At this stage all parties namely Lothian Buses and City of Edinburgh Council have confirmed that meeting City of Edinburgh's request could only take place if it does not impact on the operation of Lothian Buses.

6.0 Recommendations

Council is requested to:-

- Note the discussions that have taken place to date
- Note the comments from both Lothian Buses and City of Edinburgh Council that meeting City of Edinburgh Council's request for an extraordinary dividend could only happen if it did not affect the operation of Lothian Buses
- Agree that the Director Resources will provide a further update report when information is available.

23 August 2016

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Background Papers

Appendices

Appendix 1 Letter dated 8 July 2016 to City of Edinburgh Council

Appendix 2 Email dated 27 July 2016 from City of Edinburgh Council

Councillor
Catherine Johnstone
Council Leader

Ward 6
Midlothian South

Midlothian Council
Midlothian House
Buccleuch Street
Dalkeith
EH22 1DJ

Midlothian

8 July 2016

Councillor Andrew Burns
Leader of City of Edinburgh Council
City Chambers
Edinburgh
EH1 1YJ

Dear Andrew

At a Midlothian Council meeting it was agreed that I liaise with my colleagues in the shareholding councils of West Lothian and East Lothian to discuss the proposal by Edinburgh Council to have an extra-ordinary dividend from Lothian Buses. It was also agreed that we advise Edinburgh Council of our concerns.

We are concerned that an erosion of the profits of Lothian Buses will greatly affect the ability of Lothian Buses Board to maintain services in our communities and to properly maintain and replace their fleet. Further, recent events have shown Lothian Buses capacity to develop their business in East Lothian to replace the wholesale withdrawal of First Scotland East's operations in the area. A similar withdrawal from Midlothian by First Scotland East occurred only a few years ago and again, Lothian Buses presence and development was of great reassurance. Undermining this growth potential by placing demands to provide dividends over and above those which the business can sustain is, we feel, unreasonable.

It is accepted that presently Lothian Buses only operate one service in West Lothian and this is primarily for the use of their employees. However, no commercial operations can be guaranteed as permanent under a deregulated regime and the possibility of large scale commercial service withdrawals here, and elsewhere, cannot be ruled out. In such circumstances we strongly wish to have Lothian Buses in a position where it can in future act in a similar manner to that which is about to provide vital service replacements for East Lothian residents.

We look forward to your reconsidering your proposal of an extra-ordinary dividend and hope you now understand why your neighbouring councils have concerns. I anticipate hearing from you soon.

Yours sincerely

CATHERINE JOHNSTONE

C.c. Councillor Willie Innes, Leader East Lothian Council
Councillor John McGinty, Leader West Lothian Council

From: Andrew Burns [redacted]
Sent: 27 July 2016 17:27
To: [redacted]
Cc: [redacted]
Subject: FW: Lothian Buses

Catherine (Willie/John)

Many thanks for your letter, as per the first attachment, and many apologies for the delayed response due to Annual Leave.

I completely understand the concerns being expressed, and indeed share them. If the City of Edinburgh Council thought that this Lothian Buses request would undermine "growth potential by placing demands to provide dividends over and above those which the business can sustain" ... then we most certainly would not have made the request in the first place.

Indeed, the request is still very much under active (and extremely careful) consideration --- and I do want to illustrate that point by attaching various documents (4):

1. The initial report which went before our Full Council on 19th November 2015
2. The 'approved' Coalition Motion from that November 19th 2015 Council Meeting
3. The subsequent letter from our Chief Executive to Jim McFarlane at Lothian Buses
4. The following report which went before our subsequent Full Council on 10th December 2015 ... the approved Council-position on that occasion is as at paragraph 1.1 of the Report; and the related letter-response from Lothian Buses to our Chief Executive (of 30th November 2015) is at Appendix A – this response makes it clear that a further update will come before the City of Edinburgh Council around September 2016

I hope this documentation is all of assistance in expanding on the full background to this issue – and I can only re-iterate that if the City of Edinburgh Council believed that this request would undermine "growth potential by placing demands to provide dividends over and above those which the business can sustain" ... then we would not have made the request in the first place --- and, in addition, as the letter-response referenced above makes clear, we await further feedback from Lothian Buses as part of their 2017-2020 Strategic Plan; all of which will be reported back to our Full Council around September 2016.

Thanks for taking the time to raise these concerns with me directly – and please don't hesitate to come back to me if you need any further clarification.

Andrew

Andrew Burns | Council Leader & Labour Councillor for the Fountainbridge/Craiglockhart Ward

[redacted]