10.00am, Thursday, 24 October 2013

Transport for Edinburgh – Board Composition and Business Plan

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**Sue Bruce**
Chief Executive

Alan Coyle, Major Projects Manager
E-mail: alan.coyle@edinburgh.gov.uk | Tel: 0131 529 5211
Executive summary

Transport for Edinburgh – Board Composition and Business Plan

1. Summary

1.1 A report was considered at the Council meeting on 22 August 2013 on preparing for tram operations which approved the process for the various corporate and operational documents required for the governance of tram operations.

1.2 The decision of the Council meeting on 22 August 2013 was to agree that appointments to the board of Transport for Edinburgh ("Topco") would follow once the operating agreement became unconditional. Subsequent progress has meant that board appointments are needed sooner to ensure the current project momentum is sustained. As key board decisions are required earlier than envisaged in the report to the August Council, it is recommended that the Council agrees to consider authorising board appointments ahead of the operating agreement becoming unconditional.

1.3 With paragraph 1.2 in mind, this report progresses the following decisions from the 22 August 2013 report which stated the Council;

note and approve:

1.3.1 the composition of the boards of Topco and Tramco set out in section 3.7.1 and 3.7.2 of the report, and appoints those persons set out in section 3.7.1 and 3.7.2 as Directors of Topco and Tramco respectively and delegates authority to the Transport and Environment Committee to conduct the recruitment and selection process, and to appoint the three non executive directors of Topco with transport experience; and

1.3.2 To note that, once the shareholders agreements for Topco and Busco (the "Shareholders Agreements") had been entered into, Topco, Busco and Tramco would be obliged to:

(i) Prepare an annual budget in respect of each Financial Year and a Business Plan looking forward for at least three years comprising the matters more particularly set out in the Shareholders Agreements;

(ii) In the case of an Annual Budget, consult with the Council prior to approval by the Board;
(iii) In the case of the Annual Business Plan, submit that to the Council not less than 60 days prior to the commencement of the first financial year to which it relates for review and approval.

1.3.3 Therefore, this report seeks nominations for non executive directors of Transport for Edinburgh Ltd (“Transport for Edinburgh”) to be drawn from Elected Members and provides the three year Transport for Edinburgh business plan for consideration.

2. Recommendations

That Council;

2.1 Transport for Edinburgh board appointments

Agrees to the board appointments to Transport for Edinburgh ahead of the operating agreement becoming unconditional.

Nominates the Councillors to be appointed as non executive directors to the board of Transport for Edinburgh, and notes the direction of travel in relation to the appointment of the non executives of Transport for Edinburgh;

2.2 Transport for Edinburgh – Business plans

Approve the business plan for Transport for Edinburgh in accordance with clause 6 of the shareholder agreement.

Measures of success

Delivery of a safe, efficient and cost effective tram operation for the City. The Edinburgh Tram system is designed to improve mobility, reduce carbon emissions and improve intermodal connections providing a safe, reliable, punctual, clean, easily accessible, comfortable and environmentally friendly transport service.

Financial impact

The financial impact of the arrangements set out in this report is included in the business plan appendix.

The full version of the financial arrangements included in the business plan has been made available to members via a confidential data room previously.
Equalities impact

There is an ongoing full equalities impact assessment being undertaken in relation to the Edinburgh Tram project to ensure that as implementation progresses the equalities impact assessment is maintained.

Sustainability impact

As part of a broader sustainable transport strategy within the city it is anticipated that the tram will make a positive overall contribution to the environment by encouraging modal shift from private vehicles to public transport and mitigating the impacts of population growth and commuter and visitor generated traffic.

Consultation and engagement

There has been extensive engagement with the Chairman and Chief Executive of Busco.

Initial consultation and engagement on the proposed corporate structure is in place with the other Lothian Councils.

Background reading / external references

- Edinburgh Tram Project, The City of Edinburgh Council 2 September 2011
1. **Background**

1.1 **August 2013**

1.1.1 On 22 August 2013 a report was provided to the Council in relation to Edinburgh Trams – Preparing for operations.

1.1.2 Authority was given to finalise the operational and corporate documentation needed for execution of the tram operating agreement between the Council and Edinburgh Trams and the new corporate structure for the new parent company, Transport for Edinburgh and its subsidiary undertakings.

1.1.3 In addition, the Council decision of 22 August 2013 noted that once the shareholder agreement for Topco and Busco had been entered into, the Council, as shareholder, would be entitled to receive a business plan from Topco prior to commencement of the first financial year to which it relates for review and approval.

2. **Main report**

2.1 **Board Appointments**

2.1.1 At the meeting on 22 August 2013 the Council agreed that appointments to the board of Transport for Edinburgh would follow once the operating agreement became unconditional. Subsequent progress has meant that board appointments are needed sooner to ensure the current project momentum is sustained. As key board decisions are required earlier than envisaged in the report to the August Council, it is recommended that the Council agrees to consider authorising board appointments ahead of the operating agreement becoming unconditional.

2.1.2 The Council on 22 August 2013 approved the following (in relation to the board of Transport for Edinburgh);

(a) four non executive directors who are elected members of the Council (two from the Capital Coalition and two from opposition). The Convener of the Transport and Environment Committee would be the chairperson (whilst
keeping in mind the companies review, it is felt greater cross party representation is appropriate in this case).

2.1.3 Nominations now require to be made by the Labour, SNP, Conservative and Green political groups to fulfil the role of non executive director of Transport for Edinburgh.

2.2 Next Steps

2.2.1 If the recommendations in this report are approved by Council, the next steps will be to formally appoint the nominated Councillors and the Executive Directors, who will be the Group CEO, Group FD, Group COO and the Engineering Director to the board of Transport for Edinburgh.

2.2.2 These appointments will mean that the board can start taking critical decisions in relation to the introduction of tram as part of the integrated transport group alongside Lothian Buses.

2.2.3 In addition to the appointments set out in this report, the recruitment process for three non executive directors for Transport for Edinburgh has begun. These appointments have been delegated to the Transport and Environment Committee and will be subject of a report to a future meeting of that Committee or Council before the end of this calendar year.

2.2.4 It should be noted that whilst the operating agreement and the shareholders agreements in relation to the Transport for Edinburgh group have been signed, they will not become unconditional until a number of conditions precedent has been satisfied.

2.3 Business Plan

2.3.1 The Council meeting of 22 August 2013 approved the name Transport for Edinburgh Ltd for the top company within the new structure to integrate public transport in Edinburgh.

2.3.2 Transport for Edinburgh is wholly owned by the Council, holding the Council’s 100% shareholding in Edinburgh Trams Ltd and 91% shareholding of Lothian Buses.

2.3.3 The company was registered at Companies House on 28 February 2013. The business of the company is set out in the shareholder agreement as follows;

(a) act as a holding company for the Council and to hold the Council's shareholdings in Lothian Buses and Edinburgh Trams Limited;

(b) develop and provide an integrated network of public transport in Edinburgh and the Lothians;
(c) provide certain strategic and support functions (on an arms' length basis or at cost) to its Subsidiaries and Subsidiary Undertakings (Edinburgh Trams and Lothian Buses); and (iv) procure appropriate funding arrangements (on an arms' length basis or at cost) for its Subsidiaries, and Subsidiary Undertakings; and

(d) the business of Tramco shall be to operate public passenger transport services on the Edinburgh tram network in accordance with good business practice and the highest ethical standards in order to produce the maximum sustainable profits while maintaining high levels of customer satisfaction.

2.3.4 The Council decision of 22 August 2013 noted that once the shareholder agreement for Topco and Busco had been entered into, the Council, as shareholder, would be entitled to receive a business plan from Topco prior to commencement of the first financial year to which is relates for review and approval.

2.3.5 The approval process for the business plan is as follows;

(a) the Council shall have 60 days from receipt of the draft to review the Business Plan; and

(b) the Council shall be entitled to indicate in writing its non-approval of a Business Plan. If before the expiry of the Review Period the Council indicates in writing its non-approval of a Business Plan or the Council's approval to the Business Plan is not provided by the end of the Review Period, the Company shall continue to trade in the ordinary course without material interruption but in a manner which is most likely to continue the status quo without materially deviating from the previous Business Plan until such time as a new Business Plan is approved in writing by the Council.

2.3.6 The overall objective of for Transport for Edinburgh is to deliver an integrated transport service for the residents of Edinburgh by maximising the potential of Lothian Buses excellent bus service coupled with the introduction of a world class tram operation.

2.3.7 A redacted version of the business plan is included at appendix 1 of this report. It should be noted that the business plan incorporates the financial forecasts for Transport for Edinburgh and its subsidiaries that were presented to members in the data room prior to the Council meeting of 22 August 2013.

2.3.8 The key objectives for Transport for Edinburgh as set out in the business plan cover the following areas;

(a) the strategic context in which the company will operate;

(b) the revised corporate structure and the organisational structure that will underpin delivery of Edinburgh’s integrated transport offering;

(c) functional plans;
(d) fleet strategy;
(e) marketing, HR and communications strategies;
(f) corporate social responsibility objectives; and
(g) the Company’s financial strategy.

2.3.9 The monitoring arrangements for the performance of the company are set out in the shareholders agreement in clause 5 which provides for an observer from the Council to attend all board meetings.

2.3.10 In addition, management accounts will be provided on a quarterly basis to the Council which will allow performance monitoring to be carried out between the financial parameters set out in the business plan and the performance being evidenced in the actual management accounts.

2.3.11 Furthermore, for the initial stages post operational commencement, the Corporate Programme Office will monitor the benefits being delivered from the project against the business plan, budget and stated objectives therein.

3. **Recommendations**

That Council;

3.1 Transport for Edinburgh board appointments

Agrees to the board appointments to Transport for Edinburgh ahead of the operating agreement becoming unconditional.

Nominates the Councillors to be appointed as non executive directors to the board of Transport for Edinburgh, and notes the direction of travel in relation to the appointment of the non executives of Transport for Edinburgh;

3.2 Transport for Edinburgh – Business plans

Approve the business plan for Transport for Edinburgh in accordance with clause 6 of the shareholder agreement.

**Sue Bruce**

Chief Executive
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Transport for Edinburgh Group

Strategic Plan 2014 – 2016

The Direction of Travel
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The core purpose of Transport for Edinburgh is to deliver profit through a strong commercial focus and drive a high quality, integrated, socially inclusive transport service. We will also drive efficiencies in everything we do.

Our long-term vision at Transport for Edinburgh is to be an integral part of the future success of Edinburgh and the Lothians, by providing world-class, environmentally friendly and socially inclusive transport.

Being the best each and every time, while challenging ourselves to be even better and more efficient.

Being passionate about playing a positive role in our community and the environment.

Being friendly, helpful and proud to make a difference to our customers and colleagues.
Executive Summary

This three year strategy provides an agenda for change and growth with advancement in the way the business operates. It provides a platform for:

Growth and entrepreneurship:

An entrepreneurial approach will be used to expand the current network through geographical expansion, novel marketing techniques, and through maximising the commercial opportunities associated with Edinburgh Bus Tours.

Harnessing technology:

Technological advancement will be leveraged in each part of the business, and plays a fundamental role in the delivery of our growth and operational effectiveness objectives.

Operational effectiveness:

We have an exceptional track record of operational excellence, customer and employee satisfaction and financial performance. These strengths will be continually improved and maintaining the highest standards remains a priority focus. These key strengths will be encompassed within the fully integrated tram operations.

Working for the community:

We are passionate about serving the community in which it has operated for over 100 years. Environmental considerations will play a key role in all decision making across the business, with a specific focus on greening the fleet which compliments trams. We will add value to the community as an employer and provider of services.

We embark on this period of growth and change from a market leading platform of operational excellence and strong historical financial performance. We want to maintain and further build on this position by creatively developing our people, corporate and organisational structure. We will seek to utilise advances in technology to enable the generation of further operating efficiencies as we pursue our strategic objectives.

The strategic plan commences amidst a period of economic fragility, during which we have had to tackle, and have largely overcome, significant disruption to our core local market place. The potential exists for the business to change as a result of external factors, such as significant financial challenge due to potentially reduced levels of industry funding from the Scottish Government.

As a significant local employer (the tenth largest employer in Edinburgh), we are committed to developing and contributing to the city’s economic and social well-being, through providing
quality employment, training and apprenticeships, development opportunities, supporting local charities and providing a market leading bus service at competitive rates, to our community.

The Core Network

- We are an award winning, commercial bus operator with a c.90% market share in its areas of operation. Competing on a wholly commercial basis, we have successfully grown passenger journeys (providing for over 111m passenger journeys in 2012) and revenues in recent years despite the constant threat of external pressures of a competitive, economic or operational nature. We operate more than 70 routes in Edinburgh and the surrounding areas of East Lothian and Midlothian with a fleet of over 650 vehicles.

- Airlink is a dedicated service within the Lothian Buses network serving Edinburgh Airport from the City Centre. There are currently 14 specifically branded Airlink vehicles in use on this high profile route.

Edinburgh Bus Tours

- Our open top tours business has grown both organically and through acquisition, such that the business currently has over 30 open-top buses, consistently delivering in excess of £5.0m turnover and £2.0m PBT. In 2012, Edinburgh Bus Tours was the third most popular paid for tourist attraction in Scotland (behind Edinburgh Castle and Edinburgh Zoo) and has been awarded five star status by Visit Scotland for exceptional customer service.

Edinburgh Trams

- The City of Edinburgh Council tram service is scheduled to become operational in 2014 which will serve Edinburgh Airport from the City Centre.

- There will be 16 tram stops along the 14km (8.5 miles) route providing passengers with fast and efficient connections between some of the city centre’s most populated residential and commercial areas.

- Each tram can carry a maximum of 250 people with ample space for pushchairs and wheel chairs, with ample space for luggage the trams will offer an excellent option for people travelling to and from the airport.

- The trams will offer quick, congestion-free alternative for commuters. Ingliston Park and Ride is expected to be the busiest pick up point during rush hour and will hopefully encourage more people to use public transport.
Purpose of the document
The purpose of this document is to outline the strategy which we will pursue over the course of the next three years, in the context of the current economic and regulatory environment, the transport strategies of the shareholders of Transport for Edinburgh and the transport policies of the Scottish Government.
Current Environment

Strategic context

In determining its three year strategic plan, we have taken into consideration Lothian Buses corporate history, values and objectives, those of our shareholders, the environment in which we operate and, the constraints we operate within as a commercial business.

Figure 1: Strategic drivers

Our long-term vision is to be an integral part of the future success of Edinburgh and the Lothians, by providing world-class, environmentally friendly and socially inclusive transport.

The core purpose is to deliver a high quality, integrated, socially inclusive transport service. We will also deliver profit through a strong commercial focus and driving efficiencies in everything that we do.

The values providing a framework for decision making within Transport for Edinburgh are:

- **Quality** - being the best each and every time, whilst challenging ourselves to be even better and more efficient.
- **People** - being friendly, helpful and proud to make a difference to our customers and colleagues.
- **Community** - being passionate about playing a positive role in our community and the environment.

We distil our mission and vision into the four key themes of our objectives wheel. In our operations, we continually aspire to deliver against these objectives and the strategic plan presented in this paper focuses on specific three year goals in relation to these objectives.

**Figure 2: Transport for Edinburgh objectives wheel**

Transport for Edinburgh operates on behalf of its shareholders to provide added value to the geographies and residents represented by each of the Local Authorities. This includes the payment of a dividend, where appropriate, as well as being a key element in delivery of the transport strategies of the Local Authorities we serve. Our strategy is inextricably linked to that of our shareholders, as our mission and vision implies.

As the largest shareholder of Transport for Edinburgh, the key aspects of the City of Edinburgh Council’s transport strategy and vision are the key to the operation of our business. The City of Edinburgh Council has released a consultation document on the development of a new Local Transport Strategy in February 2013 with the aim of launching a new Local Transport Strategy towards the end of 2013. The present Local Transport Strategy will continue to the end of 2013. Those elements of the Council’s strategy underpinning our strategy are outlined below:
The 2013 Local Transport Strategy consultation document has a number of elements in it which will have an impact on our business:

To provide for Edinburgh's economic growth and prosperity, they will:

- Complete the tram project in accordance with current plans;
- Keep Lothian Buses in public hands and encourage improvement of routes and times;
- Further strengthen the City of Edinburgh Council’s links with the business community by developing and implementing strategies; and
- Promote and develop the economic wellbeing of the City.

To maintain and enhance the quality of life in Edinburgh, they will:

- Spend 5% of the transport budget on provision for cyclists;
- Consult with a view to extend the current 20mph traffic zones;
- Set up a city-wide Transport Forum of experts and citizens to consider our modern transport needs;
- Meet greenhouse gas targets including the national target of 42% by 2020; and
- Investigate the introduction of low-emission zones.

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City of Edinburgh Council Transport 2030 Vision

- Be one of the greenest, healthiest and most accessible cities in Northern Europe;
- Support the economy;
- Reduce emissions;
- Expand the cycle network;
- Introduce 20 mph speed limits;
- Provide intelligent transport systems;
- Deliver the tram network;
- Deliver integration and interchange enhancements;
- Provide communications technology which reduces the need to travel; and
- Develop the parking strategy.

Capital Coalition Pledges 2012 - 2017

To provide for Edinburgh’s economic growth and prosperity, they will:

- Complete the tram project in accordance with current plans;
- Keep Lothian Buses in public hands and encourage improvement of routes and times;
- Further strengthen the City of Edinburgh Council’s links with the business community by developing and implementing strategies; and
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- Consult with a view to extend the current 20mph traffic zones;
- Set up a city-wide Transport Forum of experts and citizens to consider our modern transport needs;
- Meet greenhouse gas targets including the national target of 42% by 2020; and
- Investigate the introduction of low-emission zones.
This plan has been prepared to outline the specific strategic objectives aligned to the values of Transport for Edinburgh, the goals of our shareholders and, with consideration to the environment in which we are operating.

To facilitate delivery of the plan, it has been presented in line with the organisational structure which encompasses core functions and enabling functions.

**Operating environment**

There are a number of potential risks, issues and opportunities which we are positioning our business to manage over the course of the next three years.

For each of these risks, issues and opportunities, we have carried out significant planning and preparation and are actively engaged in discussion with relevant stakeholders to minimise risks and maximise opportunities.

The analysis of the operating environment identified the key strengths, weaknesses, opportunities and threats the business is exposed to.
We embark on our three year strategy from a position of strength:

- Our business has a skilled, committed and loyal workforce;
- Our brand is well recognised and respected;
- We work in partnership with our Local Authority owners, who assist us in delivering a competitively priced network of services to our customers;
- The developments we have made to our operation, ticketing, accessibility and customer communication have contributed to continued improvement in revenues.

The challenges resulting from our current organisational and funding structure expose us to an element of risk to be managed:

- Government funding provides a key source of revenue, allowing us to deliver strong financial performance and maintain fares at competitive levels.
- The exceptional levels of skill, experience and knowledge associated with many employees leads inevitably to a key person dependency.
Strengths

Employee skill levels

- The business has benefited from having the "right people in the right jobs" to date, with high levels of skill and industry knowledge across the business.

Commitment and motivation of workforce

- We have cultivated a strong commitment from its highly motivated workforce. Levels of engagement, as identified in the staff engagement survey run throughout the business in 2013, show a picture of a loyal, proud and committed workforce who are happy in their employment. We maintains good relations with the Trade Union body (Unite) representing our employees at both bus and tram.

Brand and reputation in the market

- Lothian Buses is a well-respected business in Edinburgh and the Lothians, as reflected by the award of City Bus Operator of the Year in 2011 and Large Green Company of the Year in 2012 and, most recently, the Vision in Business for the Environment of Scotland (VIBES) transport award. We fully intend for tram to follow this trend by delivering against our mantra “Excellence for Edinburgh”.

Systems and technology

- The scheduling, rostering and control of the operation of bus and tram services are carried out through a series of off the shelf systems. The systems in operation enable efficient scheduling and rostering minimising unproductive time or dead miles, and are being enhanced to include efficient duty allocation. This scheduling is supported by a control rooms which helps to minimise the impact of any unforeseen events or malfunctions.

Local Authority Ownership

- Within its Coalition Commitment, the Local Authority has confirmed its intention to retain Lothian Buses under public ownership. Working in partnership and under the ownership of the Local Authority enables us to deliver a service which benefits the community to a greater extent and to offer the lowest national fare prices to our customers.
Weaknesses

Scottish Government funding

- As a business, Lothian Buses receives support from the Scottish Government in the form of both Bus Services Operator Grant (BSOG) and concessionary fares reimbursement. This support allows us to offer a very competitive price point and to maintain high standards. The current concessionary fares reimbursement arrangement was created in response to the introduction by the Scottish Government of a policy of free local bus travel for the elderly and disabled. We are seeking ways to maximise efficiencies and increase commercial fare revenue to decrease our reliance on Government funding from the concessionary travel scheme as reimbursement levels continue to be squeezed.

Commercial exposure to adverse weather

- The business is very sensitive to adverse weather, which can lead to road closures and service disruption all year round. Adverse summer weather directly impacts the performance and operation of Edinburgh Bus Tours, which runs open top buses.

Key person dependencies

- As noted above in “Employee skill levels”, we benefit from a highly skilled workforce and management team. Whilst this has led to continual improvement in the service it offers, it also gives rise to key person dependency.

Reliance on systems and technology

- Malfunction of systems and any consequential impact to the control room functionality is a constant threat to the business. We mitigate against this as much as possible with back up systems and a business continuity management system.

As a competitive business, operating in a difficult economic environment, the key external opportunities and threats impacting our activities are:

- The potential reduction to the Scottish Government Bus Services Operator Grant designed to offset the costs of fuel incurred by public transport businesses;
- The potential reduction in the reimbursement received from Scottish Government for transporting concessionary passengers at zero cost to the passenger;
- Changes to Local Authority strategy;
- Competition;
- The continuing volatility of fuel prices;
Opportunities

Local Authority strategy

- Both in their capacity as shareholders of Transport for Edinburgh and as Local Authorities for areas in which Lothian Buses operates, the public transport strategies and policies of Local Authorities have a strong influence on our commercial performance and the issues we face in our quest to operate effectively and maximise shareholder value.

- Several initiatives present potential risks or stimuli, which will impact the business model, operation and financial performance of Transport for Edinburgh. These include:
  - City Centre re-development;
  - Parking strategy and associated pricing policy;
  - Park and ride developments;
  - Green emissions targets;
  - The arrangements on Waverley Bridge, currently stances for both Airlink and Edinburgh Bus Tours; and

Particular opportunities may arise from any enhancements to bus lanes, out of town park and ride facilities or any new commercial or housing developments sanctioned by the City of Edinburgh Council adjacent to the tram route.

Assumption of responsibility for Edinburgh Trams

- Tram operations are scheduled to commence in summer 2014 and, at the time of writing, the project was ahead of this timescale. We are continuing to provide support to the City of Edinburgh Council in preparing for the assumption of operational responsibilities. To date, significant progress has been made, including substantial effort to ensure that health and safety procedures are in place and are being adhered to during preparation for live operation. A considerable amount of resource has been focused on the training and recruitment of staff.

- With the introduction of the tram comes an opportunity for us to demonstrate our ability to provide an integrated transport network to Edinburgh and the Lothians. The tram route will create opportunities to stimulate demand on the current network and enhance frequency on routes linking to the tram particularly West Edinburgh communities not currently served by Lothian Buses. We will also ensure that we leverage the strong brand of Lothian Buses across tram.

- The assumption of operation of the tram network also brings with it challenges which are being managed by us, including:
  - the financial impact of running the trams, in particular in the initial years of operation;
  - the potential change to the current bus network that the introduction of operational trams will necessitate;
  - the commitment of management time towards preparing for the transfer of responsibility in 2014;
Threats

- The Bus Services Operator Grant ("BSOG") (formerly “Fuel Duty Rebate”) takes the form of a rebate against fuel costs, designed to support the provision of local bus services, and is paid to bus operators by the Scottish Government. Historically, it has been a significant source of income for Lothian Buses (£5.4m in 2013 budget).

- Scottish Government has revised the way the grant is paid and the amount that will be paid. The grant allocation will be reviewed each year and may be subject to public sector funding cuts during the duration of this plan.

Expansion of Edinburgh Bus Tours

- We propose to build upon the excellent financial and commercial success of Edinburgh Bus Tours through organic and inorganic expansion. This popular tourist attraction provides a market leading facility to visitors to Edinburgh and through expansion of this business we will continue to represent our city.

Reduction in Bus Services Operator Grant

- The Bus Services Operator Grant ("BSOG") (formerly “Fuel Duty Rebate”) takes the form of a rebate against fuel costs, designed to support the provision of local bus services, and is paid to bus operators by the Scottish Government. Historically, it has been a significant source of income for Lothian Buses.

- Scottish Government has revised the way the grant is paid and the amount that will be paid. The grant allocation will be reviewed each year and may be subject to public sector funding cuts during the duration of this plan.
Threats

Reduction in concessionary fares reimbursement

- In 2006, the Scottish Government announced free travel for over 60's and disabled people on all local and scheduled long distance bus journeys available to the general public. Lothian Buses as a travel provider is reimbursed by the Scottish Government for the revenue forgone in providing free travel to qualifying passengers.

- We are actively involved in negotiations through the Confederation of Passenger Transport (Scotland) with Scottish Government with the aim being to minimise any agreed reduction in concessionary re-imbursement and land on a settled position that will address the uncertainty that has existed ever since this scheme was first introduced.

- Under the Edinburgh Trams local concessionary travel scheme, all holders of a valid Scottish National Entitlement Card, where the City of Edinburgh Council is the issuing Local Authority, will have free travel on the entire Edinburgh Tram route, including journeys to and from Edinburgh Airport. Additionally, for those cards which have a “+1” entitlement, the card holder will be entitled to have a companion travel with them on the same journey for free. For all Scottish National Entitlement Cards where the City of Edinburgh Council is not the issuing Local Authority, only those cards issued to blind or visually impaired persons will allow the card holder (and a companion where entitled) to travel for free. Passengers will be required to present a valid Scottish National Entitlement Card to the Platform Validator prior to boarding the tram, selecting the option for a companion to travel with them, if this is required.

Local Authority strategy

- As noted above within “Opportunities” on page 14, the Local Authority strategy presents both potential risks and stimuli to our business model, operations and financial performance. Challenges to us resulting from Local or National Government strategy include those resulting from any decision made to further pedestrianise the city centre and alterations to parking policy to encourage people to travel to the city centre.

Competitive environment

- In a de-regulated market, such as the one in which we operate, there will always be a level of exposure to competitor activities and the management team are alive to these threats. It is important to maintain focus on competitive incursion as the business goes through a period of change assuming it takes on responsibility for the operation of Edinburgh Trams.

Fuel Price Volatility

- Fuel prices currently comprise 22% of the total cost base for our bus service, so any change to these prices has a material impact on our costs and hence profitability. The past decade has seen a 60% increase in fuel prices and the lack of stability remains a current issue.
Corporate Organisation and Structure

Corporate history and evolution

Lothian Buses can trace its history back to the Edinburgh Street Tramways Company of 1871, also involving at various times the tramway companies of Leith, Musselburgh and Edinburgh North.

Edinburgh Corporation took over operation of the tramways in 1919, the same year in which the first motorised buses arrived, under the name “Edinburgh Corporation Transport”. This local authority undertaking was transferred to a new public limited company, Lothian Region Transport PLC, under the provisions of The Transport Act 1985, and was subsequently renamed Lothian Buses in 2000.

Legal structure

Lothian Buses is the only bus operator in Scotland (and one of 10 in the UK) which is still in public ownership. The ownership is shared between the majority shareholder, ultimately The City of Edinburgh Council, and three other adjacent Local Authorities. CEC has now agreed the revised structure for an integrated bus and tram network.

Organisational structure

The current organisational structure of the business reflects the key roles of operations, engineering and finance in the management of the company. The interim tram operating team...
has been integrated into the existing structure, with the appointment of key personnel being made at the time of writing.

**Figure 5: Current organisational structure**

---

**Business Risk and Corporate Governance**

The Group is subject to risk factors both internal and external to its business. External risks include; political and economic conditions, competitive developments, supply interruptions, regulatory changes, supply price increases, pension funding volatility (bus only), environmental risks, strikes and major litigation. Internal risks include risks related to failure of internal control and regulatory compliance.

The governance structure and Board review of risk is part of the process of identifying, evaluating and managing the significant risk that the Group faces.

The Board considers acceptance of appropriate risk to be an integral part of the business, however, unacceptable levels of risk are avoided or reduced.

As part of the new corporate structure for Transport for Edinburgh arrangements and procedures for corporate governance are included in the Majority Shareholder Agreement which CEC have arranged between the members of the group.

The key governance points are:

- CEC determine the composition of the Board of Directors.
- At least 4 meetings to be held each year – quarterly
- Remuneration Committee to be established
- A Nominations Committee to be established
• CEC have the right to appoint an observer to attend all meetings of the Board and to receive all papers relevant to Board business
• Financial Statement for each quarter and the year are to be submitted to CEC
• A 3 year Business Plan is to be approved by CEC
• The Annual Budget must be approved by the Board and the Group must consult with CEC in advance of Board approval
• Cash dividends are to be distributed to the Council(s) where profits are available for distribution and the reasonable cash flow requirement of the Group can be met
• The individual Boards are responsible for ensuring compliance with the shareholder agreements and always following best practice.
Core Functional Plans

Operational Efficiency

We will focus on raising our current high level of operational efficiency through a focus on identifying and delivering efficiency gains in processes and structures, to minimise our losses, deliver a proportionate reduction in indirect costs and ensure our integrated transport business delivers an increasingly efficient service.

<table>
<thead>
<tr>
<th>Ref.</th>
<th>Objectives</th>
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</thead>
<tbody>
<tr>
<td>O1</td>
<td>Continue to maintain a strong focus on delivering on street operational excellence</td>
</tr>
<tr>
<td>O2</td>
<td>Drive efficiencies across the business by harnessing technology and streamlining processes</td>
</tr>
<tr>
<td>O3</td>
<td>Retain market leading position in all metrics</td>
</tr>
<tr>
<td>O4</td>
<td>Enhance corporate focus on operational risk losses by employing a specialist resource</td>
</tr>
<tr>
<td>O5</td>
<td>Deliver an efficient tram operation through integrating with the wider Lothian Buses business</td>
</tr>
</tbody>
</table>

O1 Continue to maintain a strong focus on delivering on street operational excellence

Background

The core components of ensuring on-street operational efficiency in Transport for Edinburgh are scheduling, duty allocation, and operational control.

The centralised control room functions are vital in ensuring the operational effectiveness of the bus and tram network. The control rooms manage the impact of unforeseen events to minimise disruption to services. The successful operation of the control room is reflected in minimal lost mileage and a high standard of punctuality.

The next three years

We will seek to maintain and enhance the operational excellence of the business through continually delivering improvements to scheduling and rostering. Where possible, manual processes will be automated. For example the process of informing drivers of their duty allocation and managing sickness, holiday and shift requests, one of the most significant manual
processes within the operations area, will be automated during 2014 through the planned introduction of a self-service facility.

**O2 Drive efficiencies across the business by harnessing technology and streamlining processes**

A key objective from 2014 to 2016 is the maximisation of opportunities to drive efficiencies across the business, to reduce indirect costs and make processes more efficient and paperless.

The role of efficiency savings features in each aspect of this plan and the co-ordination of this objective is a focus of management.

**The next three years**

We will carry out an organisational structure review of procurement and other functions which are or can be centralised. This will assess the opportunity to drive efficiencies from enhancement, co-ordination or integration of services across the integrated business.

This review will be used to minimise any required increases in indirect staffing as the business grows over the coming years.

**O3 Retain market leading position in all metrics**

We currently work with TAS to review metrics across the UK bus industry, which include benchmarks such as MOT pass rate, lost mileage and complaints per 100,000 passengers. We will continue to maintain our market leading position in these metrics through delivery of our strategic objectives and accompanying annual plan.

**O4 Enhance corporate focus on operational risk losses by employing a specialist resource**

**Background**

The management of operational risk within the current organisational structure has training, health and safety, claims and occupational health operating in relative independence of each other. Whilst the business maintains a good record on operational risk metrics and health and safety in particular, claims, one of the avoidable costs to the business, totals up to £1.0m each year.

**The next three years**

Claims and operational risk losses are avoidable costs and we will target the minimisation of these costs during the lifespan of the strategy through creating a co-ordinated approach to operational risk. The profile of operational risk will be raised through the recruitment of an operational risk specialist who will be tasked with developing a management approach to this task.

By developing a co-ordinated approach to operational risk, including the training and communication which accompany it, we will:
Drive efficiencies in the delivery of service and seek to minimise the costs incurred through mistakes or failure to effectively manage operational risk, with an objective of reducing the bottom line impact of such issues; and

Improve the experience of employees and customers alike in the workplace by continuing to improve the safe operation of all aspects of the business.

**O5 Deliver an efficient tram operation through integrating with the wider Lothian Buses business**

Background

In anticipation of the proposed transfer of the tram operations to a restructured group, work is underway and a project team is working to deliver integration. An interim operating agreement is in place to facilitate the testing, systems and depot set-up activities required for future mobilisation of the tram operation.

The next three years

2014 will be a critical period for the business, taking the tram system through mobilisation and testing stage into live operation.

The tram operation should be fully integrated with Lothian Buses through functional shared services including IT, finance, payroll, marketing and human resources. Operational processes and systems currently used with success and efficiency for the core bus service are capable of managing the tram service and there would be no requirement for alteration to the systems to accommodate tram. Scheduling and duty allocation will be carried out through systems in use at Lothian Buses.

Both the facilities provided to customers and the operation would be intended to be of a world class standard befitting that of a European Capital City.

During the exciting initial three year period we will work closely with the City of Edinburgh Council in exploring and assessing the opportunities for further expansion to the tram network utilising the major infrastructure investment already made in the city under the original tram network proposals.
Markets

We will pursue a strategy of controlled growth through network enhancement and geographical expansion and improved service offering in our current and target markets.

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<tr>
<th>Ref.</th>
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<tbody>
<tr>
<td>M1</td>
<td>Increase core network patronage through enhancements to the current network, introduction of the tram service and by attracting more discretionary travellers</td>
</tr>
<tr>
<td>M2</td>
<td>Remain alert to competitive threats and commercial opportunities in the market place</td>
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<tr>
<td>M3</td>
<td>Increase the commercial focus of Edinburgh Bus Tours,</td>
</tr>
<tr>
<td>M4</td>
<td>Provide a high quality tram service which will deliver against stakeholder requirements and financial projections</td>
</tr>
<tr>
<td>M5</td>
<td>Build closer links with the City of Edinburgh Council to assist with planning, development and transport policy decision making</td>
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</table>

**M1 Increase core network patronage through enhancements to the current network, introduction of the tram service and by attracting more discretionary travellers**

**Enhancement of current network**

**Background**

Over the last ten years we have adapted the network to take advantage of opportunities arising from new commercial, infrastructure and housing developments. This process has led to new services including, amongst others, those serving Queen Margaret University, RBS Gogarburn, Western Harbour, and the New Royal Infirmary.

To date, frequency enhancement has been used to stimulate growth in demand in both development areas and on other established routes. We have maximised opportunities to
establish high frequency turn up and go routes, supported where appropriate by route branding. This process of development has led to a core of high frequency urban routes.

Through changes to frequency, trialling route alterations, the creation of new routes within the current area of operation, and through geographical expansion, we have gradually developed the effective network we operate today.

The next three years

Leveraging demand created by the completion of housing, infrastructure and commercial developments:

We anticipate that a number of new developments, including Fountainbridge, Quartermile, Easter Cowden and West Craigs will complete within the time period of this plan. The current network has been positioned with these developments in mind, such that they can be served by adaptation of current routes. The completion of these developments will stimulate demand for these routes, in certain cases, creating an opportunity to create more "turn up and go" services. We will examine the potential to create route linkages complementing these developments where this can be achieved profitably.

Complementing the new tram route:

The integration of bus and tram services (see "integrating the tram business" below), raises the opportunity to complement the tram service with bus network enhancements, planned route enhancements and introductions can be made subject to a 70 day notice period, served to the Traffic Commissioner.

The Airport market:

We will seek to maintain our margin on the Airlink service currently offered throughout the life of the plan, acknowledging that some demand will transfer from Airlink to tram, however the overall objective is to increase total demand from the Airport. The addition of the Edinburgh Tram service to/from Edinburgh Airport and the City Centre will facilitate penetration of public transport in a growing market for travel. Tram and the premium quality AIRLINK bus service will compete in this market place offering different proposition in terms of price, intermediate destinations and interchange opportunities.

Quality, value for money and service availability will be of the highest standard the competitiveness of both modes enables ensuring that growth will deliver a sustainable commercial return across the business as a whole.
**Attracting discretionary travellers**

**Background**

Discretionary travellers represent a key target market over the duration of the plan. During the period of tram line construction, coinciding with the general economic downturn, there has been evidence of a reduction in discretionary travel (defined as non-essential bus trips, as opposed to trips to and from work and generally measured by cash payments or concessionary trips as opposed to RIDACARD or other smartcard payments).

**The next three years**

**Frequency stimulation:**

Historical trials carried out through the evolution of the Lothian Buses network demonstrate that enhancing the frequency of a service, thereby increasing convenience for travellers by creating “turn up and go” services stimulates demand.

As noted above, this is a tool used for network enhancement and opportunities to increase the attractiveness of the service to discretionary travellers will be explored.

**Eco Buses:**

Market research conducted by our marketing department has indicated that a significant proportion of discretionary travellers would use public transport if it was more environmentally friendly.

We will continue to target the introduction of low carbon vehicles towards routes that travel through areas identified as Air Quality Management Areas by the City of Edinburgh Council and those routes which complement the functionality of hybrid vehicles (please refer to F2, F3 and S2).

**Ticketing:**

Discretionary travellers, at present, tend not to use pre-pay systems, and rely on purchasing a ticket at the point of travel. The current ticketing facilities on-bus require an exact cash payment targeting discretionary travellers. We will work towards increasing cash-less forms of payment (please refer to T2), complementing advances to technology which have led to increased usage of smart phones and electronic payment via debit or credit card.

**Integrating the tram business**

**The next three years**

**Stimulating demand:**

We expect that tram patronage will be delivered through both a switch to the tram service by existing bus customers and the new tram “factor” which sees people start to use public transport solely because it is a tram as opposed to a bus service.

Services including Airlink, those operating to the Gyle, Saughton, Ingliston Park and Ride can be expected to experience some transfer of patronage to the new tram service. Bus services will be adapted as necessary to reflect this transfer of demand to tram.
It is expected that some new travellers will start using public transport (specifically the tram) post the introduction of the tram as a result of this tram “factor”. This proportion is expected to be approximately 25% of the tram patronage numbers. Adjustments to the bus network will be designed to avoid any increased exposure to competition.

At this stage, it has been decided that tram prices will mirror the pricing for buses with the exception of those routes operating to Edinburgh Airport, for which it is intended that a premium be applied in comparison to the bus service and this is reflected in the forecast revenues agreed with the City of Edinburgh Council.

In the case of tram, there is only limited scope to use frequency enhancement to stimulate demand. It is anticipated that tram frequency will be no less than 10 minutes and could be as frequent as every 7.5 minutes at peak times.
Edinburgh Bus Tours will remain vigilant to the risk of competition, mitigating this risk through enhancements to the current route network, the introduction of new routes and increases to the frequency of tours.

The service:
In addition to the increases to frequency, new routes and route development proposed, the training provided to operational customer facing staff will be intensified to maintain and enhance the customer experience.

Stance:
The opportunity to adopt a second departure stance, to complement increases to service and to manage the risk associated with the current stance, as outlined in the Strategic Context section of this plan is a strong focus over the next two years. Operating from a second location can be done at little risk and cost, with marginal outgoings and a flexible agreement with the City of Edinburgh Council on location, such that, should the stance not prove commercially successful, it can be vacated or moved at little expense.

Marketing:
The brand of Edinburgh Bus Tours will be enhanced and delivered in part through the creation of a new customer website containing an e-Commerce platform to facilitate ticketing.

Environmental Impact:
Edinburgh Bus Tours is committed to reducing its carbon footprint and the goal of City of Edinburgh Council to deliver a Low Emission Zone in the centre of Edinburgh by 2020. Working towards this shared goal, it will replace the majority of its open top fleet with Euro 6 standard vehicles by 2020.

Efficiency savings:
Increases to the profit of Edinburgh Bus Tours will be driven in part by the business focus on efficiency savings and cost minimisation over the life of this plan. As part of the organisational integration, move away from paper based or manual process and the smartening-up of operations, cost reductions associated with the tour business will be delivered.

Price point:
The pricing point for Edinburgh Bus Tours will be examined with a view to introducing more flexible pricing and ticketing, reflecting the service offered and ticketing policies of competitor tourist attractions, including Edinburgh Castle and Edinburgh Dungeon.

Inorganic growth
Background
Edinburgh Bus Tours has formed a partnership with Forth Tours and currently offers one bus service as part of the tour package to provide a combined bus and boat tour to customers, this service is operating at capacity during the peak season.
The next three years
Edinburgh Bus Tours does not anticipate any change to the current agreement with Forth Tours (for example the introduction of more tours); this is driven by a lack of appetite by Forth Tours to acquire a further vessel.

We will examine the opportunity and commercial viability of partnership with, or acquisition of, tour operators serving the wider Scottish geography to achieve the profit volume target stated.

Background
In May 2002 Transport Initiatives Edinburgh ("tie") was formed to deliver major transport projects for the City of Edinburgh Council. Following public consultation and detailed planning, the tram bills were passed by Parliament in 2006. In September 2011, the City of Edinburgh Council voted for the first phase of the tram route to go from the airport to St Andrew Square in the city centre. The City of Edinburgh Council also took direct control of the project.

The tram is expected to be operational in 2014. Whilst the City of Edinburgh Council will retain ownership of the assets associated with the tram network, including the infrastructure, Edinburgh Trams Limited (ETL) be the operator of the service. We are currently acting, on behalf of the City of Edinburgh Council, as interim operator in the mobilisation and testing phase.

The next three years
Providing a safe and robust and integrated service:

The tram system will be delivered through an on-going programme which City of Edinburgh Council, Edinburgh Trams Limited, Lothian Buses, CAF and Siemens are working together to deliver. When tram is open for revenue service, we will ensure the service level delivered to customers by the tram is of at least an equivalent level to the standards employed on our bus service (please refer to O5 and M1).

M4 Provide a high quality tram service which will deliver against stakeholder requirements and financial projections

Background
Historically, we have had limited involvement at the planning stage with proposed commercial, housing or infrastructure developments. Given our prominence in Edinburgh and the Lothians as a transport provider, we would like to participate in the planning phase to ensure that planned developments are complemented to the greatest extent possible by transport infrastructure, or that the impact on, or disruption to, transport infrastructure is managed as effectively as possible.

The next three years
We will work with the City of Edinburgh Council transport department to raise the profile of transport considerations in the decision making processes of developers and planners.

M5 Build closer links with the City of Edinburgh Council to assist with planning, development and transport policy decision making
In determining locations for housing or commercial development, the transport provision linking new housing or commercial developments play a key role in the success of the development. To ensure that the transport requirements are sufficiently represented to the mutual benefit of customers, planners and our business, we will work alongside the City of Edinburgh Council to raise the profile of these needs.

Of key commercial concern to us is the City of Edinburgh Council's strategy for the development of the city centre. Access to the city centre for bus services is vital to Lothian Buses commercial success and to Transport for Edinburgh ability to support the economic vitality of the city centre through the provision of convenient and attractive public transport. We will continue to seek to influence policy in this regard not only in the interests of Transport for Edinburgh but also in the interests of the city.
Fleet and Engineering

The market leading standards of fleet will be maintained through a fleet replacement strategy, programme of vehicle refurbishment and a streamlined approach to engineering, ensuring operations are serviced by a high performing, greener fleet.

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<td>Continue investment in fleet in line with agreed fleet strategy to maintain current standard of fleet and to deliver planned network growth</td>
</tr>
<tr>
<td>F2</td>
<td>Increase the number of low carbon vehicles in the fleet, offset where possible through funding partnerships with the Green Bus Fund</td>
</tr>
<tr>
<td>F3</td>
<td>Ensure tactical deployment of low carbon vehicles, aligning our strategy to enhance our impact on the local transport strategy of city of Edinburgh Council</td>
</tr>
<tr>
<td>F4</td>
<td>Enhance the operational efficiency, measured by vehicle downtime and lifecycle costs of the engineering department by developing a procurement process which provides certainty over future cost streams and by leveraging technological advances</td>
</tr>
<tr>
<td>F5</td>
<td>Maintain a strong focus on employee training, ensuring an effective training offering, aligned to advances in vehicle and engineering department technology is delivered to the right people in the engineering department at the right time</td>
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</table>

**F1 Continue investment in fleet in line with agreed fleet strategy to maintain current standard of fleet and to deliver planned network growth**

We will maintain the standard of the current fleet by undertaking a programme of vehicle replacement and refurbishment. We will acquire \( \square \) new vehicles. It is intended that \( \square \) of these will be low carbon vehicles and the remainder will be of Euro 6 standard or higher.

**Background**

We operate a fleet strategy which maintains a modern fleet in comparison to our competitors, and this delivers the high standard of vehicle quality its customers have come to expect.
The next three years

We are partnering a marginal increase to the average age fleet age from a current age of 6 years and 5 months to a planned age of 7 years and 3 months by the end of 2016 with an extensive programme of vehicle refurbishment aimed at older vehicles which are not yet targeted for disposal. This will maintain the current high standard of fleet that we are committed to.

We aim to ensure that we keep ahead of environmental standards in sensitive parts of the city, in particular the city centre and this consideration necessitates continued acquisition of new vehicles rather than refurbishment. We will acquire a further vehicles which will replace older, fully depreciated vehicles which are also those vehicles which have higher levels of air pollution and carbon emissions. This will take the proportion of our vehicles which are of Euro V standard or higher from a current level of 43% to 67% by the end of the period this plan covers. The fleet strategy, outlined in Appendix C, sets out the timing of these acquisitions.

The acquisition and deployment of vehicles represents an increase in the total fleet of vehicles.

Strong relationships will continue to be maintained and improved with vehicle suppliers which ensure a good service is provided at competitive prices.

F2 Increase the number of low carbon vehicles in the fleet, offset where possible through funding partnerships with the Green Bus Fund

Background

We improved the standard of our fleet in 2011 with assisted funding provided by the Scottish Government through the Green Bus Fund initiative. In addition, vehicles which were previously Euro 2/3 were retrofitted with the latest SCRT technology (combining Continuously Regenerating Trap and Selective Catalytic Reduction technology), which improved emission levels to a Euro 5 standard. More than half the main Lothian Buses fleet is now Euro 4 standard or higher.

The Scottish Green Bus Fund was launched in 2010 to "help support and hasten the introduction of low carbon buses across Scotland". To date this has seen almost £6m invested towards 71 low carbon buses deployed across Scotland. Through Green Bus Fund 1, we were able to purchase 15 buses, subsidised by £1.0m from the Green Bus Fund. Green Bus Fund 2 is subsidising the delivery of 10 new low carbon vehicles in 2013, contributing £800,000 towards the total cost. In our successful bid for Green Bus Fund 2, we have become the only company to successfully secure funding through each of the Green Bus Fund application processes to date.

The next three years
**Background**

In determining the deployment of low carbon vehicles, we consider:

**Council identified Air Quality Management Areas:**

The City of Edinburgh Council has identified three areas which have the highest levels of air pollution and are subsequently targeted as Air Quality Management Areas (“AQMAs”). These areas are Constitution Street, the City Centre and St Johns Road. In determining the deployment of low carbon vehicles, consideration is first given to the reduction in air pollution in these areas.

**Target markets:**

Discretionary travellers have a preference for low carbon vehicles. On the route that recently had its fleet replaced with low carbon vehicles an increase in discretionary travel has been experienced. As such those services towards which low carbon vehicles are targeted generally operate through areas with higher proportions of A, B and C1 type people to maximise the commercial opportunity created by the acquisition of this type of vehicle.

**The next three years**

We will continue to deploy vehicles targeting routes on the basis of AQMAs and where possible, our target markets. Where these routes are currently served by relatively newer fleet, these vehicles will be cascaded on to routes operating with older fleet outwith AQMAs.

Should the City of Edinburgh Council identify further AQMAs, We will work with the Council to provide low emission vehicles for routes impacting on these areas.

**F3 Ensure tactical deployment of low carbon vehicles, aligning our strategy to enhance our impact on the local transport strategy of city of Edinburgh Council**

**F4 Enhance the operational efficiency, measured by vehicle downtime and lifecycle costs of the engineering department by developing a procurement process which provides certainty over future cost streams and by leveraging technological advances**

**Background**

The engineering department ensures that the Lothian Buses fleet operates to the highest standards, the MOT pass rate, at 99.5%, is one of the highest in the UK. The engineering department is highly regarded by VOSA and other regulatory authorities and it seeks to ensure the on-going strength of these relationships.

The department has continually worked to develop technological advances alongside vehicle and parts manufacturers, for example clearly identifying the need for a different skill set to complement the introduction of low carbon vehicles.

The processes it currently employs to identify and record engineering work are paper based and consequently laborious, in part as a result of the requirements of agencies that monitor vehicle quality. A streamlining and smartening of these processes is targeted by our business.
The next three years

The way information on a vehicle's health is stored and communicated is evolving through the introduction of Telematics, which facilitates the storage of all information on components of a vehicle and vehicle behaviour, allowing engineering maintenance requirements to be identified on an automated basis. Telematics wirelessly transmit the automatically acquired information on performance and component health to systems which can be used to identify and allocate required engineering works. All new vehicles will be fitted with this technology. Whilst agencies including VOSA and the Traffic Commissioner require paper based vehicle maintenance records, we will work with them to move towards eradication of this approach, and driving the use of technology to create efficiencies.

The engineering team will continue to monitor advancements in engineering technology, assessing the viability of using this to introduce further efficiencies.

F5 Maintain a strong focus on employee training, ensuring an effective training offering, aligned to advances in vehicle and engineering department technology is delivered to the right people in the engineering department at the right time

Background

Staff development and training in the engineering department is provided through the Lothian Buses training school, which also supports up to thirty-five apprentices at any one time and provides on-going support for all members of the engineering staff through product improvement and development.

The next three years

The training offered will evolve with technology, ensuring employees have the correct IT skill level required to complement the move towards technology based engineering. Given the increasing role of technology, the department will seek to expand its resources by one person with a remit to monitor and drive technological advance in engineering.
Enabling function plans

Property and facilities

The property and facilities of our business are an integral part of the drive to grow patronage and revenue and drive cost efficiencies. They will be best in class with a high level of operational performance, projecting the strong brand of Lothian Buses and Transport for Edinburgh

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<td>P1</td>
<td>Enhance travel shop branding and functionality, driving efficiencies through investment in technology</td>
</tr>
<tr>
<td>P2</td>
<td>Acquire an additional depot to relieve pressure on existing depots, increase the efficiency of existing services and accommodate an increase in Peak Vehicle Requirement and create room for expansion</td>
</tr>
<tr>
<td>P3</td>
<td>Consolidate and enhance workshop premises, driving efficiency savings through the efficient location of services, including the closure of Seafield. Delivery of improved services at Longstone</td>
</tr>
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</table>

Background

We have given significant consideration to the property and facilities we operate from, their locations and the functionality of each. Consideration has been given to the operation of one large depot, as opposed to a number of smaller and strategically located depots. However when the cost of operational efficiencies were taken into consideration, it has been determined that the current model of operating depots located close to the route network is a more efficient approach.

Depots and Workshops:

We operate three depots catering for 190 to 230 buses each. These are based at strategic locations throughout the city, which tend to minimise “dead” miles, i.e. the distance a bus has to travel before it commences its official revenue earning route.

- **Marine:** An operational depot catering for day to day maintenance of the buses, including washing, and re-fuelling.
• **Longstone**: An operational depot, providing the same day to day maintenance facilities as the depot at Marine. It also provides space for trainee drivers to carry out practice manoeuvres and already features class room training facilities for staff.

• **Central**: An operational depot providing the same facilities as Marine. It is also forms the Head Office facility for Lothian Buses and the operational centre, providing control room and scheduling facilities.

All operational depots currently operate close to full capacity. Significant investment has been made such that each one provides excellent facilities for staff and vehicles. The recent capital expenditure on these depots includes, but is not limited to:

• **Marine**: New roof, new offices, new canteen.

• **Longstone**: New roof, new offices, and enhanced engineering facilities, new training facilities, new canteen.

• **Central**: refurbishment of head office, new roof, new garage floor, refurbished control room, new canteen.

We have one repair workshop:

• **Seafield**: A workshop used for bodywork, repairing significantly damaged vehicles, refurbishing vehicles and commissioning new additions. It also provides modern training facilities for engineers and maintenance employees.

**Travel Shops**:

There are currently four travel shops, predominantly in central locations to capture maximum footfall.

- Waverley Bridge
- Shandwick Place
- Hanover Street
- Dalkeith

These shops act as central marketing points for all aspects of the business, including Airlink, Edinburgh Bus Tours and the core bus business, and will offer the same service for tram. Information on services and ticketing are available at these sites.

**The next three years**

**P1 Enhance travel shop branding and functionality, driving efficiencies though investment in technology**

To complement the introduction of the tram service and the need to refurbish the existing facility, Waverley travel shop will be modernised, re-branded in line with the external branding strategy (see K1) and upgraded to reflect the expanded business encompassing tram operation during the course of 2014. It will also provide a more streamlined service, working in partnership with IT and Marketing to enable ease of access to information and self-service ticketing through touch screen facilities and a more technology led focus for advertising, information and sales.

The remaining three travel shops will be refreshed and re-branded to encompass the tram business during the course of 2014.
The company is very close at present to, on the one hand, a commercial constraint and on the other, a tipping point. As the three depots are now operating virtually at capacity, the company is not far from the point at which it will simply not be practical to increase PVR as we will not have the depot capacity to accommodate more buses. As our expectation is that the size of the business will grow organically within the existing geographical boundary (see M1 and F1), providing additional depot capacity to support operations in that area needs to be addressed.

If we accept that additional capacity needs to be provided and is subsequently secured, we achieve a tipping point at which operational efficiencies may well be achievable by transferring some current operations to a new depot. This is because some current operations run at less than optimal efficiency through being accommodated in existing depots which may not be optimally located for certain routes but which are nonetheless more efficiently operated in this way than by incurring the additional overhead cost of another depot so long as an additional depot is not otherwise justified. The moment an additional depot becomes justified (as set out in the above paragraph) greater efficiency can be achieved by reallocating operations between depots.

Separately from the above point, the plan is to expand geographically, potentially deeper into East Lothian. In order to maximise efficiency of such expansion and, in the case of East Lothian, to support the company's existing East Lothian operation, securing a new depot outside Edinburgh would help deliver operational efficiencies.

There may be some scope for serving the objective of organic expansion in Edinburgh and consolidation in East Lothian by a single site acquisition, but it may be that the two objectives are most efficiently served by regarding them as separate projects, potentially necessitating a new site in Edinburgh and also a new site in East Lothian.

Similarly, if the opportunity arises to expand into West Lothian, this may be achieved most efficiently by acquiring depot capacity in West Lothian.

Work is now complete in providing a new state of the art facility at Longstone within the existing boundaries of the original depot. The original operational depot at Longstone is being extended to include further premises, linked to the original one, being built on adjacent land.

The repair workshop currently located at Seafield will be relocated to Longstone during 2014. The rationale for this is twofold:
- potential for efficiencies resulting from site consolidation; and
- operationally, Seafield is not as practical a location as Longstone.
To compound this, there is a continuing risk that the City of Edinburgh Council is considering developing the land on which Seafield is located.
The business will be built on an organisation structure complementing aspirations of the Board with the right people, the right skills and a strong level of engagement at its heart.

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<td>Through regular organisational capability reviews, ensure the organisation has the human resource capability to deliver its three year strategy</td>
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<tr>
<td>H2</td>
<td>Develop leadership capability in our current and future business leaders through targeted development programmes</td>
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<tr>
<td>H3</td>
<td>Consistently create the highest levels of employee engagement, demonstrating our position as a leading national employer</td>
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<tr>
<td>H4</td>
<td>Create, manage and execute a three year strategic planning process to deliver the long term vision of Lothian Buses</td>
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</table>

**Background**

Historically, the management of human resources has been carried out by managers in each team and there has been no centralised function supporting human resources. The informal approach adopted to date has supported a successful business and delivered high levels of employee engagement and the business has a history of ensuring the right people with the right skill sets are in the right jobs.

In March 2012, Lothian Buses recruited a new Human Resources Director with a remit to create a centralised human resource function to maximise the potential of our business, support it as it expands and goes through a period of significant organisational change.
The next three years

**H1 Through regular organisational capability reviews, ensure the organisation has the human resource capability to deliver its three year strategy**

Human Resources will work with the Board to design and implement an organisational and corporate strategy which reflects the business aspirations including growth, efficiency and flexibility. The structures will be continually reviewed to ensure they remain appropriate.

A review of our organisation’s capability (OCR) to meet the three year strategy will be undertaken bi-annually to:

- deliver focus on the skill and structure requirements of our business;
- ensure that requirements for entrepreneurial risk taking, technology and operational risk are in place and we establish a culture to support these elements; and
- create and implement an effective performance management system and culture that recognises rewards and drives effective performance, both in what we do and how we do it.

**Succession Planning:**

We will develop an effective succession plan prioritising on business critical areas and expanding to include all operational areas. This will include:

- Execution of the bi-annual OCR and linking this to recruitment and development areas;
- Ensuring that all senior and business critical roles have robust succession plans to secure business continuity and ensure the future success of the business.

**H2 Develop leadership capability in our current and future business leaders through targeted development programmes**

Human Resources will design and deliver leadership development programmes for current leaders to drive a culture of operational excellence and impact the highest levels of employee engagement. In addition, the potential future leaders will be developed, providing career progression, motivation and enhanced performance and a level of future proofing the business.

**Leadership programmes** will include the following elements:

- High Performing Team (HPT) programme will be created to maximise the performance of the senior management team;
- Managing for Performance (MFP) programme will be created to give the broader management team the tools they need to support the changes required; and
- The Next Generation Leader (NGL) programme will be created to provide high potential staff with the opportunity to develop their skills and will support the succession planning process.
**H3 Consistently create the highest levels of employee engagement, demonstrating our position as a leading national employer**

We aspire to continually improve the engagement levels of our employees through:

- Enhancing internal communication, delivered through an internal brand strategy and intranet site providing two way communication between Transport for Edinburgh and our employees;
- Increasing opportunities for employee involvement in business and social activities outlined in S2 of this plan;
- Creating a recognition and reward programme and culture to motivate staff and reward then for exceptional performance;
- Delivering career development aligned to individual aspirations, where it complements the business plan;
- Maximising both team work both within existing teams and across the wider business through the organisational structure; and
- Creating flexible employment models.

We will continually measure levels of motivation and commitment in an objective and thorough manner and deliver an industry-leading level of engagement.

**H4 Create, manage and execute a three year strategic planning process to deliver the long term vision of Lothian Buses**

We will ensure that the organisation has a robust and comprehensive long term vision that enables its people to develop the business beyond just operational considerations. The Human Resources function will:

- Manage and coordinate the three year strategic planning process;
- Enhance current or create new operational reporting processes, meetings and information mechanisms to ensure the strategy is effectively delivered and its value measured; and
- Ensure that this strategy is translated into specific, measurable, achievable and time-bound objectives.
Marketing & Communications

The primary role of the Marketing & Communications department is to positively build the likeability and relevance of the brands, the values of the company, the appeal of its products and the clarity of its communications and engagement to key customer and stakeholder groups. This is augmented with marketing intelligence and linked to delivery of a commercial return on investment.

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<td>Develop the Lothian Buses brand and Edinburgh Trams as leading consumer brands in and around Edinburgh as well as a marketing innovation leader within the UK transport industry</td>
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<tr>
<td>K2</td>
<td>Leverage marketing and communications tactics to generate incremental revenue, particularly digital, social media and technology such as smartphone applications</td>
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<tr>
<td>K3</td>
<td>Utilise the evolution of RIDACARD as a platform for a Customer Relationship Management strategy</td>
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<tr>
<td>K4</td>
<td>Re-focus internal communications to meet the Human Resources strategic aims</td>
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Background

The role of the Marketing and Communications department encompasses:

- **Research**: Developing customer and marketplace management information to inform the business;
- **PR / Media**: Representing Transport for Edinburgh to third party agencies and the media, proactively managing the media and creating public relations-friendly stories to generate positive, brand-building coverage;
- **Communications**: Through social media, web and other digital forms of technology such as smartphone Apps, building customer advocacy, loyalty and patronage;
- **Advertising / Publicity**: The commercially-positive development of print material, advertising (on-bus creative especially) and mandatory material production such as timetables to encourage interest, desire and understanding of our offerings;
- **Stakeholdering**: Representing the Group at management meetings with external bodies including The City of Edinburgh Council, Edinburgh Airport, Essential Edinburgh, Edinburgh Tourism and Action Group, and Marketing Edinburgh;
- **Brand Strategy**: Considering, researching and agreeing the company’s branding strategy and its visual representation through bus, tram, buildings, uniforms, website, stationery, signage and print – as well as cultural implications;
• Customer Experience: Championing and representing the customer in various tactical projects such as ticketing strategy and external IT customer offerings;
• Internal Communications: Managing the internal communications of the organisation towards clearer, two-way dialogue with staff, particularly through intranet development;
• Customer Loyalty: Using targeted marketing to increase customer loyalty and advocacy as well as assisting company understanding of customers;
• Commercial Astuteness: Understanding the marketing return on investment of the marketing and communications spend, linking with business development and operations

The immediate challenge

The operational launch of Edinburgh Trams in May 2014 will bring with it significant national media coverage. Local public awareness of Edinburgh Trams’ open for services is therefore likely to be high.

A comprehensive marketing and communications roadmap up to launch, and beyond, has been developed to avoid reliance upon media coverage alone.

The operator’s marketing responsibilities are to educate and communicate exactly what Edinburgh Trams stands for, what the proposition is, to raise interest and desire, to build the brand, to inform of factual elements such as route stops, timetables, fares and tickets, accessibility, health and safety and so on.

In this, it is important to consider that the target audience is not solely a local one, with a huge number of tourists and visitors arriving via Edinburgh Airport throughout the year.

In both a local and visitor context – the marketing of trams alongside bus should be considered whilst recognising that trams is ‘new’ and has immediate revenue aspirations to be met after significant investment from the public purse. The planned marketing efforts between bus and tram recognise this through an appropriate tactical balance.

Throughout the marketing and communications campaign, Transport for Edinburgh needs to be formally introduced. The customer-facing name needs to be put into context and have meaning for our passengers and therefore it is an important requirement of any marketing campaign, to give this meaning to act as a bedrock for the future expanded scope of Transport for Edinburgh.

The next three years

K1 Develop the Transport for Edinburgh brands as leading consumer brands in and around Edinburgh as well as a marketing innovation leader within the UK transport

Marketing and Communications will develop a thorough understanding of the our core target market groups through investment in segmentation analysis, continuous research online, focus groups and other research tactics such as customer relationship management and the application processes.

A modern and progressive customer-facing and internal brands strategy covering each proposition including trams and ticketing products will be developed with the core target market at its centre to give us one of the strongest and most identifiable brands in the UK transport industry as well as one of the primary consumer-facing brands in and around
Edinburgh. This is to be augmented with strong communications across public relations, advertising and digital especially.

**K2 Leverage marketing and communications tactics to generate incremental revenue, particularly digital, social media and technology such as smartphone applications**

The Marketing and Communications department will leverage digital technology advances and the increased exposure customers have to generate revenue and reduce expenditure on print and equally, to provide the business with insight through increasingly meaningful customer relationships. This will include:

- Social media;
- An Edinburgh Bus Tours website with an e-commerce platform;
- An integrated transport smartphone application;
- Travel shop hardware including touchscreen information and ticketing technology; and
- Mobile travel shop which enables remote RIDACARD customer acquisition process to be undertaken.

These mediums will be developed to deliver customer friendly visibility of our operations, brand-building and increased e-commerce creating a more efficient, profitable, cost-effective arm of total revenue.

By using online surveys, focus groups, speaking to customer groups to create customer pen portraits, we will ensure that our marketing and communications team is a knowledge base, driving tactical engagement with the target market to deliver the three year plan.

**K3 Utilise the evolution of RIDACARD as a platform for a Customer Relationship Management strategy**

The RIDACARD product represents the largest financial commitment our customers make to the company. It will more than likely evolve and change in format and detail over 2014-15, particularly with tram and integrated ticketing.

The Marketing and Communications department will help to develop and then promote and advertise an enhanced RIDACARD product, including a customer loyalty programme in line with commercial and ticketing strategy. The process for RIDACARD customer application will be enhanced to create an on-line process for the customer and to build further customer management information to drive targeted customer relationship management.

**K4 Re-focus Internal Communications to meet the Human Resources strategic aims**

Improve all internal tactics of Marketing and Communications; including internal communications and signage and deliver the improved branding through partnering with IT and HR in the development of an intranet site to increase employee engagement (please refer to H3).
We have made a commitment to ensure that sustainability and corporate and social responsibility considerations influence all our business decisions.

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<td>S2</td>
<td>Deliver a volunteering programme designed to embrace the skills of our employees and enhance the contribution made by Lothian Buses to our local community</td>
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**S1 Minimise the adverse impact of the business through increasing the proportion of low carbon vehicles in the fleet and by making environmental considerations play a key role in all decision making, influencing local authorities and Scottish Government policy**

**Background**

Lothian Buses won the Best Green Large Company in Scotland award in 2012 for our commitment to having a positive impact on public health as well as the environment, notably as a result of the steps taken to improve air quality in Edinburgh through investment in its fleet and its close working with the City of Edinburgh Council’s clean air department. This has seen new vehicles targeted towards routes where they will have the greatest impact in terms of pollution reduction.

We have installed SCRT exhausts on all vehicles operating in these areas which are Euro 2/3 standard to bring them up to the equivalent of Euro EEV standard. These exhaust systems filter the air emitted from the vehicle, minimising air pollution. There are now 45 buses operating with SCRT exhausts and have targeted these vehicles towards the AQMA areas to the effect that there has been a significant improvement in air quality.

In addition, we have, through partnership with the Green Bus Fund, been successful in introducing Low Carbon Vehicles on routes operating through AQMA areas as highlighted in F3.
The next three years

As outlined in the fleet strategy, we seek to maximise the acquisition of low carbon vehicles we operate on a commercially viable basis. We will work with the City of Edinburgh Council to ensure that our fleet strategy contributes to forming the fundamentals of an electric vehicle city centre zone and standard inner urban zone operating only low carbon vehicles. We will ensure that a high proportion of our open top vehicles serving Edinburgh Bus Tours are Euro 6 standard and will maintain our partnership with the Scottish Government to maximise the benefit that can be derived to the City through the Green Bus Fund.

S2 Deliver a volunteering programme designed to embrace the skills of our employees and enhance the contribution made by Transport for Edinburgh to our local

Background

We are a major local employer and supporter of local and national charities. We also run a range of projects through our community engagement strategy. These aim to inform, educate and provide new experiences to people from all walks of life.

A particular focus is on young people. The volunteer team works in schools, from our depots and at local events, to break down barriers to using public transport. Other projects will major around helping school leavers and those seeking employment to better understand their options – and how to develop the skills to reach their potential.

The next three years

We will build upon and strengthen ties with local communities by continuing to develop formal staff volunteering opportunities and creating team volunteering opportunities (refer to H3). We will continue to offer and further develop our very successful Open Day held each year for members of the public to visit our Central bus depot.
Information Technology

Technological advance plays a key role in the drive to increase efficiencies, encourage customers, improve the corporate image and remain competitive. Each business unit will seek to lever technology to deliver its objectives within the three year plan.

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<td>Continue infrastructure investment programme</td>
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<td>T2</td>
<td>Use ticketing technology to increase patronage</td>
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<tr>
<td>T3</td>
<td>Develop the intranet and internet to enable two way communication between Transport for Edinburgh and our employees</td>
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Background

The market for infrastructure and technology is active, with advances to the systems offered to transport companies, and infrastructure capability coming at pace and generally unforeseen. The IT department within Transport for Edinburgh monitors these advances and will seek to acquire the best facilities for the business over the lifespan of this plan, with a focus on investment in infrastructure and integration.

The next three years

By 2016, the majority or all our server systems will be virtualised, giving a better utilization of existing equipment and better return on investment. Virtualization also fits in to the company’s environmental agenda outlined in S1 in that it reduces electricity usage and heating/cooling requirements. Virtualization also gives better flexibility with regard to business continuity and it is likely that backup systems will change and develop in tandem.

The number of remote locations may increase or decrease but it is evident that the locations will change, as outlined in P1-P4. This will require monetary and technical investment to join these sites with the current Lothian Buses network.
Background

The ticketing portfolio includes:

- Paper-based off-bus “CITYSINGLEticket” and scratch card “DAYticket” products.
- The RIDACARD smartcard system, served by a ticketing infrastructure provided by Parkeon.
- Cash payments at point of travel to on-bus ticketing machines.

The next three years

Replacement of off-bus paper ticketing products:

During 2014, we will replace off-bus paper products with Smartcard and/or a Mobile Application. Currently, the RIDACARD scheme supports, albeit with some development work, the introduction of a simple multi-journey or carnet smartcard which appears to be the logical successor to the paper “CITYSINGLEticket” product. Detailed business rules and pricing would be subject to agreement and specification however, in principle, these would follow those associated with the existing paper product.

A notable exception from the existing ticketing portfolio is a ticketing application for mobile phones. This would allow users to purchase and display tickets using their smartphone. A relatively non-disruptive product addition, this would require no chargeable reconfiguration of existing ticketing infrastructure.

Transition to Commercial ITSO Smartcard platform:

We will base a proposed new smartcard scheme, to replace the existing one administered by Parkeon, on the ITSO standard preferred by the majority of bus operators in the UK. This platform offers significant advantages. It is supported by a relatively competitive market, allowing us the commercial freedom to choose both the hardware and software solutions which support us, and the ability to implement a far wider range of smartcard products than is currently offered.

Adoption of Cash Replacement Payment Methods:

The future of methods of payment beyond a dedicated transport smartcard product (i.e. a replacement for on-bus cash single fares) is tied into the broader topic of payments as a whole, and is likely to be driven by the requirements of the retail, rather than public transport, industry. Whilst this market is difficult to predict, it is highly likely that any new payment methods adopted to replace cash payments will require investment in retrofitting or augmenting existing on bus hardware, but more significantly in the back office systems which support it.
The next three years

The current telephony system is modern and has the capacity to meet the needs of the user base for a significant period of time. Increased collaboration or migration from voice to video calling can be serviced by the current product. Other equipment including ticketing, PDA and tablet will result in significant increases in mobile data requirements.

Usage of products and services based external to Transport for Edinburgh continue to increase and will be accessed online. Cloud computing will remain a focus of the IT department, however adopting it will depend on advancements in security and reliability of access.

The IT department will work alongside Marketing and Communications in the development of an intranet site and a new dedicated website for Edinburgh Bus Tours which will deliver a two way communication system for employees and e-commerce for customers.
Headline financial projections

Development of financial projections

In producing this plan and the related financial projections, the management team have given consideration to a number of objectives for the business. These have identified revenue and patronage growth in the core bus business in addition to cost and efficiency savings.

Tram costs are based on existing contract costs from contracts entered into by the City of Edinburgh Council (but relevant to the reduced scale of operations) and other operating and overhead costs produced by the tram management team in conjunction with the City of Edinburgh Council tram project team and Lothian Buses. In addition most central services will be delivered to Edinburgh Trams Limited by Lothian Buses under a services agreement.

Core bus service

The growth and efficiency strategy underpins revenue growth for the core bus business with efficiency intended to drive a greater than proportionate increase in profits. This will be delivered through organic growth achieved by optimising the current network and attracting discretionary travellers, as outlined in the “Markets” section of this report.

Efficiency benefits in the core bus business are expected to arise from fuel savings from the use of hybrid vehicles where fuel usage is significantly reduced, closure of the Seafield depot, utilisation of an internal intranet to improve efficiency, a new canteen contract which reduces year on year, reduction in electricity, gas and water costs through installation of LED lighting and rainwater harvesting at our facilities and the impact of a risk manager to improve risk management practices and minimise the financial impact on the business of incidents and accidents.

Performance impact of integrated business

The integrated bus and tram network will drive additional patronage to the Group.
Capital expenditure and cash position

The strategic plan envisages continued capital expenditure on technology, property and fleet. This will ensure that the business maintains its high standard of operation, that more efficient hybrid vehicles are deployed with consequent fuel savings, and that facilities continue to be developed to appropriately service the needs of the business. These measures do generate operational efficiency savings through more effective deployment of resource with the benefits being seen in the latter years of the plan timeframe. Appendix E details capital expenditure forecasts.
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