Company Registration No: SC230949 (Scotland)

REGISTRAR OF COMPANIES

# tie LIMITED

# DIRECTORS' REPORT

# AND

# FINANCIAL STATEMENTS

# FOR THE YEAR ENDED 31 MARCH 2010

**tie LIMITED**

**CONTENTS**

## tie LIMITED

## COMPANY INFORMATION

| | | |
|---|---|---|
| **Directors** | D J Mackay | (Chairman) |
| | B J Cox | |
| | K J Hogg | |
| | A G Jackson | |
| | R B Jeffrey | |
| | G Mackenzie | |
| | I Perry | |
| | N Scales | |
| | P Strachan | |
| | A P M Wheeler | |
| **Secretary** | DW Company Services Limited | |
| **Company Number** | SC230949 | |
| **Registered Office** | City Chambers<br>High Street<br>Edinburgh<br>EH1 1YJ | |
| **Business address** | Citypoint<br>65 Haymarket Terrace<br>Edinburgh<br>EH12 5HD | |
| **Auditors** | Geoghegans<br>Chartered Accountants<br>6 St Colme Street<br>Edinburgh<br>EH3 6AD | |
| **Bankers** | The Royal Bank of Scotland plc<br>36 St Andrews Square<br>Edinburgh<br>EH2 2YB | |

**tie LIMITED**

**DIRECTORS' REPORT**
**for the year ended 31 March 2010**

The directors present their report and financial statements for the year ended 31 March 2010.

**Principal activities and review of business**

The principal activity of the company continues to be the promotion, development, procurement, project management and implementation of certain nominated projects. The company remains a "not for profit" entity.

On 18th December 2009, City of Edinburgh Council (CEC) transferred its 100% shareholding in the company to Transport Edinburgh Limited (TEL) which is itself a wholly owned subsidiary of CEC. All of the directors of the company are also directors of TEL and the governance of the company's activities on the Edinburgh Tram Project is now mainly conducted through the board of TEL and its committees. During the year ended 31st March 2010, the Edinburgh Tram Project accounted for 99% (2009: 97%) of the turnover disclosed in the Income and Expenditure account on page 7 with the balance being accounted for by a number of other transport related projects.

The company's planned activities, resource requirements and external expenditure will henceforth be detailed in a business plan for TEL which will incorporate the activities of its subsidiary company's and be presented to the CEC for approval on an annual basis.

The company plans activities on all of its projects such that best value for money can be delivered for each stage of the project. The Company does not make any financial commitments unless they have been approved by the funders and other stakeholders as part of the agreed governance structure for each project. The company does not bear any financial risks as all expenditure is fully recoverable from the parties who fund the projects. All financial commitments and expenditure on the Edinburgh Tram Project up to the date of this report have been made strictly in accordance with the foregoing principles.

CEC is the customer for the Edinburgh Tram Project and currently has approved funding of £45m for the project. Funding provided from Scottish Ministers is currently £500m. As comprehensively reported to CEC on 24th June 2010, the outcome of the project in terms of cost and completion date is uncertain against a background of delays and disputes with the principal contractor appointed to deliver the project infrastructure (the Infraco). As at the date of this report, the company and TEL are deploying a forceful commercial strategy, with the full support of CEC, to secure our contractual rights with Infraco and best value for money for public funds.

Notwithstanding the foregoing, there is now a reasonable expectation that the full extent of the first phase of the Edinburgh Tram Project, from Edinburgh Airport to Newhaven, cannot be delivered within the currently available funding of £545m. The company and TEL are now assisting CEC with contingency planning to ensure that committed expenditure on the Edinburgh Tram Project will not at any time exceed the funding available including the examination of possible sources of additional funding and reviewing the options for incremental delivery of the project.

The directors are of the opinion that the financial statements of the company should be prepared on a going concern basis taking cognisance of (a) all financial commitments of the company to the Infraco are underwritten by a Financial Guarantee provided to the Infraco by CEC in May 2008, (b) all other financial commitments to the project can be determined in such a way as to remain within the funding available from time to time, and (c) the contingency planning referred to in the foregoing paragraph.

**Principal activities and review of business (continued)**

In the course of its business the company manages the financial and operating risks presented by the projects it undertakes on behalf of its stakeholders and funders. The company deploys project management processes of the highest standard and seeks to employ resources with the best expertise and experience to do the work. The company's Board pursues these high standards and the application of well defined governance structures for each project with effective participation in these governance structures from its stakeholders and funders.

The company considers that a key driver for all transport related projects undertaken is to encourage use of public transport, which in turn would reduce the impact that travel has on resulting carbon emissions on the environment. The company fosters an environmental ethic among our management, employees, contractors and stakeholders.

The company aims to ensure that its staff and contractors are safe, healthy and fulfilled. The company provides a full range of occupational health services and products to its employees and contractors. There is dynamic incident management, safety auditing and management inspection processes and procedures in place with involvement of employees and contractors.

**Directors**

The following directors have held office since 1 April 2009 unless otherwise indicated:

| | | |
|---|---|---|
| D J Mackay | (Chairman) | (Appointed 23 April 2009) |
| B J Cox | | |
| W G Gallagher | | (Resigned 23 April 2009) |
| K J Hogg | | |
| A G Jackson | | |
| R B Jeffrey | | (Appointed 8 September 2009) |
| G Mackenzie | | |
| I Perry | | |
| N Scales | | |
| P Strachan | | |
| A P M Wheeler | | |

**Statement of directors' responsibilities**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Statement of disclosure to the auditor**

So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. Additionally, the directors have taken all the necessary steps they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditors are aware of that information.

**Auditors**

The company has by an elective resolution passed on 23 August 2004 dispensed with the obligation to appoint auditors annually in accordance with Section 386(1) of the Companies Act 1985, which continues in force under the Companies Act 2006. Therefore, the auditors, Geoghegans, will be deemed to be re-appointed for each succeeding financial year.

On behalf of the Board

[redacted]

**D J Mackay** [redacted]
Director

30 June 2010

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF tie LIMITED

We have audited the financial statements of tie Limited for the year ended 31 March 2010 which comprise the Income and Expenditure Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the Notes to the Financial Statements. These financial statements have been prepared under the accounting policies set out therein.

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

### Respective responsibilities of the directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2010 and of its surplus for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been properly prepared in accordance with the Companies Act 2006.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report is consistent with the financial statements.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF tie LIMITED (Continued)**

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Michael Crerar (Senior Statutory Auditor)**
For and on Behalf of Geoghegans
Chartered Accountants
Statutory Auditor

30 June 2010

6 St Colme Street
Edinburgh
EH3 6AD

tie LIMITED

## INCOME AND EXPENDITURE ACCOUNT
**for the year ended 31 March 2010**

| | Notes | 2010 | 2009 |
|---|---|---|---|
| | | £ | £ |
| **Turnover** | 2 | 114,921,309 | 127,201,480 |
| External charges | | (106,437,291) | (119,182,423) |
| | | 8,484,018 | 8,019,057 |
| Staff costs | 3 | (5,401,476) | (5,405,673) |
| Other operating charges | | (2,734,223) | (2,544,156) |
| | | (8,135,699) | (7,949,829) |
| **Operating surplus** | 4 | 348,319 | 69,228 |
| Interest receivable | | 825 | 7,308 |
| Other finance (costs)/ income | 11 | (40,000) | 20,000 |
| Interest payable | 5 | - | (580) |
| ***Surplus on ordinary activities before taxation*** | | 309,144 | 95,956 |
| Tax credit on surplus on ordinary activities | 6 | 1,856 | 18,044 |
| **Surplus on ordinary activities after taxation** | 13 | 311,000 | 114,000 |

The income and expenditure account has been prepared on the basis that all operations are continuing operations.

tie LIMITED

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
**for the year ended 31 March 2010**

| | Note | 2010<br>£ | 2009<br>£ |
|---|---|---|---|
| **Surplus for the financial year** | | 311,000 | 114,000 |
| Actuarial (loss) on pension scheme | 11 | (1,956,000) | (797,000) |
| **Total recognised gains and losses in the year** | | (1,645,000) | (683,000) |

**tie LIMITED**

**BALANCE SHEET**
**as at 31 March 2010**

| | Notes | 2010 £ | 2009 £ |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 7 | 1,340,546 | 1,596,405 |
| **Current assets** | | | |
| Debtors | 8 | 56,431,196 | 38,078,747 |
| Cash at bank and in hand | | 100 | 164 |
| | | 56,431,296 | 38,078,911 |
| **Creditors: amounts falling due within one year** | 9 | (56,430,296) | (38,077,911) |
| **Net current assets** | | 1,000 | 1,000 |
| **Total assets less current liabilities** | | 1,341,546 | 1,597,405 |
| **Accruals and deferred income** | 10 | (1,340,546) | (1,596,405) |
| **Pension scheme liability** | 11 | (2,206,000) | (561,000) |
| | | (2,205,000) | (560,000) |
| **Capital and reserves** | | | |
| Called up share capital | 12 | 1,000 | 1,000 |
| Income and expenditure account | 13 | (2,206,000) | (561,000) |
| **Shareholders' funds – equity interests** | 14 | (2,205,000) | (560,000) |

The financial statements were approved and authorised for issue by the Board of Directors on 30 June 2010.

[redacted]

**D J Mackay** [redacted]
Director

[redacted]

**K J Hogg**
Director

**Company Registration No. SC230949**

## CASH FLOW STATEMENT
**for the year ended 31 March 2010**

| **Reconciliation of operating surplus to net cash (outflow) from operating activities** | 2010 £ | 2009 £ |
|---|---|---|
| Operating surplus | 348,319 | 69,228 |
| Depreciation of tangible assets | 340,163 | 340,081 |
| (Increase)/decrease in debtors | (18,371,182) | 26,057,570 |
| Increase/(decrease) in creditors within one year | 17,913,434 | (26,064,513) |
| Movement on capital payments provision | (340,163) | (340,081) |
| Difference between pension charge and cash contribution | (351,000) | (154,000) |
| **Net cash (outflow) from operating activities** | (460,429) | (91,715) |

| **CASH FLOW STATEMENT** | Notes | | |
|---|---|---|---|
| Net cash (outflow) from operating activities | | (460,429) | (91,715) |
| **Returns on investments and servicing of finance** | | | |
| Interest received | | 825 | 7,308 |
| Interest paid | | - | (580) |
| | | 825 | 6,728 |
| **Corporation Tax** | | | |
| Corporation tax paid | | (5,007) | - |
| Group relief receipts | | 24,907 | - |
| | | 19,900 | - |
| **Cash outflow from capital expenditure** | | | |
| Payments to acquire tangible assets | | (84,304) | (114,445) |
| **Net cash (outflow) before management of liquid resources and financing** | | (524,008) | (199,432) |
| **Cash inflow from financing** | | | |
| Capital payments received | | 84,304 | 114,445 |
| **(Decrease) in cash in the year** | 1 | (439,704) | (84,987) |

tie LIMITED

## NOTES TO THE CASH FLOW STATEMENT
**for the year ended 31 March 2010**

### 1 Analysis of net debt

| | 1 April 2009 £ | Cashflow £ | 31 March 2010 £ |
|---|---|---|---|
| Bank overdraft | (31,778) | (439,640) | (471,418) |
| Cash at bank and in hand | 164 | (64) | 100 |
| Net debt | (31,614) | (439,704) | (471,318) |

### 2 Reconciliation of net cash flow to movement in net (debt)

| | 2010 £ | 2009 £ |
|---|---|---|
| **Movement in net debt in the year** | | |
| (Decrease) in cash in the year | (439,704) | (84,987) |
| Opening net (debt)/funds | (31,614) | 53,373 |
| **Closing net (debt)** | (471,318) | (31,614) |

**tie LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**
**for the year ended 31 March 2010**

1 **Accounting policies**

1.1 **Accounting convention**
The financial statements have been prepared under the historical cost convention.

1.2 **Compliance with accounting standards**
The financial statements have been prepared in accordance with applicable UK accounting standards which have been applied consistently.

1.3 **Going Concern**
The company meets it's day to day working capital requirements through the use of rolling operating agreements with the City of Edinburgh Council. The company no longer utilises an overdraft facility and any bank overdraft balance reflected on the balance sheet is due to timing differences between the recording of payments and the funding of tie's bank account by City of Edinburgh Council to meet those payments.

The Company does not make any financial commitments unless they have been approved by the funders and other stakeholders as part of the agreed governance structure for each project. The company does not bear any financial risks as all expenditure is fully recoverable from the parties who fund the projects. All financial commitments and expenditure on the Edinburgh Tram Project up to the date of this report have been made strictly in accordance with the foregoing principles.

CEC is the customer for the Edinburgh Tram Project and currently has approved funding of £45m for the project. Funding provided from Scottish Ministers is currently £500m. As comprehensively reported to CEC on 24th June 2010, the outcome of the project in terms of cost and completion date is uncertain against a background of delays and disputes with the principal contractor appointed to deliver the project infrastructure (the Infraco). As at the date of this report, the company and TEL are deploying a forceful commercial strategy, with the full support of CEC, to secure our contractual rights with Infraco and best value for money for public funds.

Notwithstanding the foregoing, there is now a reasonable expectation that the full extent of the first phase of the Edinburgh Tram Project, from Edinburgh Airport to Newhaven, cannot be delivered within the currently available funding of £545m. The company and TEL are now assisting CEC with contingency planning to ensure that committed expenditure on the Edinburgh Tram Project will not at any time exceed the funding available including the examination of possible sources of additional funding and reviewing the options for incremental delivery of the project.

The directors are of the opinion that the financial statements of the company should be prepared on a going concern basis taking cognisance of (a) all financial commitments of the company to the Infraco are underwritten by a Financial Guarantee provided to the Infraco by CEC in May 2008, (b) all other financial commitments to the project can be determined in such a way as to remain within the funding available from time to time, and (c) the contingency planning referred to in the foregoing paragraph.

The company's planned activities, resource requirements and external expenditure will be detailed in a business plan for its immediate holding company Transport Edinburgh Limited and be presented to the CEC for approval on an annual basis. The balance sheet has been adjusted to reflect the company's attributable share of the net liabilities of the Lothian Pension Fund as reported to us by the scheme's actuary.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2010**

1. **Accounting policies (continued)**

1.4 **Revenue Recognition**

Revenue is recognised to reflect completion of the company's contractual obligations. Where the substance of the contract is that a right to consideration does not arise until the occurrence of a critical event, revenue is not recognised until that event occurs. The company is a "not for profit" company and any surplus or deficit arises out of the movement on the company's pension liabilities in the year.

1.5 **Tangible fixed assets and depreciation**

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

| | |
|---|---|
| Heritable property | - 2% Straight line |
| Tenants improvements | - 25% Straight line |
| Motor vehicles | - 25% Straight line |
| Fixtures and equipment | - 25% Straight line |

1.6 **Leasing**

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

1.7 **Pensions**

The Company is a member of the Lothian Pension Fund which is a multi-employer Local Government defined benefit pension scheme. The assets of the scheme are held separately from those of the company and pensions payable under the scheme are based on final pensionable salary. In accordance with the requirements of FRS 17, the operating costs of providing these benefits are recognised in the income and expenditure account in the accounting period in which the benefits are earned by the employees and related financing and other costs are recognised in the period in which they arise.

The company also contributes to individual's personal pension schemes and contributions payable are charged to the income and expenditure account in the period to which they relate.

1.8 **Deferred capital payments**

Capital receipts in respect of capital expenditure are credited to the deferred income account and then released to the income and expenditure account over the expected useful lives of the relevant assets.

2 **Turnover**

The total turnover of the company for the year has been derived from its principal activity wholly undertaken in the United Kingdom.

## NOTES TO THE FINANCIAL STATEMENTS (continued)
**for the year ended 31 March 2010**

### 3 Staff costs

| | 2010 | 2009 |
|---|---|---|
| | No | No |
| ***Number of employees*** | | |
| The average monthly number of employees (excluding seconded and contracted staff) during the year was: | | |
| Technical and administration | 86 | 84 |

| ***Employment and other staff costs*** | 2010 | 2009 |
|---|---|---|
| | £ | £ |
| Salaries | 4,661,738 | 4,479,965 |
| Social security costs | 405,697 | 534,627 |
| Other pension costs | 334,041 | 391,081 |
| Total | 5,401,476 | 5,405,673 |

### 4 Operating surplus

| | 2010 | 2009 |
|---|---|---|
| | £ | £ |
| Operating surplus is stated after charging: | | |
| Depreciation of tangible assets | 340,163 | 340,081 |
| Operating lease rentals | 496,115 | 467,923 |
| Auditors' remuneration: | | |
| - Audit | 14,475 | 11,250 |
| - Other | 3,352 | 5,050 |
| And after crediting: | | |
| Capital payment amortisation | (340,163) | (340,081) |

### 5 Interest payable

| | 2010 | 2009 |
|---|---|---|
| | £ | £ |
| On bank overdraft | - | 580 |

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2010**

## 6 Taxation

| | 2010 £ | 2009 £ |
|---|---|---|
| Current tax: | | |
| UK corporation tax | - | 689 |
| Adjustment for prior years: | | |
| - Group relief receipts | (6,174) | (18,733) |
| - Other | 4,318 | - |
| Current tax credit | (1,856) | (18,044) |

Factors affecting the tax charge for year:

| | 2010 £ | 2009 £ |
|---|---|---|
| Surplus on ordinary activities before tax | 309,144 | 95,956 |
| Surplus on ordinary activities before taxation multiplied by standard rate of corporation tax 28% (2009 - 28%) | 86,560 | 26,868 |
| Effects of: | | |
| Other tax adjustments | 520 | 22,541 |
| Adjustment for prior years | (1,856) | (18,733) |
| Tax effects of FRS 17 adjustments | (87,080) | (48,720) |
| Current tax credit for the year | (1,856) | (18,044) |

## 7 Tangible fixed assets

| | Heritable Property £ | Tenants Improvements £ | Fixtures & Equipment £ | Motor Vehicles £ | Total £ |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 April 2009 | 1,077,922 | 307,471 | 1,031,965 | 96,610 | 2,513,968 |
| Additions | - | 18,808 | 65,496 | - | 84,304 |
| Disposals | - | - | (160,054) | - | (160,054) |
| At 31 March 2010 | 1,077,922 | 326,279 | 937,407 | 96,610 | 2,438,218 |
| **Depreciation** | | | | | |
| At 1 April 2009 | 34,350 | 135,470 | 683,336 | 64,407 | 917,563 |
| Charge for the year | 21,558 | 80,009 | 214,444 | 24,152 | 340,163 |
| Disposals | - | - | (160,054) | - | (160,054) |
| At 31 March 2010 | 55,908 | 215,479 | 737,726 | 88,559 | 1,097,672 |
| **Net book value** | | | | | |
| At 31 March 2010 | 1,022,014 | 110,800 | 199,681 | 8,051 | 1,340,546 |
| At 31 March 2009 | 1,043,572 | 172,001 | 348,629 | 32,203 | 1,596,405 |

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2010**

**8 Debtors**

| | 2010 £ | 2009 £ |
|---|---|---|
| Trade debtors | 505,414 | 807,037 |
| Amounts due from the City of Edinburgh Council | 40,062,490 | 12,051,622 |
| Amounts due from the Scottish Government | 8,940 | 1,640 |
| Other debtors | - | 237,097 |
| Prepayments and accrued income | 15,854,352 | 24,981,351 |
| | 56,431,196 | 38,078,747 |

**9 Creditors: amounts falling due within one year**

| | 2010 £ | 2009 £ |
|---|---|---|
| Bank overdraft | 471,418 | 31,778 |
| Trade creditors | 163,836 | 45,444 |
| Corporation tax | - | 689 |
| Taxes and social security costs | 4,088,667 | 119,091 |
| Other creditors | - | 65,992 |
| Accruals and deferred income | 51,706,375 | 37,814,917 |
| | 56,430,296 | 38,077,911 |

tie's bank account is now funded by Group Treasury of The City of Edinburgh Council to meet payments as they fall due. Any bank overdraft balance reflected on the balance sheet is due to timing differences between the recording of payments and the funding of **tie**'s bank account by City of Edinburgh Council to meet those payments.

**10 Accruals and deferred income**

| | Capital Payments £ |
|---|---|
| At 1 April 2009 | 1,596,405 |
| Capital payments received during the year | 84,304 |
| Amortisation in the year | (340,163) |
| At 31 March 2010 | 1,340,546 |

**11 Pension commitments**

The company is a member of the Lothian Pension Fund which is a Local Government Pension Scheme. The Scheme provides benefits based on final pensionable pay to certain of the company's employees. The assets of the Fund are held separately from those of the company and are controlled by independent trustees on behalf of the members. Contributions to the Fund are centrally calculated as a whole for all participating employers and they are determined by a qualified actuary on the basis of triennial valuations, the most recent valuation being as at 31 March 2008. In order to assess the value of the employer's liabilities in the Fund at 31 March 2010 the actuary has rolled forward the value of the employer's liabilities calculated at the last formal funding valuation, allowing for the different financial assumptions required under FRS 17 this year.

11 **Pension commitments (continued)**

The service cost for the year has been calculated by the actuary using the projected unit method of valuation as required under FRS 17. It should be noted that no allowance has been made for the effect of the abolition of the 'Rule of 85' for new members since 31 March 2008. The principal reason for this is that insufficient information is available to make any adjustment but the effect is likely to be immaterial in actuarial terms.

The contribution of the company is 18.8% and for employees it is varying percentage rates of pensionable salary.

FRS 17 requires company's accounts to reflect the full extent of any surplus or deficit on its pension fund. As at 31 March 2010, the actuaries of Lothian Pension Fund calculated the company's share of the overall scheme deficit to be a deficit of £2,206,000 and this figure is included in the financial statements.

The principal assumptions used by the actuary were:

| | 2010 | 2009 |
|---|---|---|
| Rate of increase in salaries | 5.3% | 4.6% |
| Rate of increase in pensions payment | 3.8% | 3.1% |
| Discount rate | 5.5% | 6.9% |
| Long term expected rate of return on scheme assets: | | |
| Equities | 7.8% | 7.0% |
| Bonds | 5.0% | 5.4% |
| Property | 5.8% | 4.9% |
| Cash | 4.8% | 4.0% |
| Mortality – life expectancies from age 65: | | |
| Males | | |
| Current pensioners | 20.8 | 19.8 |
| Future pensioners | 22.3 | 21.0 |
| Females | | |
| Current pensioners | 24.1 | 22.8 |
| Future pensioners | 25.7 | 24.0 |

**Amounts recognised in the balance sheet**

| | 2010<br>£'000 | 2009<br>£'000 |
|---|---|---|
| Fair value of employer assets | 6,189 | 4,053 |
| Present value of employer liabilities | (8,314) | (4,554) |
| Present value of unfunded liabilities | (81) | (60) |
| Company's net pension (liability) | (2,206) | (561) |

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2010**

11 **Pension commitments (continued)**

| **Analysis of amounts recognised in income and expenditure** | 2010 £'000 | 2009 £'000 |
|---|---|---|
| Amounts charged to – staff costs | | |
| Current service cost | 225 | 268 |
| Past service cost | 25 | - |
| Curtailment and settlements | - | 45 |
| Total operating charge (A) | 250 | 313 |
| Amount credited to – other finance (costs) / income | | |
| Expected return on employer assets | 288 | 277 |
| Interest on employer liabilities | (328) | (257) |
| Net return (B) | (40) | 20 |
| **Net income and expenditure account (A)-(B)** | 290 | 293 |

| **Analysis of amount recognised in statement of total recognised gains and losses (STRGL)** | 2010 £'000 | 2009 £'000 |
|---|---|---|
| Actual return less expected return on employer assets | 1,216 | (376) |
| Experience gains and losses arising on the employer liabilities | - | (918) |
| Changes in financial assumptions underlying the present value of the employer liabilities | (3,172) | 497 |
| **Actuarial (loss) recognised in STRGL** | (1,956) | (797) |

The cumulative amount of actuarial losses recognised in the STRGL to date are £2,321,000 (2009 – £365,000)

| **Reconciliation of the present value of employer liabilities** | 2010 £000 | 2009 £000 |
|---|---|---|
| Present value of employer liabilities at 1 April 2009 | (4,614) | (3,496) |
| Allocation adjustment | - | (42) |
| Current service cost | (225) | (268) |
| Interest cost | (328) | (257) |
| Contributions by members | (283) | (145) |
| Actuarial (losses) | (3,172) | (421) |
| Past service costs | (25) | - |
| (Losses) on curtailments | - | (45) |
| Unfunded benefits paid | 3 | 3 |
| Benefits paid | 249 | 57 |
| Present value of employer liabilities at 31 March 2010 | (8,395) | (4,614) |

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2010**

11 **Pension commitments (continued)**

| **Reconciliation of the fair value of employer assets** | 2010<br>£000 | 2009<br>£000 |
|---|---|---|
| Fair value of employer assets at 1 April 2009 | 4,053 | 3,558 |
| Allocation adjustment | - | 42 |
| Expected return on assets | 288 | 277 |
| Contributions by members | 283 | 145 |
| Contributions by the employer | 598 | 464 |
| Contributions in respect of unfunded benefits | 3 | 3 |
| Actuarial gains / (losses) | 1,216 | (376) |
| Unfunded benefits paid | (3) | (3) |
| Benefits paid | (249) | (57) |
| Fair value of employer assets at 31 March 2010 | 6,189 | 4,053 |

The company expects to contribute £707,000 to the defined benefit scheme during the year to 31 March 2011.

The fair value of major categories of employer assets are as follows:

| | 2010<br>£000 | 2009<br>£000 |
|---|---|---|
| Equities | 4,889 | 3,202 |
| Bonds | 495 | 446 |
| Property | 557 | 405 |
| Cash | 248 | - |
| | 6,189 | 4,053 |

**History of surplus / (deficit) in the scheme and experience adjustments**

Analysis of the current and previous four periods:

| | 2010<br>£000 | 2009<br>£000 | 2008<br>£000 | 2007<br>£000 | 2006<br>£000 |
|---|---|---|---|---|---|
| Present value of employer liabilities | (8,395) | (4,614) | (3,496) | (3,450) | (3,260) |
| Fair value of employer assets | 6,189 | 4,053 | 3,558 | 3,117 | 2,589 |
| Surplus / (deficit) in scheme | (2,206) | (561) | 62 | (333) | (671) |
| Experience gains / (losses) on assets | 1,216 | (376) | (336) | 18 | 393 |
| Experience gains / (losses) on liabilities | - | (918) | (8) | (1) | (315) |

## NOTES TO THE FINANCIAL STATEMENTS (continued)
**for the year ended 31 March 2010**

### 12 Share capital

| | 2010 £ | 2009 £ |
|---|---|---|
| **Authorised** | | |
| 1,000 ordinary shares of £1 each | 1,000 | 1,000 |
| **Allotted, called up and fully paid** | | |
| 1,000 ordinary shares of £1 each | 1,000 | 1,000 |

### 13 Income and expenditure reserve

| | 2010 £ |
|---|---|
| At 1 April 2009 | (561,000) |
| Result for the financial year | 311,000 |
| Other recognised gains and losses in the year | (1,956,000) |
| At 31 March 2010 | (2,206,000) |

### 14 Reconciliation of movements in shareholders' funds

| | 2010 £ | 2009 £ |
|---|---|---|
| Result for the financial year | 311,000 | 114,000 |
| Other recognised gains and losses in the year | (1,956,000) | (797,000) |
| Opening shareholders' funds | (560,000) | 123,000 |
| Closing shareholders' funds | (2,205,000) | (560,000) |

### 15 Financial commitments

At 31 March 2010 the company was committed to making the following annual payments under non-cancellable operating leases.

| | Land and buildings | |
|---|---|---|
| | 2010 £ | 2009 £ |
| Operating leases which expire | | |
| In less than one year | 212,975 | - |
| Between two and five years | 283,140 | 496,115 |
| | 496,115 | 496,115 |

## 16 Directors' emoluments

| | 2010 | 2009 |
|---|---|---|
| | £ | £ |
| Emoluments for qualifying services | 288,321 | 239,686 |

The number of directors for whom retirement benefits are accruing under defined benefit pension schemes amounted to 1 (2009 - nil).

Emoluments disclosed above include the following amounts paid to the highest paid director:

| | 2010 | 2009 |
|---|---|---|
| Emoluments for qualifying services | 140,192 | 191,686 |
| Accrued pension at the end of the year | 2,858 | - |
| Accrued lump sum at the end of the year | - | - |

## 17 Related party transactions

Four of the directors of the company subsisting during the year, namely A G Jackson, G Mackenzie, I Perry and A P M Wheeler are considered to be related parties as they are members of the City of Edinburgh Council ("CEC"). The company provides services to CEC under the terms of a contractual agreement.

During the year the company invoiced service charges to CEC amounting to £114,757,218 (2009 - £127,096,583) and at the year end the amount due by CEC to the company was £40,062,490 (2009 - £12,051,622) in respect of the provision of services.

During the year the company was recharged by Lothian Buses plc, a subsidiary of CEC, for consultancy fees and expenses totalling £333,560 (2009 - £697,031) in respect of the TRAM project. The company also incurred costs in relation to Edinburgh Trams Limited, a subsidiary of CEC, for staff costs totalling £70,574 (2009 - £Nil) in respect of the TRAM project.

City of Edinburgh Council have provided a guarantee to a contractor in respect of the company's financial obligations relating to the contract for delivery of the infrastructure of the Edinburgh Tram Network.

## 18 Ultimate Controlling Party

The City of Edinburgh Council is deemed to be the ultimate controlling party by way of its 100% shareholding in Transport Edinburgh Limited, the immediate parent company of tie Limited.