

SUBSIDY CONTROL ASSESSMENT FORM

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| Name of funding body | Warrington Borough Council (“the Council”) |
| Date of decision | 13 February 2023 |
| Date of Subsidy Advice Unit report | 13 June 2023 |

Transparency Information

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| Name of recipient of funding | Warrington Borough Transport Limited t/a Warrington’s Own Buses (“WOB”) |
| Size of recipient | WOB are a small/medium sized enterprise |
| Date of grant of subsidy | Not yet granted |
| Value of subsidy (or budget allocated for the subsidy) | <p>£47,940,842 made up of:-</p> <ul style="list-style-type: none"> - Buses - £42,377,122 - Chargers - £5,563,720 <p>This subsidy will be provided by way of the Council transferring a fleet of electric buses, electric vehicle chargers and associated infrastructure to WOB at a nominal cost. This is to subsidise the running of an environmentally friendly electric bus fleet, which would otherwise be uneconomic.</p> |
| Policy objective of subsidy | <p>Subsidies granted pursuant to Subsidy Control Act 2022 with the Objective of being to establish a 100% electric bus fleet in the Borough of Warrington through the replacement of the entire internal combustion engine fleet of Warrington’s Own Buses. This will enable:-</p> <ul style="list-style-type: none"> - Decarbonisation our transport system as we work towards a zero-carbon future - Improving air quality in Warrington - Strengthening working relationships between the local authority and bus operator for the long term benefit of passengers and the wider community - Encouraging more people to choose to travel by bus - Understanding the challenge of introducing zero emission buses to support their wider roll-out across the country. - Partnership working with suppliers to support the development of suitable zero emission buses <p>(the Objectives)</p> |

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| Purpose of subsidy | The purpose of the subsidy is to provide WOB with a fully electric, zero emission bus fleet and associated charging infrastructure to enable delivery of the objectives. | |
| Subsidy for goods or services | The proposed subsidy relates to the provision of goods to WOB, who in turn deliver services. | |
| SSoPI or SSol? | Pursuant to s.3 of the Subsidy Control (Subsidies and Schemes of Interest or Particular Interest) Regulations 2022 the proposed subsidy is a subsidy of particular interest on the basis that it has a value of over £10m. | |
| Do any of the following apply (all references to Subsidy Control Act 2022): <ul style="list-style-type: none"> - Secretary of State direction under section 55 or section 64(3) - Report published under section 53(2) or 57(3) - Section 54(3) - Secretary of State referral under section 60(1) - Report published under section 61(1) | No | |
| Legal basis for award | Localism Act 2011 | |
| Duration of subsidy and any time limits attached to award | One-off subsidy. | |
| Sectors to which subsidy relates | Transport services. | |
| Geographic location of subsidised activities | Within the administrative area of Warrington Borough Council. | |
| Are specified provisions of Subsidy Control Act 2022 applicable? | Section 13 – yes Section 15 – no Section 16 – no Section 17 - no Section 18 – no Section 19 – no Section 20 – no Section 21 – no Section 22 – no Section 23 – no | Section 27 – no Section 28 – no Section 29 – no Section 36 – no Section 38 – no Section 43 – no Section 44 – no Section 47 – no Section 48(1)(a) – no Section 50 – no |

| Subsidy Control Principle | Explanation of how principle is satisfied |
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| <p>A. The subsidy pursues a specific public policy objective to remedy an identified market failure or to address an equity rationale such as social difficulties or distributional concerns (“the objective”).</p> | <p>The Council has been successful in its bid for £21.4 m of funding from the Department for Transport under the ZEBRA scheme (Zero Emission Bus Regional Areas (ZEBRA) scheme funding amounts - GOV.UK (www.gov.uk) and Zero Emission Bus Regional Areas (ZEBRA) Scheme (publishing.service.gov.uk)).</p> <p>The Council’s ZEBRA proposals are being driven by both national and local policy objectives.</p> <p>Government’s objectives for the ZEBRA programme include:</p> <ul style="list-style-type: none"> - To support the government’s commitment to decarbonisation and to reduce the transport sector’s contribution to CO2 emissions - To support the roll-out of the 4,000 zero emission buses that the Government committed to in February 2020 - To support the bus manufacturers in the development of the zero emission bus technology <p>The Council’s Local Transport Plan 4 (LTP4) Local Transport Plan warrington.gov.uk objectives include:</p> <ul style="list-style-type: none"> - Reduce both exhaust and non-exhaust emissions from transport <p>Our LTP4 includes Policy CF2: We will investigate how we can best support local fleet operators to switch to vehicles that use cleaner fuels.</p> <p>The specific objectives of our ZEBRA proposal are (“the Objectives”):</p> <ul style="list-style-type: none"> - Decarbonising our transport system as we work towards a zero-carbon future - Improving air quality in Warrington - Strengthening working relationships between the local authority and bus operator for the long term benefit of passengers and the wider community - Encouraging more people to choose to travel by bus - Understanding the challenge of introducing zero emission buses to support their wider roll-out across the country. - Partnership working with suppliers to support the development of suitable zero emission buses <p>In the current political and economic climate, the ZEBRA proposals are the best – and possibly only – way that we can support Warrington’s Own Buses to convert to a fleet of zero emission buses.</p> <p>Approximately 145 people annually in Warrington are expected to die prematurely from poor air quality. Bus travel accounts for 1% of distance driven on Warrington’s roads, yet accounts for 11% of harmful NOx and 5.7% of PM2.5 of traffic emissions. (Section 2.9.1 and 2.9.2 Full Business Case (warrington.gov.uk))</p> |

Successful introduction and operation of a zero emission bus fleet will support the delivery of the policy objectives identified above and facilitate a significant improvement in air quality in Warrington.

However, the introduction of a zero emission bus fleet will not currently be delivered through reliance on the market. The current cost of an electric bus compared to the cost of an equivalent, but more polluting, diesel vehicle prohibits bus operators from purchasing or leasing zero emission buses. This is because of the costs required to acquire the buses as well as the required charging infrastructure are prohibitive. Estimates in the business case identified the cost of an electric fleet of buses at £46,740,000. The equivalent diesel fleet would be less than half of that cost, at £22,060,000. The major issue for WOB is that they presently own the majority of their fleet, with little impact on their profit and loss accounts in respect of depreciation of the assets, furthermore they have no depreciating assets similar to the chargers that presently impact their position.

Even when the whole-life cost of an electric bus fleet is considered, the extra cost of capital is not overcome by WOB alone. It is not possible for bus companies, particularly WOB, to purchase a fleet of zero emission buses at that cost. In time it may be the case the “Green BSOG” (<https://www.gov.uk/government/publications/bus-service-operators-grant-guidance-for-commercial-transport-operators/bus-service-operators-grant-guidance-for-commercial-transport-operators>) is further enhanced to a level that makes it possible for bus operators to purchase or lease electric buses at market rates, but this is not the case currently.

Public funding is therefore needed to allow an electric fleet to be introduced, primarily to overcome the huge financial impact that the depreciation of the buses would have on the profit and loss account of WOB.

The proposal is therefore for the Council to use the ZEBRA grant and its own funds to purchase a fleet of 105 electric buses, as well as all required vehicle chargers and infrastructure. The buses and chargers will be immediately sold to WOB at a nominal value.

There will therefore be a subsidy granted by the Council to WOB representing the value of the new fleet of 105 buses and all required chargers. The subsidy is therefore:-

- Buses - £42,377,122
- Chargers - £5,563,720
- **Total - £47,940,842**

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| | | <p>In respect of market failure, WOB's performance generally is in the region of break-even to 3% profit and since 2000, the company has delivered profits in most years though. WOB's business model is currently based around low depreciation on its assets, with mid/late life buses acquired, resulting in a lower depreciation year on year, and as a result of lesser impact on its accounts.</p> <p>Were ZEBRA not to take place, WOB have confirmed that they would continue only with a modest replacement of life-expired diesels with mid/late life diesels. Whilst there may be an environmental improvement because of better emissions standards in newer diesels, it would be nowhere near the transformative impact the zero emission buses under the ZEBRA scheme will have, and would not deliver upon the Objectives.</p> <p>The unaffordability of new electric buses is illustrated by the information on the cost of new buses the Council have obtained from the successful tenderer demonstrates that a new electric bus costs in the region of £350K (single deck) /£450K (double deck) and a new diesel bus would cost in the region of £185K (single deck) / £230K (double deck) whereas mid/late life diesel buses which typically cost in the region of £60k for a 10 year old single decker and £100k for a 10 year old double decker.</p> <p>The cost of brand-new electric buses as well as brand-new diesel replacement would be completely unaffordable to WOB, both from a cost and depreciation perspective. As such without the delivery of the ZEBRA scheme, WOB would not be in a position to acquire brand new electric buses, as such the Objectives would not be delivered.</p> <p>Currently therefore, without public funding, the objectives of this scheme could not be met.</p> |
| B. | The subsidy is proportionate and limited to what is necessary to achieve the objective. | <p>The financial model devised by the Council in conjunction with WOB to support the ZEBRA proposals shows WOB's trading position and outlook for the 17 years that comprises the expected operational lifespan of an electric fleet of buses. It is clear from that model that charging a full (or even partial) cost to acquire the buses or chargers will cause WOB to incur losses for the entire 17 year period. This is because of the capital cost of an electric fleet and associated charging infrastructure and the associated year on year depreciation of the value of the new fleet and chargers.</p> <ul style="list-style-type: none"> To confirm, as well as the present model proposed whereby the Council will transfer all buses and chargers to WOB at nominal value, two alternative models were considered:-The first model was that once |

acquired by the Council, the buses and chargers would be sold at full market price to WOB. ("First Model");

- The second model was that the Council would transfer the buses to WOB at the cost of an equivalent diesel bus and that the chargers would be transferred at 25% of their market cost. ("Second Model").

As a result of the modelling, it was clear that under both models the depreciation impact on WOB's profit and loss account as a result of holding the buses and chargers as assets would be so serious that they will not be able to proceed with the ZEBRA scheme.

If the First Model was followed, with the full cost of the buses and chargers paid by WOB, the potential losses, as recorded in WOB's accounts, over the lifetime of the project (17 years), as a result of allowing for the depreciation of the full cost of the assets, would be £2.5m per annum for buses and £327k per annum for the chargers. This would generate significant annual losses for WOB for the lifetime of the project amounting to a potential value of £48m, which would be unacceptable to the WOB Board. The Objective would not therefore be delivered.

Even on the basis of the second model WOB would suffer depreciation over the 17 year life of the project of £22.1m. If chargers were transferred at 25% of their value, WOB would suffer losses of £1.7m, over the 17 year lifetime of the project. Combined this would lead to a deficit position on the trading activity of WOB over the 17 year life of the project of £24.1m.

The Financial Model showed the potential profit and loss position of WOB for each year. The model contained options to demonstrate the alternative profit and loss position after accounting for depreciation on the buses and/or EV chargers on the basis of the Second Model. The Council has worked with EY on the development of the model and a number its assumptions.

WOB's board would be unable to agree to either model and as such the Objective would not be delivered.

As a result the Council and WOB have modelled the project on the basis of a transfer of the buses and chargers to WOB at a nominal value. Whilst WOB would make a potential cumulative surplus of £491k by the end of year 8 (mid-point of the project), WOB is forecast to make a cumulative potential deficit of £816k from year 9 to year 17. Therefore WOB would potentially incur a £326k deficient over the entire 17 year lifetime of the project.

The auditor for WOB have confirmed that once the buses are transferred by the Council to WOB at nominal value, WOB would then revalue the assets to their market value. This ensures that the assets are valued correctly in fixed assets section of their accounts allowing the buses to be depreciated in line with the anticipated life of the assets. The revaluation of the buses from a nominal value to their market value also generates a creditor (revaluation

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| | | <p>reserve/deferred income), which is then released on the same (but opposite) basis as the depreciation on the fixed assets.</p> <p>Therefore, the level of subsidy proposed is the full value of the 105 electric buses and associated chargers. This is necessary if we are to introduce a zero emission fleet of buses in Warrington and achieve the Objectives. The subsidy is limited to what is considered necessary in order to introduce the zero emission fleet and achieve the policy objectives. Anything other than a transfer of the buses and chargers for a nominal fee would lead to an unacceptable loss position and WOB would be able to proceed and deliver the Objective.</p> |
| C. | <p>The subsidy is designed to bring about a change of economic behaviour of the beneficiary that is conducive to achieving the objective and that would not be achieved in the absence of the subsidy being provided.</p> | <p>The Government’s objectives for the ZEBRA project include the following:</p> <ul style="list-style-type: none"> • To support the bus manufacturers in the development of zero emission bus technology • To support the partnership working between Local Transport Authorities, bus operators, and other local stakeholders as set out in the National Bus Strategy • To understand better the challenges of introducing zero emission buses and supporting infrastructure to inform future government support for Zero Emission Buses. <p>As well as the Objectives, other necessary factors for introducing zero emission buses in Warrington include:-</p> <ul style="list-style-type: none"> • Strengthening the working relationships between the local authority and the bus operator for the long term benefit of passengers and the wider community • Understanding the challenge of introducing zero emission buses to support their wider roll-out across the country • Partnership working with suppliers to support the development of suitable zero emission buses. <p>The introduction of electric buses in Warrington will result in a change in economic behaviour from WOB, entirely in line with the above and the Objective. The purchase and operation of new electric buses will see WOB, and the Council, engage in transactions with bus manufacturers and charger suppliers. Learning from this will be used to share best practice with other locations and bus operators considering electric vehicles.</p> <p>This economic activity and the associated partnership working and learning would not take place without the ZEBRA funding and subsidy.</p> <p>Without the subsidy, WOB would not be in a financial position to convert to an electric fleet. The financial model prepared to support the ZEBRA proposals shows WOB’s trading position and outlook for the 17 years (which comprises the expected operational lifespan of an electric fleet of buses). It is clear from that model that charging a full or even partial cost for the buses and chargers</p> |

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| | | <p>will cause the company to incur unacceptable losses for the entire 17 year period. This is because of the capital cost of an electric fleet and chargers and the associated year on year depreciation.</p> <p>The Directors' fiduciary duties prevent the bus company entering into such an agreement where the bus company is loss-making for a sustained period. This would prevent the objectives of the scheme being realised.</p> <p>Therefore, without the subsidy, WOB are not in a position to convert to an electric bus fleet.</p> <p>This project will also help to secure the long term future of jobs with WOB and provide job security for the local people currently employed.</p> <p>Wherever possible WOB use a local supply chain. This project will help to secure greater use of that supply chain, benefitting businesses in the local area.</p> |
| D. | <p>The subsidy should not normally compensate for the costs the beneficiary would have funded in the absence of any subsidy.</p> | <p>As set out above, the Government's objectives for the ZEBRA funding include:</p> <ul style="list-style-type: none"> • To support the roll-out of the 4,000 zero emission buses that the Government committed to in February 2020 • To support the bus manufacturers in the development of the zero emission bus technology <p>These objectives demonstrate that the purpose of the ZEBRA funding grant is to incentivising and encouraging the bus market to change, and to encourage more operators to run zero emission buses. However, the grant does not go far enough to make electric bus purchases commercially viable as the cost of electric buses is still too high even with grant support.</p> <p>Without the grant, and without the associated subsidy, WOB would not be in a position to purchase and operate an electric bus fleet. Therefore, they would not be funding an electric bus fleet, meaning that the subsidy does not compensate any costs that Warrington's Own Buses would be likely to incur in the short term as at present they own the majority of their own diesel fleet and do not require chargers.</p> <p>The announcement of the Government's National Bus Strategy (https://www.gov.uk/government/publications/bus-back-better and Bus Back Better (publishing.service.gov.uk)) and the ZEBRA funding has come at the ideal time for the Council, who are 18 months into the period covered by our LTP4, meaning that we are nearing completion on some of the key studies that will support the delivery of our vision for transforming transport. The climate emergency and the need to improve local air quality are at the forefront of our decision making. We want to inspire, drive, and support our communities to address the challenges of the climate emergency, working in partnership to achieve real change.</p> |

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| | | <p>The ZEBRA announcement also comes at a key time for WOB and provides a real opportunity to both secure the future of high quality, sustainable, local bus service provision in Warrington, and the wider benefits that a municipal operator can provide. There is an acknowledgement that WOB, and the Council as the owner of the bus company, will be required to purchase zero emission buses to replace the current diesel fleet in the short-medium term future. The ownership structure of the bus company means that large scale investment of this type is not readily available.</p> <p>Therefore, the ZEBRA proposals provide a unique opportunity to transform the bus fleet in our borough and without the proposed subsidy this would not be achievable.</p> |
| E. | <p>The subsidy is an appropriate policy instrument to achieve a public policy objective and that objective cannot be achieved through other less distortive means.</p> | <p>In our Local Transport Plan 4 (Local Transport Plan warrington.gov.uk) , Policy CF2 states that “<i>We will investigate how we can best support local fleet operators to switch to vehicles that use cleaner fuels</i>”. To support delivery of that policy we developed a Draft Electric Vehicle Strategy, which explained that Battery electric buses offer zero-emission, quiet operation, better acceleration, higher energy efficiency and lower cost of ownership compared to traditional ICE buses.</p> <p>A clear justification for the investment in an electric bus fleet for Warrington’s Own Buses is to support the Council’s declaration of a Climate Change Emergency (Climate Emergency warrington.gov.uk) and in the Action Plan currently being developed this shows that transportation is responsible for over half (52.5%) of carbon emissions in Warrington. This project which is a key part of our Bus Service Improvement Plan details how we plan to enhance our services and infrastructure to increase bus patronage and to illustrate the impact converting the fleet to electric buses, in 2021/22, fuel consumed by Warrington’s Own Buses had a carbon footprint of 4,422.8 tCO2e. This all supports the council’s Climate Change Action Plan and the Department for Transport’s Transport Decarbonisation Plan (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1009448/decarbonising-transport-a-better-greener-britain.pdf) and the Government’s wider Net Zero objectives as set out in its Net Zero Strategy (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1033990/net-zero-strategy-beis.pdf)</p> <p>The Draft Electric Vehicle Strategy (Electric Vehicle Strategy) includes an action to “<i>Develop a business case and specific proposals for the transition of the local bus fleet to EV</i>”. The evidence base shows there are a range of EV bus models available alongside a variety of other low emission technologies such as hydrogen fuel cell and biomethane models, enabling operators to choose appropriate technology solutions to meet their operational needs.</p> |

Electric buses have been introduced successfully in other areas of the UK such as Manchester and Nottingham. There is a particular opportunity in Warrington given that 80% of the bus fleet is under the management of a WOB which is a council owned arms-length bus company, thereby providing greater potential to influence this transition.

An important factor which led to the choice to pursue electric buses is the extensive investment the Council has made in purchasing solar farms, two are already in operation and a third solar farm in Cirencester has just completed construction and begun commercial operation in September 2022. As from May 2021 all of the Council's energy is effectively offset by the solar generation from these solar farms and so is entirely derived from green sources. It is this and the plans at Cirencester (where energy produced will be offset against WOB's usage to operate and power the WOB electric bus fleet) which have primarily led to the choice of electric buses rather than hydrogen or biomethane buses.

Having identified that electric buses in Warrington were required to deliver our objectives, it became clear that the subsidy is required to make this a financially viable option for the bus operator.

Two alternatives exist to the full subsidy being provided to Warrington's Own Buses:

- Do nothing – not receiving the ZEBRA grant and not purchasing zero emission buses with public funding
- Warrington's Own Buses receive the grant (75% cost of cost difference between electric bus fleet and diesel bus fleet, and 75% of the infrastructure cost), so pay market rate for electric buses and chargers.

Neither of those alternatives would see an electric bus fleet introduced in Warrington as, under the second alternative, WOB would be placed in a loss making position for a sustained period. The Directors' fiduciary duties prevent the bus company entering into such an agreement where the bus company is loss-making for a sustained period. This would prevent the objectives of the scheme being realised.

The subsidy risk needs to be considered alongside the risks and implications of not funding this project. Government has set out a strategy towards zero carbon transport in England. This means the likelihood that in the medium term future WOB Buses will be required to purchase a fleet of electric buses. Without the ZEBRA funds and the subsidy, there would be a good chance that no Government funding would be available to support the purchase of these buses. The cost implications of this to WOB would be considerable and likely unachievable.

It is important to note that all bus operators in Warrington were initially approached to establish whether they were interested in working in partnership with the Council to make a submission to the ZEBRA scheme. WOB confirmed their interest and this was followed by Warrington's other bus operators confirming that they were not interested at this time.

As advised above in section B, the First and Second Model were considered, however the impact of depreciating the value of the buses and chargers over the 17 year life of the project under the First and Second Model would lead to large losses in WOB's accounts which would be unacceptable to the company, meaning the scheme could not proceed and lead to the Objective's not being met.

The need to provide the proposed subsidy now is driven by the fact that the Council is in receipt of the ZEBRA funding, there is therefore a significant opportunity cost saving in proceeding with the scheme now. Should the Council refuse the ZEBRA funding, and WOB have to transition to a zero emission fleet at a later date, in compliance with the Council's Climate Declaration of being carbon neutral in its activities and UK Government aims, the Council and/or WOB would have to fully fund such a transition. If the project were to progress without the ZEBRA grant support there are potentially two primary consequences:

- Full replacement of the current diesel fleet in one go by the Council (as per the ZEBRA project) would require Council borrowing to fund the project. This would result in an increase in the level of borrowing by the Council from £30m to £49m, resulting in an additional £26m of financing costs (principle + Interest) up from £42m to £68m, to be met by the Council over the 17 years of the project, resulting in an additional unsustainable pressure to the Council's revenue budget. This is considered to make this option unviable
- Staged replacement of the current diesel fleet with zero emission buses would take many years and would mean the Objective would not be met. Additionally the cost of the project as a whole is likely to be higher.

Pursuant to section 3.41 of the Statutory Guidance, both models were considered in the context of the Council making a market acceptable commercial equity investment being made into WOB by the Council, or by way of a loan to WOB on market terms. Under each option however the fundamental of the depreciation impact of the assets remains. As such in order to mitigate the depreciation impact on WOB's accounts, and be able to deliver the Objectives and deliver the ZEBRA project, the proposed model and subsidy identified, is the chosen method to deliver the Objectives.

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| | | <p>Furthermore in line with the Statutory Guidance at paragraph 3.41 the Council has also considered direct provision of the services in question, however in this case as a result of the Transport Act 1985 the Council is prohibited from directly providing bus services.</p> <p>No other practical means are therefore available in order to deliver the Objectives.</p> |
| F. | <p>The subsidies should be designed to achieve their specific policy objective while minimising any negative effects on competition or investment within the United Kingdom</p> | <p>The subsidy will address issues that are important to the local area of Warrington without compromising the potential for competition or investment within the United Kingdom.</p> <p>WOB are a purely local operator in the borough of Warrington, an area which it has operated in for over 100 years. In Warrington the market share of the bus passenger numbers is as follows:</p> <ul style="list-style-type: none"> - Warrington’s Own Buses – c. 83% - Arriva – c. 14% - Go North West – c.1% - MP Travel c. 1% - MD Travel c. 1% <p>The proposed new fleet and charging infrastructure crucial to operate the new fleet subject to the subsidy are intended to be a replacement of the existing fleet, the company is not aiming to significantly grow into areas outside of Warrington, nor use the new fleet of electric buses to compete in such areas.</p> <p>Local fleet operators do not currently operate an electric vehicle bus service in Warrington because this is uneconomic. This subsidy will assist in overcoming that challenge by providing such an environmentally friendly bus fleet serving Warrington based on the needs of the local population, furthering the policy objectives described above. A fully electric decarbonised electric bus fleet in Warrington will provide a successful example of decarbonising local transport, thereby supporting the national policy objectives.</p> <p>The objectives of the Warrington Zebra project would also have positive impacts across the United Kingdom by providing examples of best practice, encouraging people to travel by bus and work to support the wider roll out of zero emission buses could improve the availability of transport and address air quality concerns throughout the United Kingdom. Furthermore WOB intends to share its learnings from the conversion to an electric fleet with the local and regional operators. This will encourage bus operators in other areas to explore the opportunities provided by electric bus provision.</p> |

It should also be noted that taking part in the ZEBRA scheme was offered to all rival operators in the area of WOB's significant operations. In April/May 2021 following the publication of the National Bus Strategy for England, Bus Back Better and the subsequent announcement of the ZEBRA competition, the Council began discussions with all bus operators in the borough of Warrington (as set out above), regarding whether they would wish to enter into a partnership with the Council to submit a bid.

Of all the operators, only WOB expressed an interest. The parameters of the scheme and the level of funding which could be secured were set out as being up to 75% of the cost differential between diesel and electric buses and up to 75% of infrastructure costs.

Arriva's service operations in Warrington are spread across three depot sites making infrastructure requirements difficult to fulfil and also many of their routes are longer in length, often crossing through more than one borough. As such this would preclude the use of electric buses and mean that hydrogen would be the preferred option and indeed Arriva will soon be operating Hydrogen buses in a neighbouring local authority (Liverpool City Region) on the St. Helens to Liverpool route.

Go North West presently only operate one service in Warrington and their primary operations are concentrated on Greater Manchester, with their focus on the introduction of bus franchising for Greater Manchester. As such they did not wish to take part.

With regards to MP and MD Travel given their size and the capital investment needed into their facilities, they did not consider the scheme to be an option for them at that time.

In Warrington there is relatively limited on road competition between bus operators. WOB and Arriva who have c. 97% market share between them largely serve different markets with WOB having shorter distance urban area services within Warrington on routes where Arriva operate longer distance services from places such as Chester, Liverpool and St. Helens. Furthermore they typically operate just on the main A road radial network into Warrington Town Centre, with WOB services going into the areas either side of these main roads to pick up passenger flows.

As such it is not anticipated that the ZEBRA scheme will have any significant effect on competition for bus passengers in Warrington. Further to this it is intended that as part of the Enhanced Partnership that options such as multi operator ticketing are introduced which will ultimately benefit our passenger base at the same time as hopefully increasing bus usage for all operators

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| | | <p>Since the ZEBRA bid was submitted, and funding confirmed by the Department for Transport, the Council has also submitted its Bus Service Improvement Plan (“BSIP”) and entered into an Enhanced Bus Quality Partnership with all bus operators in Warrington. Through the Enhanced Partnership Forum, which has been established, the Council is committed to offer whatever support it can to the all bus operators in the partnership, to help them convert their fleet to zero emission buses whether via electric or hydrogen. The Council remains willing to work with any operator on any future schemes similar to ZERBA.</p> <p>Whilst all operators were invited to work with the Council on the ZEBRA scheme, only WOB were supportive and formally committed to the opportunity. As set out elsewhere WOB operates approximately 85% of the bus market into Warrington, however it is not expected that the introduction of zero emission buses will have a material effect on the market. The primary reason being that the area’s buses are largely run at the ‘commercial’ risk of each individual operator as opposed to bidding against others for contracts such as in franchised areas such as London.</p> <p>Whilst no other operators partnered with the Council, they have not objected to the proposal, and WOB would be willing to share knowledge and learning as a result of introducing and operating a zero emission fleet. Furthermore under the Warrington BSIP, operators will charge the same amount for single trips, as such there will be no fare/price advantage to WOB. In Warrington bus operator cooperation is high and competition quite low, especially because of the impacts of the pandemic on the bus industry.</p> <p>Finally, as advised elsewhere should similar schemes come up in the future, the Council will again discuss potential participation with the other operators.</p> <p>The Council does not anticipate any impact on the other operators from them not having zero emission buses is not specifying as part of the BSIP that buses have to be zero emission prior to 2030. It is however anticipated that a combination of further funding competitions and incentives and the anticipated reductions in the costs of zero emission buses as the market matures will help with this transition in line with the 2030 date set by Government.</p> <p>There is therefore considered to be a minimal impact on competition and investment in the UK and the more local area.</p> |
| G. | The subsidies’ positive contributions to achieving the | The Warrington ZEBRA proposal supports the Council’s ongoing work to respond to the climate emergency by seeking the introduction of a bus fleet that would produce zero carbon emissions from the tailpipe. The fleet would |

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| <p>objective outweigh any negative effects, in particular the material effect on competition or investment within the United Kingdom or international trade or investment.</p> | <p>also produce zero NOx emissions and reduce particulate matter, improving air quality in the borough.</p> <p>The proposal supports the delivery of the vision for transport set out in our fourth Local Transport Plan (LTP4) (Local Transport Plan warrington.gov.uk) that Warrington will be a thriving, attractive, accessible, and well-connected place with popular, high-quality walking, cycling, and public transport networks supporting our carbon-neutral future. LTP4 Policy CF2 states that <i>“We will investigate how we can best support local fleet operators to switch to vehicles that use cleaner fuels”</i>. The proposal also complements some of the ongoing study work committed to in LTP4, including the Electric Vehicle Strategy, Bus Priority Study and First and Last Mile Transport Masterplan.</p> <p>The ZEBRA proposal also supports the sustainable travel package element of the Town Deal programme, aimed at transforming travel in Warrington. Amongst a wide range of other sustainable travel improvements we are aiming to deliver a series of bus priority measures which will facilitate a network of high quality bus services benefitting from priority at congestion hotspots and/or segregated running, which will help to reduce bus journey times and make them more reliable.</p> <p>A fleet of electric buses will be an important tool in the delivery of our Air Quality Action Plan. Source apportionment for a 2016 Low Emission Study identifies the predominant source of poor local air quality is road traffic, and that buses have a disproportionate impact compared to the distance travelled. <u>Bus travel accounts for 1% of distance driven on Warrington’s roads, yet accounts for 11% of NOx and 5.7% of PM2.5 of traffic emissions. (Para 5.3.1 Air Quality Action Plan).</u></p> <p>Communities in central areas of Warrington have expressed the desire for less polluting public transport in Warrington very clearly through the Warrington Central 6 Masterplan (https://www.warrington.gov.uk/central6). One of the actions identified by the community through the engagement process and development of the masterplan is <i>“Support local bus companies to replace older diesel with electric, hydrogen or biogas vehicle to meet air quality improvement targets.”</i></p> <p>The proposal complements the ongoing project that is delivering a new bus depot for WOB on a site just 400 yards from the bus interchange. Provision has already been made in the design of the depot to ensure that if this bid is successful that bus charging equipment and electrical connection infrastructure can all be easily accommodated in the new depot, further improving the environmental credentials, with this provision potentially allowing:</p> |
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- Charging opportunities for local businesses and taxis;
- An opportunity to sell green energy back to the grid; and
- A possible opportunity to charge buses from battery storage facilities on adjacent council owned land.

In LTP4 the Council committed to a wide range of complementary measures to increase and improve bus services including a programme of bus priority improvements, a Bus Service Improvement Plan and the agreement of an Enhanced Partnership with all bus operators in Warrington, but a further important part of this is also to look to progress a fiscal intervention in order to provide additional funding to put towards improved bus services along with other sustainable modes of travel such as cycling and walking. One important measure which we committed to investigate as part of this is the introduction of a Workplace Parking Levy, which would provide such funding. The LTP4 commitment to investigate this was re-iterated in the ZEBRA Full Business Case. Two outcomes that such a measure could deliver in supporting the introduction of a zero emission fleet are:

- Providing a source of funding to support the delivery of sustainable transport improvements to encourage more people to use public transport, walk and cycle; and
- Reducing car usage by providing a disincentive to people to use their car; thereby incentivising bus use and increasing patronage and revenue

Finally, in terms of the Council's commitment to green energy, if successful the ZEBRA scheme will see the new electric buses powered under an energy contract that takes into account generation from a council-owned solar farm. A clear demonstration of this commitment to green energy is that from May 2021, all of the Council's electricity is now offset against green sources and the ZEBRA scheme fits with this and the work of the borough's Climate Emergency Commission (<https://www.warrington.gov.uk/climate-emergency-commission>).

As set out above, the opportunity was made available to the other operators in the borough, so whilst there may be some local distortion, WOB's competitors were all invited to participate, but declined. Ideally all operators would have taken part in the delivery of the ZERBA scheme, and whilst they were all invited to, once the buses are in operation other operators may have a different view, however the Council will continue to be willing to work with all operators under future schemes. It is possible that without further funding competitions to bring in external funding for the additional cost of zero emission buses and infrastructure in combination with the technology becoming cheaper as it is rolled out more widely there is a risk that smaller operators will struggle to full transition to a zero emission fleet.

A potential negative impact is that passengers are more attracted to travel on WOB buses as opposed to other operators, however given that there is very little completion on routes, this potential negative impact is considered to be

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| | | <p>immaterial and any potential negative impacts are outweighed by the positive impacts of the Objective. WOB not only provides vital transport links for the community (shops, schools, hospitals, shopping, family) but it also provides many jobs and has a local supply chain wherever possible.</p> <p>Although delivering an entirely zero emission fleet across all operators in the borough by 2030 will be challenging, the Council’s view is that any negative impacts of taking the ZEBRA scheme forward now for 82% of bus services now, rather than well in advance of the 2030 target, are far outweighed by the positive impacts including the delivery of the Objectives and Central Governments ZEBRA aims, which without the subsidy would not be achieved.</p> |
| <p><u>APPLICATION OF THE ENERGY AND ENVIRONMENT PRINCIPLES UNDER S.13 AND SCHEDULE 2 SUBSIDY CONTROL ACT 2022</u></p> | | |
| <p>A.</p> | <p>Subsidies in relation to energy and environment shall be aimed at and incentivise the beneficiary</p> <p>in—</p> <p>(a) delivering a secure, affordable and sustainable energy system and a well-functioning and competitive energy market, or</p> <p>increasing the level of environmental protection compared to the level that would be achieved in the absence of the subsidy.</p> | <p>The proposed subsidy will lead to a very clear and demonstrable increase in the level of environmental protection than would be achieved in the absence of the subsidy, for the entirety of the lifetime of the ZEBRA project.</p> <p>Whilst “<i>environmental protection</i>” is not defined in the SCA 2022, section 4.24 of the Statutory Guidance considers the definition set out in section 45 of the Environment Act 2021 to be useful. This defines environmental protection as:-</p> <ul style="list-style-type: none"> - <i>protection of the natural environment from the effects of human activity;</i> - <i>protection of people from the effects of human activity on the natural environment;</i> - <i>maintenance, restoration or enhancement of the natural environment.</i> <p>The Council considers that the complete transition from an internal combustion engine (“ICE”) fleet of buses, to a 100% electric fleet clearly increases protection of both the natural environment and people from the effects of human activity.</p> <p>The effects of human activity in this case is the burning of fossil fuels, in this case diesel, to power a fleet of ICE buses.</p> <p>The baseline position is that WOB currently annually produce tailpipe emissions of approximately 48,942kg of N2O and 6,670 tonnes of Co2. Furthermore approximately 145 annual are expected to die prematurely from poor air quality. Bus travel presently accounts for approximately 1% of distance driven on Warrington’s roads, yet accounts for 11% of harmful N2O emissions.</p> <p>Provision of the subsidy and full implementation of the ZEBRA scheme and a transition to a 100% electric fleet will lead to a total reduction by WOB of Co2</p> |

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| | | <p>and N2O tailpipe emissions as a result of the carrying on of their principle activities as bus transport operator.</p> <p><u>Protection of the natural environment from the effects of human activity</u></p> <p>It is widely acknowledged that Co2 emissions contribute to global heating, with a number of well-established impacts such as rising sea levels, extreme weather events and increasing temperatures being widely accepted. A reduction in Co2 will lead to a clear environmental benefit in that the impacts of Co2 production will be reduced, and whilst not sufficient on its own, a similar decarbonisation of transport systems across the world would support the aim within the Paris Climate Agreement 2015 to limit global heating to under 1.5 degrees centigrade.</p> <p><u>Protection of people from the effects of human activity on the natural environment</u></p> <p>A reduction in N2O produced by WOB will lead to a direct initial 11% reduction in N2O produced on Warrington’s roads, increasing the air quality for those in the borough.</p> <p>Whilst ICE technology may improve over time so that Co2 and N2O emissions are reduced, it is not anticipated that ICE will ever run with zero emissions on the same way that electric buses will. As per section 4.24 of the Statutory Guidance and footnote 36, the level of Co2 and N2O emissions will be reduced every year for the duration of the ZEBRA scheme period, from the current baseline position.</p> <p>The Council is therefore satisfied that the subsidy will clearly increase the level of environmental protection from the present baseline position, and such an increase would not be possible in the absence of the subsidy.</p> |
| B. | Subsidies in relation to energy and environment shall not relieve the beneficiary from liabilities arising from its responsibilities as a polluter under the law of England and Wales, Scotland or Northern Ireland. | The provision of the subsidy to WOB will not lead to any relief in respect of WOB’s liabilities and responsibilities as a polluter. |
| H. | Subsidies for the decarbonisation of emissions linked to industrial activities in the United Kingdom shall— (a) achieve an overall reduction in greenhouse gas emissions, and | <p>As is set out above in the justification for the Principle A, WOB currently annually produce tailpipe emissions of approximately 48,942kg of N2O and 6,670 tonnes of Co2. These emissions are the direct result of burning fossil fuels to power their ICE fleet of buses.</p> <p>As a result of the proposed subsidy and transition to a 100% electric bus fleet and the delivery of the ZEBRA project, Co2 and N2O tailpipe emissions produced as a result of WOB’s activities will be eliminated entirely.</p> |

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| | <p>(b) reduce the emissions directly resulting from the industrial activities.</p> | <p>Whilst WOB may sell their existing ICE fleet, it is highly likely that another operator will replace their own existing fleet with WOB's buses and not simply expand their operations. Discussions have already taken place with operators outside of the borough in this regard. As such, as per section 6.67 of the Statutory Guidance, there will be no displacement from one producer to another and there will be a net reduction in emissions as a result of the subsidy.</p> <p>The Council is satisfied that there will therefore be an overall net reduction in emissions as a result of WOBs transition to a 100% electric fleet, which is only possible with the proposed subsidy.</p> <p>As WOB will be moving from ICE to 100% electric, zero emission fleet, the Council is also satisfied that there will be a very clear reduction in emissions directly resulting from WOB's activities.</p> |
| | <p>Part 2, Chapter 2 of the Subsidy Control Act 2022 (<i>Prohibitions and Other Requirements</i>) has been considered as not being applicable.</p> | <p>The prohibited awards at Part 2, Chapter 2 of the Subsidy Control Act 2022 has been checked and it is confirmed that there is no element of prohibited subsidy as set out above in the section headed "<i>Are specified provisions of Subsidy Control Act 2022 applicable?</i>"</p> |