

WMCA Board

Date	17 September 2021
Report title	Zero Emission Bus Regional Area Scheme 2021/22 - Phase 2 Full Business Case
Portfolio Lead	Transport - Councillor Ian Ward
Accountable Chief Executive	Anne Shaw, Interim Managing Director, Transport for West Midlands email: anne.shaw@tfwm.org.uk
Accountable Employee	Pete Bond, Director of Integrated Transport Services, Transport for West Midlands email: pete.bond@tfwm.org.uk
Report has been considered by	Transport for West Midlands Leadership Team Decision Making WMCA Strategic Leadership Team Strategic Transport Officers Group WMCA Programme Board and Investment Panel

Recommendation(s) for action or decision:

The WMCA Board is recommended to:

- (1) Endorse the submission of the Full Business Case (FBC) from TfWM to the DfT on behalf of the WMCA for the grant funding under the Government's Phase 2 of the Zero Emission Bus Regional Areas (ZEBRA) 2021-2022 competition.
- (2) Note the estimated cost of the project which is inclusive of the £54.9 million funding from Government.
- (3) Note that the WMCA are the accountable body for the entirety of the funding package and any costs above the funding from the Department for Transport.

- (4) Note that the scope and delivery of the project continues to be refined and that the risks to scope and delivery uncertainty are mitigated by the project's risk management strategy.
- (5) Note that in the event of a successful bid to Government and an offer of funding from the DfT that an emergency WMCA Board will be called to review the project risks and provide guidance to officers on a decision to accept the terms and conditions of funding set out by Government, and a decision as to the acceptance of any proposed funding itself.

1. Purpose

- 1.1 The purpose of this report is to present the Full Business Case submitted to Government on 20th August 2021, under Phase 2 of the Zero Emission Bus Regional Areas (ZEBRA) 2021-2022 competition. The submission was highlighted to the WMCA in the Financial Monitoring Report of the previous WMCA Board.

2. Background

- 2.1 On the 30th March 2021, the Department for Transport (DfT) invited Local Transport Authorities in England (outside London), to submit expressions of interest in receiving funding to become a Zero Emission Bus Regional Area - a placed-based scheme that will allow areas, led by local transport authorities, working in close partnership with bus operators, to bring forward zero emission bus proposals. The scheme supports the wider government commitments to Net Zero, and plans to decarbonise the transport system, which will be set out in the forthcoming Transport Decarbonisation Plan, and levelling up. ZEBRA includes a number of key aims:

- To support the government's commitment to decarbonisation and to reduce the transport sector's contributions 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 bus manufacturers in the development of zero emission technology;
- To support 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.

- 2.2 In May 2021, Transport for West Midlands submitted an Expressions of Interest (EOI) on behalf of the WMCA to the ZEBRA Phase 1 fast track process. On 24th June 2021, the DfT advised that our Phase 1 EOI had been shortlisted to be taken forward to Phase 2 Full Business Case, alongside 5 other local transport authorities. The business case has been developed following HM Treasury's Green Book, DfT's Transport Analysis Guidance (TAG) and Value for Money Framework and WMCA's Single Assurance Framework.

- 2.3 The West Midlands bid includes the most ambitious hydrogen bus project ever seen and if approved by Government and WMCA Board, over the next 2 years the project will see 200 new hydrogen double deck buses and 24 articulated hydrogen buses come into operation in all parts of the region with the exception of Coventry (that was successful to be the UK's first all-electric bus city in March 2021); 7 electric single deck buses on subsidised bus services in Wolverhampton, as well as a new pantograph at Bilston bus station and hydrogen refuelling at 2 bus depots in the West Midlands.
- 2.4 As this project is a globally leading opportunity it should be emphasised that this will directly support regional and national priorities. There are both benefits and risks associated with the delivery of this project and it should be noted that during the two-year delivery period there may be changes that require the delivery approach to be reviewed and is not without risks.
- 2.5 The table below sets out those key issues and risks that have been identified at the Phase 2 FBC stage; as well as proposed means of mitigation to address such matters.

Risk	Details / Mitigation
Infrastructure investment into commercial premises risks raising the barrier to entry for other operators, further incentivising market protection or distortion and preventing WMCA from creating competition.	Clarity from operators that hydrogen supplies and fuelling will be open to all or additional bus operators.
Commercial operators greening the fleet using public funds at time when the bus network is also dependent upon Government subsidy may reduce the options available to the WMCA as part of the post Covid bus recovery within the National Bus Strategy. In the case of a change of structure/ownership of either the leaseco or the operator, the assets may no longer be available to the region.	Clarity from operators that in the event of the regulatory environment changing to a franchise model that the lease agreements on any depot which houses the hydrogen fuelling and applicable hydrogen bus vehicle fleet will pass to TfWM (through WMCA) at market valuation for the remainder of their lifespan. In the event of no-change in the regulatory landscape also seek assurances of the buses remaining in the West Midlands regardless of ownership of the businesses.
The ZEBRA funding requires the WMCA to lead one co-ordinated bid and TfWM would be obliged to ensure that the competitive grant application process considers all operators and is compliant with all elements of the law. This is a key component for any LTA that cannot be circumnavigated.	Ensure there is a clear process plan and timeline mapped out to show the requirements, the dependencies, and the objectives of any competitive grant application process. Ensure that it is well communicated and understood in the political community, the operator community, the supplier and stakeholder community and the project teams.
The risk that the scaling up of a green hydrogen fuelled fleet of buses could cause unforeseen technical and/or financial issues that impact the ability of the operator to maintain the network coverage and assure	The WMCA will seek assurances from operators, where necessary that financial risks associated with the bid will be supported by a Parent Company Guarantee to ensure that the local operating business

fare (ticket price) commitments. The limited maturity of this market means that risks remain which some partners and suppliers are confident about. The risk to the project and future network is the impacts could result in the need for higher fares or greater subsidy from the LTA and compromise the bus recovery plan, and the longer-term bus network of the region as this is 15% of our largest bus operator's overall fleet.	cannot expose TfWM (and therefore the WMCA) to greater financial risk, and ensure a clear legal agreement backs off the risk imposed on the WMCA by Government, is passported on to the businesses promoting the proposals.
The risk of the WMCA being accountable for the risk associated with the delivery of the project without any budget or contingency directly committed as part of this bid.	This will have to be mitigated through funding and legal agreements with bus operators and suppliers, as well as bids for zero emission infrastructure to other available funding sources such as CRSTS and BSIP.
<p>Further detailed risks being mitigated include:</p> <ul style="list-style-type: none"> • Delivering the Sprint objectives effectively on time • Ensuring the buses are reliable and have an effective lifespan • Ensuring infrastructure delivery is not affected by planning permission challenges • Ensuring TfWM and delivery partners have effective resource and expertise to deliver this complex world leading project • Does not result in the operator seeking additional funding through other LTA funding sources to deliver the vehicle commitments 	

3. Financial Implications

3.1 The overall funding and spend for the project can be summarised as follows:

Funding Source (£m)	Vehicles	Depot infrastructure	Project Management and Contingency	Total
Department for Transport	42.9	12.0	-	54.9
WMCA	1.6	0.2	1.0	2.8
Operators	87.3	3.8	-	91.1
Total	131.8	16.0	1.0	148.8

3.2 The Department for Transport would provide a capital grant of £54.9 million towards the required upgrades to vehicles and infrastructure, subject to WMCA being successful in the Phase 2 competition. The remainder of costs are funded by commercial operators and WMCA. The commercial operators will be required to fund 25% of the additional costs for hydrogen vehicles over diesel vehicles and the diesel vehicle equivalent costs, as well as 25% of the associated depot refuelling facilities, totalling £91.1 million.

- 3.3 WMCA funding of £2.8m relates to the electric bus element of the bid and will be required to fund the additional costs in a similar way to the commercial operators. The costs for the vehicles for supported services are to be revenue funded and will use existing funding of £1.8 million in the 2021/22 budget and Medium-Term Financial Plan for current supported services and planned upgrades to diesel vehicles from Euro IV to Euro VI engines for this purpose. £1million relates to project management costs associated with delivering activity on this grant including project delivery staffing, technical expertise, finance, legal, assurance and monitoring & evaluation. This will also be funded through existing funding in the 2021/22 budget and Medium-Term Financial Plan.
- 3.4 There are no additional financial risks as a result of this submission and the approval of the FBC, other than those raised elsewhere in the paper. Full financial comments will be provided to the WMCA based on any proposed funding offer from Government, and the terms and conditions associated with that funding as set out in the recommendations of this report.

4. Legal Implications

- 4.1 The West Midlands Combined Authority (**WMCA**) was statutorily created by virtue of the West Midlands Combined Authority Order 2016 (SI 2016/653) (Order) as enacted under the Local Democracy Economic Development and Construction Act 2009 (**LDEDC 2009**). This resulted in powers being inherited and transferred to the WMCA by virtue of the terms of the Order, including those set out in the Local Transport Act 2008 (**LTA 2008**).
- 4.2 Given the above; as the appropriate Combined Authority, as well as the applicable local transport authority, the WMCA and consequently de facto TfWM is statutorily eligible to apply for the funding identified within section 1 of the recommendations in this report.
- 4.3 In addition to the above, save as otherwise set out in relation to matters within the accompanying ZEBRA 2021-2022 Full Business Case (referred to within paragraph 9 (Schedule of background papers) of this report), there are no other direct legal implications that arise in respect of sections (1) – (5) of the recommendations of this report.

5. Equalities Implications

- 5.1 Equalities Impact Assessment has been undertaken by the project which identify and address key equality issues and their mitigating measures. This project provides a positive impact on young people, minority ethnic groups, disabled people and other protected groups, as well as lower socio-economic groups, who are more likely to rely on the bus network to access education, employment and other opportunities.

6. Inclusive Growth Implications

- 6.1 The investment in new zero emission vehicles and associated infrastructure will be positive for inclusive in the West Midlands by supporting the following inclusive growth themes – Economic Growth; Health & Wellbeing; Employment & Skills and Environment.

7. Geographical Area of Report's Implications

- 7.1 The project will see 20 commercial and 5 subsidised local public bus services in the region operating with zero-emission vehicles over the next two years. On the routes of operation, 88% of the vehicles will be zero emission as a result of the project. The learning from this project will help contribute towards the successful future roll-out of zero-emission buses within the wider conurbation and help demonstrate the capabilities of our region to effectively invest government funds, making the case for further funding for future schemes.

8. Other implications

None.

9. Schedule of Background Papers

- 9.1 ZEBRA 2021-2022 Phase 2 Full Business Case WMCA – Final – Private