

**SURREY COUNTY COUNCIL****CABINET**

**DATE:** 24 NOVEMBER 2020

**REPORT OF:** MR MATT FURNISS, CABINET MEMBER FOR TRANSPORT

**LEAD OFFICER:** KATIE STEWART, EXECUTIVE DIRECTOR ENVIRONMENT, TRANSPORT AND INFRASTRUCTURE

**SUBJECT:** ACCELERATING THE INTRODUCTION OF ULTRA LOW / ZERO EMISSIONS BUSES AND COMMUNITY TRANSPORT VEHICLES INTO SURREY

**ORGANISATION STRATEGY PRIORITY AREA:** Enabling A Greener Future

**SUMMARY OF ISSUE:**

Surrey County Council is embarking on an exciting investment programme to accelerate the introduction of ultra-low and zero emission vehicles into Surrey. We propose to achieve this by establishing a Surrey Ultra-Low and Zero Emission Scheme backed by county council funding to generate supporting industry investment. This supports our ambitions and strategic priorities for a greener future, our Surrey 2030 vision and our Climate Change Strategy. This is part of the Council's response to the declared climate change emergency and is part of the associated £300m Greener Futures investment programme. Providing sustainable transport options will contribute to a reduction in harmful emissions, moving us toward net zero carbon as well as helping our communities to be resilient and well connected.

**RECOMMENDATIONS:**

It is recommended that Cabinet:

1. Supports the establishment of a Surrey Ultra-Low and Zero Emission Scheme that will accelerate the introduction of ultra-low and zero emission vehicles onto a range of bus and community transport services, inclusive of supporting industry investment; and
2. Agrees that the Surrey Ultra-Low and Zero Emission Scheme detail and implementation, once agreed by the Capital Programme Panel, shall be delegated to the Executive Director, Environment, Transport & Infrastructure, the Executive Director of Resources and the Director of Law & Governance in consultation with the Cabinet Member for Transport, including moving the required capital funding from the Capital Pipeline to the capital budget so that the programme can moved forward.

**REASON FOR RECOMMENDATIONS:**

The establishment of a Surrey Ultra-Low and Zero Emission Scheme will accelerate the substantive introduction of ultra-low and zero emissions buses and minibuses into Surrey

than would otherwise have been the case with operator investment alone, in a post-Covid 19 financial and operational climate. The project also encompasses investment in bus priority measures at pinch-points on the highway to improve bus journey times and real time passenger information to aid resident knowledge and travel decision making. It also includes complementary investment by bus operators and community transport providers to maximise the number of ultra-low and zero emission vehicles to be introduced over the lifetime of the project, thus generating further reductions in emissions from transport operations.

#### **DETAILS:**

##### **Surrey Ultra-Low and Zero Emission Scheme**

1. The Council's ambition is to have only ultra-low or zero emission buses operating in the county by 2030. To quicken the pace of change and to deliver this in a transparent way that complies with legislation, a Surrey Ultra-Low and Zero Emissions Scheme is to be developed along similar lines to the Government's previous Ultra-Low Emission Bus and Green Bus Funds bidding competitions.
2. Proposed financial support from the council with supporting investment from bus operators will see the introduction of between 70 and 80 ultra-low or zero emission buses, alongside over 50 Community Transport (CT) minibuses, over the next five years. This is believed to be the first occasion that a scheme of such magnitude will have been introduced in one area of the UK. Companies or organisations receiving the new buses will be able to cascade the less-polluting diesel bus models ('Euro 5 and 6' emissions rating) replaced by the scheme onto other routes in the county, which in turn will replace older vehicles with more-polluting lower 'Euro' engine ratings. This vehicle cascade could be as high as one to one, with between 70 and 80 relatively highly polluting Euro 3 and 4 buses replaced by less polluting Euro 5 and 6 buses. The actual number will of course depend upon which bids to the Surrey Ultra-Low and Zero Emissions Scheme are successful.
3. All operators will be able to bid on the basis that the funding will support an agreed proportion of the cost difference between buying an ultra-low or zero emission bus and a conventional diesel-powered equivalent. This may be supported by a contribution toward the cost of new charging/fuelling infrastructure, if required.
4. The scheme will have a technology-neutral approach, whereby bidders can bid for financial support towards the cost of any vehicle that meets the definition of an ultra-low or zero emission vehicle. This will be defined by the eligibility criteria currently under development. Technology will likely include, for example, hydrogen-fuelled, full electric or extended range battery-driven electric buses. In a micro-hybrid extended range electric bus, an electric motor powers the bus at all times, with a small diesel generator to top up the battery during the day. In any chosen area the generator can be turned off automatically through GPS geofencing, so that the bus is in full zero-emission mode.
5. Preference will be given to bids for those bus routes that run through Air Quality Management Areas.
6. The level of financial support will be set to satisfy the permitted intensity of subsidy under State Aid regulations, to avoid distorting the market and to avoid unfair advantage to individual operators.

7. At this point in time the UK is expected to follow World Trade Organisation rules on State Aid after the end of the transition period for leaving the EU, replacing EU State Aid rules from 1 January 2021. Government is now formulating its own subsidy control regime and guidance for public authorities is expected before the end of the year. The scheme will adhere to appropriate legislation.

### **Proposed funding for bus operators**

8. As noted above, the council's ambition is to have only ultra-low or zero emission buses operating in the county by 2030. This requires partnership working and investment with the industry. The bus element of the Surrey Ultra-Low and Zero Emission Scheme is £32.3m of capital funding, which will accelerate the introduction of such buses starting in the next twelve months, with additional supporting funding as set out below. The project will also support the enhanced working with the bus industry through quality bus partnerships. The scheme will enable bus operators to bid for the available funding to allow them to run ultra-low or zero emission vehicles instead of diesel vehicles. To support this investment, bus operators will be required to develop a comprehensive marketing and promotion package to attract passengers onto the bus services identified in their bids, recognising the joint investment to be made.
9. Discussions with operators have shown that they are extremely keen to work with the council on this project and to make substantial investment of their own. A joint programme had been planned to be delivered over two years, commencing 2020/21. However, Covid 19 has resulted in difficulties for bus operators to invest in new buses of any type in the short to medium term. This means that the bus industry investment will be committed as part of an extended scheme as the transport industry recovers.

### **Complementary bus priority measures**

10. Experience demonstrates that while simply replacing diesel buses with ultra-low or zero emission buses will provide a limited increase in patronage, there are other complementary measures necessary to secure maximum impact. Therefore, to support the capital investment in ultra-low and zero emission buses, the council proposes to invest approximately £9m of capital in bus priority measures. This funding will be targeted at highway pinch points identified by the council and bus operators that will form part of the scheme. The aim of this complementary investment is to help buses operate more efficiently and to run to the published timetable, ensuring that the council can secure the most effective use of the new buses. This is important as reliability is a key determining factor of residents when choosing to use the bus, i.e. the bus arrives when it is supposed to. Linked to this, the council has been working with borough and district partners to develop a future programme of schemes and improvements as the current Local Enterprise Partnership (LEP) investment programmes move toward their final year. The aim is to ensure that the emerging new programme includes a similar level of investment to support buses through further priority measures and service quality enhancements as part of the new LEP investment programmes. The council will apply the same principle to the investment of any development-related funding when and where it becomes available.
11. As an example, a refresh of the Redhill / Reigate Bus Priority Study has already been commissioned. This is considering bus priority opportunities on the A23 between Redhill and Horley, including bus lanes and intelligent bus priority at traffic signals. In addition, a scheme has been developed to improve traffic flow at the A23/Three Arch

Road junction near East Surrey Hospital, a key bus congestion hot spot adjacent to one of Surrey's key hospitals.

### **Real Time Passenger Information (RTPI)**

12. Complementary investment is proposed to further improve the council's electronic Real Time Passenger Information (RTPI) system. This will help residents make informed travel decisions, to make their journeys more sustainable and to support resilient and better-connected communities. Capital of £1.4m is proposed to be invested in RTPI, alongside £100k revenue funding derived from efficiency savings within the RTPI delivery contract to be derived over the three years commencing in 2020/21. This will provide more on-street information displays, enhanced access to information from mobile devices and an improvement in the quality of data that is received from the RTPI system.

### **Community Transport (CT)**

13. It is proposed to assist the CT sector by allocating capital funding of up to £6.3m to support the introduction of over 50 new ultra-low or zero emission vehicles across Surrey. The county has a vibrant CT sector supporting our residents who cannot access mainstream public transport (buses and trains) so they may access key services, such as health care. Our programme focusses on CT providers including borough and district partner organisations currently delivering core services including Dial-A-Ride, with whom we also commission home to school, adult social care and health transport contracts.
14. It is proposed that a similar bidding mechanism will be adopted for capital funding for CT vehicles as that proposed for operators of buses on mainstream bus services. It is envisaged that bids would be for ultra-low or zero emission minibuses, with a capacity in the region of nine and sixteen seats.
15. Bids will be invited from all CT providers in the county, including from the borough and district councils that provide CT services using their in-house fleets.
16. In conjunction with the financial support element of the scheme, to improve rural mobility in Mole Valley District, a new Demand-Responsive Transport service accessible to all residents is proposed to be introduced, to supplement the normal bus network. The service would use three ultra-low emission vehicles and would have flexible booking options and longer hours of operation. An expression of interest including a bid for £0.660m for capital and revenue funding has been submitted to the Government's Rural Mobility Fund to support this project. Should this be successful, a more comprehensive four vehicle operation can be provided. Confirmation of selection for progression to the second stage bidding process is awaited from Government.
17. Our CT partners have provided clear indication that they are excited to work with the council in the provision of a new ultra-low and zero emission fleet, utilising their identified vehicle replacement capital funds for the next three years. At this stage we anticipate further partnership funding from the sector to be in excess of £1.2m.
18. Our investment in ultra-low and zero emission CT vehicles will assist in developing innovative integrated transport delivery options with partners such as those in public health. This is currently being explored with Surrey Heartlands Clinical Commissioning Group in relation to the Non-Emergency Patient Transport contract, looking to the

Surrey CT sector to deliver a more significant proportion of the contract. This will lead to enhanced co-ordination of transport using ultra-low emission vehicles, achieving climate change ambitions for both the council and the health sector.

### **The role of the operator**

19. Across the whole programme for buses and CT, the specification of the vehicles will be drafted by the individual operators and CT providers in consultation with the council. This will ensure that the technologies selected can be embedded into the respective fleets and operational requirements and that the chosen solution is fully suited and sustainable for the routes to be served.
20. To ensure that best-value is secured for the council's investment, Officers will work with partnering operators to agree the vehicle procurement process, so that the agreed process is visible and understood, including evidence of value for money in the purchasing process and the agreed specification. This will be referenced in a formal legally binding agreement between the council and the respective operators.
21. The Council's financial support will cover an agreed proportion of the capital costs. This will be aligned to all relevant legislation and State Aid requirements.
22. Each operator will be responsible for rest-of-life costs, such as non-warranty maintenance and repair costs and other revenue-based operating costs such as consumables, fuel/power, insurance, staffing, licensing and other items.
23. The full details of the requirements will be set out in the Surrey Ultra-Low and Zero Emission Scheme.

### **CONSULTATION:**

24. Bus and CT operators have been consulted as part of engagement for planning this project.

### **RISK MANAGEMENT AND IMPLICATIONS:**

25. The Covid 19 pandemic inevitably creates risks to project delivery timelines. Vehicle manufacturing has been reduced or paused since March 2020, potentially resulting in longer than previously expected delivery of vehicles. Early specification and selection of supplier will allow clarity on timescales and unit costs.
26. Overall, the project can be scaled to keep within budget.
27. Ultra-low and zero emission bus technology is evolving and improving. At the time of order, the most efficient and sustainable options available will be specified to ensure operational reliability. Asset life for the buses is 15+ years and for the CT vehicles it is 10+ years.
28. The transport industry's ability to invest in the short term has been impacted by Covid 19. We have mitigated for this by extending the programme, enabling bus and CT partners to invest over a slightly longer timeframe.
29. A formal legal agreement will ensure that each operator will commit to ongoing revenue operating costs, so that the vehicles will be maintained and insured appropriately and that they will only be used for purposes agreed within accepted bids.

30. Engagement with partners will mitigate for any operational concerns and identify any planned changes to the route network.
31. A long-term reduction in bus patronage may occur after Covid 19 due to lifestyle changes, such as more agile working. This is unquantifiable at present and will depend on factors beyond the control of the council, including the continued development of Government restrictions in managing the spread of the virus.

#### FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

32. A summary of the financial investment proposed from the capital pipeline in the period 2020/21 to 2023/24 is shown in the table below. A more detailed quarterly financial profile will be produced once the scheme is live and after bids have been assessed. The detailed financial profile will take into account manufacturing lead times for the differing technologies of ultra-low and zero emission vehicles and the associated phased payment schedule to be agreed with the relevant manufacturers.

<b>Scheme Element</b>	<b>£m</b>
Financial support for purchase of buses and charging facilities	32.3
Bus priority measures	9.0
Real Time information	1.4
Financial support for purchase of Community Transport vehicles and charging facilities	6.3
Total	49.0

33. Supporting investment from partners that will expand this scheme and enable a wider number of ultra-low and zero emission vehicles to be introduced into Surrey is a key part of a shared ambition. Council funding will support an agreed proportion of the cost difference between buying an ultra-low or zero emission bus and a conventional diesel-powered equivalent. The supporting investment to be made by bus and CT partners will be a requirement as part of bid submission and then assessment by the county council, ensuring that State Aid rules and appropriate legislation are adhered to. Operators will be responsible for rest-of-life costs including ongoing operating costs.
34. Whilst the detail of the Surrey Ultra-Low and Zero Emission Scheme is still being drafted, certain key principles will be enshrined within the scheme. These principles will protect the council's investment, seek to generate significant interest in the scheme, secure supporting investment from the bus industry and CT sector, whilst accelerating the introduction of ultra-low and zero emission vehicles into the county. They will also ensure State Aid compliance. Some of the principles that the scheme will likely encompass include:
- The county council will own the capital assets secured by its investment, either in full or on a proportional basis as appropriate
  - A requirement for complementary funding from those bidding to the scheme at an appropriate level in order to secure county council investment through a competitive and transparent process
  - An agreement with partnering bus and CT operators as to the use of the ultra-low or zero emission buses, for example, on individual bus routes, within a defined area or

for specific purpose, thus preventing the investment being moved or used elsewhere that will not benefit our residents

- d. Partnering bus and CT operators being wholly responsible for rest-of-life costs, such as non-warranty maintenance and repair costs and other revenue-based operating costs such as consumables, fuel/power, insurance, staffing, licensing, plus other relevant items and costs
- e. Provision for the promotion and marketing of the investment and the services provided, with clear and appropriate references to the county council as a partner

### **Value for Money**

- 35. The procurement process undertaken by operators will include benchmarking to ensure that best value for money is obtained.
- 36. The new fleet of vehicles will help realise cost efficiencies and reduce ongoing revenue costs across the transport that the funding recipients deliver for our residents.
- 37. Experience has shown that improvements introduced holistically contribute to patronage and revenue growth, leading to lower requirements for operating subsidy.

### **SECTION 151 OFFICER COMMENTARY**

- 38. Although significant progress has been made over the last twelve months to improve the Council's financial position, the medium-term financial outlook is uncertain. The public health crisis has resulted in increased costs which may not be fully funded in the current year. With uncertainty about the ongoing impact of this and no clarity on the extent to which both central and local funding sources might be affected from next year onward, our working assumption is that financial resources will continue to be constrained, as they have been for the majority of the past decade. This places an onus on the council to continue to consider issues of financial sustainability as a priority in order to ensure stable provision of services in the medium term.
- 39. The expenditure set out in this report is provided for in the council's approved capital programme, within the pipeline for future schemes, and ongoing operating costs will be met by bus operators. Value for money will be secured through working closely with bus industry partners and through council oversight of the procurement process.

### **LEGAL IMPLICATIONS – MONITORING OFFICER**

- 40. The report sets out the key principles to be incorporated in the ultra-low and zero emission bus scheme to ensure the scheme is compliant with any rules regarding the way in which a local authority can assist in achieving the investment required in low emission vehicles and ensuring this does not distort the market in which transport providers operate. The Council has engaged specialist solicitors with experience of low emission bus schemes to assist in the project and the any changes to the "state aid" framework which might be made post 31<sup>st</sup> December will be accommodated in the arrangements.

### **EQUALITIES AND DIVERSITY**

- 41. The recommendations in this report have no material impact on existing equalities policy and therefore a full equalities impact assessment is not deemed necessary.

42. It is anticipated that there will be no negative consequences as a result of this work programme. The acceleration of the introduction of ultra-low and zero emission vehicles onto a range of bus services and community transport services will have many positive consequences, increasing accessibility of services to all protected characteristics and enabling greater rural mobility in the county.
43. Focusing on implementing more sustainable transport options and assisting in achieving climate change targets will also provide all residents with a greener, more sustainable Surrey, increasing choice and future modal shift.
44. The additional investment in RTPI and bus priority measures will also ensure that greater accessibility to services is achieved for all protected characteristics.

#### OTHER IMPLICATIONS:

Area assessed:	Direct Implications:
Corporate Parenting/Looked After Children	No implications arising from this report
Safeguarding responsibilities for vulnerable children and adults	No implications arising from this report
Environmental sustainability	The new buses and associated measures contribute to the strategic priorities in the 2030 vision. They will improve the public transport offer, helping to reduce car dependence, will promote accessibility, will assist with congestion reduction, will improve air quality and with other societal benefits
Public Health	Our residents, visitors and businesses will benefit from fewer harmful exhaust emissions, especially where air quality is poor

#### ENVIRONMENTAL SUSTAINABILITY IMPLICATIONS

45. Carbon emissions resulting from transport are currently the highest source of emissions across all sectors at 46%, based on a 2019 baseline. It is predicted that under a business as usual scenario there would be no reduction in emissions but an approximate 1% growth by 2050.
46. The county roads carry about twice as much traffic than the average for the South East. Surrey's A Roads experience 66% more traffic than the national average. Increasing the patronage of public transport while at the same time reducing carbon emissions from bus services, is therefore vital for reducing Surrey's overall transport emissions and for meeting the council's target of being net zero carbon by 2050.
47. An Environmental Sustainability Assessment (ESA) is recommended if:
  - a. the subject is a matter which is at a scale that requires a Cabinet decision, according to the council's constitution; and the primary subject matter is:
    - i. Strategic plans/programme in ASC, CS&F, Communities or E&I

- ii. Property or land acquisition, development, management or disposal
  - iii. Construction or maintenance of infrastructure
  - iv. Provision of transport services
  - v. Purchasing or leasing mechanical equipment
  - vi. Purchasing or leasing electrical equipment including IT hardware
  - vii. Purchasing or leasing vehicle fleets is also expected
  - viii. Purchasing consumable materials
48. An Environmental Sustainability Assessment (ESA) is currently being developed for this project.
49. The environmental outcomes from this investment are positive, due to the anticipated reductions in carbon emissions and improvement in local air quality resulting from replacement of older and more-polluting diesel vehicles with ultra-low or zero emission vehicles.
50. The investment in complementary bus priority measures and RTPI is also expected to increase uptake in bus patronage, resulting in fewer journeys by car with additional environmental, social and economic benefits.
51. The ESA will include a calculation of the reduction in carbon emissions from these measures, set against a baseline calculation of the emissions produced from the vehicles which are due to be replaced. This data will be fed into the programme's carbon reporting mechanism and will be included in the service's KPIs and annual performance reporting.
52. Additional environmental benefits will also be assessed, including improvements in local air quality. This is monitored at a number of sites which will benefit from the cleaner vehicles. This data, which is recorded and reported by borough and district councils, can be used as a means of comparison.
53. The vehicles to be replaced will be cascaded elsewhere within the operator's network if they have less-polluting engines (Euro 5 or 6 rating) or sold by the operator.

#### **PUBLIC HEALTH IMPLICATIONS**

54. Air quality is key to the health of residents and ecosystems and improvements are vital for creating a greener future for Surrey. There are 26 Air Quality Management Areas (AQMAs) in Surrey where the current or future air quality is unlikely to meet national air quality objectives.
55. In the UK, air pollution is the largest environmental risk to public health. It can cause and worsen acute health conditions, particularly in society's most vulnerable populations. Long term exposure to air pollution can cause chronic conditions leading to reduced life expectancy. It is estimated that between 2017 and 2025, the total cost to the NHS and social care system of air pollutants will be £1.6 billion.

56. The main source of the pollutants is road traffic. The County Council as Highway Authority has a statutory duty to bring forward proposals in these areas to help improve air quality. Therefore, the county's residents, visitors and businesses will benefit from fewer harmful exhaust emissions as a result of the new vehicles to be purchased through this programme, especially where air quality is poor.

<b>WHAT HAPPENS NEXT:</b>
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57. Subject to Cabinet approval, a Surrey Ultra-Low and Zero Emissions Scheme will be finalised, including a transparent evaluation process. This will be used as the mechanism for an open bidding opportunity for bus and CT operators in early 2021. Detailed vehicle specifications taking advantage of the latest technological developments will be drafted in conjunction with the successful bidders for the capital financial support award. Choice of manufacturer, final prices for benchmarking and delivery dates will be confirmed, before orders are placed.
58. It is envisaged that the new vehicles and complementary infrastructure will be delivered by 2022/23, subject to confirmation of suppliers' timescales.
59. Subject to Cabinet approval to move the programme forward, any required decisions on the detail of the Surrey Ultra-Low and Zero Emissions scheme, its development and implementation, once approved by the Capital Programme Panel, will be made under delegation by the Cabinet Member for Transport in consultation with the Executive Director, Environment, Transport & Infrastructure, the Executive Director of Resources and the Director of Law & Governance, including moving the required capital funding from the Capital Pipeline to the capital budget so that the programme can moved forward.
60. An all-member briefing seminar on ultra-low and zero emission buses will be held on 7 December 2020.

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**Contact officer:** Paul Millin, Group Manager, Strategic Transport, Tel: 020 8541 9365

**Consulted:**

Cabinet Member for Transport

Local bus operators

Community transport operators

**Sources/background papers**

Funding applications to the Capital Programme Panel 24 June 2020 with options analysis.