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From:[redacted]

Sent: 21 March 2019 15:55

To: Cabinet Secretary for Transport, Infrastructure and Connectivity <[CabSecTIC@gov.scot](mailto:CabSecTIC@gov.scot)>

Cc: [redacted]

[redacted]

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industry and as follows:

*This financial year (2018-19)*

- Based on our latest forecast outturn we have identified non recurrent slippage on CDEL of £6 million (not currently factored into SG monitoring). This underspend has only emerged in the last week or so and relates solely to the low uptake of the BEAR Phase 2 scheme. This underspend is capital (CDEL) and in itself would be difficult to apply as it would require to relate to the purchase of assets rather than general support. In order to usefully enable support to the bus industry **we would need agreement from the Cabinet Secretary for Finance, Economy and Fair Work** to reduce our TIC outturn on CDEL and increase our planned RDEL outturn (no net overall impact).

# [redacted]

From: [redacted]  
Transport Scotland  
28 March 2019

Cabinet Secretary for Transport, Infrastructure and Connectivity

## **BUS EMISSIONS ABATEMENT RETROFIT PROGRAMME (BEAR) PROGRAMME PHASE 2 – REVIEW OF BIDS AND AWARDS**

### **Purpose**

1. To advise the Cabinet Secretary on the outcomes of the Bus Emission Abatement Retrofit (BEAR) Programme Phase 2 to support the bus industry to prepare for Low Emission Zones (LEZs).
2. To advise that grant awards letters will be issued to Scottish bus operators before the end of this financial year.

### **Priority**

3. Routine – Note that grant award letters must be issued to Scottish bus operators before the end of this financial year.

### **Policy Commitments**

4. The Programme for Government 2017-18 committed to introducing Low Emission Zones (LEZ) into Scotland's four biggest cities between 2018 and 2020.
5. Glasgow City Council has introduced a LEZ with a focus initially on buses. Their LEZ will be put in place over two phases:
  - Phase 1 focuses on buses under the instruction of a Traffic Regulation Condition (TRC) as issued by the Traffic Commissioner for Scotland. The Council's stated aim is to incrementally increase the number of bus journeys by Euro VI buses by 20% every year from 2018 e.g. 40% of bus journeys to be Euro VI by 2019.
  - Phase 2 will focus on all other vehicles, to ensure that only vehicles with a Euro 6/VI emission standard can enter the city centre LEZ by 1 January 2023.
6. City of Edinburgh Council, Dundee City Council and Aberdeen City Council are currently designing their LEZs, with no fixed dates yet for implementation.
7. £10.8m funding was allocated to LEZ's in the 2018/19 budget. 70% of the £10.8 million funding (£7.8m) was allocated to the delivery of the BEAR Programme Phase 2.

# [redacted]

10. Transport Scotland engaged with the Confederation of Passenger Transport (CPT) and a number of large bus operators over the past year on the design of BEAR Phase 2. Discussions in the first half of 2018/19 focused on the issue of state aid (with all parties eventually agreeing that the BEAR Programme is State aid) with the latter half of 2018/19 focusing on the BEAR phase 2 application process.

11. BEAR Phase 2 fund opened for bids on the 26 October 2018 with funding awards being possible from that point onward until the 8 March 2019 deadline. Due to a number of operators failing to provide key evidence by this deadline, the closing date was extended to the 20 March. This was the latest date possible before bids were scored and grant offer letters prepared. We continue to extend every opportunity to operators to adjust their submission in order to make it compliant.

## **BEAR Phase 2 outcomes**

12. BEAR Phase 2 received ten applications from nine operators. Applications were scored separately by officials from Transport Scotland and Energy Saving Trust, to arrive at a joint overall decision for each application. Seven applications were deemed as successful, resulting in grant awards totalling £919,164 that will see 74 buses being retrofitted. Three applications were deemed to be unsuccessful. Annex A provides a summary of the bids and grants requested.

13. With the BEAR Phase 2 budget being £7.89M, this represents an underspend of £6.970M, which equates to 86% of the BEAR Phase 2 budget being unallocated.

14. Successful bids ranged from £9,000 per bus (large operator) to £30,700 per bus (coach operator). The average grant was £12,421 per bus although this represents a mix of GBER and Deminimus funding routes. The average grant figure is slightly lower than the UK Government's Clean Bus Technology Fund recent grant average of £14,100 per bus, in part due to adoption of a new lower cost technology type by one bidder.

15. Successful applicants operate principally in the cities of Edinburgh and Glasgow, with the majority of buses (53 out of 74) operating in Edinburgh despite the Glasgow LEZ being live now (with a focus on buses). 36 of the successful buses are operated by Lothian Buses.

16. Large operators such as First and Stagecoach did not bid for SCRT (Selective Catalytic Reuptake Traps) exhaust technology for their buses. They repeatedly cited throughout the bidding phase that they believed that the potential funding amount per bus was insufficient to warrant a bid into BEAR Phase 2 (compared to what they had received for SCRT retrofitting in England). A summary of the First Glasgow bid and engagement with Transport Scotland is outlined in Annex B.

17. BEAR Phase 2 grants offer the maximum amount per bus that we can legally offer within State aid rules and have been approved by the European Commission (EC).

## **Presentation**

18. There will be intense media coverage of the BEAR Phase 2 awards which will almost certainly generate front-page headlines. There will be polarised views on the published outcomes.

19. Bus operators – with a particular focus on First Glasgow – will claim that the BEAR funding for exhaust retrofit does not offer value for money compared to England and that their bid for engine retrofit was unfairly rejected. We have acknowledged that BEAR Phase II had its limitations and there was no way to attain State aid approval for anything else in the time available, nor were we aware that an increase in the State aid intensity was even a possibility prior to the German Government adopting this novel approach in November 2018. We have said that we are open to working closely with CPT on a BEAR Phase 3, including seeking State aid approval for a new design of scheme from the EC, although this is not a foregone conclusion.

20. Environmental Non-Government Organisations will claim that bus operators are guilty of not doing enough to improve the polluting emissions of their existing bus fleet even though Scottish Government funding was available. Such headlines were evident in the run-up to the BEAR Phase 2 deadline in early March

21. With First Glasgow choosing not to bid for SCRT retrofitting, they have created a challenge for themselves to be able to meet the Glasgow City Council LEZ target of 40% of bus journeys being at a Euro VI emission standard by 2019.

## **Recommendation**

22. That the Cabinet Secretary notes the content of this submission.

[redacted]

Roads Directorate: Environment and Sustainability  
Transport Scotland  
[redacted]

28 March 2019

## SUMMARY OF BIDS RECEIVED

23. The table below outlines the bids received for BEAR Programme Phase 2. The operators noted in green were assessed as having submitted applications which passed the criteria set out in the BEAR Phase 2 guidelines (which were published on the EST website and were freely available to all bus operators at the time that they downloaded their application proforma).

24. The operators in green were assessed as having submitted applications which met the criteria set out in the BEAR Phase 2 guidelines, and operators in red assessed as not meeting the criteria.

Operator	State aid status of bid	Number of buses	Number of weekly entries to LEZ/AQMA per bus	AQMA/LEZ locations of operation	Total grant requested	Average grant per bus
Lothian Buses (1)	Large company	25	35	Edinburgh	£ 156,140.00	£ 6,245.60
Handicabs	de minimis	17	55	Edinburgh	£ 170,650.00	£ 10,038.24
Graig of Cambeltown	Large company	10	89	Glasgow	£ 138,616.00	£ 13,861.60
Lothian Buses (2)	de minimis	11	35	Edinburgh	£ 171,464.00	£ 15,587.64
Strathclyde Passenger Transport	de minimis	1	82	Glasgow	£ 20,716.00	£ 20,716.00
Western Buses Limited	de minimis	7	25	Glasgow	£ 168,910.00	£ 24,130.00
Festival Travel	de minimis	3	10	All 4 LEZs	£ 92,668.00	£ 30,889.33
Wilson's	de minimis	1	10	Glasgow	£ 40,000.00	£ 40,000.00
Xplore Dundee	Large company	9	89	Dundee	£ 337,223.00	£ 37,469.22
First Glasgow	Large company	10	48	Glasgow	£ 407,637.00	£ 40,763.70

## FIRST GLASGOW AND THE BEAR PROGRAMME PHASE 2

### First Glasgow bid

25. BEAR Phase 2 funding provision was sufficient for First Group to have been awarded up to £3.5m in grants in 2018/19. Cost data provided by First Group indicated that such funding would have been sufficient to match-fund the conversions of all of the First Glasgow Euro IV and V buses up to Euro VI standard. This would have represented 286 buses across their Glasgow fleet; the BEAR Phase 2 funding pot was designed to enable the majority/all First Glasgow buses to be retrofitted.

26. First have stated on a number of occasions that the amount of grant funding per bus was – in their opinion – insufficient to persuade them to undertake the steps needed to reduce pollution from buses, even though the Euro VI standard is mandated through the Glasgow Low Emission Zone (a fact First Glasgow are well aware of).

27. Following protracted discussions with First this year, it is evident that First believe that future grant funds via the BEAR Programme in 2019/20 may offer more generous funding, particularly if they did not bid significantly into the Phase 2 scheme. Future funding per bus levels are dependent however on the outcome of an EC notification process which may not necessarily result in a more attractive offer.

28. Transport Scotland have worked intensively with First Group to help First achieve the best outcome possible, with indicative grants of £10k-£13k per bus being possible for exhaust retrofitting given First's economy of scale. Such funding would have covered a significant proportion of the capital costs of such exhaust equipment which typically costs between £12k-£17k.

29. First bid on 8 March for funding to convert 10 Hybrid buses to standard diesel engines. They did not bid for (or request a grant) for industry standard SCRT exhaust retrofitting. Their bid on the 8 March was deemed by officials to be of a very poor standard. For example, their original bid did not include a quote from their chosen supplier to undertake the engineering work requested (a mandatory requirement in the BEAR guidelines). Rather, First stated that they would knowingly not be supplying a quote in time.

30. First were advised that their bid was non-compliant and were given a further opportunity to provide the necessary information after the 8 March deadline, with the deadline extended to the 20 March.

31. First provided their quote for engine replacements on the 21 March, and also revised their application grant request of £407,637k for the 10 buses.

32. Due to a combination of factors their bid was deemed to not meet the BEAR Phase 2 "pass" criteria:



- The First bid was deemed to be very poor value for money – the grant per bus requested was in excess of £40k per bus. Other bids in contrast ranged from £6k per bus for grants towards the costs of exhaust replacement. First were told repeatedly by officials over recent months that the Phase 2 scoring would factor in value for money and that this metric was heavily weighted in the BEAR phase 2 scoring.
- The air quality benefit was poor – the route chosen had a low number of weekly entries per bus to the LEZ in contrast to many of First’s other service routes. The existing buses on the chosen route were already Hybrids. In addition, First’s projected usage of Ad blue additive was also very low (compared to other BEAR bidders), which would indicate that there would have been limited NOx abatement from such operations.
- There was no additionality – First had already verbally stated (privately to officials) that the Hybrid buses that they were seeking BEAR Phase 2 funding were already on their engineering plan to have replacement engines fitted; with or without grant funding from the Scottish Government.
- The timescales quoted by First were not within the 6 months grant window for conversions, and could have taken considerably longer. Furthermore, the First offer of a 2 year manufacturer warranty failed to meet the 5 year expectation of the grant scheme.
- The Hybrid buses that First wanted to remove the Hybrid components from with the BEAR phase 2 funding may have already received grant funding via the Green Bus Fund.

### Options offered to First Glasgow

33. First Glasgow were advised that their bid was unlikely to be awarded funding, but that Transport Scotland were extending them an opportunity to improve their submission.

34. Two principal options were suggested to First Glasgow;

- **Option 1** – This bid for engine fitment requested £408k grant, match funded by £443k capital funds from First. The suggestion is for First to reallocate the £443k capital funds they have proposed to use in match funding for the 10 engine replacements, towards a bid for SCRT + eFan conversions instead. This would provide the necessary capital costs after grant for the conversion of around **90** Enviro 300s to Euro 6 standard.
- **Option 2** - To resubmit their bid including both the **10** engine replacements and e.g. **60** Enviro 300 SCRT + eFan conversions. The overall bid is likely to be significantly strengthened by following this approach.

In either scenario First could have received a grant offer of £1.1 to £1.2 million depending on final costs submitted, which would have greatly assisted in First’s target of meeting the Glasgow LEZ emission standard targets. Option 2 represents funding of up to £17k per bus.

## **Other bids**

35. Dundee Xplore also bid in a similar manner to First Glasgow for removal of Hybrid drive components from 9 buses, this time to leave the existing Euro V engine mated with a Euro VI SCRT. This was outside the remit of the scheme as this is essentially downgrading a Hybrid bus. This bid was unsuccessful principally due to the excessive costs (£83k/bus) for fitting essentially an SCRT that should cost £12k-£14k.

36. Dundee were given opportunity to improve their bid by including more SCRT conversions and are believed to have 37 remaining Euro V buses in their fleet.

37. A further coach operator was unsuccessful in bidding for funding for 1 coach as they were unable to respond to challenges on costs when requesting £40k to fit an SCRT system.

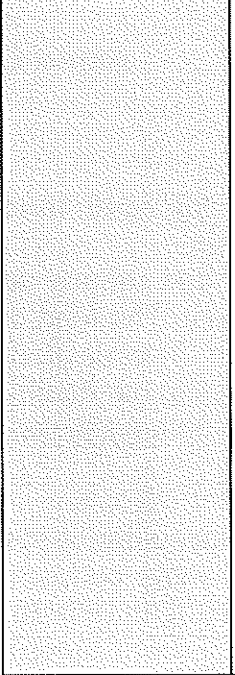
Cabinet Secretary for Transport, Infrastructure and Connectivity  
Cabinet Secretary for Environment, Climate Change and Land Reform

**MEETING OF LEZ LEADERSHIP GROUP**  
**25 April 2019**

**Annex E: BEAR Phase 2 funding award and press lines**

5. **Bus Emission Abatement Retrofit (BEAR)** - [redacted] as lead official

<p><b>Item 5:</b></p>	<p><b>Bus Emission Abatement Retrofit (BEAR)</b> (official lead – [redacted] [redacted])</p>
<p><b>Key Messages:</b></p>	<ul style="list-style-type: none"> <li>• The BEAR Programme supports the bus and coach operators to prepare for the introduction of LEZs in Scotland, through the installation of accredited technologies including retrofit exhaust abatement retrofit technology.</li> <li>• BEAR Phase 2 award letters were issued in late March.</li> <li>• Scottish Government awarded £1,062,512 from a budget of £7.89m to 8 bus operators, to enable 84 buses to be retrofitted.</li> <li>• A bid from First Glasgow was non-compliant with BEAR guidelines.</li> <li>• The BEAR Phase 2 funding awards were published by Energy Saving Trust on the 16 April, with the Scotsman publishing an article on the 17 April about the lack of funding uptake.</li> <li>• The BEAR Phase 3 budget is £8.857m in 2019/20.</li> </ul>
<p><b>Discussion:</b></p>	<p><b>BEAR 2 outcomes</b></p> <ul style="list-style-type: none"> <li>• BEAR Phase 2 grants offered the maximum amount per bus that we can legally offer within State aid rules and have been approved by the European Commission.</li> <li>• The bus sector took up 13.5% of the funds available in 2018/19, even though we engaged extensively with the bus industry on this scheme over the past year.</li> <li>• The remaining 86.5% could have enable our larger bus operators in Scotland (particularly First and Stagecoach) to retrofit a significant proportion of their fleet.</li> <li>• A bid from First Glasgow was deemed by the Scottish Government to be non-compliant with BEAR guidelines. Moreover, the First bid would not have resulted in any buses being retrofitted in a traditional sense</li> <li>• <b><u>The Scottish BEAR 2 average funding per bus for large operators under General Block Exemption Regulations (at £14,098) was almost exactly the same as typical grants offered via the UK Government’s Clean Bus Technology Fund to English bus operators (a £14,100) for retrofit kit.</u></b></li> <li>• Prior to the BEAR 2 scheme closing, the largest operators commented that likely grants available via BEAR would not be sufficient for them to want to retrofit their buses and reduce emissions. This argument would now seem to be without merit, given the information gleaned from the BEAR 2 process. This perception was arguably the main reason why major/large bus operators did not bid in significant numbers.</li> <li>• A further £8.857m will be offered this financial year to support the BEAR Programme although the underspend from the 2018/19 funding could NOT be carried forward.</li> </ul>

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- Friends of the Earth Scotland has provided critical lines to the press on the lack of BEAR 2 funding uptake (as shown in Annex E)
  - Colin Smyth MSP (Labour) has lodged an wide-ranging FOI request on the 14 April requesting information related to BEAR including correspondence between and within Transport Scotland and Energy Saving Trust (and First Group) on BEAR phase 2 and any future BEAR programmes.

[redacted]