

# Subsidy Advice Unit Report on the proposed subsidy to Plymouth Citybus Limited

Referred by Plymouth City Council

23 October 2024

**Subsidy Advice Unit**

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Part of the Competition and Markets Authority



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# 1. The Referral

- 1.1 On 6 September 2024, Plymouth City Council (the Council) requested a report from the Subsidy Advice Unit (the SAU)<sup>1</sup> in relation to its proposed grant to Plymouth Citybus Limited (PCL) for the acquisition of 50 zero emission buses (ZEBs) and the provision of associated infrastructure (the ZEB Project) under section 52 of the Subsidy Control Act 2022 (the Act).<sup>2</sup>
- 1.2 This report evaluates the Council’s assessment of compliance (the Assessment) of the subsidy with the requirements of Chapters 1 and 2 of Part 2 of the Act.<sup>3</sup> It is based on the information and evidence included in the Assessment.
- 1.3 This report is provided as non-binding advice to the Council. It does not consider whether the subsidy should be given, or directly assess whether it complies with the subsidy control requirements.

## Summary

- 1.4 The Assessment uses the four-step structure described in the Statutory Guidance for the United Kingdom Subsidy Control Regime (the [Statutory Guidance](#)) and as reflected in the SAU’s Guidance on the operation of the subsidy control functions of the Subsidy Advice Unit (the [SAU Guidance](#)).
- 1.5 In our view, the Council has considered the compliance of the Subsidy with the subsidy control and energy and environment principles.
- 1.6 The Assessment reflects the following positive features:
- (a) the discussion of the expected emissions abatement and the description of the calculation methodology are clear and well-articulated; and
  - (b) the well-structured and detailed approach taken when conducting the balancing exercise in principle G is to be commended.
- 1.7 However, we have identified the following areas for improvement:
- (a) The Assessment should better evidence why the size of the Subsidy is the minimum necessary.

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<sup>1</sup> The SAU is part of the Competition and Markets Authority.

<sup>2</sup> The SAU has published details on its webpage: [Referral of the proposed subsidy to Plymouth Citybus Limited by Plymouth City Council - GOV.UK \(www.gov.uk\)](#).

<sup>3</sup> Chapter 1 of Part 2 of the Act requires a public authority to consider the subsidy control principles and energy and environment principles before deciding to give a subsidy. The public authority must not award the subsidy unless it is of the view that it is consistent with those principles. Chapter 2 of Part 2 of the Act prohibits the giving of certain kinds of subsidies and, in relation to certain other categories of subsidy creates a number of requirements with which public authorities must comply.

- (b) The Assessment should more systematically consider how the design of the Subsidy will limit potential negative effects on competition and investment including discussion of aspects of subsidy design which are set out in the Statutory Guidance (eg monitoring, ringfencing, and clawback mechanisms), but which are not currently addressed.

1.8 We discuss these areas below, along with other issues, for consideration by the Council in finalising its assessment.

## **The referred subsidy**

1.9 The Council is proposing to provide a subsidy of up to £12.3 million to PCL to secure the delivery of the ZEB Project, comprising:

- (a) the acquisition of a fleet of 50 double-decker ZEBs which will cover specified bus routes within Plymouth and to/from the Rame Peninsula, South East Cornwall; and
- (b) the provision of related charging infrastructure to support the use of the ZEBs.

1.10 The ZEB Project is intended to reduce carbon emissions and improve air quality, in part through the ZEBs providing an immediate reduction in carbon emissions compared to present levels on the routes where they are deployed. It will also do so indirectly, as the new vehicles will displace some of the current diesel buses in operation on the identified routes, which tend to be newer diesel vehicles with a better environmental rating. This will in turn allow PCL to cascade these newer diesel vehicles through its fleet and phase out usage of the oldest, most-polluting buses that are currently in use in the area.

1.11 PCL will continue to maintain at least the existing level of service on the bus routes, but with lower overall emissions and therefore higher air quality. The ZEBRA (Zero Emission Bus Regional Area) 2 subsidy rules require PCL to keep the ZEBs on the chosen routes for a minimum of five years.

1.12 The Subsidy equates to up to 43% of the total ZEB Project cost of £28.3 million. The balance of the ZEB Project cost will be financed from PCL's own non-publicly sourced group reserves; PCL is part of The Go-Ahead Group Limited.

1.13 The Subsidy itself is financed from the Department for Transport's (DfT) ZEBRA 2 Fund (84%); and by the Council (6%) and Cornwall Council (10%).

1.14 The Council explained that the Subsidy is a Subsidy of Particular Interest because its value exceeds £10 million.

## 2. The SAU's Evaluation

2.1 This section sets out our evaluation of the Assessment, following the four-step framework structure used by the Council.

### **Step 1: Identifying the policy objective, ensuring it addresses a market failure or equity concern, and determining whether a subsidy is the right tool to use**

2.2 The first step involves an evaluation of the Assessment against:

- (a) Principle A: Subsidies should pursue a specific policy objective in order to (a) remedy an identified market failure or (b) address an equity rationale (such as local or regional disadvantage, social difficulties or distributional concerns); and
- (b) Principle E: Subsidies should be an appropriate policy instrument for achieving their specific policy objective and that objective cannot be achieved through other, less distortive, means.<sup>4</sup>

### **Policy objectives**

2.3 The Assessment states that the primary public policy objective of the Subsidy is to 'decarbonise bus services and deliver cleaner air in the short to medium term for the good of the overall population and environment in Plymouth and the Rame Peninsula'.

2.4 It explains that the Subsidy is essential to securing the delivery of this policy objective, and that it does so while maintaining (and to a limited extent, enhancing) bus services in the project area.

2.5 The Assessment sets out several local and national policy objectives with which the Subsidy is aligned. These include the Council's vision, as set out in the 2024 Bus Service Improvement Plan, 'to create a thriving bus network where everyone can be connected to important people and places, by services that are frequent, reliable, fast, affordable, safe and clean, which will also help Plymouth to achieve its net zero goals by 2030'.<sup>5</sup>

2.6 Throughout the Assessment, the policy objectives are framed in different ways, and some of the Principles are assessed with reference to a wider range of objectives than are identified in paragraphs 2.3 and 2.4. The appropriate breadth of the policy objectives is therefore somewhat unclear; for example, under

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<sup>4</sup> See [Statutory Guidance](#), paragraphs 3.32-3.56 and the [SAU Guidance](#), paragraphs 4.7-4.11 for further detail.

<sup>5</sup> [Bus Service Improvement Plan - Plymouth Bus](#), page 6 Executive Summary.

Principle E, the policy objective is described as ‘maintaining and potentially increasing bus service patronage; quality; and securing much wider accessibility’.

- 2.7 In our view, the Assessment could be improved by ensuring that the policy objectives are stated clearly and presented consistently throughout the Assessment, and clarifying where wider identified benefits of the Subsidy are incidental to the policy objectives. For example, it could clarify whether maintaining or enhancing bus services in the project area, or making bus services more accessible, were part of the specific policy objectives, or instead wider benefits of the Subsidy.

## **Market failure**

- 2.8 Market failures arise where market forces alone do not produce an efficient outcome. When this arises, businesses may make investments that are financially rational for themselves, but not socially desirable.<sup>6</sup>
- 2.9 The Assessment states that there are negative externalities which the Subsidy aims to tackle. It explains that the introduction of ZEBs and the associated charging infrastructure in Plymouth will have a positive climate impact, particularly by reducing greenhouse gas emissions. It also proposes that educating and encouraging others on use of zero emission vehicles, and making charging infrastructure available for other organisations to use, will encourage positive climate change behaviours more widely.
- 2.10 It estimates that the project will achieve a lifetime reduction of direct greenhouse gas emissions by 79,914 tonnes of carbon dioxide equivalent. It explains this will have the effect of ‘increasing Plymouth City’s annual reduction in emissions by 23%’, and fully decarbonise 44% of its bus services.
- 2.11 In our view, although the Assessment refers to relevant market failures, it does not clearly explain their relevance to the policy objective or how the Subsidy will address them. The Assessment could directly link the benefits it describes with the descriptions of market failures in the Statutory Guidance; for example, in regard to the negative externalities related to emissions from bus transport.

## **Equity objective**

- 2.12 Equity objectives seek to reduce unequal or unfair outcomes between different groups in society or geographic areas.<sup>7</sup>
- 2.13 The Assessment states that the city of Plymouth is considered economically disadvantaged, that Plymouth has two lower-layer super output areas in the most

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<sup>6</sup> [Statutory Guidance](#), paragraphs 3.35-3.48.

<sup>7</sup> [Statutory Guidance](#), paragraphs 3.49-3.53.

deprived 1% of the country, and that the area covered by the Local Transport Authority is placed within the second decile of the Index for Multiple Deprivation.

- 2.14 The Assessment points out that improving the air quality in Plymouth will improve the health and wellbeing of Plymouth residents and visitors. It notes that the bus routes where the ZEBs are intended to be operated primarily serve the most deprived areas of the city and that they will operate within the declared Air Quality Management Area.
- 2.15 The Assessment explains that 24.9% of households within Plymouth are without access to a car, and that transport by bus accounts for 95% of the public transport in and around Plymouth. It states that public bus services are crucial to enable residents to access school and work, healthcare and shops, friends and family as well as enabling visitors to travel to, from and within Plymouth.
- 2.16 The information in the equity objective section helps to provide context for why the bus services are necessary, and so why maintaining bus provision is important. However, in our view the Assessment could more clearly explain the unequal or unfair outcomes which it seeks to remedy or prevent from worsening, and how the Subsidy will achieve this, given that absent the Subsidy, it is still anticipated that all bus routes will continue to operate with diesel vehicles; the relevant outcomes appear to primarily be environment and health-related.

## **Appropriateness**

- 2.17 Public authorities must determine whether a subsidy is the most appropriate instrument for achieving the policy objective. As part of this, they should consider other ways of addressing the market failure or equity issue.<sup>8</sup>
- 2.18 The Assessment states that the Council has ‘a 2030 net zero target’, and within its Net Zero Action Plan, it has committed to facilitate ‘decarbonisation of the transport system, provide [relevant] public infrastructure [...] and co-produce decarbonisation plans and initiatives with partners’. It claims that the introduction of ZEBs will meet these commitments, and that the ZEBRA 2 fund ‘has provided the catalyst to allow the introduction of ZEBs to Plymouth, which would not otherwise have happened at the current time or for the foreseeable future’. The Assessment states that the use of ZEBs is essential in Plymouth, where buses are the principal means of public transport. In addition, it discusses secondary benefits, noting that ZEBs may potentially increase bus service patronage; improve quality; and secure wider accessibility when using environmentally cleaner forms of public travel.

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<sup>8</sup> [Statutory Guidance](#), paragraphs 3.54-3.56.



- 2.19 The Assessment considers other means of decarbonising Plymouth's transport system solely within the gift of the Council, such as promoting active travel eg walking, cycling and wheeling (using a wheelchair or mobility aid), and behaviour change programmes. It explains that this option was ruled out for not fully meeting the policy objectives, for not achieving sufficient reductions in emissions overall, and particularly in not addressing bus emissions. The Council rejected an option of operating the buses itself, not least due to lack of sufficient capital.
- 2.20 The Assessment considers approaches aside from grant funding. Using PCL's own calculations, the Assessment notes that without external funding, these non-subsidy figures do not represent an investable business case. The net present value is negative based on the latest discount factor, and the internal rate of return (IRR) is below PCL's weighted average cost of capital. It states that a loan or equity guarantee 'would only worsen the commercial viability of [the ZEB] Project' and so would not be a viable option.
- 2.21 The Assessment explains that the Council did not consider lending funds 'at a preferential or 0% rate' as it does not have sufficient capital or revenue funding to make this affordable. Similarly, it concluded that it was not viable for the Council to acquire ZEBs and develop the relevant infrastructure itself in order to subsequently lease vehicles to bus operators, as it does not possess sufficient capital or revenue budget to fund the purchase of ZEBs alone.
- 2.22 The Assessment briefly considers alternative fuel ZEBs; it notes that the only alternative option available under ZEBRA 2 is hydrogen. Hydrogen ZEBs were rejected as an option due to the higher 'value for money', and lower risk, in electric bus investment. It also considered an incremental roll out of ZEBs, but concluded that due to the upfront required cost of infrastructure and buses, the costs of implementation would only increase by introducing the ZEBs incrementally.
- 2.23 The Assessment did not consider dual loan- and subsidy-funded incremental introduction, to demonstrate that the project could not be privately financed; this could have been beneficial. It also explains that it did not consider a loan for 'a proportion of the sum required, with the Subsidy making up the balance' as this would be unaffordable. However, the Council (along with Cornwall Council) will be contributing £1.94m, with the Council contributing £750k; it is not clear in the Assessment why the Council did not consider making this amount a loan to PCL.
- 2.24 The Assessment's consideration of Principle E makes reference to the possibility of receiving subsidy funding via ZEBRA 2, and subsequently has directly compared other possible options with the end result of the Subsidy. For example, when determining alternative policy approaches, the Assessment notes that 'given the availability of the DfT ZEBRA 2 fund [...] this option was reasonably rejected'.

2.25 In our view, the Assessment could address a fuller range of alternative approaches separate to ZEBRA 2 funding (such as partial loans or evaluating use of biomethane/ biodiesel buses), and provide the Council's reasons as to why these were found to be less effective in addressing the policy objectives.

## **Step 2: Ensuring that the subsidy is designed to create the right incentives for the beneficiary and bring about a change**

2.26 Under Step 2, public authorities should consider compliance of a subsidy with:

- (a) Principle C: Subsidies should be designed to bring about a change of economic behaviour of the beneficiary. That change should be something that would not happen without the subsidy and be conducive to achieving its specific policy objective; and
- (b) Principle D: Subsidies should not normally compensate for the costs the beneficiary would have funded in the absence of any subsidy.<sup>9</sup>

### **Counterfactual**

2.27 In assessing the counterfactual, public authorities should consider what would likely happen in the future – over both the long- and short-term – if no subsidy were awarded (the 'do nothing' scenario').<sup>10</sup>

2.28 The Assessment states that, in the absence of the Subsidy, ZEBs would not be introduced to the proposed routes in the short-to-medium term because there is no existing or impending legal requirement to do so and the beneficiary's own analysis demonstrates the need for financial support to facilitate the long-term move towards ZEBs.

2.29 The Assessment explains that, without the Subsidy, the beneficiary would proceed with its existing business-as-usual plan to carry out a smaller capital investment designed to gradually replace existing buses with newer diesel variants. It states that these newer vehicles 'would not be significantly more efficient' than most of those being replaced, as the latter already conform to the latest emissions specifications. Consequently, the Assessment claims that 'a significant reduction in carbon emissions and improving the air quality while at least maintaining the current level of service would not be realised'.

2.30 The Council provided documentation demonstrating the beneficiary's business-as-usual investment plans. This was supplemented by analysis and supporting evidence of both the quantity and economic value of the carbon dioxide, nitrogen

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<sup>9</sup> Further information about the Principles C and D can be found in the [Statutory Guidance](#) (paragraphs 3.57-3.71) and the [SAU Guidance](#) (paragraphs 4.12-4.14).

<sup>10</sup> [Statutory Guidance](#), paragraphs 3.60-3.62.

oxides (NOx) and particulate matter emissions it expects the investment in ZEBs will abate, and the methodology adopted.

- 2.31 Regarding the longer-term counterfactual, which the Council defines as after 2035, the Assessment considers the potential for change in the regulatory landscape. However, it claims that the objective of improving air quality in the short-to-medium term as well as in the long-term would not be achieved by simply waiting for regulation to solve the issue. It states that while it can be assumed that PCL is likely to have invested in some ZEBs in the longer-term counterfactual, it would be difficult to quantify the number of likely ZEBs or the environmental impact in the longer-term counterfactual.
- 2.32 In our view, the beneficiary's existing plans to invest in diesel buses represent the appropriate counterfactual. Longer-term counterfactuals after 2035 are less relevant for the Assessment and depend on unknown policy and regulatory developments. Generally, the discussion of the expected emissions abatement and description of the calculation methodology is a strength of the Assessment.

### **Changes in economic behaviour of the beneficiary and additionality**

- 2.33 Subsidies must bring about something that would not have occurred without the subsidy.<sup>11</sup> They should not be used to finance a project or activity that the beneficiary would have undertaken in a similar form, manner, and timeframe without the subsidy ('additionality').<sup>12</sup>
- 2.34 The Assessment explains that the capital cost of both ZEBs and the associated infrastructure is significantly greater than for an equivalent number of diesel buses. Further, it claims that the investment into ZEBs generates insufficient profits to service the debt that the beneficiary would need to incur to make the investment itself, resulting in a viability gap. The Council states that its advisers had 'undertaken an independent assessment of the Project's viability gap and are satisfied that the level of subsidy is necessary to secure the private sector investment.'
- 2.35 The Assessment also notes that, while The Go-Ahead Group has expressed aims to decarbonise its fleet, this is wholly dependent on financial support, and there is currently no legal or regulatory standard requiring the operator to invest in ZEBs. Consequently, it states that the proposed subsidy 'provides the operator with a clear financial incentive to bring forward its [...] aspiration to decarbonise its fleet' and, in turn, achieve this aspiration.

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<sup>11</sup> [Statutory Guidance](#), paragraph 3.64.

<sup>12</sup> [Statutory Guidance](#), paragraphs 3.63-3.67.

- 2.36 The Assessment considers that securing the operator's incremental costs of investment to acquire the ZEBs will ensure that, at a minimum, an essential level of bus service will be maintained in an environmentally friendly way.
- 2.37 Regarding additionality, the Assessment explains that, given the described viability gap, the investment would not proceed without the Subsidy and that the policy objective would not therefore be met. It states that the Subsidy is solely intended for the capital costs of the ZEBs and related infrastructure and, consequently, no business-as-usual costs would therefore be funded.
- 2.38 In support of the Assessment, the Council provided a statement from the beneficiary stating that it had no pre-existing plans to invest in ZEBs, the project would be loss-making over the lifetime of the ZEBs, even when factoring in expected operating efficiencies, and so would not be commercially viable absent support. It also submitted the beneficiary's incremental IRR analysis, which details the incremental cash flows and returns from the ZEB investment relative to investing in an equivalent number of diesel buses instead, and is intended to demonstrate that the Subsidy ensures the commercial viability of investing in ZEBs. The Council also supplied evidence referring indirectly to costings received from two different manufacturers of ZEBs and related infrastructure.
- 2.39 The Assessment explains the change in behaviour that the Subsidy is designed to bring about, and that the Subsidy enables the completion of a project that would not have otherwise been undertaken by the beneficiary. However, in our view, inclusion of the viability gap assessment conducted by the Council's financial advisors could also have improved the assessment of both Principles C and D, by demonstrating the financial incentives on the recipient with the Subsidy, and in the counterfactual to clearly demonstrate the additionality and change in economic behaviour from the Subsidy.

### **Step 3: Considering the distortive impacts that the subsidy may have and keeping them as low as possible**

- 2.40 Under Step 3, public authorities should consider compliance of a subsidy with:
- (a) Principle B: Subsidies should be proportionate to their specific policy objective and limited to what is necessary to achieve it; and
  - (b) Principle F: Subsidies should be designed to achieve their specific policy objective while minimising any negative effects on competition or investment within the United Kingdom.<sup>13</sup>

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<sup>13</sup> See [Statutory Guidance](#) paragraphs 3.72-3.108 and the [SAU Guidance](#), paragraphs 4.15-4.19 for further detail.

## Proportionality

- 2.41 The Assessment states that the Council is satisfied that the Subsidy amount has been reasonably demonstrated as no more than necessary to meet the demonstrated viability gap. In support of this, the Assessment points to a number of pieces of evidence that the Subsidy is the minimum necessary.
- 2.42 The Assessment outlines PCL's internal financial analysis of the financial viability of the incremental capital expenditure on 50 ZEBs against a counterfactual scenario of investing in diesel buses (see paragraph 2.38). This analysis shows the level of financial returns PCL expects on the incremental capital expenditure with and without the Subsidy; without the Subsidy the returns (as measured by the project net present value) are expected to be negative, whereas with the Subsidy the returns become positive. The Assessment cites 'national viability evidence' in the form of the National Bus Strategy<sup>14</sup> and the ZEBRA 2 scheme funding rules<sup>15</sup> which demonstrate the importance of public funding in financing the decarbonisation of local buses.
- 2.43 To demonstrate that the Subsidy is no more than necessary to meet the specific public policy objectives, the Assessment details that the Council is assured that the bid (and hence proposed contributions of all parties) has been scrutinised by DfT as part of its ZEBRA 2 assessment process and, through this process, has been judged as sound and good value for money. It notes that the rules for the ZEBRA 2 scheme funding award from DfT recognise the need for bus operators and local transport authorities to provide finance so far as possible to support and deliver on relevant policies, and that ZEBRA 2 rules allow for up to 75% of the incremental cost of purchasing a ZEB and required infrastructure.
- 2.44 In this case, the size of the DfT grant was assessed as being less than 75% of both the total incremental costs and the total infrastructure costs, and will constitute an even smaller proportion of the total costs borne by PCL.
- 2.45 The Assessment also takes into consideration a benefit cost ratio calculation. This approach, based on the DfT's Greener Bus Tool,<sup>16</sup> calculates the benefits from carbon dioxide and air pollution reduction and compares them with the cost and benefit of the Subsidy to the private and public sector. It notes the value of this ratio is 1.76, demonstrating that the benefits of the project, including reduced air pollution and carbon emissions, greatly outweigh the costs.
- 2.46 The Assessment clearly explains the Subsidy's scale relative to the overall costs of the project and the benefits that it generates. However, proportionality requires that the size of the Subsidy is the minimum necessary. In our view, the analysis

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<sup>14</sup> Chapter 5, [Bus Back Better \(publishing.service.gov.uk\)](https://publishing.service.gov.uk).

<sup>15</sup> [Apply for zero emission bus funding \(ZEBRA 2\) - GOV.UK \(www.gov.uk\)](https://www.gov.uk).

<sup>16</sup> [Greener bus tool - GOV.UK \(www.gov.uk\)](https://www.gov.uk).

provided does not demonstrate this, as there is no analysis of the returns to PCL which show that the Subsidy is set at the minimum level required to create the necessary incentives. It is not explained how and if the IRR analysis demonstrates this, nor is it explained how and to what extent DfT scrutinised the value for money of the ZEBRA 2 bid, and whether this could ensure that the Subsidy is set at the minimum level. In our view the Assessment should better evidence why the size of the Subsidy is the minimum necessary.

### **Design of subsidy to minimise negative effects on competition and investment**

2.47 The Assessment discusses a number of features of the Subsidy's design which are relevant to the minimisation of its negative effect on competition and investment, including:

- (a) the proposed subsidy will contribute less than 75% of the incremental and a lower proportion of the total project costs to be borne by the bus operator, PCL;
- (b) the nature of the costs being funded by the Subsidy are the incremental capital costs of acquiring ZEBs rather than diesel buses;
- (c) the Subsidy is provided over a limited time period with the acquisition of all buses and completion of infrastructure to allow for the buses to become operational by March 2026;
- (d) the ZEBs will operate on the routes for a minimum of five years, post introduction, in accordance with the DfT's Terms and Conditions for the ZEBRA 2 funding; and
- (e) all qualifying operators were notified of the opportunity to submit a bid for funding from the DfT's ZEBRA 2 Fund and were afforded the opportunity to partner with the Council to prepare a proposal to government.

2.48 The Assessment also considers alternative subsidy approaches, including subsidised loans, equity investments and the Council purchasing and leasing the ZEBs to PCL as well as non-subsidy interventions (see paragraphs 2.19 to 2.23), and briefly details why they were not an appropriate design to deliver the ZEB Project.

2.49 While the Assessment does touch on a number of aspects of subsidy design relevant to minimising its negative effects on competition and investment, in our view it should more systematically consider how the design of the Subsidy will limit potential negative effects, including discussion of aspects of subsidy design which are set out in the Statutory Guidance (eg monitoring, ringfencing, and clawback mechanisms), but which are not currently addressed.

## **Assessment of effects on competition or investment**

- 2.50 The Assessment states that Plymouth benefits from a bus market where more than 88% of the Plymouth network is operated commercially (ie without subsidy). PCL and Stagecoach South West (part of the Stagecoach Group) are the two main operators in Plymouth, together delivering over 99 per cent of all bus services within the city, both commercial and tendered.
- 2.51 The Assessment states that the Subsidy for deployment of the ZEBs may have a negative impact on market competition, by offering an improved service with the ZEBs (eg smoother and quieter journeys) compared with other services. However, the Assessment states the Council is reasonably satisfied that any negative effect on competition will be limited. This is because the intervention has been formed with a view to minimising any such effects, particularly by only replacing existing buses on specified routes and ensuring that for a reasonable period of time, the ZEBs are used only to run existing routes. The Assessment also presents evidence that there is very limited overlap in providers on the selected routes, but notes that other operators have the option to offer services on these routes in the future should they consider it commercially viable to do so.
- 2.52 The Assessment also considers whether the ZEBs will be a factor in future tenders for subsidised services in neighbouring Cornwall, of which The Go-Ahead Group already operates a substantial share. It concludes that the impact will be minimal for reasons including: Cornwall Council's tendered network will not be retendered before 2028; the ZEBs can only be deployed on routes that would be able to be served from the location of the charging infrastructure and where the route length means charging during the day is not needed; and the majority of routes in Cornwall are not suitable to be served by ZEBs. More broadly, the Assessment states that because the buses are geographically constrained by where they can be recharged, this makes it less likely that the buses will be redeployed elsewhere within the Go-Ahead Group after the DfT prescribed period (see paragraph 2.47).
- 2.53 In our view, the Assessment's evaluation of the current competitive landscape of the market for bus services in Plymouth provides a basis for its view that the impact of the Subsidy on current competition is likely to be limited. It also provides a justification for why the funding of these ZEBs is unlikely to have any significant competitive impact outside of Plymouth. Having said this, we note that the Subsidy could have the unintended consequence of raising barriers to entry and expansion, as new or existing operators seeking to directly compete would have to do so in competition with a fleet of new electric buses. Therefore, the Assessment could consider the potential impact of the Subsidy on the likelihood of new entry on these routes. This could, for example, involve some consideration of the local circumstances which may affect the potential for entry even without the Subsidy and past experience of competitive entry in bus services in Plymouth.

## Step 4: Carrying out the balancing exercise

- 2.54 Public authorities should establish that the benefits of the subsidy (in relation to the specific policy objective) outweigh its negative effects, in particular negative effects on competition or investment within the United Kingdom and on international trade or investment.
- 2.55 The Assessment takes a structured approach by setting out a number of beneficial impacts of the proposed Subsidy, rating each on how significant an impact it has on the specific policy objective. These include:
- (a) decarbonisation of transport within the Plymouth and southeast Cornwall area;
  - (b) improving air quality;
  - (c) strengthening of working relationships between local authorities and bus operator;
  - (d) encouraging use of public transport; and
  - (e) maintaining current level of service provision.
- 2.56 The Assessment also considers a range of anticipated negative effects, noting the potential impact on competition and investment within the UK as well as geographical and distributional impacts of the Subsidy, rating each negative effect on how significant an impact it has on the specific policy objectives of the Subsidy.
- 2.57 In assessing the impact on competition and investment within the UK, the Assessment acknowledged that there are other bus operators in the Plymouth and Cornwall area, and that new ZEBs may provide a competitive advantage to their operators, but explains that all operators were provided with an equal opportunity to bid for funding with only PCL taking up the opportunity.
- 2.58 In addition, the Assessment notes that the benefit cost ratio (see paragraph 2.45), which calculates the benefits from carbon dioxide and air pollution reduction and compares them with the cost and benefit of the Subsidy, concludes that expected benefits outweigh the potential negative effects.
- 2.59 In our view, Step 4 is well structured and evidenced. The Assessment takes a tabular approach to the balancing exercise, rating both expected benefits and potential negative effects against the specific policy objectives of the proposed Subsidy. We consider that this provides an example of good practice. However, the Assessment could follow the Statutory Guidance more closely through taking account of beneficial effects in relation only to the specific policy objectives (ie



decarbonisation of bus services and improving air quality), as opposed to wider benefits.<sup>17</sup>

## **Energy and Environment Principles**

- 2.60 This section sets out our evaluation of the Assessment against the energy and environment principles.<sup>18</sup>
- 2.61 Plymouth City Council has conducted an assessment of the Subsidy against Energy and Environment Principles A and B.

### **Principle A: Aim of subsidies in relation to energy and environment**

- 2.62 Subsidies in relation to energy or the environment should be aimed at (1) delivering a secure, affordable and sustainable energy system and a well-functioning and competitive energy market, or (2) increasing the level of environmental protection compared to the level that would be achieved in the absence of the subsidy. If a subsidy is in relation to both energy and environment, it should meet both of these limbs.<sup>19</sup>
- 2.63 The Assessment identifies the second limb of Principle A as relevant. It explains that absent the Subsidy, the project will not be delivered in the short and medium term at the very least. It then sets out that the project will make a significant contribution to decarbonising public transport and reducing local air pollution. It sets out that the project will decarbonise 44% of PCL's bus fleet, and will achieve a lifetime reduction of direct greenhouse gas emissions by 79,914 tonnes of carbon dioxide equivalent. It also sets out that it will result in a reduction of air pollution by 28 tonnes of NOx emissions and 1 tonne of particulates.<sup>20</sup>
- 2.64 In our view, the Assessment sets out that the Subsidy will increase the level of environmental protection.

### **Principle B: Subsidies not to relieve beneficiaries from liabilities as a polluter**

- 2.65 Subsidies in relation to energy or the environment should not relieve the beneficiary from liabilities arising from its responsibilities as a polluter under the law of England and Wales, Scotland, or Northern Ireland.<sup>21</sup>

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<sup>17</sup> [Statutory Guidance](#), paragraph 3.110.

<sup>18</sup> See Schedule 2 to the Act.

<sup>19</sup> [Statutory Guidance](#), paragraphs 4.19-4.28.

<sup>20</sup> Defined as PM2.5 (particulate matter less than 2.5 micrometres in diameter).

<sup>21</sup> [Statutory Guidance](#), paragraphs 4.29-4.35.

- 2.66 The Assessment sets out that ‘the Council is confident that this subsidy will not relieve the beneficiary of its legal responsibilities under UK law regarding pollution caused from existing diesel buses’.
- 2.67 It goes on to explain that while there is an ambition to phase out the sale of diesel buses, there is currently no set deadline to do so and no legal obligation to introduce ZEBs.
- 2.68 In our view, the Assessment sets out that the Subsidy will not relieve the beneficiary from its liabilities as a polluter.

### **Other requirements of the Act**

- 2.69 The Council confirmed that no other requirements or prohibitions set out in Chapter 2 of Part 2 of the Act apply to the Subsidy.

**23 October 2024**