

Cabinet Supplementary Information



Date: Thursday, 25 February 2021

Time: 4.00 pm

Venue: Virtual Meeting - Zoom Committee Meeting
with Public Access via YouTube

16. Improving Public Health - Bristol Clean Air Zone Update

Finance Advice

(Pages 2 - 6)

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Appendix G

Finance Advice

1. Bristol Clean Air Plan is BCC response to the central government 2017 directives for LA's to produce a Clean Plan in response to the Nitrogen Dioxide (air quality) concerns. BCC after various modelling has identified an acceptable route to addressing the air quality levels in the shortest possible time. A Small CAZ D option which charges all of non-compliant vehicles cars, buses, coaches, taxis, private hire vehicles, HGVs and LGVs, as well as Fast Track measures. The journey from the draft OBC to the preferred option of a Small CAZ D (with Fast Track measures) is detailed in the Strategic Case FBC – 04/5.
2. Both options will consist of implementation (capital) costs as well as operational (Revenue) costs. The general principle is that the Implementation costs are being funded by Defra/Dft – Joint Air Quality Unit (JAQU) subject to their test for reasonableness, likewise it is assumed that BCC will fund operational costs from revenue generated via charging (with the exception of the implementation year, which is expected to be funded from the Implementation fund).
3. Capital expenditure. The capital expenditure costs have been broken down into 5 broad headings (Quantified risk assessment has also been added):
 - a. Enforcement systems
 - b. Street Works
 - c. Project Delivery
 - d. Non-charging measures
 - e. Risk/Contingency
4. Revenue/Operational expenditure. The operational costs are split into costs associated with delivering the charging scheme, and those necessary to manage the non-compliance to the CAZ regulations.
5. Various assumptions have been made in estimating the costs of both implementing the scheme as well as operating it as per FBC 41/6, amongst which are the following:
 - i. 2021 is the opening year for the CAZ, and is a part year as 29th October 2021 is the assumed "go live" date.
 - ii. Appraisal period is 10 years
 - iii. Monetised impact at 2018 prices and values in line with JAQU guidance
 - iv. 3.5% discount rate per annum in line with Green book.
 - v. Inflation adjusted in line with HM treasury GDP deflator 2020.
 - vi. QRA applied to account for identified Risks, however, no contingency
 - vii. Annual inflation on revenue expenditure set at 2% for staff costs, and 2.9% for other operational costs
 - viii. Assumed non-compliant vehicle driving into the zone in the first full year is 1,147,034 vehicles
 - ix. 11% of non-compliant vehicles are exempt in Year 1



- x. 5% of non-compliant vehicles contravene the CAZ and will be subject to enforcement measures
 - xi. 92% paid the charge
 - xii. 8% don't paid charge, issued PCN in addition to charge
 - xiii. Compliance is achieved in 2023
6. There are a number of Dependencies that could impact on achieving compliance:
- i. Highways England's approach to the M5, M32 and their key exceedance of NO2 limits
 - ii. Low emission vehicle uptake and schemes
 - iii. West of England Combined Authority's range of transport initiatives
 - iv. Neighbouring authorities and their strategy on Clean Air
7. Funding:- There are 4 main sources of funding for the CAZ:
- a. Capital expenditure:
 - i. Early measures fund
 - ii. Implementation fund
 - iii. Clean air fund*
 - b. Revenue expenditure:
 - i. Implementation Fund – First year only
 - ii. Early measures fund
 - iii. CAZ charges
 - iv. CAZ fine – PCN
8. The Clean air fund is to facilitate the achievement of compliance in the “shortest possible time” through measures that help businesses and low income households switch to alternative/compliant modes of making similar journeys. While the bid is subject to JAQU’s approval, it will be administered on a discretionary basis by the Council and will be administered in line with a pre-defined policy in order to ensure the fairness of the scheme.
9. The costs analysis applied for the FBC 33 is a combination of estimates received from in-house specialists i.e. Highways and transport engineers etc. Where estimates have been applied, they are based on the most accurate data & costing available at the time.
10. Table 1 & Table 2 below summaries the estimated capital expenditure & revenue expenditure costs respectively (Based on FBC 07/1. 16.02.21):



Table 1 – Estimated Capital expenditure

Cost Description	Implementation Fund	Clean Air Fund	Total
Enforcement System	£700,291		£700,291
Street Works	£3,603,044		£3,603,044
Other CAPEX	£20,149		£20,149
CAZ Project Delivery *	£1,185,084		£1,185,084
Non-Charging Measures - Implementation Fund	£1,265,726		£1,265,726
Non-Charging Measures – Clean Air Fund		£35,878,344	£35,878,344
QRA (P80)	£2,801,000		£2,801,000
Total	£9,575,295	£35,878,344	£45,453,639

*Reclassified as CAPEX

Table 2 – Estimated Revenue expenditure

Cost Description	Annual Cost
Systems Operations and Maintenance	£1,470,404
Camera, Comms, Signage and Building Maintenance and Operation	£331,520
Monitoring & Evaluation	£48,734
Decommissioning at Scheme End	£681,616
PCN Production	£143,875
Publicity and Advertising	£170,000
Reinvestment Reserve	TBC
Total	£2,846,148

11. CAPEX costs are estimated at £45.5m and include direct implementation costs (£9.6m) as well as other necessary interventions to ensure the Plan delivers to target in the shortest possible time. The model now includes all the various interventions that have been identified by BCC and its One City stakeholders.
12. The estimated OPEX costs are £2.9m in the first full year of operation. Revenue will be generated from charges after “go-live” date, and all resources required before that time have been classified and included within the implementation resources.
13. The financial modelling assumes a significant level of non-compliant vehicles being upgraded/replaced and this has a significant impact on the year of compliance. It also assumes that a significant proportion of owners of such vehicles will be replacing their vehicles of their own volition while some will require intervention via a grant or loan provided from central government as part of this scheme (Clean Air Fund). The modelling assumes that 92% of the current traffic volumes will change behaviour, and thus will not be paying a CAZ charge.



14. A risk register can be located in FBC – 35/2, however, listed below are some of the significant financial risks:

- i. The financial modelling assumes certain levels of compliance and non-compliance which is influenced by JAQU and other central government guidance. It anticipates behavioural responses that may or may not hold true. This assumption impacts on the anticipated compliance year, CAF funding required in achieving such compliance, and the level of intervention required.
- ii. A short list of some of these variables are:
 - a. Traffic flow assumptions
 - b. Proportion of compliance vs non-compliant vehicles before and after intervention.
 - c. Behavioural change assumptions
 - d. Level of subscription to government support
 - e. Level of government funding to support businesses and low income families adversely affected
 - f. Level of CAZ charge and extend to which this acts as an incentive for change
- iii. The current bid assumes a CAF fund of £35.9m will be awarded by JAQU. While this is based on behavioural response linked to central government data, the actual take-up is subjective and could be higher or lower
- iv. The CV-19 has had a significant impact on the nation, businesses and especially low income households. The modelling assumes things will return to normal, however, this may be an over-optimistic assumption, and the variables listed above can be significantly impacted by how stakeholders have been affected by CV-19
- v. The total cost of risk is estimated as £2.8m and is based on a Quantitative risk assessment carried out by the Council. This is included in the funding bid to JAQU. In addition, the Council is seeking delegated authority for the SRO of this project to be able to bid for additional implementation funding should the grant award from JAQU prove to be inadequate to cover the costs.

15. In light of the significant uncertainty and lack of precedent regarding operation of Clean Air Plan's, extensive sensitivity testing is being undertaken to better understand the potential range of net operating positions for the project, based on variance in key assumptions. A list of some of the scenarios can be found in FBC 41/6.

Sensitivity test 7 is the only one with a negative viability over both the compliance period as well as the life of the scheme.

- a. Below are the details of sensitivity test 7:
 - i. Combination of Sensitivity Tests 3, 4 and 6, plus an assumption that the contravention rate declines at an exponential rate rather than stabilising at 5% across the appraisal period, representing a worst-case revenue generating scenario that has:
 - a. 20% JAQU revenue payment instead of 10%
 - b. Reduction in CAZ and PCN Charges by 50%
 - c. Reduction in non-compliant traffic flows by 25% compared to core scenario



- d. Exponential profile of non-compliant traffic flow reduction rather than more gradual profile suggested by traffic modelling
 - b. A detailed review of the scenario in this test shows that the likelihood of the combination of these events happening is highly unlikely, as a result it is concluded that the scheme remains viable under all other test conditions, thus the operational risks considered minimal, and fundable within the revenue generated by the scheme.
16. While the scheme is expected to cover its costs, any surplus will be used to fund transport related scheme in line with Transport related regulations. Outlined below is a list of scheme that have already been identified as potential beneficiaries of such:
- i. Delivery of BCC's 'Liveable Neighbourhoods' aspirations;
 - ii. Supplementary schemes to the CAF measures
 - iii. Additional financial support to businesses and residents to upgrade vehicles
 - iv. Increase, Improve, update Legible City Signage on key radials and in city centre
 - v. An 'unintended consequences' fund for minor local implementations such as one-ways.
17. The report seeks Cabinet approval to submit a bid for £45.5m (subject to approval by the Joint Air Quality Unit and the Minister) for the CAP implementation from a combination of the Implementation fund as well as the Clean Air Fund.
18. In addition, the report seeks the following:
- a. Authorise the Chief Executive, in consultation with the Cabinet Member for Finance, Governance & Performance, and S151 officer, to apply for further funding for implementation of the Clean Air Zone and submit the Clean Air Fund (CAF) bid
 - b. Authorise the Chief Executive, in consultation with the S151 officer, to make amendments to the existing Clean Air Fund (CAF) bid if required, whilst ensuring no changes are made that would impact on legal compliance being achieved
 - c. Authorise officers to continue to work with JAQU to agree implementation plans for the Clean Air Zone and resource allocation in line with the existing scheme of delegation

The S151 Officer will be writing a letter to accompany the FBC submission to JAQU.

Finance Business Partner: Kayode Olagundoye, Interim Finance Business Partner, Growth and Regeneration, 17/02/2021.