

Paper 2.2 Government financial support

This paper sets out the intended approach to explore maximising the value of financial support from Scottish Government in decarbonising public service buses.

The taskforce are invited to:

a) note the scale of Government financial support for bus decarbonisation over the coming 5 years and the plan to assess options for maximising the value of this funding

b) comment on the guiding principles which will be used in development and assessment of options

c) comment on how the value of Government financial support can be maximised in light of the discussion on potential financial models.

Please note that this paper is concerned with financial support for zero-emission vehicles and the necessary energy infrastructure to support them only. Government financial support for bus priority infrastructure, and for bus operations are out with the scope of this paper.

Background: Current Government support for zero-emission buses

There are two parts to current subsidy arrangement for zero-emission buses: a capital subsidy, and a resource subsidy.

The capital subsidy scheme is the Scottish Ultra Low Emission Bus Scheme. This is a stochastic scheme that bus operators (or those who wish to lease buses to operators) can bid into. Awards can be up to 75% of the difference between the cost of a zero-emission bus and its diesel equivalent – including infrastructure. Bids are assessed against criteria including value for money, ambition, and deliverability.

The first round of SULEBS was held in 2020, with awards summing £10.1 million provided.

The second round of SULEBS closed to bids on 21 February and bids are now being assessed. £25 million is available for award before 31 March 2021.

Prior to the COVID pandemic, the resource subsidy was part of the Bus Service Operators Grant. Under this arrangement, in addition to 14.4p/km base rate, an additional sum was added for 5 years, scaled according to the emissions of the bus relative to a diesel bus. The maximum additional rate was 30p/km and this will be provided to those buses acquired through the first SULEBS round. Buses acquired through the second (current) round of SULEBS will receive a maximum additional rate of 20p/km for 5 years.

Funding available for 2021/22 – 2025 / 26

At the time of laying the draft update to the Climate Change Plan in Parliament, the Scottish Government committed funding to support the policies given in the update. This included a commitment of £120 million capital over 5 years for zero emission buses, to drive forward a fully decarbonised future for Scotland’s bus fleet and support the Scottish supply chain.

The funding is profiled over 5 years as follows:

2021/22	£15 million
2022/23	£35 million
2023/24	£50 million
2024/25	£10 million
2025/26	£10 million

No additional resource budget is available so it is vital that subsidy for zero-emission buses in the coming years is entirely capital. (This will not impact on the 5 year commitment to resource support for zero-emission buses already acquired, or those from SULEBS rounds 1 or 2).

Maximising the value of Government funding

Transport Scotland plans to assess options for the subsidy framework over the coming months. Options will be considered in relation to the following guiding principles, on which views are welcomed:

Government financial support should

- a) be fully compliant with the Scottish Public Finance regulations and protocols
- b) be fully compliant with Government subsidy rules
- c) be the minimum necessary to enable the transition to zero-carbon buses
- d) effectively leverage in private sector investment
- e) help to drive down costs over time
- f) decrease over time, ultimately to zero
- g) support both battery-electric and hydrogen technologies and charging infrastructure, recognising that these are at different stages of market penetration and therefore may require different rates or arrangements
- h) support decarbonisation of buses in urban, rural and island areas, recognising that different profiles of bus services and operations may require different arrangements
- i) be cohesive with other Scottish Government funds
- j) be scalable and/or transferrable to support the decarbonisation of other sectors/vehicles in due course.

The **default option** is to run one or two rounds of the Scottish Ultra Low Emission Bus Scheme each of the next 5 financial years. Some minor amendments to the scheme may be possible under this option, for example tweaks to provide a higher proportion of the difference between a zero-emission bus and a diesel bus to compensate in part for further reduction of the associated resource subsidy. In addition, Transport

Scotland would aim to provide a schedule of when SULEBS would be open to bids and the size of the funding available for each round, to enable strategic planning by potential bidders.

By way of example only, alternative options may include, but are by no means limited to:

- establishment of a fund, managed by an arms-length fund manager, designed to secure match funding from private investors and support collaborative bus acquisition and infrastructure investments, and/or kick-start leasing arrangements
- grant scheme to provide a standard rate of support for: battery electric buses, for hydrogen buses, and for infrastructure investment or depot moves/reconfigurations
- investment in markets for second-hand battery use, to address risks associated with the residual value of batteries and unlock private investment.

If the default option is not selected then it may be necessary to run a third round of SULEBS within the 2021/22 financial year in tandem with an alternative framework being put into place for subsequent years.

Next steps

Over the next 6 months Transport Scotland will identify and evaluate options, seeking input from taskforce members where appropriate. A further paper will be brought to the Taskforce in September for discussion before final decisions are made.