

FULL BUSINESS CASE (FBC)

A. GENERAL INFORMATION

A1. General

Project Title <i>(as per Voyager)</i>	Clean Air Zone – Heavy Duty Vehicle Fund (Mitigation M4)		
Voyager code			
Portfolio /Committee	Transport and Environment / Sustainability Committee	Directorate	Inclusive Growth
Approved by Project Sponsor	Phil Edwards	Approved by Finance Business Partner	Simon Ansell

A2. Outline Business Case approval *(Date and approving body)*

The Clean Air Zone (CAZ) Government Full Business Case (GFBC) was approved by Cabinet on 11th December 2018. This project forms part of the CAZ mitigations programme included within the GFBC as part of the Clean Air Fund (CAF) submission.

Following the GFBC approval, capital grant funding of £27.270m was offered by the Joint Air Quality Unit (JAQU) and accepted by the Council in March 2019.

This FBC relates to Mitigation M4 Heavy Duty Vehicle (HDV) Fund supporting businesses with heavy duty vehicles to achieve compliance with the CAZ emissions standards. This FBC details how the grants will be processed, awarded and monitored by the Business Enterprise and Innovation Team (BEI) on behalf of the CAZ Team. The total capital grant funding awarded for M4 is £10.050m.

A3. Project Description

The HDV Fund is intended to support Small and Medium Sized Enterprises (SME's) based either within the Birmingham CAZ, wider Birmingham or West Midlands that conduct commercial activity within the Birmingham CAZ, using non-compliant heavy-duty vehicles (between 3.5 tonnes and 44 tonnes).

The grant funding is designed to support local businesses in their adaptation to the CAZ whilst also supporting the clean air objectives of the wider programme. It seeks to negate the potentially increased operating costs that the CAZ will introduce through daily charging of non-compliant vehicles, and does so either by improving compliance of vehicle fleets (through new vehicles or retrofits) or assisting the relocation of businesses to avoid unnecessary operations in the CAZ.

Key to categorising businesses that may be eligible is determining the nature of their business in relation to the de minimis State Aid Regulations, which are directly linked to the business and the nature of their activity; State Aid Regulations are not linked to vehicle type.

Prior to completing the application, the SME must declare the nature of their business in this regard. Depending on the nature of the business, the eligibility criteria and grant options will differ.

There are two key categories of operation in relation to State aid legislation which are:

Road Freight Transport for Hire or Reward operators – defined as an operator that transports goods between two places: a place of loading and a place of unloading, for payment. For example, a business that is paid to collect items belonging to a third party from one location, to drop them off at another, would be classed as Road Freight Transport for Hire or Reward operators.

Non-Road Freight Transport for Hire or Reward operators – all others vehicle operators. For example, a business that is collecting its own items from one depot to transport them to another depot would not be classed as Road Freight Transport for Hire or Reward operators.

If a business is a postal, courier, or waste operator then they are exempt from the rules relating to Road Freight Transport for Hire or Reward, and for the purposes of this fund they will be classed as Non-Road Freight Transport for Hire or Reward operators.

In order to be eligible to apply for this funding, a company must comply with the below criteria, depending on the nature of their business:

Eligibility criteria for Road Freight Transport for Hire or Reward operators:

- Own or lease Heavy Goods Vehicle(s) that are not compliant with the CAZ emissions standards.
Be able to evidence:
 - The frequency of entry to the CAZ geographical area based on current operations
 - Current euro standard
 - The base location of the vehicle from the announcement of the CAZ in September 2018.

Eligibility criteria for Non-Road Freight Transport for Hire or Reward operators:

- Own or lease Heavy Goods Vehicle(s) that are not compliant with the CAZ emissions standards.
Be able to evidence:
 - The euro standard and base location of the vehicle for the last 12 months.
 - That the non-compliant vehicles are currently used in the CAZ.
 - The estimated frequency which the vehicles will be used in the CAZ based on current operations.
 - The size of the business.

Grant fund options for Non-Road Freight Transport for Hire or Reward operators

SMEs which are not classified as Road Freight Transport for Hire or Reward operators with non-compliant heavy-duty vehicles will be eligible for grant funding to cover the following eligible costs:

- Purchase of compliant vehicle/s
- Lease of compliant vehicle/s
- Retrofit of non-compliant vehicle/s
- Relocation/exit lease costs (subject to approval by (JAQU)

Total grant package for these SMEs is up to €0.200m de minimis threshold or £0.170m (current exchange rate).

Retrofit option:

No. of Non-compliant vehicles	Grant per vehicle £m	Maximum Grant £m
1 - 5 vehicles	0.015	0.075

6 - 10 vehicles	0.013	0.130
11 - 20 vehicles	0.012	0.170
21 + vehicles	0.010	0.170

Purchase option up to 20% of purchase price:

No. of Compliant Coaches purchased	Maximum Grant £m	Cost per Coach £m
1 vehicle	0.040	0.200
2 vehicles	0.080	0.400
3 vehicles	0.120	0.600
4 vehicles	0.160	0.800

Lease option up to 20% of deposit:

No. of Compliant Coaches leased	Maximum Grant £m	Cost per Coach £m
1 vehicle	0.040	0.200
2 vehicles	0.080	0.400
3 vehicles	0.120	0.600
4 vehicles	0.160	0.800

Relocation/exit lease costs (subject to approval by JAQU)

Maximum grant contribution of £0.015m per SME.

Grant fund options for Road Freight Transport for Hire or Reward operators

SMEs which are classified as Road Freight Transport for Hire or Reward operators, with non-compliant heavy-duty vehicles will be eligible for grant funding to cover the following eligible costs:

- Retrofit

The total grant package per SME is up to €0.100m de minimis threshold or £0.085m (current exchange).

Retrofit:

No. of Non-compliant vehicles	Grant per vehicle £m	Maximum Grant £m
1 - 5 vehicles	0.015	0.075
6 - 10 vehicles	0.013	0.085
11 - 20 vehicles	0.012	0.085
21 + vehicles	0.010	0.085

De minimis thresholds are per single undertaking over the current and 2 previous financial years. Where a business is part of a group, the €0.200m limit applies to the group as a whole. Businesses will be required to declare any previous State aid they have received over this period.

A4. Scope

The HDV fund will offer support to SME's that have been actively trading before 10th September 2018 (the first formal confirmation of the CAZ going ahead) and which are registered and located within Birmingham CAZ area or, registered in the Birmingham city area and conducting commercial operations within the CAZ, or registered in the West Midlands area and conducting commercial operations within the CAZ. The SMEs will need to demonstrate that they have eligible non-compliant heavy-duty vehicles.

Funding is discretionary, based on financial need, viability, evidence of match funding, deliverability and demonstration of commercial trading, including frequency of travel within CAZ.

A5. Scope exclusions

The HDV Fund excludes buses, vans, private hire and Hackney Carriage vehicles.

B. STRATEGIC CASE

This sets out the case for change and the project's fit to the Council Plan objectives

B1. Project objectives and outcomes

The case for change including the contribution to Council Plan objectives and outcomes

Programme Objectives

The CAZ mitigation measures programme seeks to provide financial relief to businesses affected by the introduction of the Clean Air Zone. This specific measure is designed to help SMEs with non-compliant heavy-duty vehicles (between 3.5 tonnes and 44 tonnes) that will be affected by the implementation of the CAZ by providing support to purchase/lease/retrofit to achieve compliance with CAZ emissions standards. This aligns with the primary CAZ aim of improving air quality in the city centre.

Project Objectives

This project will:

- Provide £10.050m of grant funding for SMEs to purchase/ lease and retrofit non-compliant heavy-duty vehicles to increase their fleet's compliance with the CAZ emissions standards.
- Provide an additional option to fund some relocation costs, subject to approval of this option by JAQU.

City Council Objectives

The implementation of the CAZ mitigation measures will support the delivery of the wider CAZ objectives, contributing to improved air quality whilst also mitigating the impact of a charging CAZ on local business operations. This is consistent with the City Council's Plan 2018-2022:

- **Birmingham is an entrepreneurial city to learn, work and invest in** - We want a city that invests in its people, so that everyone can have opportunities to realise their potential through lifelong learning, skills and good jobs. We want to invest in the buildings and transport connections of our city to provide better places to live and work, and to enable businesses to prosper.
 - The mitigation grant funds encourage investment in compliant methods of transportation.
- **Birmingham is a fulfilling city to age well in** - We want citizens to live more active, longer, healthier and independent lives. We want to reduce social isolation so that people can make positive choices and take control of their wellbeing.
 - Improving air quality will have a direct impact on the health and wellbeing of citizens and visitors to the city centre. Businesses are a key contributor of vehicle emissions in the city and supporting their transition to operating compliant fleets will improve air quality.
- **Birmingham is a great, clean and green city to live in** - We want Birmingham to be a sustainable city of vibrant culture and flourishing neighbourhoods, with good quality housing. A city with clean

air, safe and clean streets, and green spaces. We want to be a city where our citizens have pride in where they live, have a strong sense of belonging, and a voice in how Birmingham is run.

- The CAZ will directly improve air quality in the city centre. Investing in the SMEs that use HDV's will help reduce the adverse impact on the immediate environment. This is a further step on the way to a clean and sustainable city.
- **Birmingham is a city that takes a leading role in tackling climate change** - Climate change is an urgent issue with a global reach that directly impacts upon Birmingham residents. We will work with our partners to tackle this issue to make Birmingham a city in which all of our residents, including those from our most deprived communities, can lead healthy, safe, fulfilling lives.
 - Birmingham is one of the first cities to implement a CAZ, and the very first to operate a charging CAZ type D. It is at the forefront of change in this area and will set the bar for future cities who wish to tackle air quality for their citizens.

B2. Project Deliverables

These are the outputs from the project e.g. a new building with xm2 of internal space, am of new road, etc

The HDV Fund aims to support up to 402 non-compliant vehicles. However, this is subject to the level of interest from SME's, availability of new retrofit solutions and approval of additional items related to relocation and exit lease costs.

B3. Project Benefits

These are the social benefits and outcomes from the project, e.g. additional school places or economic benefits.

Measure	Impact
Assisting affected SME's with achieving compliance with CAZ emissions standards and improving business resilience.	SMEs play a key role in the Birmingham economy and surrounding areas. This measure assists the businesses to achieve compliance with CAZ emissions standards, improving air quality in the city centre and incentivising the use of compliant technologies.
Investment in compliant methods of transportation. Assisting in improving air quality by introducing up to 402 CAZ compliant HDV's to operate within the CAZ.	Businesses are a key contributor of vehicle emissions in the city and supporting their transition to operating compliant fleets will improve air quality.
Raising awareness of the need for, and benefits of, behavioural change amongst the SME's using HDV's	The CAZ will directly improve air quality in the city centre. Investing in the SMEs that use HDV's will help reduce the adverse impact on the immediate environment.
Provision of grant funding for retrofit solutions.	The mitigation grant funds encourage investment in new technologies supporting compliant methods of transportation.

B4. Benefits Realisation Plan

Set out here how you will ensure the planned benefits will be delivered

This mitigation measure offers a key financial resource that some SMEs will use to manage the change brought about by the introduction of the CAZ. In this regard, the benefits will be realised externally, by reducing some SMEs exposure to potential increased operating costs as a result of the CAZ.

The scope of the benefits have been determined through fleet analysis and engagement with local businesses, as captured in the Clean Air Fund report and further work by the BEI team. The realisation plan therefore focusses on measuring and optimising outcomes which an SME may receive through this scheme, as well as ensuring robust administration of the grant funding applications and award process.

The benefits will be realised by eligible SME's applying for the funding with the fund being administered by the BEI Team on behalf of and supported by the CAZ Team. The HDV Fund application will be available online and SMEs will need to download, complete and submit their full application via email, alongside any required supporting documentation.

The HDV Fund Application Form and Guidance Notes will be made available on the Brum Breathes website. SMEs can download the Application Form and submit the completed form together with the necessary documentation to evidence their suitability for consideration for a grant, to the HDV Fund inbox. The inbox is managed by the BEI Team.

As the scheme administrators, the BEI Team will manage:

- Enquiries
- Due-diligence
- Screening of application for completeness and eligibility
- Appraisals – Project and Financial Appraisal to ensure the application meets the fund criteria, financial viability of the SME, ability to match fund and deliverability
- Decisions – Investment Board recommends approval of application
- Production of Funding Agreement
- Contract Management and Monitoring
- Processing and Payment of Grants.

A flow chart of the process is included below:

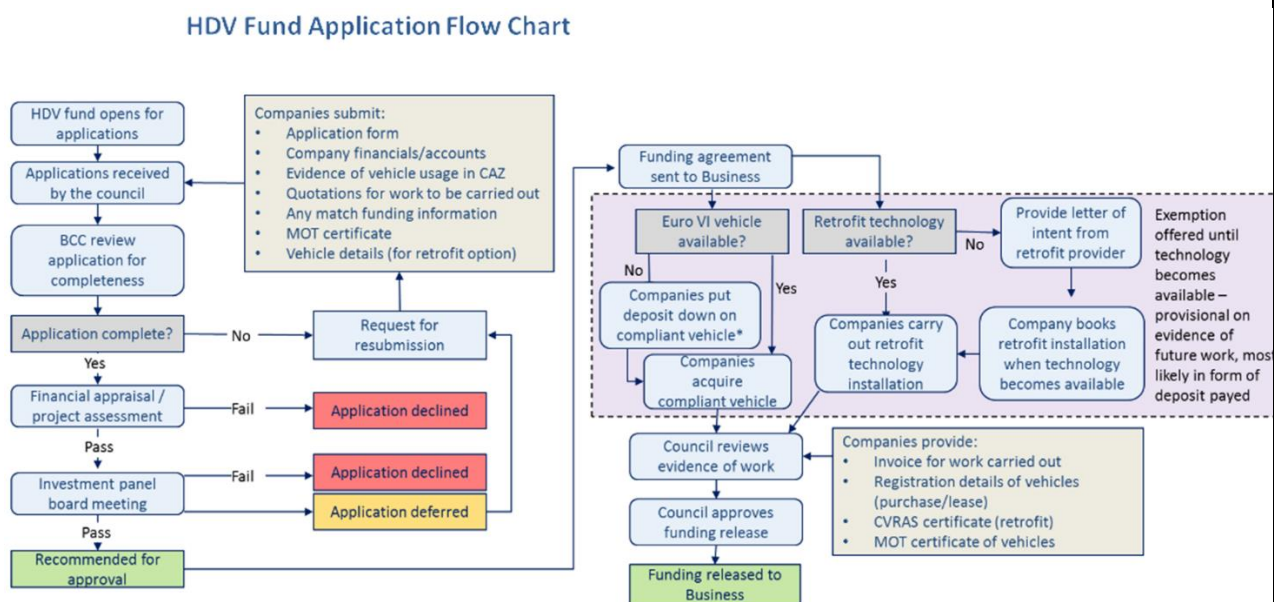


Figure 1 (Note - does not reference Relocation Option)

As part of the application, SMEs will be required to submit 2 years full year-end accounts (Trading profit and loss and balance sheet), and depending on the year end, up to date management accounts. This information request is consistent with the requirements of all other business programmes managed by the BEI Team to ensure that the SME's are financially stable.

As well as proper scrutiny of each company's accounts, the BEI team will also consider in its assessment of each application:

- **The economic impact of the CAZ charges.** This will consider the size of the company, the size of its HDV fleet, its ability to absorb the cost of transferring to a compliant vehicle (capital reserves), company financial information (profit loss, revenue etc.) and its ability to reroute/redistribute its fleet to avoid the CAZ (vehicle type and duty cycle, vehicle routes etc.).
- **Proof of financial stability.** It is vital that any financial support that is distributed go towards businesses, which will continue to operate in Birmingham for the foreseeable future, as a result the council will require proof of financial stability. Company accounts will be requested for this purpose

- **Proof of operations within CAZ.** This will require the business to provide evidence that the vehicle in question is in operation within Birmingham and in particular operating with the CAZ. There is a range of documents which can be supplied as evidence (e.g. service contracts, letter of support from clients, parking fees etc.), the Council will provide a list of acceptable documents and it will be the responsibility of the company to provide adequate evidence.
- **Any previous State aid received by the business.**

B5. Stakeholders

This FBC and mitigation was informed by an extensive consultation exercise.

A statutory public consultation was undertaken by the Council between July and August in 2018. The consultation exercise involved 10,392 respondents along with 386 organisations and businesses. Specifically, relevant to this report, the consultation was used to identify groups most vulnerable to the introduction of a charging CAZ and shape the mitigation grant funds, including those to which this report relates.

An Integrated Impact Assessment (IIA) was undertaken as part of the CAZ feasibility study. The IIA assessed the economic and health impacts of the introduction of a charging CAZ. As a consequence, it identified certain economically vulnerable groups which formed the basis for developing the mitigations measures detailed in this report. As with the IIA, an Equality Impact Assessment (EQUA210) was undertaken which also formed the basis for the CAF report and proposed mitigations.

Furthermore, additional engagement was conducted by the BEI team with SME's, 7 retrofit providers, Trade Associations, Millbrook National Testing facility and the Energy Savings Trust. The feedback highlighted the need for the HDV Fund to be State Aid compliant, flexible and responsive to address the needs of businesses and adequately incentivise a change in behavior towards achieving compliance with CAZ emissions standards.

C. ECONOMIC CASE AND OPTIONS APPRAISAL

This sets out the options that have been considered to determine the best value for money in achieving the Council's priorities

C1. Summary of options reviewed at Outline Business Case

(including reasons for the preferred option which has been developed to FBC)

If options have been further developed since the OBC, provide the updated Price quality matrix and recommended option with reasons.

The economic case was set out in the CAZ GFBC and there has not been any material changes requiring the economic case to be amended. Following engagement with SME's, retrofit providers and trade organisations, the original HDV Fund package has been revised to ensure State Aid compliance, greater flexibility, relevance to the needs of SME's and adequately incentivise a change in behaviour to achieve compliance with CAZ emissions standards.

Mitigation M4 – grant funding for heavy duty vehicle operators

The DIA report identified heavy duty vehicles (HDVs) as an area of concern for several reasons. The most pressing of these is the high capital costs involved with upgrading to a compliant vehicle which could prove unfeasible for SMEs who currently own non-compliant vehicles. Figure 2 shows the results of Element Energy's analysis of new Euro 6 vehicle prices and showcases the high capital cost facing businesses.

Feedback from fleet managers within Jacobs 'Freight and Logistics report' showed that the majority of vehicle turnover cycles are between 5-7 years and most expect to reach compliance in the early 2020's with nearly all reaching compliance by 2025. The high vehicle costs involved mean that this vehicle turnover is a key part of the companies' financial plans and business model. For this reason, companies, especially SMEs, may find it difficult to adapt and bring compliant vehicles into their fleet in such a short timescale. This is especially true if their current business plan relies on purchasing older second-hand vehicles as the supply of second-hand compliant HGVs is limited.

As well as limited supply, the prices of second-hand HGVs have risen sharply, feedback from the Leeds City Council consultation reports that in some cases the price of second-hand compliant HGVs has

increased three-fold since the governments CAZ plans have been introduced. SMEs are also more likely to have smaller more specialist fleets and so will be less likely to be able to re-route compared to larger fleets.

The same problems also apply to non-scheduled coach fleets who also face similar high capital costs and a limited choice of vehicle options. In general, non-scheduled coaches are expected to be less affected by CAZ charges as a result of their general operations involving a higher proportion of long-distance intercity travel as opposed to HGVs, which may exclusively operate in the city centre.

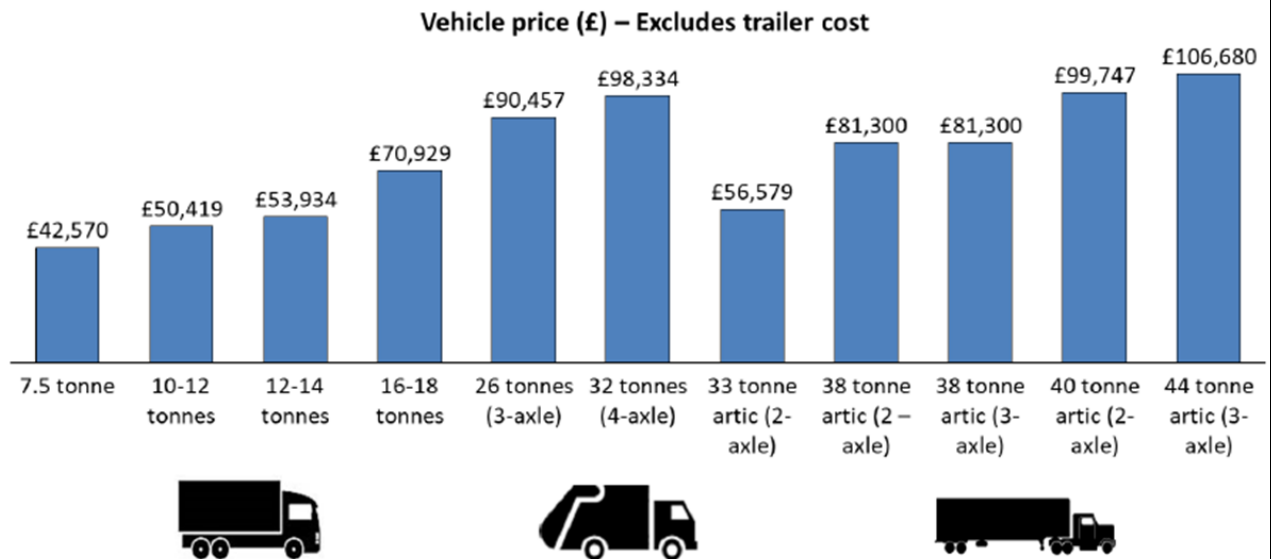


Figure 2 Diagram showing average costs of new Euro VI HGVs. Source: Element Energy analysis of HGV market

There will be fleets whose day to day operations will require them to regularly enter the CAZ but will not be able to afford to upgrade to a compliant vehicle in the timeframe set out. For these businesses paying the CAZ charge will be the only option, and the high costs associated with this could result in the profitability of business becoming questionable.

The Council has received feedback from local businesses to this effect in the on-going consultation, with 72% of businesses (90% of which were SMEs), out of a total of 384 organisations who took part in the survey, stating that the CAZ will create difficulties for businesses.

This conclusion is supported by an earlier freight and logistics report carried out by Jacobs, which states that the natural turnover of most fleets will occur in the early 2020's and that to upgrade prior to this will put financial burden on fleet owners.

To protect these businesses as well as the jobs they provide the residents of Birmingham and the wider West Midlands, the Council has secured clean air funds to provide funding to incentivise HDV operators to achieve compliance with CAZ emissions standards. This funding is technology neutral and can be used towards retrofitting vehicles with compliant technology or alternatively towards the purchase or lease costs of a new or second-hand compliant vehicle.

This method has been adopted as there is still uncertainty around retrofit technology for HDVs. With this approach companies are still provided for, even if retrofit technology for their specific vehicle does not reach maturity in time.

These included:

- The technology is untried and untested
- Vehicles will be off the road for the time it takes to retrofit the vehicle
- The technology providers specify the servicing requirements are undertaken regular and exclusively through themselves. Fleets are concerned that these will be excessively expensive.
- The cost of the retrofit is very high in comparison to the cost of the vehicle.

By making the funding technology neutral, it allows fleets to judge for themselves the most appropriate route to compliance and provides for fleets who own vehicles where no retrofit technology exists.

The funding amount is expected to be sufficient to cover the cost of retrofit solutions, however for those where this is not possible, or where the business decides to purchase/lease a new vehicle, the amount offered is significantly less than the cost to upgrade vehicle. This is exacerbated by the high vehicle costs associated with HDV vehicles.

The number of HGVs that are expected to require this financial assistance is based upon Element Energy's analysis of the governments fleet registration service as well as ANPR data showing the current levels of noncompliant HGVs entering the CAZ as well as the frequency of entry.

ANPR data shows that in single week, 2,855 unique non-compliant HGVs are expected to enter the CAZ if no additional measures are considered (i.e. no CAZ D is introduced). Of these, the behavioural modelling suggests that 29% will be able to re-route their operations and avoid the zone which leaves 2,027 vehicles which must upgrade or pay the CAZ charge. It is possible that as a result of the funding included in the mitigation measure a smaller proportion of vehicles will decide to re-route their operations and instead prefer to upgrade. It has not been possible to model this impact. However, this is estimated that these cases would be rare as

- There is an administrative burden with entering the competition
- The fund would not cover all the replacement cost (and some of the retrofit cost not covered , i.e. vehicle off road for 1-2 weeks)

Meaning companies should prefer to re-route if they have the option. Furthermore, the number of awards is set before the start of the competition, limiting the overall impact to a set amount.

As shown in the distributional analysis report, upgrading to a new vehicle or to a lesser extent installing retrofit technology is only cost effective if the vehicle enters the CAZ a sufficient number of times per week. Fleet analysis by Element Energy suggests that only vehicles entering the CAZ more than once a week will see upgrading to compliant vehicle or fitting retrofit technology as an economically advantageous solution. To put this into context, a vehicle entering the CAZ once a week, using currently proposed CAZ charges of £50/day, will pay £2,600 a year in CAZ charges. This compares favourably with the upgrade costs of bringing a compliant vehicle into the fleet and also of the retrofit solution (HGV retrofit is estimated to cost ~£19,000 leaving a £4,000 surplus after the funding award is considered), this is before accounting for the inconvenience and lost revenue when the vehicle is off the road during installation. As most fleets expect to reach compliance through natural vehicle turnover in the early 2020s²⁹, this suggests that those who only enter once a week would be likely to prefer to pay the CAZ charges and replace their vehicle in line with normal procedures.

The duty cycle of the vehicles, especially the expected frequency of entry, will also be an important marking criterion in the competition for the funding award as this directly relates to the financial impacts of the CAZ on the company. For these reasons it is assumed that only companies with vehicles entering the CAZ more than once a week will apply, or be eligible to apply, to receive the funding award amount. ANPR data shows only 33% of non-compliant vehicle entering the CAZ do so more than one day a week, when this is applied to the 2,027 vehicles mentioned above this results in a total of 669 vehicles estimated to be in need of this funding. Considering the above factors, BCC considered funding provision should be made for 670 vehicles. If £15,000 is provided to each vehicle, it results in a total scheme cost of £10.05 million. ANPR data does not distinguish coaches from buses so the number of non-compliant coaches currently entering the CAZ is unknown. However, government registration data shows that only 4 fleets are registered in the CAZ. This suggests that the number of coach fleets requiring the funding will be small in comparison to HGV fleets.

Whilst the number of vehicles that could be offered funding are only a small proportion of total HGV/coaches operating in Birmingham and the wider West Midlands. Evidence from Element Energy's analysis of government licencing statistics shows that there are 1,973 companies operating a total of 19,918 HGVs registered in Birmingham. When expanded to the West Midlands, the data shows that 3,023 companies operate 27,058 HGVs registered in the West Midlands. The number of coach fleets is significantly smaller (Birmingham: 247 companies operating 1,208 vehicles, West Midlands: 294 operating 8768 vehicles).

Further requirements identified by the BEI team since the production of the Element Energy's Clean Air Fund report has required the breadth of options within the fund to increase (for example, provision of relocation costs and greater grant availability per SME). This has led to a reduction in the total number of vehicles which may benefit, from 670 to 402, because the total grant funding available is fixed at £10.050m. This is balanced by the ability of the BEI team to offer more funding to some businesses for whom the original limits on the funding available would not have been sufficient.

C2. Evaluation of key risks and issues

The full risks and issues register are included at the end of this FBC

- State Aid compliance – The original Clean Air Zone GFBC was based on an offer of £0.015m per two vehicles to purchase/lease/retrofit. However, the original legal advice on State Aid was considered too narrow.
- Following further legal advice, for SMEs not classified as Road Freight Transport for Hire or Reward operators, the fund will offer purchase/lease/retrofit up to the maximum €0.200m De minimis threshold (£0.170m current exchange rate).
- SMEs classified as Road Freight Transport for Hire or Reward operators will only be eligible for retrofit up to a maximum of €0.100m De minimis threshold (£0.085m current exchange rate).
- The purchase option for businesses classified as Road Freight Transport for Hire or Reward operators is not eligible under De minimis Regulations and has been removed from the offer.
- Relocation/exit lease costs are subject to approval from JAQU.
- Currently, there are only 4 retrofit solutions available (3 for coaches and 1 for HGVs). This evidences that the retrofit market is currently very small. A survey based upon a sample of 200 SME's has been undertaken, which has provided a profile of 500 non-compliant vehicles. The BEI team will continue to work with retrofit suppliers to develop new cost-effective retrofit solutions and seek a realistic supply timeline for availability.
- Lack of take up of the HDV Fund – this could lead to under-performance and re-payment of the funding to the Government. The BEI team will work actively with the CAZ Communications Managers to generate awareness of the fund, conduct targeted email campaigns, attend seminars/events and generate press and PR coverage to ensure maximum take up of the fund.

C3. Other impacts of the preferred option

Describe other significant impacts, both positive and negative

As the grant funding has already been awarded for the purpose of this scheme, the greatest impact that must be considered is of not awarding the funding. This would mean that HDV operators will not be able to benefit from the package of support and would be less able to deal with the impact of the CAZ.

This scheme not only helps HDV operators to achieve compliance with Clean Air Zone emission standards but also improves air quality in Birmingham and the overarching goal of the Zone.

D. COMMERCIAL CASE

This considers whether realistic and commercial arrangements for the project can be made

The HDV Fund will be managed and delivered by the BEI Team on behalf of the CAZ Team.

The BEI team has extensive experience in delivering large scale business support programmes and a wide network of SME contacts to promote the HDV Fund.

D2. Procurement implications and Contract Strategy:

What is the proposed procurement contract strategy and route? Which Framework, or OJEU? This should generally discharge the requirement to approve a Contract Strategy (with a recommendation in the report).

There are no procurement activities related to the HDV fund. Applicant businesses will be able to select the best solution available to them from those available on the market (retrofit solutions for example) and will contract directly with the providers of such services. The award of grant funding is not in return for any service and does not incur VAT.

D3. Staffing and TUPE implications:

This project will use 1 GR5 and 2 GR4 posts, 100% funded by the CAZ grants and revenue income, and appointed on 3-year fixed contracts. The 3 CAZ HDV Fund officers will be based within the BEI Team (Inclusive Growth Directorate) supporting the delivery of the HDV Fund. In addition, two qualified accountants with relevant experience and one solicitor experienced in contract law will support the core BEI Team in the financial evaluation and contract arrangements for the approval and payment of the grant as follows:

BEI CAZ HDV Staff – 3 FTE: SME Outreach, CAZ Promotion, Grant application advice and application support;

BEI Core Team – 2 FTE: Application processing, assessment & initial recommendation

Financial Evaluation & Approval – 2 Part-time Finance Assessors (External): Detailed financial assessment & review with final recommendation;

Legal Evaluation – 1 Part-time Contract Specialist: Contract review and approval and State aid compliance.

The CAZ HDV staff will be funded initially by the CAZ Administrative grant of £1.968m until the CAZ goes live, at which point they will be funded by the CAZ revenue, as will the part-time Finance Assessors and Legal Contract solicitor.

There are no TUPE implications associated with this programme.

The original CAZ FBC assumed a £0.015m contribution towards a maximum of 2 vehicles per SME using a limited interpretation of State Aid. Based on this assumption this equated to 670 vehicles achieving compliance with CAZ emissions standards.

Following further State Aid advice, the HDV Fund is able to make a higher level of contribution under de minimis State Aid Regulations (up to £0.170m for SMEs not classed as Road Freight Transport for Hire or Reward operators and £0.080m for SMEs classed as Road Freight Transport for Hire or Reward operators). This higher level of contribution is estimated to reduce the number of vehicles being made compliant to 402.

The profile is based on judgement and the extensive experience of the BEI Team in managing and delivering large scale complex programmes. It is anticipated, as with all new programmes, there will be a slow start in terms of generating awareness amongst SMEs and partner organisations. Moreover, there are currently 4 retrofit solutions available and 3 new solutions awaiting approval by Millbrook, to support heavy duty operators to achieve compliance with CAZ emissions standards.

HDV average costs varies between £0.100m - £0.400m per vehicle
Average grant towards purchase is assumed at £0.030m per vehicle
Average grant towards retrofit is assumed at £0.015m per vehicle

Of the original 670 vehicles, 20% are expected to be retrofitted = 134 vehicle = £2.010m
Of the original 670 vehicles, 40% are expected to be purchase = £8.040m = with an average grant £0.030m to purchase HDV vehicle = 268

Total number of vehicles to be support under the HDV fund is 402.
33% (134 vehicles retrofitted) and 67% (268 vehicles purchased).

HDV Fund Target Outputs:

2020/21 - £1.000m/£0.025m – 40 vehicles
2021/22 - £5.000m/£0.025m - 200 vehicles
2022/23 - £4.050m/£0.025m – 162 vehicles.

Total of 402 vehicles achieving compliance with CAZ emissions standards over the 3 years.

In addition to the above, new retrofit solutions will take on average 12 to 18 months to be developed. Furthermore, payment to SMEs is based on evidence of deferred expenditure.

The HDV Fund allocation will be monitored on a monthly basis by the BEI Team against the budget profile. Any variance to the performance against the budget will be reviewed and appropriate action taken to address underlying issues. This will involve reviewing the marketing campaign strategy, the relevance of the offer and where appropriate amend the marketing campaign and align the offer to SME feedback.

Based on feedback from SMEs and State Aid advice, the HDV Fund offer is more flexible and attractive in meeting the needs of SMEs to achieve compliance with CAZ emissions standards.

If the HDV Fund is not fully spent by June 2023, the Council may need to seek a short-term extension to December 2023 to mop up any underspend.

There are no clawback provisions that accompanied the award of the grant funding by JAQU.

The total estimated capital cost of implementing the HDV Fund (mitigation M4) is £10.050m. This will be funded from the £27.270m CAF capital grant awarded by JAQU and accepted by the Council in March 2019. The total allocated CAF grant for the HDV Fund of £10.050m is a finite resource.

The grants will be offered on a first come first served basis following successful progression through the application and assessment process. Grant funding will only be paid on the retrospective evidence of defrayal.

Grant awards will be subject to completion of a conditions of grant aid agreement (COGA), with key conditions covering a minimum period of retained ownership of any purchased/leased/retrofitted vehicle and a minimum period of usage within the CAZ boundary, (currently planned to be three years post funding). Where these conditions are not met grants will be subject to clawback proportional to the unexpired periods. Officers from the Business Enterprise and Innovation (BEI) team will carry out compliance checks as part of the administration of the HDV Fund. The value of individual grants and criteria is specified in Appendix A (Section A3).

Grants provided to individuals or businesses as a result of these measures are not subject to VAT and there is therefore no impact for the Council. VAT may be payable on products or services that grant funding is used to acquire, however this will be the responsibility of the recipient of the product or service.

Administration costs of delivering the HDV Fund were factored into the original CAZ GFBC. Three Fixed Term Contract posts will be allocated to the BEI team to provide additional capacity, who will be funded from the CAF Administration Grant of £1.968m.

In order to deliver the HDV Fund additional resources will be required to complete financial due diligence checks (required as part of the approval process) and in drawing-up and finalising COGAs. The total estimated revenue cost is £0.150m (£0.100m for financial due diligence and £0.050m for legal support to complete COGAs). These costs will be funded from the CAZ revenue income.

E2. Evaluation and comment on financial implications:

The mitigation scheme is fully funded. The BEI Team will administer the HDV fund, fully allocating the grant by March 2023 and achieving financial completion by June 2023.

The BEI team will provide regular monitoring information to the Brum Breathes Programme Board.

A regular quarterly report is submitted to the awarding government body JAQU through which they track progress against milestones that are outlined in the grant award confirmation letters.

E3. Approach to optimism bias and provision of contingency

Optimism bias has not been considered for this scheme; the amount of grant funding to be awarded per SME is based upon de minimis regulation and will not increase or decrease in line with any external factors. In this sense, the Council is relatively unable to make amendments to the conditions and reasoning upon which the funding has been granted, unless a formal change process is undertaken with the awarding body. There is currently an application in place to add relocation costs to the scope of the HDV fund.

However, the Council can respond to new incentives and market opportunities as long as they remain within the intent with which the grant was made available.

E4. Taxation

Describe any tax implications and how they will be managed, including VAT

Grants provided to individuals or businesses as a result of these measures are not subject to VAT and there is therefore no impact for the Council. VAT may be payable on products or services that grant funding is used to acquire, however this will be the responsibility of the recipient of the product or service to pay.

F. PROJECT MANAGEMENT CASE

This considers how project delivery plans are robust and realistic

F1. Key Project Milestones

The summary Project Plan and milestones is attached at G1 below

	Planned Delivery Dates
Planned start date for delivery of the project	April 2020
FBC Approval	February 2020
Finalise HDV Fund documentation	March 2020
Vehicle checker application (JAQU)	April 2020
HDV Fund for Open for Application	April 2020
Applications Processed and Grant Funding Awarded	May 2020 onwards until completion
Practical completion	March 2023
Review of scheme effectiveness	April 2021
Practical completion (payment of final grant monies)	June 2023

F2. Achievability

Describe how the project can be delivered given the organisational skills and capacity available

The project will be delivered by the BEI team. The Council currently has the resources and capacity to establish this scheme. The recruitment process is underway to ensure there is capacity to deal with the applications and grant awards in April 2020.

Currently the BEI Team has 21 staff (Core Team of 14, 2 Graduates and 5 Undergraduate Interns) Working across Business Growth Programme and Property investment Programme.

In addition, support undertaking due diligence of applicants and legal support processing Conditions of Grant Aid for successful applications is currently estimated at £0.100m and £0.050m respectively. The finance estimate is based on two qualified and experienced commercial accountants at a cost of £400 per day each for 125 days processing around 450 applications. The legal cost is based on one contract lawyer at a cost of £400 per day for 125 days working on up to 50 successful applications

In order to deliver the HDV Fund, 3 additional FTC staff will be appointed and funded through the CAZ and based in the BEI Team.

The HDV Fund is a mitigation programme to support SMEs to change behaviour and achieve CAZ emissions standards compliance.

F3. Dependencies on other projects or activities

There is a key dependency on the JAQU vehicle checker in order to reliably ensure that applicants can check their vehicle for compliance prior to applying for funding. Without this checker, both applicants and the CAZ team will not have a definitive method for ensuring whether a vehicle is compliant or not.

Currently there are a limited number of retrofit solutions (4) for heavy duty vehicles. There are 3 retrofit solutions in the pipeline awaiting approval by Millbrook.

There is also a dependency on retrofit providers to develop and make available additional retrofit solutions for heavy good vehicles and coaches. It is estimated that retrofit can take between 12-18 months to develop, gain approval and launch.

Lastly, the variation request to expand the number of options available under the scheme requires approval from JAQU.

F4. Officer support

Project Manager: Mohammed Zahir

Project Accountant: John Prince

Project Sponsor: Phil Edwards

F5. Project Management

Describe how the project will be managed, including the responsible Project Board and who its members are

The grant funding will be managed and approved for release by the Head of Business Enterprise & Innovation. A 'customer journey' has been developed for this mitigation scheme and this can be found in section B4 of this document. This process will be reviewed and amended to meet the CAZ Programme requirements

The project will be managed by the BEI team, which will report regularly to the 'Brum Breathes' Programme Board. The project will be managed in line with the governance structure given in Section B4.

The 'Brum Breathes' programme board are responsible for the governance approval and reporting with regards to this project. Monthly updates and issue escalation already take place, with the option to submit papers in advance to propose decisions and recommended courses of action where required. In addition, risks and their mitigation activities are reviewed and updated.

Application and Review Process

Applications for the grant funding will be managed by the BEI Team, supported the CAZ HDV officers who will provide the outreach and application support. The BEI officers will oversee the application process, check eligibility and assess financial viability, before passing the applications to external financial assessors to confirm the initial assessment and make the final recommendation for approval. Once the application has been approved, the legal contract solicitor will review the contracts to ensure that the Council's legal interests are protected, before the grant is processed for payment (once all the necessary evidence has been provided). In addition, the team will monitor and report on the overall uptake and utilisation of the grant funding.

Funding Award

The Head of Business Enterprise and Innovation will be responsible for overseeing the HDV Fund and sign off grant awards of up to £0.100m as per his delegation. Grants over £0.100m will require sign off by the Assistant Director, Transportation and Connectivity (under delegation) within Inclusive Growth.

- Once an application has been approved, a Conditions of Grant Aid agreement will be drafted, reviewed and issued, setting out the level of funding and the terms and conditions of the offer.
- Successful applicants will be required to complete a vendor form, which is used to create an account on the Voyager system. This enables payment to be made at a later date – this should be done well in advance of the anticipated payment date to ensure there is sufficient time to get the details entered in to the system.
- Upon receipt of evidence that demonstrates purchase/lease/retrofit/relocation/exit lease, payment will be made using the details captured in the vendor form.
- The Voyager system will continue to store the payment details to enable future payments.

Records of the grant funding awarded will be kept in line with the Council's and JAQUs audit requirements. JAQU are not yet able to specify their audit requirements and so it is assumed that the Council requirements are sufficient.

A GDPR policy as used in the current Business Growth Programme 2 will be adopted for the HDV Fund to ensure that applicants are fully informed of how their data will be stored and used. The Council will seek to use applicants' data to determine their eligibility for this mitigation scheme and to assess the success, uptake and usage of the scheme. It will also be used for engagement surveys and to report progress to the grant award authority, JAQU.

The opportunity will be advertised through the Brum Breathes communications campaign and also through the BEI team's regular engagement with the Birmingham and wider West Midlands business community.

G. SUPPORTING INFORMATION

(Please adapt or replace the formats as appropriate to the project)

G1. PROJECT PLAN

Detailed Project Plan supporting the key milestones in section F1 above

It is anticipated that approval for this FBC is granted in February 2020. This is a critical milestone to enable the HDV Fund grant applications to begin in April 2020 assuming the vehicle checker that JAQU are developing is available as indicated.

In the last quarter of 2019, the CAZ team recruitment drive will have established a number of dedicated staff to run the applications process. It is anticipated that demand for the mitigation schemes will not be consistent; the communications plan will go some way to inform individuals of their eligibility in order to initiate applications as soon as possible, though it is more likely that it is not until the CAZ charging becomes imminent that the schemes will generate significant interest.

Beginning in April 2020, it is anticipated that applications will be made online using standardised forms. Applicants will be required to upload the application form and related financial documents in support of their applications. The forms and supporting evidence will be assessed by the BEI Team to determine eligibility and authenticity before informing each applicant that they have successfully qualified for the grant.

The duration of the application window will be directly linked to the available funding; each fund will remain open for application until exhausted. In order to ensure the funds will be fully utilised, and therefore assist in the transition to compliant vehicles or alternative means of travel and contribute to improved air quality, a review of each fund will take place in September 2020. This will allow an opportunity to reflect on each schemes success and attempt to forecast when each fund may be complete. This also allows the opportunity to formally request a change to a schemes structure (through the grant award body, JAQU) if it is not appealing enough to attract the required number of applications. Any later than Sept 2020 may mean a change is not approved and implemented in time to have an effect on air quality compliance by the end of 2021 deadline.

As detailed in the financial case, it is anticipated that the funding will be fully utilised in the 2023/2024 financial year.

G2. SUMMARY OF RISKS AND ISSUES REGISTER

Risks should include Optimism Bias, and risks during the development to FBC
 Grading of severity and likelihood: High – Significant – Medium - Low

Risk or issue	Mitigation	Risk after mitigation:	
		Severity	Likelihood
1. State Aid compliance	The HDV Fund will operate under De minimis State Aid Regulations. BEI Team has extensive experience of administering business programmes in accordance with strict requirements of State Aid Regulations.	M	L
2. Lack of take up	The BEI team has extensive experience in delivering large scale business support programmes and a wide network of SME contacts to promote the HDV Fund.	M	M
3. Limited number of retrofit solutions	The BEI team will continue to work with retrofit suppliers to develop new cost-effective retrofit solutions and seek a realistic supply timeline for availability.	H	H

G3. EXTERNAL FUNDING AND OTHER FINANCIAL DETAILS

Description of external funding arrangements and conditions, and other financial details supporting the financial implications in section E1 above (if appropriate)

The table below details the mitigation measure and the source of funding. Funding for the mitigation listed has been confirmed in writing by JAQU.

Project	Scheme	Original Allocation - Total £m	Current Allocation - Total £m
<u>MITIGATIONS & EXEMPTIONS (ME)</u>			
Clean Air Fund (Capital)	Clean Air Fund (Capital)		
M4 – HDV Fund	HDV Fund	10.050m	10.050m
	Clean Air Fund (Capital)	10.050m	10.050m

G4. STAKEHOLDER ANALYSIS

Stakeholder	Role and significance	How stakeholder relationships will be managed
Cabinet Member for Transport and Environment	Political support. Supportive of FBC	Engaged in the development of the HDV Fund and provision of regular updates in the delivery
Local SME's	Recipients of funding support to achieve compliance with CAZ emissions standards	Project launch, development of an effective marketing strategy and materials to raise awareness and maximise take up of Fund.
GBSLEP	Gateway to business support	Consultation in development, engagement, delivery, regular progress updates, meetings and attendance GBSLEP Growth Hub Project Board.
Retrofit providers	Development of retrofit fit technology	Continue to work with national retrofit suppliers to develop new cost-effective retrofit solutions and seek a realistic supply timeline for availability

Other Attachments

provide as appropriate

Not attached but available for reference:

- Birmingham Clean Air Zone Submission of Full Business Case and Request to Proceed with Implementation, Cabinet Report 11th December 2018. CMIS Reference 005939/2018
- Tackling Air Quality in Birmingham - Clean Air Zone – Submission of Business Case to Government, Cabinet Report 10th Sept 2018. CMIS Reference 005425/2018