

AGENDA ITEM 12**REPORT TO THE TEES VALLEY
COMBINED AUTHORITY CABINET****2nd JULY 2021****REPORT OF THE HEAD OF
TRANSPORT****TRANSPORT FUNDING OPPORTUNITIES****SUMMARY**

There are several transport funding opportunities currently open to Tees Valley Combined Authority (TVCA), which provide the potential to further accelerate delivery of the Tees Valley Strategic Transport Plan and increase the funding available for the Integrated Transport Programme. The current opportunities are:

- Intra-city transport settlement
- Levelling Up Fund
- Bus Back Better: national bus strategy for England
- Zero Emission Bus Regional Areas (ZEBRA) scheme

This report provides an update on each opportunity and seeks the necessary approval to ensure compliance with the relevant funding conditions, and commitment of the required local contributions.

RECOMMENDATIONS

It is recommended that Cabinet:

- i. Notes the update on each of the identified funding opportunities, including the proposed approach in relation to the intra-city transport settlement.
- ii. Approves a local contribution of £11.7m to a bid into the Levelling Up Fund to enhance connectivity to Teesworks/Freeport to be funded from the uncommitted Integrated Transport Programme budget.
- iii. Notes the intention to establish an Enhanced Partnership across the Tees Valley in accordance with the requirements of the new national bus strategy.
- iv. Notes that an Expression of Interest will be submitted into the ZEBRA scheme.

DETAIL**Intra-city transport settlement**

1. The Government has committed to invest £4.2 billion in intra-city transport settlements from 2022/23, through five-year funding settlements for eight city regions, including Tees Valley. It should be noted that there is still some uncertainty as to whether the £4.2 billion intra-city transport settlements budget includes the final year of the current devolved Transforming Cities Fund (TCF) and therefore the

overall pot may be smaller. Formal government guidance on the intra-city transport settlements is expected in early summer.

2. Budget 2021 confirmed capacity funding in 2021/22 to help support city regions begin preparations for settlements. TVCA has been allocated £3.5m to enable the development of integrated investment-ready transport projects that will deliver on local priorities.
3. On the 29 May 2020 Cabinet approved the Transport Investment Prospectus for Tees Valley covering the period 2022/23 – 2026/27. The Transport Investment Prospectus has been used to demonstrate a statement of ambition to Government and lay down a marker for the level of long-term investment that is required to deliver the ambitions set out in the Strategic Transport Plan.
4. The Tees Valley Investment Plan originally assumed £90.6m of transport funding from 2023/24. However, given the strong strategic case for investment in Tees Valley and the Government’s levelling up agenda, the Transport Investment Prospectus makes the case for a bigger share of the £4.2 billion. It is understood that the final allocation will be subject to a competitive negotiation between TVCA and Government.
5. The £3.5m of development funding will be used to develop the improvements summarised in Table 1 below.

Table 1 – Intra-city transport settlement development work	
Strategic Rail	<p>To deliver the next phase of interventions required to achieve TVCA’s aspiration for a high-quality integrated rail network across Tees Valley. The package is structured around two key elements:</p> <ul style="list-style-type: none"> • Interventions on the network required to address the remaining capacity constraints identified through comprehensive analysis undertaken by Network Rail. This will support TVCA’s aspiration for a minimum 30-minute local service frequency at every station and better long-distance connections, whilst also growing rail-freight. • A package of enhancements to all stations to improve accessibility and the passenger experience, including waiting facilities, station appearance, other general facilities and the interchange with bus, cycling and walking.
Cycling & Walking	<p>To enable the continued development of a consistent Tees Valley wide network of high-quality cycling and walking routes to provide a third of Tees Valley households with easy access to a route by 2028.</p>
Bus Infrastructure	<p>To deliver further improvements on strategic bus corridors with a focus on:</p> <ul style="list-style-type: none"> • Measures to make it easier for buses to travel on these corridors, which could be physical, for example junction improvements and the introduction of bus lanes, or digital, for example giving buses priority at traffic signals. • Measures to improve passenger experience, for example improved waiting facilities and real-time information. <p>These improvements will be delivered as part of the Enhanced Bus Partnership (see paragraph 22).</p>

Major Road Network and Key Route Network	To deliver improvements on the Major Road Network and Key Route Network. Transport modelling has identified specific locations and corridors that will be over capacity by 2025. The consequence of taking no action will be a significant increase in congestion, which will negatively impact upon journey times and reliability. This investment will enable TVCA, working alongside the local highway authorities, to develop schemes to address these capacity issues. There will also be a need to work closely with Highways England given the interdependency with the Strategic Road Network which they are responsible for.
Digital & Technology	To identify opportunities for investment in digital / technology that will contribute to the delivery of the Strategic Transport Plan. The opportunities broadly fall into two categories: <ul style="list-style-type: none"> • Better management of the transport system to improve efficiency. • Better real-time information for transport users.

6. This development work will be used to inform the programme to be delivered by the intra-city transport settlement. The programme itself will be the subject of a future Cabinet report once there is confirmation from Government on the five-year funding allocation. It should be noted that there may be other projects included in this programme, which either do not require development work at this stage or are already being developed, and therefore do not appear in the table above.

Levelling Up Fund

7. The Levelling Up Fund will invest in high-value local infrastructure and Combined Authorities are eligible to submit one transport bid.
8. The first round of the fund required bids to be submitted by the 18 June 2021. The focus of the fund is on projects that require up to £20m of funding. However, there is also scope for investing in larger high value transport projects, by exception. Bids above £20m and below £50m will be accepted for transport projects only. The technical note states that Government encourage a minimum local contribution of 10%.
9. The assessment process will focus on the following key criteria:
 - **Characteristics of the place** – each local authority has been sorted into category 1, 2 or 3 based on an assessment metrics, with category 1 representing the highest level of identified need.
 - **Strategic fit** – with local and fund priorities.
 - **Deliverability** – first round bids must be able to demonstrate investment or begin delivery on the ground in the 2021/22 financial year.
 - **Value for money** – an economic case must be submitted to explain the benefits of the bid and how it represents value for money.
10. TVCA undertook a review of potential projects for submission into round 1 of the fund and identified a priority bid to enhance connectivity to Teesworks/Freeport. The 'place' benefitting from the investment is in Redcar and Cleveland, which is in category 1, and there is felt to be a strong strategic fit with both local and fund priorities.

11. The package bid submitted to Government on the 18 June 2021 included two projects with a total cost of £33.25m.
- **Eaglescliffe to Northallerton rail line gauge enhancement.** The current gauge clearance on the section of rail line between Northallerton and Eaglescliffe restricts the height and width of freight trains and their loads. This means that the only route for freight trains with large containers from the port heading south to the East Coast Mainline (ECML) is via Darlington Station. This is a longer and therefore less efficient route, further complicated by the need for freight trains to undertake a turning manoeuvre in the sidings at Darlington station. The project would deliver improvements to two tunnels and two bridges on the section of line between Northallerton and Eaglescliffe therefore providing a more direct route for freight trains carrying large containers from the port to the ECML. The current estimate for the scheme is £17.6m. There is a strong economic case with the scheme providing at least high value for money because of the transfer of freight from road to rail. Network Rail would deliver the scheme and has confirmed that it is feasible to deliver some expenditure in 2021/22.
 - **A66 highway maintenance.** Middlesbrough Council is responsible for the section of the A66 within their boundary. This is the single most important section of highway under local authority control in the Tees Valley and provides a key east to west link from Teesworks and the Freeport to the A19 and A1(M). The road carries more than 70,000 vehicles daily on its busiest sections. The maintenance requirements for this section of the A66 are significant and the Council's highway maintenance budget has not been sufficient to undertake the necessary remediation works. Approximately 75% of the carriageway on this section of the A66 is over 15 years old, which is over twice the normal life expectancy for this type of road with the level of traffic. The current condition of the A66 presents an on-going challenge around the resilience of the route and clearly failures in sections of the carriageway would result in potentially significant delays and congestion, which would be detrimental to the growth aspirations of the Teesworks site and Freeport. The current estimate for the scheme is £15.65m and it has a strong economic case, representing high value for money.
12. The Levelling Up Fund technical note states that:
- A capital bid can be for an individual project or a package of up to three projects, up to £20 million in value per bid, or in **exceptional cases** up to £50m per bid for larger transport projects.*
- A "large transport scheme" is any eligible transport project that requests between £20 million and £50 million of investment from the Fund.*
- Larger transport bids will be **subject to a more detailed business case process** and will need to score highly overall.*
13. It is therefore clear that requesting more than £20m would have been higher risk and any bid in this category will be subject to much greater scrutiny.
14. The package bid submitted therefore requests just under £20m from the Levelling Up Fund with the remaining funding being provided locally. This is felt to make a clear statement of intent that demonstrates local commitment to the projects. The breakdown of the local contribution is:

- TVCA – £11.7m
- Middlesbrough Council – £1.57m (10% of the A66 highway maintenance project)

Bus Back Better: national bus strategy for England

15. COVID-19 has had a significant impact on the bus industry with reduced passenger levels because of social distancing and the “essential travel only” messaging. Throughout this period the Government has provided financial support to the bus industry through the COVID-19 Bus Services Support Grant (CBSSG).
16. A new national bus strategy was published in March 2021 with a central aim “*to get more people travelling by bus – first, to get overall patronage back to its pre-COVID-19 level, and then to exceed it*”. The strategy sets out the Government’s long-term vision for buses and opportunity to deliver better bus services for passengers across England, through ambitious and far-reaching reform of how services are planned and delivered. The Government previously announced £3bn of funding nationally to support delivery of the strategy.
17. To be eligible for future funding the Government has stipulated that every Local Transport Authority (LTA), except any Mayoral Combined Authority (MCA) which has started the statutory process of franchising bus services, must commit to establishing an Enhanced Partnership (EP) across its entire area by the end of June 2021. A LTA which also wishes to pursue franchising may do so, but it should commit to implementing an EP in the meantime until the franchising process is complete.
18. Outside of London no MCA has established a franchising scheme to date. Under a franchising model the MCA governs how buses are run and would have control over bus services through contracts with bus operators. This contrasts with the current system where any private company can operate in an area with the necessary consent.
19. When a MCA wishes to implement a franchising scheme, it must complete a detailed assessment and submit this to the Department for Transport (DfT) for approval. A key test for the MCA is the need to demonstrate that the same objectives cannot be achieved through a partnership model.
20. The process of creating a business case to propose a new bus franchising scheme would take a significant amount of time and money with no guarantee of a successful outcome.
21. Furthermore, a franchising model would transfer the financial risk from the bus operator to the MCA. The MCA would enter into contracts requiring bus operators to deliver specified routes on their behalf. These contracts would commit the MCA to deliver the specified routes, irrespective of whether those services were attracting enough passengers to cover the cost of maintaining the route. Any losses would become the MCA’s responsibility, which is a particular challenge given the uncertainty around future bus passenger levels because of COVID-19.
22. TVCA is therefore pursuing an EP scheme and a notice of intent has been published. An EP is a statutory arrangement under the 2017 Bus Services Act. Under an EP the LTA and operators must work together to deliver improvements for passengers. There is already a voluntary partnership in place with TVCA, local authorities and bus operators in Tees Valley and this can be built upon to develop an EP.

23. From the 1 July 2021, only LTAs and operators who meet the Government requirements will continue to receive the CBSSG or any new sources of bus funding from the Government's £3bn budget. By the end of October 2021, Government expects every LTA to publish a local Bus Service Improvement Plan, detailing how they propose to use their powers to improve services. The Government expects actual delivery of every EP to commence by April 2022. From that date, the new discretionary forms of bus funding from Government will only be available to services operated, or measures taken, under an EP or where a franchising scheme has been made. In addition, only services operated under these statutory agreements will be eligible for Bus Service Operators Grant, which will be paid to bus operators to support delivery of the priorities in the strategy.
24. Whilst the intention of the new national bus strategy is welcomed, there are felt to be some likely challenges around funding some of the ambitions, for example more extensive services, cheaper fares and fleet upgrades. These issues will need to be explored fully as the EP discussions with bus operators progress.

Zero Emission Bus Regional Areas (ZEBRA) scheme

25. On the 30 March 2021, the Government published the Zero Emission Bus Regional Areas (ZEBRA) scheme call for expressions of interest. The scheme enables Local Transport Authorities, working in close partnership with bus operators or as consortia with more stakeholders, to bid for funding to purchase zero emission buses (i.e. battery electric or hydrogen fuel cell) and the infrastructure needed to support them.
26. The scheme will take the form of a two-stage competition, with a phase 1 Expression of Interest (EOI) stage and a Phase 2 business case development stage. The standard process requires an EOI to be submitted by the 2 July 2021 and a business case completed by February 2022 at the latest.
27. There is up to £120 million available in total for the ZEBRA scheme, with £50 million available through the standard process. There is no minimum or maximum size for bids.
28. The DfT will contribute up to 75% of the cost difference between a zero-emission bus and a standard conventional diesel bus equivalent of the same total passenger capacity. For infrastructure, DfT will contribute up to 75% of the capital expenditure for purchase and installation.
29. The grant funding will be allocated to successful applicants during 2021/22. All buses must come into service no later than 2 years after funding has been awarded and must be operated in the ZEBRA area for a minimum of 5 years.
30. TVCA has worked with a consultant, the bus operators and the hydrogen bus market to develop an expression of interest that will be submitted to the DfT. The financial model would require investment from one or more bus operator, TVCA, and the DfT.
31. Should the DfT see potential in the expression of interest, then TVCA would be required to develop a business case, which would be assessed in more detail by the DfT to determine whether they will provide financial support.

FINANCIAL IMPLICATIONS

32. TVCA will receive £3.5m of funding from the intra-city transport settlement in 2021/22 to fund development work on the programme. The full allocation for Tees Valley from the £4.2 billion intra-city transport settlement for the period 2022/23 – 2026/27 will be subject to negotiation with Government.
33. The local contribution to the Levelling Up Fund will be funded from the Integrated Transport Programme budget. There is currently £37.8m of uncommitted funding, but this is based on the original Investment Plan budget and does not take into account the full extent of additional funding that could be secured through the intra-city transport settlement. A decision on the bid is expected in autumn 2021 and funding would be committed between 2021/22 – 2023/24.
34. The Government has announced a budget of £3bn to support the implementation of the new national bus strategy. The strategy stipulates that TVCA needs to work towards the establishment of an Enhanced Partnership by April 2022 to be eligible for this funding.
35. There would be a need to seek approval for a TVCA contribution to the ZEBRA scheme at the business case stage.

LEGAL IMPLICATIONS

36. There will be a need to put in place funding agreements with Network Rail and Middlesbrough Council for project delivery should the Levelling Up Fund bid be successful. The agreement with Network Rail will need to take the form of one of their standard template agreements, which are approved by the Office of Rail and Road (ORR) as the regulator. Funding agreements will also need to be implemented with the delivery partners for any hydrogen vehicle trials.
37. The formal legal process for the establishment of an EP began with TVCA giving formal notice of its intention to prepare an EP for Tees Valley and inviting all the local bus operators to participate in that process.

RISK ASSESSMENT

38. All the transport funding opportunities set out in this report are considered low to medium risk at this stage. There will be a need to develop project specific risk registers, which will be managed through the standard TVCA risk management process. Risk assessments have been prepared and submitted as part of the Levelling Up Fund application process.
39. It is likely that through the intra-city transport settlement a significant amount of funding would need to be spent in a five-year period and there will be a need for robust programme management to ensure delivery. There will also be a need to keep the programme under review in the COVID-19 recovery period and ensure it dovetails with the wider TVCA COVID-19 recovery programme.
40. The development of an EP will require the co-operation and agreement of bus operators. The new national bus strategy sets out the Government's ambition for improvements to bus services, but there is felt to be a risk that the level of funding will not be sufficient to support these aspirations.

CONSULTATION & COMMUNICATION

41. The funding opportunities in this report have been discussed at the Transport Advisory Group, Management Group and the Chief Executives Group.

EQUALITY & DIVERSITY

42. The equality and diversity impact of specific schemes and projects will be considered during development.

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