Greater Manchester's Clean Air Plan to Tackle Nitrogen Dioxide Exceedances at the Roadside

Appendix 7 – Economic Implications of CAP following Consultation and with COVID-19 impacts

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Contents

1. Introduction

1.1 As a result of elevated NO_2 concentrations in major urban areas since 2010, the UK has been in breach of European Union (EU) Limit Values for annual mean concentrations of nitrogen dioxide (NO_2), as set by the European Ambient Air Quality Directive (2008/50/EC), which incorporates many World Health Organisation air quality standards into European Law. This is a result of elevated NO_2 concentrations in major urban areas, including Greater Manchester (GM). The EU Limit Values are transposed into English Law by the Air Quality Standards Regulations 2010.

1.2 The UK Government's Air Quality Plan requires local authorities with persistent exceedances to undertake local action to consider the best option to meet statutory NO_2 limit values in the shortest possible time.

1.3 In March 2019, the ten GM Local Authorities collectively submitted an Outline Business Case (OBC) for the Greater Manchester Clean Air Plan (GM CAP) to the Joint Air Quality Unit (JAQU) outlining a package of measures to deliver regional compliance with EU Limit Value for NO_2 emissions in the shortest possible time. In July 2019, a ministerial direction under the Environment Act 1995, the Environment Act 1995 (Greater Manchester) Air Quality Direction 2019 was made, which requires all ten of the GM local authorities to implement a charging Clean Air Zone Class C across the region, hereafter referred to as the Greater Manchester Clean Air Zone (GM CAZ).

1.4 As well as fulfilling the legal obligation, the CAP will support GM's strategic aim of achieving carbon neutral living by 2038.

1.5 The GM CAP was developed using pre-Covid-19 Government guidance, applicable to a pre-pandemic world. The CAP Consultation has been undertaken in the midst of Covid-19, which has highlighted the financial burden on individuals and businesses and their ability to invest.

1.6 The purpose of this report is to consider the potential implications of the GM CAP on the economy of GM, recognising that conditions are more uncertain than usual. The note does not provide the GM CAP cost-benefit analysis, which is reported elsewhere, nor quantify the possible economic impacts. The report focuses on available evidence and provides a qualitative assessment of the possible economic impacts of a CAZ on GM, and the extent to which the Clean Air Fund measures may mitigate any negative impacts.

1.7 The remainder of this note is structured as follows:

- Section 2 sets out the high-level economic impacts of Clean Air Zones;
- Section 3 discuss the development of the GM CAP (prior to the impact of Covid-19);

- Section 4 summaries aspects of impact of Covid-19;
- Section 5 discusses some of the key changes to the CAP following the Consultation exercise in consideration of impacts of Covid-19;
- Section 6 summarises the potential economic implications of the GM CAP post Covid-19; and
- Section 7 summarises the main conclusions from the note.

2. Economic Impacts of Clean Air Zones

2.1 Clean Air Zones are an effective way of delivering reductions in traffic emissions and consequent improvements in air quality. They have been proposed as the preferred approach to achieving these reductions following discussions with JAQU and through the development of an OBC.

2.2 The GM CAP OBC demonstrated that only a GM-wide CAZ (with supporting measures) could deliver compliance with legal NO_2 limits in the shortest possible time. Poor air quality imposes costs on society, primarily resulting from ill health and most affects those with long-term health conditions. It leads to chronic ill health, school and work absences, and contributes to the equivalent of 1,200 deaths per year in GM[1] alone.

2.3 Nevertheless, it is recognised that by seeking to reduce some of the current health impacts CAZs do also impose new financial costs on non-compliant vehicle owners, and these financial costs can then have differing and adverse wider impacts on local economies.

2.4 Direct financial costs which may be incurred by some vehicle owners include:

- Daily charges on non-compliant vehicles which are not exempt;
- Penalty costs if the above daily charges apply but are not paid (PCNs);
- Retrofit costs on existing non-compliant vehicles;
- Vehicle purchase and transaction costs when upgrading from a non-compliant to a compliant vehicle;
- Vehicle refit / rebranding; and
- Electric vehicle infrastructure.

2.5 Associated broader cost and behavioural change impacts may include:

[1] https://www.manchester.gov.uk/downloads/download/4166/air_quality_reports

- Changes in the price of goods and services for end consumers to offset some of the costs to businesses;
- Potential change in travel habits, particularly commercial vehicle usage, such as vehicle use being less frequently;
- Potential relocation inside / outside of the CAZ boundary;
- Potential changes in demand for goods and services as a result of cost changes to consumers and / or change (reduction) in the range of business suppliers;
- Potential changes in vehicle prices as second-hand compliant vehicles may become more sought after, whereas non-compliant vehicles may become less sought after; and
- Potential changes in housing / business space demand / values.

3. Developing and Assessing the GM CAP pre-Covid-19

3.1 The OBC concluded that a GM-wide CAZ C with supporting measures was the best performing from a range of possible options to achieve compliance in the shortest possible time at the least detrimental impact on GM. These options were assessed against the Government's primary and secondary success factors.

3.2 At the OBC stage, the GM CAP proposed a Clean Air Zone to be implemented across the region in two phases as follows:

- Phase 1 (at the time assumed to be 2021): a Clean Air Zone category B across the region, placing a daily penalty on the most polluting buses, taxis (hackney carriages and Private Hire Vehicles (PHVs)), HGVs and coaches if they travel into, within or through Greater Manchester.
- Phase 2 (at the time assumed to be 2023): expansion to a Clean Air Zone category C across the region, placing a daily penalty on the most polluting Light Goods Vehicles (LGVs) and minibuses if they travel into, within or through Greater Manchester, in addition to those vehicles placed in scope under Phase 1.

3.3 To support the transition from non-compliant to compliant vehicles, a number of Clean Vehicle Funds (Funds) were proposed, to supply financial support for the purchase of compliant vehicles or retrofitting Euro 5 (diesel) vehicles where possible.

3.4 GM published an appraisal of the GM preferred option for the CAP in the OBC, including a Distributional Impacts Assessment which considered the CAP's impacts on vulnerable groups. Since then, GM has carried out further analysis and research to better understand the potential impacts of the GM CAP on GM's vehicle sectors and economy (pre Covid-19). All papers are available to view via cleanairgm.com[2].

3.5 This evidence base, and feedback to a Conversation held with the public in Spring 2019, was used to inform the development of a detailed package of supporting measures. These measures were set out in the Policy for Consultation, available at cleanairgm.com[3].

3.6 The goal of the Funds is to mitigate the negative economic impacts of the CAZ on those most vulnerable to those impacts, supporting the upgrade to compliant vehicles and the overall success of the CAP in achieving its primary aim. The Funds are targeted at GM's micro and small businesses, sole traders, charities, bus operators and taxi and PHV drivers amongst other groups.

3.7 Analysis conducted to support the case for the Funds suggested that the GM CAP Funds would successfully mitigate the worst impacts and enable a significant proportion of non-compliant vehicle owners to upgrade to a newer, cleaner vehicle, and thus avoid paying the charge. Pre-consultation grant amount derivations are discussed below.

LGV and HGV

3.8 GM's vehicle funding proposals were assessed to identify amounts that could provide adequate mitigation against incurred costs and deliver sufficient upgrade to achieve compliance in the shortest possible time, where this could not be achieved by the CAZ alone.

3.9 For HGVs, the CAZ is forecast to deliver a sufficient upgrade incentive, and support funding would serve as a business cost mitigation measure only. However, LGVs are forecast to require the Funds to achieve the required upgrade level and deliver compliance.

3.10 Funding levels were based on the cost to upgrade to a second-hand compliant vehicle, except for vehicle types where the second-hand market is very limited. Proposed per-vehicle grant funding offers have been designed to provide at least a 10% deposit towards the cost of a second-hand compliant vehicle.

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[2] https://cleanairgm.com/technical-documents/
[3] https://cleanairgm.com/technical-documents/

3.11 A benchmarking exercise was also carried out, to assess existing or proposed schemes in Leeds, Birmingham and London. The goal was to ensure GM's offer is the right amount to meet local needs and circumstances, whilst learning from the experiences of other cities. This helped to inform the pre-Consultation policy specification as identified in Policy for Consultation and the Clean Commercial Vehicle Fund HGV and LGV Case for Measure documents.

3.12 Retrofit is generally assumed to be preferable to replacement for vehicles with a high residual value or where extensive adaptation or branding has been invested in. Therefore, it is assumed that where a retrofit option is available, this will be chosen. A grant amount for retrofitting was broadly set at the cost of the retrofit, based on industry feedback.

Bus

3.13 The retrofit funding amount was calculated as the average retrofit cost submitted by bus operators in Greater Manchester for the DfT funded Clean Bus Technology Fund (CBTF) and from engagement with retrofit suppliers in February 2020.

3.14 The rationale for the proposed replacement Grant offer was based on;

- Equivalence with the CBTF and GM CAP retrofit proposal, ensuring simplicity of the offer; and
- To enable the combined value of the grant amount and the average residual value to meet the minimum deposit requirement for a new bus (typically 10%).

Coach and Minibus

3.15 The coach upgrade grant was identified to cover 10% of the estimated cost for a second-hand compliant coach taking the mid-value of £160,000. This value is also consistent with the support for buses that is offered through the Clean Bus Fund.

3.16 The retrofit funding offer is based upon the typical cost of this option.

3.17 For minibuses, upgrade to a new vehicle was identified to typically cost approximately £40,000. It is anticipated that the availability of second-hand minibuses may be limited, meaning it is likely that owners and operators will have to upgrade to a new vehicle (£5,000 providing over 10% of the value in this instance).

Taxi (Hackney and PHV)

3.18 A range of public and stakeholder engagement exercises have been undertaken in the development of the scheme specification and a similar grant to vehicle upgrade cost approach taken to consider affordability.

3.19 Grant offers took account of the proposed Minimum Licensing Standards for taxi, as per the concurrent consultation proposal, and therefore provided preferential support for upgrade to Zero Emission Capable (ZEC) and Wheelchair Accessible (WAV) vehicles.

Critical Success Factors (CSFs)

3.20 A set of Critical Success Factors (CSFs), defined at OBC stage, formed the basis for an assessment of the package-level (Funds) options. The CSFs were developed by JAQU and GM to ensure the programme meets the guidelines for local Clean Air Plans, as set by the Government, whilst also meeting regional strategic objectives and avoiding conflict with other proposals.

3.21 It was identified in the post-OBC Case for Measures that each Fund would have a strong beneficial distributional impact, as well as being strongly beneficial from a strategic fit and feasibility perspective. In addition, they were found to be slight beneficial in terms of air quality (except for the Clean Bus Fund, being strong beneficial), value for money and deliverability.

3.22 The degree of beneficial distributional impact has been an important consideration within the proposed updates to the CAP, following the Consultation feedback and review of Covid-19 impacts, discussed in **Section 5** below.

Affordability

3.23 A Distributional Impact Assessment (DIA) was conducted prior to the Consultation. The affordability section of the DIA identified how the CAZ, and in turn the additional Clean Air Fund (CAF) measures, would impact the various demographic and vehicle specific groups from an affordability / financial perspective. It is based upon an assessment of which groups are most impacted by the CAP in terms of financial payments and impacts on business viability and the wider economy.

3.24 The affordability assessment considers two key areas:

- Personal affordability: the direct and secondary impacts of the CAZ – identifying groups which are thought to comprise a disproportionate amount of the population who either own or are employed by the businesses impacted, or comprise a disproportionate amount of the population who are impacted by increased business costs being passed on; and

- Business affordability: the scale of the direct costs (i.e. the need to either pay the charge for non-compliant vehicles or upgrade to a compliant vehicle (where required)). The DIA screening identified all relevant modes (LGVs, HGVs, Buses, Coach and Minibuses, Hackney Carriages and PHVs) with the potential to have impacts for business affordability.

3.25 The pre-Consultation, pre-pandemic business affordability assessment, as reported in the DIA report, is summarised below:

Table 1 Pre-Consultation Business Affordability Impact Assessment

Social Group / Impact Area	GM CAZ only	GM CAZ + Funds (GM CAP)
LGVs	Large Adverse	Slight Adverse
HGVs	Moderate Adverse	Slight Adverse
Buses	Large Adverse	Slight Adverse
Coach and minibuses	Large Adverse	Slight Adverse
Hackney carriages	Large Adverse	Slight Adverse
PHVs	Large Adverse	Slight Adverse

3.26 The assessment found that while the proposed CAZ was anticipated to have a 'moderate adverse' to 'large adverse' impact on business affordability, the CAF measures were anticipated to reduced this impact to 'slight adverse' across all modes.

3.27 Further to the affordability assessment previously completed, it is reasonable to expect the Covid-19 pandemic will likely accentuate many of the affordability distributional impacts for businesses and individuals, with household and business finances coming under severe pressure.

3.28 This impact from the pandemic may increase as financial support interventions introduced by the UK Government in response to Covid-19 taper off. This is anticipated to be a key area of review in defining the final GM CAP package.

3.29 In particular, considerations which may impact the ability for many individuals and businesses to pay the CAZ charge for non-compliant vehicles or upgrade to a compliant vehicle (where required) are set out in high level form below (note this is not an exhaustive list):

- Change in employment status;
- Extent to which individuals have been furloughed using the Government's Job Retention Scheme (i.e. not receiving full wages);
- Impacts associated with individuals and businesses taking payment holidays on existing loans;
- Impacts attributed to those making use of interest free overdrafts;

- Requirements to take out additional borrowing. This includes businesses who have made use of support packages / loans offered by Government (i.e. Coronavirus Business Interruption Loan Scheme, Coronavirus Future Fund, the Coronavirus Bounce Back Loan, Covid-19 Corporate Financing Facility) (i.e. propensity and viability for individuals and businesses to further extend credit to upgrade to a compliant vehicle based on the grant offers being made available); and

- Impacts associated with declining business revenues. In particular, the impact on those most sensitive to changes in revenue such as SME which may lead to concerns about defaults on loans, their ability to retain employees and sustaining supply chains.

4. Covid-19 Impacts on GM and the UK

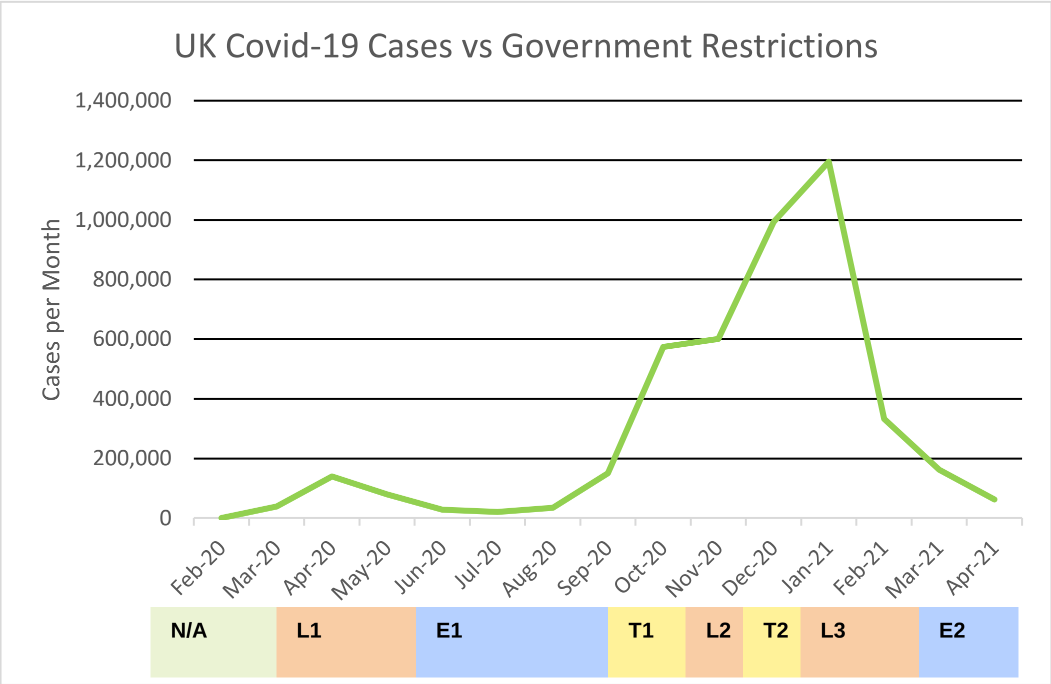
Timeframes

4.1 Covid-19 impacts started to be felt in the UK in early 2020. In response to rising Covid-19 cases in the UK, non-essential travel and contact was called to a halt by the Prime Minister on 16th March 2020, with a first national lockdown legally coming into force on 26th March (L1 in ***Figure 1*** below).

4.2 Measures were eased from 10th May through the summer of 2020 (E1), but cases began to increase again in early Autumn. Local tiered restrictions in GM were reinforced from September (T1) and a second national lockdown was introduced on the 5th of November 2020 (L2). After brief respite in measures for some areas, including mixing of households over Christmas (T2), a third national lockdown began on 6th January 2021 (L3).

4.3 With the introduction of vaccines at the end of 2020 and successful social distancing policies, cases have fallen rapidly in 2021. Further to this, restrictions have been gradually lifted in England from 12th April 2021 (E2), towards a planned removal of most restrictions by 21st June 2021, although this has now been delayed to 19th July 2021 and remains under review.

Figure 1 UK Covid-19 Cases and Government Restrictions



Economic Impacts during Covid-19

4.4 Covid-19 has had a huge impact on the country as a whole, and the North West and GM are no exception to this. GM has been under some of the strictest lockdown measures for a longer period than other parts of the UK, due in part to local socio-economic circumstances, including a greater than average proportion of employees who can't work from home and dwellings of high multiple occupancy and density.

4.5 Over the same period, Britain has left the European Union, bringing uncertainty over the UK's future relationship with the European Union until an agreement was reached, and outturn changes to the movement of people and goods.

4.6 The Institute for Government, a think-tank, published *The cost of Covid-19: The impact of coronavirus on the UK's public finances* report, to calculate the cost of the pandemic by assessing the impact on public finances, using government data for the 2020/21 financial year to September 2020.

4.7 Some of the core findings from the report include:

- Public borrowing in 2020/21 will be £317.4bn above the government's plans. This is the effective 'cost of Covid-19' so far to the public finances in the current year;

- The majority of this (£192.3bn) is the result of specific policy decisions taken by the government, including measures to try to insulate households and businesses from the worst of the crisis;

- The government's decision to support businesses and households through Covid-19 means, was estimated to have absorbed nearly two thirds (64.5%) of the pandemic's hit to the private sector; and

- Reduced output has also hit tax revenues and led to higher welfare spending, pushing planned borrowing up by a further £125bn.

4.8 The UK unemployment rate, in the three months to January 2021, was estimated at 5.0%, 1.1 percentage points higher than a year earlier and 0.1 percentage points higher than the previous quarter. It is expected to peak at around 6.5% in late 2021 before subsiding, based on OBR March 2021 forecasts[4].

4.9 At a more local level, GM has carried out a programme of analysis to better understand the impacts of Covid-19 on vehicle owners affected by the GM CAP. Collated evidence and results of this analysis are set out in *Impact of Covid-19 Report*. GM also asked respondents to the Consultation to describe how the pandemic had affected their ability to respond to the GM CAP.

4.10 Analysis of cash reserves for GM businesses, based on Growth Company survey data show in April 2020, only 18.3% of businesses considered they had sufficient reserves for more than six months. This situation improved with the introduction of Government support and more recently, a reduction in cases and confidence in an end to Covid-related restrictions, increasing to 64% of GM businesses. However, reviewing responses by business size, this figure is lower for micro and small businesses (42% and 61% respectively).

4.11 Decision Maker Panel (DMP) survey data for UK business leaders, show that across business sectors there are differing expectations for the economic recovery through 2021 and beyond. For transport of general goods there is anticipated positive sales growth in the second quarter of 2021, but the Accommodation and Food sector is anticipated to take longer to recover.

4.12 Looking at the type of services which have experienced the greatest drop in turnover relative to the previous year, based on ONS data, there is considerable variation, as shown in the ONS turnover data summarised within **Table 2**.

4.13 Certain activities such as household repairs have remained steady as they are essential functions, as is the transport of food for supermarkets. However, the transport of food and drinks, specifically for hospitality, and the transport of people for business and leisure have experienced significant decreases in turnover.

[4] https://obr.uk/download/economic-and-fiscal-outlook-march-2021/

Table 2 ONS Turnover by Service Type – 2020/21 Relative to 2019/20

Travel agency, tour operator & other reservation services and related services	15%
Accommodation services	37%
Creative, arts and entertainment services	46%
Food & beverage serving services	48%
Other personal services	62%
Library, archive, museum and other cultural services	62%
Sporting services and amusement and recreation services	62%
Wholesale trade services, except of motor vehicles & motorcycles	82%
Wholesale & retail trade & repair of motor vehicles & motorcycles	82%
Rail and land transport services & transport services via pipelines	85%
Rental & leasing services	86%
Cleaning activities	87%
Security & investigation services	93%
Warehousing and support services for transportation	96%
Repair services of computers and personal and household goods	100%
Real estate activities on a fee or contract basis	104%
Postal and courier services	115%

Impact of Covid-19 on in-scope vehicle owners

4.14 Analysis has been undertaken to understand impacts of Covid-19 by vehicle type, and to assess how vulnerable each vehicle type is to the impacts of the GM CAP. This is discussed further within the *Impact of Covid-19 Report* and findings are summarised here:

- HGVs and LGVs, in some sectors, have been able to operate close to normal and may have gained growth opportunities as a result of the pandemic. They are likely to be in a similar position as envisaged pre-pandemic.

- There have been no specific restrictions placed on HGV operations, due to Covid-19, and a significant proportion of HGV activity has been classified as 'essential' throughout and has been able to continue uninterrupted. This is reflected in the traffic statistics which show that HGV activity was at 62% of normal levels during the initial lockdown period, higher than any other mode, and then recovered quickly, with near-normal traffic flows by July. By September 2020, HGV activity was exceeding normal levels.

- LGVs in sectors that have been more affected by the pandemic (such as hospitality and non-essential shops, as shown in **Table 2**) have experienced periods of closure, reduced turnover and profits, and may have delayed planned vehicle purchases. However, there has been increased demand for household deliveries through online shopping.

- Buses have experienced a substantial drop in passenger demand and therefore revenues (in particular during school closures and full lockdowns), and there is evidence of delays to capital expenditure on new buses as well as reduced production of new vehicles. Nevertheless, high levels of Government subsidy to maintain service levels have reduced the impact of the pandemic on this sector.

- In contrast, passenger vehicles not in receipt of bespoke public subsidy, such as taxi and coach, have experienced a very substantial drop in demand, with long periods of closure or low operations and consequent revenue losses.

- Demand for coach and minibus services has been very substantially reduced due to travel restrictions and restrictions on other activities served by the sector such shopping and leisure, events and tourism. Demand for taxi services has been affected by the reduction in rail and air travel in particular.

- Many vehicles in this sector are privately owned or secured against people's homes, and a relatively high proportion of the fleet is non-compliant.

- Demand for coach and minibus services has been very substantially reduced due to travel restrictions and restrictions on other activities served by the sector such shopping and leisure, events and tourism. They have been impacted both in terms of leisure travellers and business travellers, fixed service (school services) and private hire.

4.15 It is clear that whilst most vehicle owners experienced a sharp drop in operations in the first six weeks of lockdown, the recovery and consequential impact has varied by vehicle type and business sector. This has impacted the CAP Consultation feedback which is discussed further within this note. Looking forwards, there will be continued variation by both of these aspects and there will be a need to account for it through proposed changes to the CAP, as discussed in **Section 5**.

Impact of Covid-19 on the GM population employment and financial circumstances

4.16 GMCA analysis of ONS unemployment data suggests:

- The North West experienced a relatively large fall in employment compared with other English regions. Only the East Midlands and South West have experienced more significant drops;

- Over recent months, the North West has experienced different patterns of labour market change to the UK: with more rapid increases in people moving into economic inactivity (i.e. people not working and not looking for work);

- However, the most recent data suggests the North West is moving back into line with national norms. It suggests people are moving out of inactivity and back into seeking employment;

- In the early months of the pandemic, unemployment claims from 16-24 year olds grew quickly, and have risen again in the latest data;

- Whilst young men in their twenties and thirties certainly appear to be dramatically affected, other age and gender cohorts are not far behind;

- There also appears to have been relatively rapid increases among 25-49 year old claimants between January and February 2021; and

- By gender, male unemployment has fluctuated up and down again since April 2020, whereas female unemployment has steadily increased.

4.17 GMCA analysis of the Greater Manchester Population Survey[5] shows:

- 2 in 5 (40%) of those in employment in February 2021 were furloughed, on reduced hours, or reduced pay. This is a 6% increase since December.

- The peak of furlough in GM was in July 2020, at over 213,000 people, reaching a low level in October of 104,000 before increasing to 185,000 in January 2021.

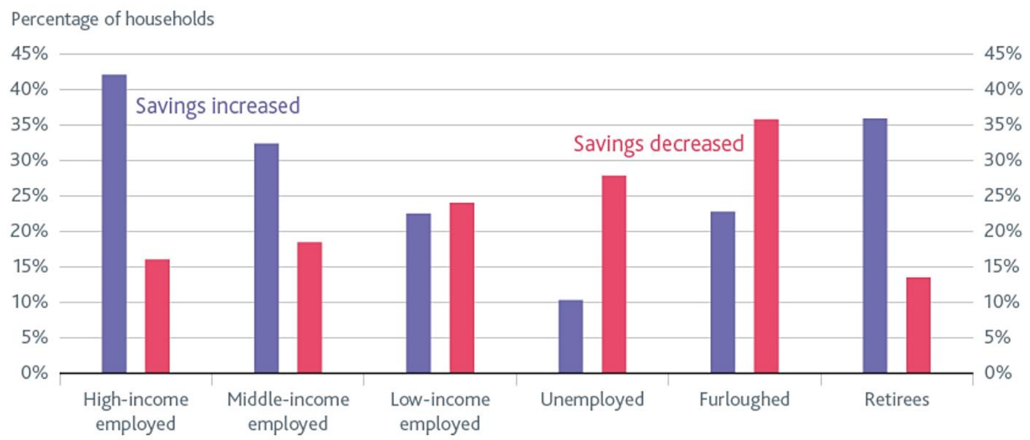
- Increased proportions of respondents are concerned about their mental health, employment situation and their finances in early 2021 than in November.

- These feelings have been accompanied by a significant increase in financial impacts being reported since December. Higher proportions say they or someone in their household has lost their job (23%) and/or needed to borrow extra money (20%).

4.18 Bank of England analysis in November[6] suggested that high-income households[7] and retirees are more likely to have increased their savings during the pandemic, relative to low income and furloughed workers whose savings were more likely to have decreased.

[5] https://www.greatermanchester-ca.gov.uk/media/4361/20210325_gm-covid-survey-report4update.pdf
[6] https://www.bankofengland.co.uk/bank-overground/2020/how-has-covid-affected-household-savings
[7] Notes: High-income employed households are households where the main earner is either employed or self-employed and the household income is in the top quintile; middle-income employed households are households where the main earner is either employed or self-employed and the household income is in the third or fourth quintile, and low-income employed households are households where the main earner is either employed or self-employed and the household income is in one of the bottom two quintiles. Retirees are households where the main earner is retired.

Figure 2 Bank of England estimates of Increased / Decreased household savings during Covid-19 (November 2020)



4.19 The Greater Manchester Independent Inequalities Commission report, *The Next Level: Good Lives for All in Greater Manchester*[8] identifies; "Covid-19 has exposed the deadly consequences of inequalities and research confirms that the health and economic impacts of the pandemic are falling on those already experiencing inequalities, widening those inequalities further." It highlights the following groups being particularly impacted:

- Of those who contracted Covid-19, death rates for people of Black African or Black Caribbean ethnicity were more than twice as high as for White people;
- Black and Asian men were the most likely to have jobs which put them at greater risk of Covid-19 exposure;
- People from Pakistani, Bangladeshi, Chinese or Other Asian ethnicities were more likely than White British people to worry about their future financial situation, due to the nature of their work and impact on take-home pay;
- Multi-generational households have also been impacted significantly, due to the difficulty in shielding older residents; and
- Disabled people have experienced greater health and mortality risks than non-disabled people, in particular those with learning disabilities.

[8] https://www.greatermanchester-ca.gov.uk/media/4337/gmca_independent-inequalities-commission_v15.pdf

GM CAP Consultation Feedback

4.20 Consultation survey responses to the GM CAP proposals have highlighted the extent to which particular groups of people have concerns over the costs associated with upgrading to a cleaner, compliant vehicle.

4.21 76% of businesses and 79% of taxis (operators, owners or drivers) responding to the consultations had been financially impacted by Covid-19. Of those identifying as being impacted, the table below identifies the type of impact.

Table 3 Financial impact of Covid-19

Financial effect	Level of debt increased	Reserves / Savings reduced	Turnover lower	Profitability lower
Business	60%	75%	89%	84%
Taxi	71%	65%	82%	81%
Organisation	63%	67%	83%	71%

Base: all respondents financially impacted by Covid-19

4.22 Feedback from the Consultation indicates that the pandemic has meant many businesses and sole traders have experienced lower turnover and profits and left them more indebted, with depleted savings/reserves, and with capital investment (including in vehicle upgrades) delayed or on hold. However, the distribution of this adverse impact has not been balanced.

4.23 Of those respondents identifying as being financially impacted by Covid-19;

- PHV and HGV had the greatest proportion with increased levels of debt;
- Hackney carriage and HGV had the greatest proportion with reduced reserves / savings;
- All coach responders identified a lower turnover; and
- Bus operators were most likely to experience reduced profitability.

4.24 In terms of additional written comments in the survey feedback;

- 52% of coach operators provided written comments on their concerns over increased financial pressure / reduced income as a result of Covid-19, followed by Hackney Carriage (39%), HGV and PHV operators (both 32%).
- Small businesses were the most vocal (42%), although other business sizes were not far behind, with large business (29%) and sole traders (32%) being the least vocal in terms of providing written comments.

4.25 Reviewing the broader Consultation impact of the CAP related responses by vehicle type, the following themes have been identified:

- Public transport operators were most vocal about concerns over costs being transferred onto the public. Just under a third of bus driver / owner comments related to this, and a quarter of coach and minibus comments. However, it is noted that the GM CAP consultation exercise started prior to the recent GM bus franchising consultation which was held from 2nd December 2020 to 29th January 2021. There was overwhelming public support for the bus franchising proposal. Further information on bus franchising can be found detailed within the Bus Franchising in Greater Manchester (March 2021) Consultation Report[9].

- Coach and HGV operators were the vehicle owners most concerned about the impact on business operations.

- Coach, HGV, LGV and Hackney Carriage operators were the most concerned about business viability.

- Concerns were raised by Leisure vehicle owners over the impact on personal hobbies / activities.

4.26 Reviewing the consultation responses by business size, the following broad trends have been identified:

- Businesses of different sizes are concerned they will experience a negative business impact, albeit to varying extents.

- Generally, the smaller the business, the more difficult it appeared for non-compliant vehicle owners to upgrade their vehicle.

- Smaller businesses are the most concerned about business viability / job losses, though medium sized business express similar concerns.

[9] https://democracy.greatermanchester-ca.gov.uk/documents/s13780/Appendix%201%20-%20TfGMs%20March%202021%20Consultation%20Report.pdf

Post Consultation Equality Impact Assessment

4.27 In assessing the equality impacts of the GM CAP, the impacts of Covid-19 are acknowledged as likely to make some of the protected characteristics more vulnerable to the unintended consequences of the CAZ. However, data to support quantification of this effect are not identified to be sufficiently available for the purpose of the post-Consultation GM CAP Equalities Impact Assessment (EqIA), whilst it is acknowledged that Covid-19 will exacerbate identified equality impacts. The EqIA does however highlight there is expected to be an adverse affordability impact for sectors which have been most affected by Covid-19, which is planned to be mitigated through changes in the proposed post-Consultation changes to the CAP.

4.28 The post-Consultation GM CAP EqIA identifies that the CAZ will result in cases of increased cost of travel to places of work, education, social/leisure activities. This will be mitigated from being a ‘Medium’ to a ‘Low’ population exposure impact through the CAF Measures. This impact is anticipated to disproportionately affect younger and older people as well as those with a disability.

4.29 Similarly, the EqIA identifies there will be cases of increased business costs, which will be mitigated from ‘High’ to ‘Medium’ impact through the CAF Measures. Small businesses (including microbusinesses and sole traders) are identified as being more vulnerable in terms of business affordability to the CAZ charges. Taxi drivers are predominantly male and there is a greater than proportionate number of BAME drivers. There is concern amongst older drivers that they would have insufficient working timeframes to obtain / pay back finance.

4.30 The post consultation EqIA summarises the following anticipated impacts at a business and personal (individual) level:

Business affordability mitigation

- The suite of CAP funding measures will mitigate the extent of adverse impacts the CAZ will place on business owners – both individuals and operators of small and large fleets. However, there will still, inevitably, be a cost involved, which would most likely be felt disproportionately by individuals and small businesses especially those where their fleets make up a large portion of the company assets.

- The finance related mitigation measures may not be effective for older business owners for whom (as mentioned above) the offered finance options would not be considered an appropriate investment given the short time remaining until retirement and the reduced pay-back time.

Personal affordability mitigation

- The funding measures aimed at mitigating impacts on businesses will also indirectly mitigate the adverse impacts on personal affordability. This is because the likelihood of fare increases is reduced as businesses are more likely to be able to finance the upgrade to compliant vehicles without needing to pass additional costs onto customers or ending business.

4.31 The anticipated exacerbation of identified equality impacts post Covid-19, and in particular the affordability concerns for specific business, suggests a case for a standalone Hardship Fund which can provide additional support to those businesses in greatest need.

Economic Impacts post Covid-19

4.32 There remains considerable uncertainty around the timeframe for the ‘end’ of Covid-19. Many consider it to eventually be treated similar to flu, with those at risk being given annual boosters in response to variants. While the situation in the UK is broadly looking positive (though with spikes of variants in Bolton at the time of writing, in May 2021), the global vaccination rollout and return to ‘normal’ is a long way behind, with many countries vaccinating at a rate significantly below that required for all of their adult population within one year.

4.33 That said, there is anticipated to be a general upturn to economic output based on Government forecasts. The March 2021 OBR central forecast is predicting GDP to have returned to 2019 levels by 2022, reducing down towards a pre-Covid-19 growth rate towards the end of 2022. The long-term forecast is for a lasting relative reduction in GDP relative to pre-Covid-19 forecast of approximately 3%.

4.34 There is however expected to be a longer-term impact in terms of unemployment. The OBR forecast unemployment to peak in 2022 at 6.5%-7%, up from 4% in 2019. This compares to a peak of 11.7% in 1984, a peak of 10.4% in 1993 and 8.1% in 2011. This suggests there is not anticipated to be similar unemployment levels as experienced in previous recessions, however, there will be a large budget correction following the cost of Covid-19, which will impact Government spending and tax rates. Given the ongoing uncertainty around Covid-19 and the economy in general, it may also exacerbate the trend towards zero-hour contracts and potential under-employment, altering the interpretation of the headline employment and unemployment percentages.

4.35 GM businesses have had significant levels of financial support, aiding short-term survival, but the increase in debt and dependency creates huge risk at scheme end.

4.36 At January 2021, £2.7bn had been borrowed by GM businesses from the Coronavirus Business Interruption Loan Scheme (CBILS) and Bounce Back Loan Scheme (BBLS) schemes alone. This equates to (as examples);

- Over £354m additional business debt in Salford;
- Over £592m additional business debt in Manchester; and
- Over £192m additional business debt in Bolton.

4.37 In addition, there has been;

- £3.2bn in furlough payments to employees in the North West;
- £178m in payments to self-employed people in the North West; and
- £550m in grants to businesses paid by GM local authorities.

4.38 Significant Covid-19 related risks and uncertainty which may impact people and residents within GM include:

- Unemployment being higher than forecast and/or concentrated on particular groups;
- The increased shift into 'economic inactivity' in the North West creates long-term scarring;
- High levels of business debt act as a medium or long-term drag on a significant number of businesses, or result in insolvencies and business failure;
- High levels of business debt reduce impact of tax incentives to increase capital investment;
- The impacts on certain areas are longer lasting, e.g. because of the increase in home working or a concentration of jobs that rely on international travel;
- The modest average impact on household finances hides a very wide distribution of effects. Some groups may come out of the crisis better off, but others even worse off. Based on the Bank of England data, lower income households and deprived areas are more likely to fall into the latter; and
- Worsening of long-term and entrenched inequalities (including health inequalities).

5. GM CAP Revisions to Take Account of Covid-19

5.1 The pandemic has highlighted the importance of air quality on public health, as long-term exposure to air pollution has been linked to an increased risk of dying from Covid-19.

5.2 With consideration to the impacts of Covid-19 and the feedback received through the public consultation, GM has revised its proposals. Whilst key changes are summarised below, the full response to the Consultation and revised policy as documented within the *GM Authorities Response to Consultation* report provide further detail.

5.3 Revisions to some of the grant / finance amounts have been proposed. Significant changes include:

- An increase of the maximum Coach grant from £16,000 to £32,000.

  This will help to mitigate the significant Covid-19 impact identified within the Consultation feedback and wider impact analysis. It is proposed that the replacement grant would only be available for coach models that have no retrofit solution.

- An increase in maximum HGV grants by vehicle size, including an upper limit increase from £5,500 to £12,000 for some vehicles.

  The changes in grant values will reduce the cost burden to HGV owners through recognition of the impact of Covid-19 on the industry and to mitigate against the risk of lower funding uptake. The replacement grant values will remain variable by vehicle weight, recognising the large variations in the cost of HGVs.

- An increase in grants for LGVs greater than (or equal to) 3.5 tonnes in weight, from £3,500 to £4,500.

  The LGV replacement grant value is proposed to be uplifted depending on the weight of the vehicle, which will support larger vehicle owners which have experienced greater levels of indebtedness during Covid-19. A retrofit option has also been added for greater flexibility in achieving vehicle compliance.

- An increase in Hackney / PHV grants for non-WAV vehicles to £3,000 for compliant non-WAVs and £6,000 for ZEC non-WAVs and new grants for WAV vehicles offering £5,000 for a compliant WAV and supporting upgrade to a second-hand ZEC WAV.

  Consultation feedback and GM CAP evidence on Covid-19 impacts demonstrates that the taxi industry has been significantly impacted by the pandemic. This increased grant amounts for types of Hackney upgrade provides increased support and flexibility of response for non-compliant vehicle owners.

- Introduction of new retrofit grants for LGV, Minibus, Hackney and PHV of £5,000 per vehicle.

  This will help to provide greater flexibility and potential to reduce the cost burden, assisting in particular where a vehicle is retrofittable and would experience additional costs due to the existing vehicle-specific customisation costs, such as interior fittings or liveries.

- Planned temporary exemptions extended from December 2022 to May 2023 and extended to all LGVs, minibuses, coaches and GM-licensed Hackney Cabs and PHVs, additional exemptions for bus operators operating some school bus services and driver training buses and broadening of discounts for private HGVs.

  These changes will provide a greater amount of time between the peak/end of the pandemic and the introduction of applicable CAZ charges.

- Any private HGV (licensed under the Private HGV Tax Class) to have a discounted charge of £10 per day (as opposed to the standard HGV rate of £60).

  This will help to mitigate the personal cost impacts of Covid-19.

5.4 In addition to these changes, the option for a broader, more flexible Hardship Fund has been identified as a valuable addition to the overall package following the Consultation feedback and with respect to the impact of Covid-19. While the proposed changes to grant / finance levels and exemptions will help mitigate the affordability impacts of the CAZ for most users, the analysis summarised above highlights the variability at a business type and individual level, and the benefit of a measure which can support those experiencing greatest difficulty in adapting to the CAZ requirements.

6. Economic Implications of the GM CAP Post-Pandemic – allowing for the proposed revisions

6.1 Despite the implementation of furlough and other local and national support measures, Covid-19 will leave patches of economic scarring.

6.2 The CAP is a strategic plan which will provide funding support at discrete levels for practical operation purposes. But there will be a range of funding ‘need’ for non-compliant vehicles owners, depending on individual circumstances, such as age of vehicles and the variation against their previous business operation which the CAP introduces.

6.3 The pre-Consultation funding was broadly designed such that recipients of support would receive sufficient funding to support them to upgrade their vehicles or offset the costs of retrofitting. The proposed revisions to some CAP elements post Consultation help to mitigate the Covid-19 impacts. The pre-Consultation Distributional Impact Assessment categorised the GM CAZ (not including the supporting Funds) as having a 'large adverse' impact on all commercial vehicle types, apart from HGV which was described as 'moderate adverse'. Small businesses (including sole trader and micro businesses) were highlighted as being particularly impacted. With the addition of the Funds, these impacts were reduced to 'slight adverse' for each vehicle type.

6.4 The proposed extension to the temporary exemptions from December 2022 to May 2023 provide additional time for Coach, LGV, Minibus, Hackney and PHV operators to recover lost cash reserves post Covid-19. It also enables the growth of the compliant second-hand vehicle market for these vehicle types and provides more time for businesses to adapt their business plans.

6.5 The proposed increases to financial support benefit coach and HGV operators, doubling their grant amounts, bringing their grant to new vehicle price proportions to above 10% in most cases, and the grant to second-hand vehicle funding gaps to 40% or more in most cases.

6.6 LGV operators of larger vans now have an increased grant per vehicle amount, close to 20% of a new vehicle price and a funding gap to second-hand proportion of up to 50%. This will provide additional support to affected small businesses. They also benefit from the new retrofit grants, which provides a very low cost route to compliance for those with a retrofittable vehicle.

6.7 Given the de-coupling of Minimum Licensing Standards (MLS) with CAP, a wider range of financial support for Hackneys is proposed, including £3,000 and £5,000 diesel option grant for non-WAV (wheelchair accessible vehicle) and WAV vehicle types respectively. The £10,000 running costs grant is retained for ZEC WAVs.

6.8 PHVs benefit from increased financial support for both diesel and ZEC vehicles, the latter more than offsetting the reduction in Government grants for ZEC cars, and bringing the grant to new vehicle price closer to 20%.

6.9 Bus grant levels remain the same, given the higher level of Government support to date and the large proportion of vehicles which can be retrofitted.

6.10 Minibus grant levels also remain the same, given the existing grant to new vehicle proportion of over 20% and grant to second-hand vehicle funding gap proportion of over 40%. However, it is acknowledged that although a number of minibus operators will be exempt, remaining ones which cater for groups most severely impacted by Covid-19, may experience a more prolonged cashflow impact.

7. Conclusions

7.1 With the above changes to grant / finance amounts, it is concluded overall, the business impacts of the CAP are anticipated to return broadly to 'slight adverse' ranking in regards to the DIA affordability categorisation, when the proposed changes to the grant / finance amounts, discounts and exemptions are included. However, there remains variation on an individual business level and this will likely be exacerbated by Covid-19.

7.2 Whilst financial support is targeted towards those most in need; sole traders, micro and small businesses within the GM boundary, it is noted that there will also be impacts on medium and to a lesser extent, larger businesses. Similarly, there will be varying degrees of impact on businesses based outside of GM, in particular those which are close to the boundary or operate frequently within GM.

7.3 From the Government Clean Air Fund of £260m for the CAPs across the country, GM have secured for more than £120m of funding for eligible local people and businesses to move to cleaner, compliant vehicles, before the CAZ is introduced. The CAP cannot remove all individual costs associated with the CAZ, and the primary goal of the CAP is to achieve NO_2 compliance in line with the legal duty under the Ministerial direction.

7.4 Furthermore, some vehicle owners will have been disproportionately affected by the pandemic compared to others with the same vehicle and operating in the same sector. For example, some will have had to shield themselves or family members, others may have been in a more precarious position for example if they had recently made a major investment on the basis of expected business, or may not have qualified for Government support.

7.5 The GM CAP was devised in a pre-Covid-19 world. Where possible, JAQU funding and guidance has been stretched to accommodate the new circumstances, through adjustments to the Clean Vehicle Funds and other aspects of the CAP. But the impacts of Covid-19 have been significant to date and will continue to have a bearing on business operations to varying extents in the medium to long-term. Those impacts and the uncertainty around individual circumstances and the UK economy as a whole, suggest that there will be a greater number of businesses operating under significant financial pressure relative to the pre-Covid-19 scenario.

7.6 The impact of Covid-19 therefore, supports the case for a more flexible Hardship Fund, which can adapt to the outturn micro-economic and localised impacts of Covid-19, where there remains considerable uncertainty.

7.7 Although feedback from the consultation and the impact of COVID-19 research found that further support was required for GM businesses, Government Ministers do not agree that a Hardship Fund is the best way to mitigate the impact of uncertainty due to the pandemic. Ministers cite other Covid-response government schemes (not specific to Clean Air Plans) being available to address wider business impacts. However, Government have confirmed that they wish to ensure that Clean Air Funds can be adapted if necessary; and, that they will continue to work with GM to collectively understand the situation, including the funding position, if the impacts prove to be more severe than forecast. Joint Air Quality Unit (JAQU) officials have agreed that a mechanism for this assessment will be agreed in advance of the funds opening in November 21.

7.8 As further funding to address potential cases of hardship may be needed, Greater Manchester Authorities will be monitoring the situation very closely to ensure that they can take up the Government's offer to review the need for further funding if the need can be objectively demonstrated.