Freight Facilities Grants in Scotland

A guide for applicants

1. Background

Taking freight off congested roads and moving it by rail or water can have environmental and wider social benefits but it can be more expensive. Freight Facilities Grant (FFG) is therefore available to assist with the extra costs generally associated with moving freight by rail or water by offsetting the capital costs of providing the required freight handling facilities. It is also available to help companies reinvest in existing rail or water freight facilities.

Who can apply?

Any company which wants to move freight by rail or water rather than by road and which is proposing to invest in new freight handling facilities in Scotland or re-invest in existing facilities in Scotland may apply for FFG.

How much can be paid?

The amount of FFG that will be offered depends on:

- the value of the environmental benefits (see Annex A).
- the additional costs of moving freight by rail or water, determined by a financial appraisal of the project comparing the cost of the rail or water operation with the road alternative.

The budget for all freight grants is set by Scottish Ministers and may vary from year to year. If there is pressure on funds, grants may have to be prioritised.

Grants are normally limited to a maximum of 50% of the capital expenditure.

The key requirement for payment of grant is that Scottish Ministers must be satisfied that if the proposed facility is not provided, the freight, which would have used it, will in fact be carried by road. This means that there must be soundly based projections of the type and quantity of goods that would use the proposed facility and evidence that these goods are currently transported by road.

FFG is paid in the clear expectation that the freight facility will secure the removal of lorries from specific routes for a specific number of years. In return

for FFG support, grant recipients have to give a commitment to use the facility for a certain period and move a specified amount of freight through the facility.

Where the freight being moved is third party consignments, it may not be possible to secure a commitment from that party and forecasts are likely to be less reliable. In such cases, Transport Scotland will take a view on the robustness and accuracy of the forecast tonnage and the strength of third party assurances.

Which facilities are likely to be eligible?

Most facilities needed to handle or carry freight on rail or water are eligible for FFG e.g. piers, rail sidings and handling equipment. Funding is limited to capital expenditure. Design and project management costs associated exclusively with the freight facility are also likely to be eligible.

If you think you need assistance with revenue costs associated with shipping and that this will make the difference between moving freight by water rather than the road alternative, you may be eligible for Waterborne Freight Grant (WFG) for coastal and short sea shipping projects.

If you think you need assistance with revenue costs associated with rail or inland waterway movements and that this will make the difference between moving freight by rail or inland waterway rather than the road alternative, you may be eligible for Mode Shift Revenue Support (MSRS).

Guidance on the WFG and MSRS schemes is available via the link below:

http://www.transportscotland.gov.uk/road/freight/freight-grants

Which facilities are unlikely to be eligible?
Facilities are unlikely to be eligible for FFG if they are not to be used exclusively for or in connection with the carriage, loading and unloading of freight by rail or water. Each case will however be considered on its merits.

Where FFG will not paid
FFG will not be paid where:

- the freight facility can be commercially justified or would proceed anyway without FFG.
- contracts for construction work or rail/water haulage have already been let or construction work has started, in respect of the facility which is the subject of the grant application, before grant has been approved.
- the environmental benefits to be gained are insufficient to justify grant.
- where there is no road transport alternative; for example, where a planning condition or other legal restriction prevents or restricts the use of road. Transport Scotland will however be able to consider FFG where the traffic in question would move by road from a different location with no restrictions.

In addition the following are **ineligible** for FFG support:

- The costs of the purchase of land associated with the development of a freight facility.
- The acquisition or modification of ships i.e. self propelled vessels that require certification to operate outside domestic smooth water limits.

In addition, FFG will **not** normally be paid for:

- increases in costs above the estimates on which the grant application was assessed;
- establishment charges and overheads during design and construction or costs incurred in obtaining statutory planning approval for any part of the project;
- costs incurred prior to an award of grant including preparing or processing the grant application (including consultants' costs) or auditing claims for payment of grant.

How are environmental benefits calculated?

FFG is all about the benefits - public, environmental and social - arising from freight being moved by rail or water rather than by road. In practice, this means the environmental benefits of removing lorries from roads. Annex A contains further information on calculating environmental benefits.

How to apply

Before making a formal application for FFG, you should approach Transport Scotland who will be able to give informal advice on whether, and to what extent, a freight facility may be eligible for FFG. An initial meeting with Transport Scotland is usually the best way forward and can save unnecessary work.

Before this meeting, Transport Scotland will want to know:

- the details of the proposed facilities and estimated cost;
- the estimated annual tonnage and the period for which this can be committed;
- the origin and destination of the traffic, the road routes taken, the payload of the lorries and details of any back loads;
- whether road haulage will be used as part of the rail or water operation; and
- details of any discussions with a goods service operator and any other interested parties such as port/harbour owners/operators.

Processing the grant application

On receipt of the formal application, Transport Scotland may decide to seek independent engineering advice to examine the design and specification of the project. The costs of this will be borne by Transport Scotland. A visit to the site of the proposed facility, by Transport Scotland and by its appointed consultant, will be necessary.

No contracts should have been signed for construction of the freight facility before a formal award of FFG has been made.

Impact of Freedom of Information (Scotland) Act 2002

Information provided in an application, including personal information, may be subject to publication or disclosure in accordance with legislation including the Freedom of Information (Scotland) Act 2002 (FOISA), the Environmental Information (Scotland) Regulations 2004 (EIRs) and the Data Protection Act 1998.

If you want information you provide to us to be treated as confidential, please ensure this is clearly marked. It would also be helpful if you could explain to us why you regard the information you have provided is of particular sensitivity (and for how long the sensitivity remains). If we receive a request for disclosure of this information we will take full account of your explanation, but due to our obligations under the relevant legislation we cannot give an assurance that information supplied to us, even in confidence, will not be disclosed. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding.

How FFG will be paid

As eligible construction work progresses or eligible equipment is purchased, FFG (less retention of 10%) will be paid within five working days of receiving receipted invoices through an independent auditor (with the necessary supporting evidence).

Transport Scotland will hold the retained 10% until it has confirmed, following a further site visit, that the facility is fully operational.

In cases where the predictions of the type and quantity of goods that would use the proposed facility are less certain, Transport Scotland may offer payment of a proportion of the grant when the facility is built and the remainder in annual instalments as traffic moves through the facility.

Monitoring traffic after the facility becomes operational

Traffic monitoring on an annual basis (1 April to 31 March) will begin when the facility becomes operational. You will be asked to provide a return of traffic passing through the grant-aided facility. Transport Scotland will verify the tonnages reported, in cases where the applicant is required to provide evidence to corroborate the traffic the documentation required will be agreed prior to the award of grant.

Possible repayment

If the traffic levels do not meet these committed to in the grant application, Scottish Ministers reserve the right to seek repayment of grant to ensure value for money is achieved on behalf of the taxpayer.

2. General guidance on preparing an application

Once it has been established that the proposed project could qualify for FFG, and you decide to apply, you will need to complete the application form and provide the following information: -

Background

- Name of company, turnover and number of employees, status (plc, limited company etc.), and details of associated companies including parent / group / subsidiaries.

- Description of company's main activities, products and trading history.

- Copies of last three years Annual Reports and Accounts.

- Details of any previous use of rail or water and any previous grant applications whether successful or otherwise.

The Proposal

- Brief overview of the proposal including the purpose and business benefits.

- Details of the traffic which is the subject of the application indicating whether this is traffic new to rail or water (if so, provide description of current operation) or existing traffic which would otherwise revert to road.

- If the application is based entirely or partially on retained traffic explain clearly why this traffic will revert to road haulage in the absence of the capital investment proposed.

- Draft contract or letter of intent / support from consignor of traffic if appropriate or historic data / forecasts.

- Letters from the relevant Regional Transport Partnerships and Local Authorities, at the points of departure and arrival, confirming that they are aware of the proposed project and indicating their view on the proposal.

- Statement of period over which traffic can be committed to rail or water.

Capital Costs (see Annex B for full details on financial information required)

- Details of capital works and equipment required and explanation of why they are needed.

- Three recent supporting quotations (less than 6 months old) or independent professional estimates for capital expenditure with an explanation of which quotes have been chosen and the reason why.

- The total capital cost of the facilities being applied for and an indication of what proportion you are looking to Transport Scotland to fund.

- Financial details of any leases proposed whether for land, buildings or equipment.

Proposed Rail or Water Operation

- Description of the proposed transport operation with full details of the operating costs including costs for the rail or water transport element, associated road haulage costs at start and end of journey (if applicable) as well as loading / unloading and intermediate handling costs (see Annex B for full details on financial information required).

- A programme of construction works, including start and completion dates with any significant stages in between.

- A clear letter of intent from a rail freight operating company or a shipping company that they are prepared to carry the proposed traffic and setting out the associated costs.

- Confirmation that Network Rail is content with the proposal (where applicable).

Alternative Road Operation

- Description of alternative road operation including costs for road transport supported by copies of current contracts or if new business three independent quotes from road haulage companies as well as loading and unloading costs to provide a like for like comparison with the proposal (see Annex B for full details on financial information required).

Environmental Benefits

- Exact location including post code for plants, depots and sites included in the application, illustrative maps are helpful.

- Details of the routes that would be taken and the type and payload of road vehicles in both the proposed water based (if any) and alternative road based operations.

- Explanation of the likelihood of backloads being available for any of the road, rail or water movements.

Planning Issues

- Evidence of planning permission of the proposed rail or water freight facility.

- If planning permission is required and has not been obtained please provide a letter from the Local Planning Authority indicating the likely date of decision.

- If planning permission is not required please provide a letter from the Local Planning Authority confirming this.

Other Grant Schemes

- Details of any other Central Government, Local Government, EC or other grants being applied for or having previously been applied for in relation to the project. A full check on compatibility will be undertaken. If other grant support is secured the level of FFG support will be reduced to ensure that there is no cumulation of grant support.

- Whether MSRS or WFG is required for the proposed flow.

All the necessary evidence, supporting documents and layout drawings should be included in appendices.

Three copies of the full application should be forwarded to the Freight and Inland Waterways Branch at Transport Scotland, one of which should, as far as possible, be in electronic format (i.e. forwarded by e-mail or on CD-ROM).

Contact:

Transport Scotland, Aviation, Maritime, Freight and Canals
Freight and Inland Waterways Branch
Area 2-F (North), Victoria Quay
EDINBURGH
EH6 6QQ

Telephone: 0131 244 1526

If you have any problems or queries in obtaining the relevant information or submitting your application the Freight and Inland Waterways Branch will be happy to assist.

ANNEX A

Calculating Environmental Benefits

Introduction

The aim of the environmental benefits calculation is to identify which lorry trips have been avoided and estimate the value of them. This involves:

- specifying the origin and destination of each lorry movement that would have occurred without your proposed facility,
- calculating the total distance travelled and on what types of road,
- multiplying these by the standard environmental benefit values published in the Mode Shift Benefit User Guide.

This needs to be done for each year in the period you are proposing traffic for (up to a maximum of 10 years), to calculate the total benefit to society that your proposal will give.

Detailed issues

The following issues will affect the calculation of your schemes environmental benefits.

Each lorry will return either empty or with a 'backload', so this will need to be taken into account through the calculation. If lorry trips would still be required to take these backloads then they could not be counted as the benefit is from lorry miles that will no longer happen due to your facility.

Often when freight is transported by rail or water it will be necessary to transport the freight to/from the port by road at one or both ends of the journey. The origin and destination of these onward road journeys also need to be valued. These are classed as disbenefits and netted off from the benefits you have already calculated.

Illustration of how to calculate lorry miles your scheme will remove from the roads

Steel is produced at a mill. Currently it is transported by road to a manufacturer 300 miles away. The steel works is 20 miles by road from the nearest port. Delivery from the destination port to the manufacturer involves a 15 miles road trip to the car manufacturer.

The environmental benefits are the 300 removed lorry miles minus the dis-benefits caused by the 35 miles of road trips still required by the water freight option.

Since the benefit values provided by us take account of the net costs of moving freight by rail or water, applicants will not normally be asked to estimate the net social and environmental costs of rail or water separately. In effect this approach is consistent with the assumption that the distance the freight travels by rail or water is broadly similar to the length of the road journey removed (after adjusting for any local road distribution legs at the end of the water journey).

This approach is broadly accurate in most cases. However, where the rail or water journey distances vary by more than 25% from each other, you will need to discuss the way in which this should be handled. This is to guard against under or over-estimating the potential environmental benefits, given that alternative modes also have environmental impacts.

Illustration of an unusual case
A scheme to replace a road trip round an estuary by a very short water trip is an example of a case that would be sufficiently unusual to merit an early discussion with Transport Scotland Freight Grants Team to ensure that the method of calculating environmental benefits would yield a sensible result.

Mode Shift Benefit Values
Environmental benefits of changing mode are worked out using 'Mode Shift Benefit Values' (MSBs). The current values will remain in force until 31 March 2020. These define the level of benefit that will be gained by removing lorry journeys. There are four MSBs:

Table 1: MSB values by road types

Motorways – high value (see table 2 below)	£0.89
Motorways – Standard	£0.12
A – Roads (*)	£0.82
All other roads	£2.35

(*) Not including single track A-Roads with passing places which will be treated as other roads.

Motorway miles are categorised as being high value or standard. The motorway sections which attract the higher value are listed below.

Table 2: List of Motorway sections that attract high MSB values

M1		**J15a**	**J16**	**J17**
	J15	2.7	6.6	15.2
	J15a		3.9	12.5
	J16			8.6

		J29	J30	J31	J32	J33	J34	J35	J35a
M1	J28	6.8	13.6	19.2	22.5	24.9	27.5	31.4	32.9
	J29		6.8	12.4	15.7	18.0	20.7	24.5	26.1
	J30			5.6	8.9	11.2	13.9	17.8	19.3
	J31				3.3	5.7	8.3	12.2	13.7
	J32					2.4	5.0	8.9	10.4
	J33						2.7	6.5	8.1
	J34							3.9	5.4
	J35								1.5

		J10	J11	J12	J13	J14
M3	J9	1.4	2.7	6.3	8.0	9.1
	J10		1.3	4.8	6.5	7.7
	J11			3.5	5.2	6.4
	J12				1.7	2.9
	J13					1.2

		J5	J6	J7
M4	J4b	2.1	5.8	7.5
	J5		3.7	5.5
	J6			1.7

		J32	J33
M4	**J30**	5.6	9.0
	J32		3.4

		J4a	J5	J6	J7	J8	J9	J10	J10a
M6	J4	2.7	4.8	8.0	12.4	12.9	15.8	17.3	20.8
	J4a		2.1	5.3	9.7	10.2	13.0	14.5	18.1
	J5			3.2	7.6	8.1	11.0	12.5	16.0
	J6				4.4	4.9	7.8	9.3	12.8
	J7					0.5	3.4	4.8	8.4
	J8						2.9	4.3	7.9
	J9							1.5	5.0
	J10								3.5

		J16	J17	J18	J19	J20	J21	J21a
M6	J15	9.4	15.5	19.3	27.4	32.0	35.1	38.0
	J16		6.1	9.8	18.0	22.6	25.7	28.6
	J17			3.7	11.9	16.5	19.6	22.5
	J18				8.1	12.7	15.8	18.8
	J19					4.6	7.7	10.6
	J20						3.1	6.0
	J21							2.9

M8		J9	J10	J11	J12	J13	J14	J15	J16	J17	J19
	J8	1.2	2.1	3.2	4.5	5.1	5.8	6.5	7.1	7.8	8.5
	J9		0.9	2.0	3.2	3.9	4.5	5.3	5.9	6.6	7.3
	J10			1.1	2.4	3.0	3.7	4.4	5.0	5.7	6.4
	J11				1.2	1.9	2.5	3.3	3.9	4.6	5.3
	J12					0.7	1.3	2.0	2.7	3.3	4.0
	J13						0.6	1.4	2.0	2.7	3.3
	J14							0.7	1.4	2.0	2.7
	J15								0.6	1.3	2.0
	J16									0.7	1.4
	J17										0.7

M25	All

M42		J4	J5	J6	J7
	J3a	2.1	4.5	8.1	10.4
	J4		2.4	6.0	8.3
	J5			3.6	5.9
	J6				2.3

M60	All

M62		J19	J20	J21
	J18	3.0	5.2	7.5
	J19		2.2	4.5
	J20			2.2

M62		J27	J28	J29	J30
	J26	4.5	7.5	10.3	12.5
	J27		3.0	5.7	7.0
	J28			2.8	4.0
	J29				2.2

Route valuation per lorry

You can complete your calculations manually. The following example shows a project moving 15,000 tonnes in year one, then 30,000 per year for the next 2 years, and 40,000 for the following years. The lorries return empty and each fully laden lorry carries 24 tonnes of cargo. The route valuation is as shown below.

Table 3: Route valuation

Type	Miles	Rate	Value
Motorway (High)	5.0	£0.89	£4.45
Motorway (Standard)	175.0	£0.12	£21.00
A-roads	23.6	£0.82	£19.35
Other	3.4	£2.35	£7.99
Total	**207.0**		**£52.79**

Total valuation

The **second stage** is to look at the number of lorry trips avoided, including the backloads, and work out the total value of the benefits. Annual tonnage divided by average payload gives the number of loaded trips. This figure is used if there are no backloads associated with the project If the lorries return empty or the backloads are associated with the scheme, then the total lorry trips is equal to the loaded journeys multiplied by two. In the example below there are no loaded backloads so both loaded and unloaded journeys are avoided.

Benefits per annum are obtained by multiplying the number of lorry trips per annum by the route valuation of £52.79.

Table 4: Calculation of benefits taking into account backloads

Year	Tonnage	Trips – including backloads	Route Value	Benefits
1	15,000	1,250	£52.79	£65,988
2	30,000	2,500	£52.79	£131,975
3	30,000	2,500	£52.79	£131,975
4	40,000	3,333	£52.79	£175,949
5	40,000	3,333	£52.79	£175,949
6	40,000	3,333	£52.79	£175,949
7	40,000	3,333	£52.79	£175,949
8	40,000	3,333	£52.79	£175,949
9	40,000	3,333	£52.79	£175,949
10	40,000	3,333	£52.79	£175,949
TOTAL	**355,000**	**29,581**		**£1,561,581**

Discounting of benefits

The **third stage** is to discount the environmental benefits for later years to arrive at their current value. The financial appraisal is undertaken on the same basis. Benefits occurring in different years are valued on a discounted basis. The discount rate used is 3.5%. The table below shows how to do this for the example scheme. The benefits in each year are multiplied by the discount factor shown.

Table 5: Discounting to arrive at the current value of the Benefits

Year	Tonnage	Benefits	Discount Factor	Discounted Benefits
1	15,000	£65,988	0.966	£63,744
2	30,000	£131,975	0.934	£123,265
3	30,000	£131,975	0.902	£119,041
4	40,000	£175,949	0.871	£153,252
5	40,000	£175,949	0.842	£148,149
6	40,000	£175,949	0.814	£143,223
7	40,000	£175,949	0.786	£138,296
8	40,000	£175,949	0.759	£133,545
9	40,000	£175,949	0.734	£129,147
10	40,000	£175,949	0.709	£124,748
Total	**355,000**	**£1,561,581**		**£1,276,410**

In this illustration the Environmental Benefits are £1,276,410. However, the Environmental Benefit only represents an absolute upper limit of grant support. The actual level of grant support is based on the additional costs of rail or water freight compared to road but takes account of the upper limit of the Environmental Benefits, value for money and the availability of funds.

Road Routes Outside Scotland

If the route includes roads in England and/or Wales the environmental benefits generated in each country should be shown separately.

ANNEX B

FINANCIAL INFORMATION REQUIRED

Introduction

FFG appraisals are conducted over the expected length of commitment period to rail or water. All costs should be expressed in current prices to exclude the effects of general price inflation. Grant is assessed on the financial imbalance between water and road within the strict limits of the environmental benefits which will arise as a result of lorry traffic being removed from roads. It follows that you will therefore need to work up a costed road option to enable a proper comparison between the costs of road and water to be made.

The main elements are the costs and revenues of the road and rail or water options, which are all assumed to be earned mid-year. The aim is to compare the post-tax discounted cash flows of road and water, i.e. the NPV of the net cash flow. This includes adjustments for the effects of corporation tax.

For the purposes of the analysis, FFG is treated as a lump sum grant paid in the first year of the scheme. FFG is calculated so as to make the NPV of the net cash flow equal to zero over the project period.

Information Required

The following sections list the information required for a financial appraisal to be carried out by Transport Scotland, this information should be supported by appropriate evidence.

Tonnages:

- Forecast tonnage for each flow in each year of the appraisal.

Road Option:

- Revenues from each flow (if these differ from the rail or water option).
- Road haulage costs (supported by copies of contracts or if new traffic three written road haulage quotations) for each flow.
- Cost of each capital item, with an estimated residual/scrap value at the end of the appraisal period.
- Full details of any capital allowances arising from the project's implementation
- Any other costs, e.g. administration and handling.

Rail or Water Option:

- Revenues from each flow, (if these differ from the road option).
- Rail or Shipping costs (supported by 3 written quotations) for each flow or set of flows.
- Loading/Unloading charges.

- Cost of each capital item, with an estimated residual/scrap value at the end of the appraisal period.
- Full details of any capital allowances arising from the project's implementation.
- Any other costs, e.g. administration and handling.

Also include relevant information on:

- Benefits to other businesses of the project going ahead.
- Timing of capital expenditure.
- Proposed financing, e.g. purchased vs. leased assets.
- Non-financial benefits and costs of water, e.g. speed, reliability, planning issues, congestion.

An example of a financial appraisal is available on request