



## Update on Proposals for Administrative Changes to the Mode Shift Revenue Support Scheme in England

### Background

The Department recently sought views on proposed administrative changes to the Mode Shift Revenue Support (MSRS) scheme in England following confirmation of the funding for MSRS and Waterborne Freight Grants (WFG) schemes until March 2020. Both schemes also have European Union State Aid clearance to operate across the United Kingdom until March 2020.

The funding envelope for the schemes for the years 2016/17 to 2019/20 (inclusive) has been set at approximately £16m per year for England, compared to levels of actual expenditure between 2010/11 and 2014/15 averaging about £18m per year.

| Total UK Government Spend -MSRS and WFG | 2010 to 2015 Outturn | 2015 to 2020 Forecast / Indicative Budget | of which 2015/16 Forecast | 2016 to 2020 Indicative Budget |
|---|----------------------|---|---------------------------|--------------------------------|
| £m                                      | 88.9                 | 83.3                                      | 20.55                     | 62.6                           |

In advance of inviting applications for 2016/17 funding for the MSRS and WFG schemes, the Department asked for views, by 1 February, on two proposals for changes to the MSRS scheme in England, but which could impact on rates for cross border flows.

These proposals were:

- (1) to increase the assumed wagon utilisation rates for port-related intermodal rail freight in the MSRS scheme from an average of 1.25 containers per 60 foot wagon to 1.333. This is equivalent to assuming that on average one eighth of a train's loadable length is unused due to the wagon-container size consistency problem, rather than one sixth. The effect would be to remove or reduce grant for a number of flows which the previous cost model indicated were close to commercial operation; and

- (2) to offer MSRS applicants (for all types of flow) the choice between:
- a. a contract for up to twelve months; and
  - b. a longer contract with no early exit penalties, period negotiable but not beyond March 2020, with an automatic reduction in grant rates after twelve months of 10% and a further 5% (to total 15%) after twenty four months.

As the Department was intending to return to three year contracts, this aimed to reduce the risk that established contracts would consume the vast majority of the available budget and exclude later good and high value proposals.

### **Proposal 1: Increase in assumed utilisation rates**

The majority of respondents agreed with the proposal to increase to the assumed wagon utilisation rate or confirmed they did not object, despite some noting that significant numbers of 40 foot platforms have been introduced into the Deep Sea business over the past year.

The MSRS cost model was reviewed and updated for the 2015-2020 scheme through a research study carried out by Ove Arup & Partners Ltd, using an assumption of 60 foot wagons, noted as being predominant in the market at that time. It would not be feasible within the time available to review market trends and produce an amended model to reflect the increasing use of 40 foot platforms and the associated impacts.

One response suggested that the utilisation should remain at 1.25 for new traffic for twelve months and be increased to 1.333 thereafter. Aside from practical issues, this could be seen as undermining the company neutral principle of the scheme by allowing a competitive advantage.

Taking the responses into account, and with agreement from Transport Scotland and the Welsh Government, the utilisation rate assumption has been increased for all MSRS Port traffic with the effect that the maximum grant rates offered for some MSRS Intermodal port flows have been amended with effect from 1 April. The revised rates are shown in the table in Annex A.

### **Proposal 2: Multi-Year Contracts and the Option of Variable Grant Rates**

Response to the proposal to offer MSRS applicants choice between a one year contract, or a longer contract with reducing grant, was mixed. It ranged from welcoming the opportunity for long term certainty through to concerns that the degree of reduction over the three year period could put the operation of some routes in jeopardy. Some respondents suggested alternative percentage reductions, but these might not allow sufficient headroom for new traffic or those applying for 12 month contracts after the first year.

The Department intends to consider a number of other issues associated with the scheme, including the treatment of Channel Tunnel flows, prior to April 2017. It may also be that market conditions are more stable in a year's time, given for example the

recent major changes in coal traffic. So, and taking into account the concerns of some respondents, funding for 2016-2017 will be offered on the basis of a single year contract from April 2016. Further consideration will be given to introducing the proposed multi-year tapering contract option for funding from April 2017-March 2020.

### **Additional proposals from the responses received**

The responses included other proposals, which are discussed below.

#### Encouragement of domestic intermodal traffic.

In order to make the use of rail more attractive for domestic intermodal traffic, one response suggested that the grant payable should only be capped by the value of the environmental benefit, other than where very long distance renders support unnecessary. Such long distance flows could also be incentivised by allowing a small amount of grant to encourage them to consider rail. This is not something that is able to be taken forward as it would be contrary to the MSRS scheme's aims of allocating the available budget to those services which offer the greatest environmental benefits.

#### Removal of bulk traffic from MSRS

One response argued that bulk traffic should not be included in the same fund as intermodal traffic, as it is tendered on a different, longer term, basis and should rely on market forces. Another suggested that wagon utilisation should be examined for bulk flows. The Department is not proposing any changes to the scheme, but will be looking carefully at the comparative road and rail costs for each bulk flow to ensure that there is a need for grant.

#### Extension of the MSRS (Intermodal) scheme to cover Channel Tunnel traffic

Grants for intermodal traffic through the Channel Tunnel are currently assessed individually under the MSRS Bulk and Waterways part of the scheme. This allows the cost of the journey by rail through the tunnel to be compared with the cost of the journey if the goods had arrived by sea.

As the maximum Port grant rates are based on port costs (and onward journey) these rates could not be used for rail journeys through the Channel Tunnel journey. As part of the Arup "Review of Revenue Support Freight Grant Schemes" research, the costs of road and rail from Dollands Moor were modelled as a separate intermodal zone and a new MSRS Zone 19 proposed. This was not taken forward as a rail journey or the equivalent road journey would not start at Dollands Moor, and this proposal therefore needs further consideration.

#### Flows where the maximum grant rate is the same as the maximum environmental benefit.

One respondent noted that there are a number of MSRS (Intermodal) flows where the maximum grant rate is equal to the maximum benefit rate. As the Department does not accept bids where the benefit to cost ratio (BCR) is below 2:1, it was proposed that these flows should not be ineligible for any MSRS support.

The maximum grant rate depends on a number of factors including that, whatever the financial need, it cannot exceed the maximum benefit. Where the ratio between maximum grant rate and maximum benefit is at least 1:1, an application for grant can be

made but it would have to be at a rate low enough to meet the additional Department for Transport requirement funding for a BCR of at least 2:1.

As applications are prioritised for funding on the basis of value for money, the bid will have to compete with other bids on the BCR. If the applicant offers to move the traffic at a rate low enough to be competitive, the value of the environments benefits achieved will therefore be no less than those achieved by other flows. The Department is therefore not proposing any change to the current rules.

## **Conclusions**

- (1) An amendment will be made to wagon utilisation assumption in the MSRS Intermodal Port model, which will result in changes to some maximum grant rates from 1 April 2016.
- (2) The Department will be offering one year contracts for 2016/17 funding, but with a view to offering a three year tapered contract option for funding from 2017/18 to 2019/20.
- (3) There are no other changes to the MSRS grant scheme.

## Annex A

Maximum Grant Rate for MSRS (Intermodal) Port following a proposed increase in utilisation rate from 1.25 to 1.33.

|                    |    | Destination Zone (Inland Terminal) |    |    |    |    |    |    |    |    |    |    |    |    |    |    |     |     |    |
|--------------------|----|------------------------------------|----|----|----|----|----|----|----|----|----|----|----|----|----|----|-----|-----|----|
|                    |    | 1                                  | 2  | 3  | 4  | 5  | 6  | 7  | 8  | 9  | 10 | 11 | 12 | 13 | 14 | 15 | 16  | 17  | 18 |
| Origin Zone (Port) | 1  | 0                                  | 40 | 51 | 27 | 23 | 0  | 0  | 0  | 0  | 0  | 15 | 36 | 54 | 52 | 27 | 0   | 63  | 7  |
|                    | 2  | 79                                 | 0  | 63 | 20 | 24 | 0  | 0  | 0  | 0  | 0  | 0  | 17 | 40 | 23 | 19 | 0   | 19  | 68 |
|                    | 3  | 63                                 | 66 | 0  | 65 | 56 | 87 | 78 | 0  | 0  | 0  | 94 | 55 | 66 | 66 | 83 | 0   | 51  | 12 |
|                    | 4  | 39                                 | 4  | 76 | 0  | 9  | 45 | 76 | 29 | 0  | 0  | 42 | 63 | 51 | 33 | 59 | 0   | 0   | 0  |
|                    | 5  | 0                                  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0   | 0   | 0  |
|                    | 6  | 0                                  | 0  | 57 | 54 | 30 | 0  | 61 | 75 | 0  | 0  | 63 | 84 | 5  | 54 | 34 | 0   | 0   | 0  |
|                    | 7  | 0                                  | 0  | 0  | 18 | 73 | 97 | 0  | 57 | 49 | 15 | 81 | 36 | 0  | 0  | 0  | 0   | 0   | 0  |
|                    | 8  | 0                                  | 0  | 0  | 4  | 59 | 65 | 3  | 0  | 95 | 74 | 24 | 28 | 0  | 0  | 0  | 0   | 0   | 0  |
|                    | 9  | 0                                  | 0  | 0  | 0  | 0  | 38 | 62 | 89 | 0  | 89 | 0  | 0  | 0  | 0  | 0  | 0   | 0   | 0  |
|                    | 10 | 0                                  | 0  | 0  | 0  | 0  | 0  | 29 | 52 | 89 | 0  | 0  | 0  | 0  | 0  | 0  | 0   | 0   | 0  |
|                    | 11 | 17                                 | 0  | 49 | 48 | 21 | 60 | 14 | 24 | 0  | 0  | 0  | 19 | 88 | 62 | 55 | 10  | 6   | 0  |
|                    | 12 | 71                                 | 0  | 28 | 66 | 39 | 78 | 31 | 40 | 0  | 0  | 15 | 0  | 80 | 47 | 63 | 0   | 41  | 0  |
|                    | 13 | 28                                 | 6  | 35 | 44 | 74 | 0  | 0  | 0  | 0  | 0  | 80 | 79 | 0  | 52 | 0  | 48  | 47  | 19 |
|                    | 14 | 0                                  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0   | 0   | 0  |
|                    | 15 | 19                                 | 0  | 38 | 64 | 57 | 9  | 28 | 0  | 0  | 0  | 47 | 63 | 0  | 21 | 0  | 38  | 38  | 0  |
|                    | 16 | 62                                 | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 25 | 0  | 48 | 14 | 38 | 0   | 133 | 0  |
|                    | 17 | 19                                 | 0  | 27 | 0  | 12 | 0  | 0  | 0  | 0  | 0  | 18 | 40 | 42 | 42 | 33 | 128 | 0   | 53 |
|                    | 18 | 30                                 | 68 | 43 | 8  | 3  | 0  | 0  | 0  | 0  | 0  | 0  | 17 | 60 | 35 | 27 | 0   | 57  | 0  |

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