Subsidy Advice Unit Report on the proposed subsidy to Canal & River Trust

Referred by the Department for Environment, Food and Rural Affairs

16 November 2026

Subsidy Advice Unit

Part of the Competition and Markets Authority

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1. The Referral

1.1 On 30 September 2026, the Department for Environment, Food and Rural Affairs (Defra) requested a report from the Subsidy Advice Unit (the SAU)[1] in relation to the proposed subsidy (the Subsidy) to the Canal & River Trust (the CRT) under section 52 of the Subsidy Control Act 2022 (the Act).[2]

1.2 This report evaluates Defra's assessment of compliance (the Assessment) of the Subsidy with the requirements of Chapters 1 and 2 of Part 2 of the Act.[3] It is based on the information and evidence included in the Assessment.

1.3 This report is provided as non-binding advice to Defra. It does not consider whether the Subsidy should be given, or directly assess whether it complies with the subsidy control requirements.

Summary

1.4 The Assessment uses the four-step structure described in the Statutory Guidance for the United Kingdom Subsidy Control Regime (the Statutory Guidance) and as reflected in the SAU's Guidance on the operation of the subsidy control functions of the Subsidy Advice Unit (the SAU Guidance).

1.5 In our view, Defra has considered in detail the compliance of the Subsidy with the subsidy control and energy and environment principles. In particular, the Assessment:

(a) clearly explains and evidences how the subsidy would change the CRT's economic behaviour and that the Subsidy brings about changes that would not have occurred absent the Subsidy (Principle D);

(b) clearly demonstrates and evidences that the Subsidy is proportionate and limited to the minimum necessary to achieve its specific policy objective, particularly by setting out how the Subsidy has been designed to decrease the CRT's reliance on public funding over time (Principle B); and

(c) clearly and thoroughly demonstrates and evidences how the potential effects of the Subsidy on competition and investment have been identified and

[1] The SAU is part of the Competition and Markets Authority.
[2] Referral of the proposed subsidy to the Canal & River Trust by the Department for Environment, Food and Rural Affairs - GOV.UK.
[3] Chapter 1 of Part 2 of the Act requires a public authority to consider the subsidy control principles and energy and environment principles before deciding to give a subsidy. The public authority must not award the subsidy unless it is of the view that it is consistent with those principles. Chapter 2 of Part 2 of the Act prohibits the giving of certain kinds of subsidies and, in relation to certain other categories of subsidy creates a number of requirements with which public authorities must comply.

assessed, and how the design of the Subsidy minimises resulting distortions (Principle F).

1.6 However, to the extent that Defra wishes to rely on the flood risk management and urban cooling benefits, and natural capital benefits as market failures, it should better explain them by setting out how they meet the definitions of positive externalities and public goods (Principle A).

1.7 We discuss these areas below, along with other issues, for consideration by Defra in finalising its assessment.

The referred subsidy

1.8 Defra proposes to award a subsidy of £401.2 million in the form of a grant to the CRT. The CRT is a charity responsible for the operation and management of approximately 2,000 miles of inland waterways across England and Wales, including for navigation, public access and recreation. A portion of the CRT's income has consisted of grant funding since its inception in 2012.[4]

1.9 The Subsidy will support the CRT's maintenance and repair expenditure on the inland waterways network and associated assets, as part of CRT's wider programme of waterway operation. The funding will help maintain the network's infrastructure, ensure the safety of the public on and around the waterways, and support the continued navigability of the network in accordance with the CRT's statutory obligations.

1.10 Subsidy payments will be made over the period 2027 to 2037, starting with a payment of £49.99 million in 2027 to 2028, and tapering downwards by 5% (the 5% taper) in each subsequent year (the grant award for financial year 2036 to 2037 will be £31.51 million[5]). Defra also intends to support the CRT's transition towards greater financial independence through providing advice and guidance, continuing the current collaborative working relationship between Defra and the CRT.

1.11 Defra explained that the Subsidy is a Subsidy of Particular Interest because it exceeds £25 million in value.

[4] In the financial year 2024 to 2025, the CRT's total annual income was £232.6 million. A grant from Defra accounted for 23% of this income. The remaining income was generated from a range of sources, including investment and property income, boating and mooring charges, charges to host utilities in canal infrastructure, water system development, third party charitable activities and donations.
[5] In nominal terms.

2. The SAU's Evaluation

2.1 This section sets out our evaluation of the Assessment, following the four-step structure used by Defra.

Step 1: Identifying the policy objective, ensuring it addresses a market failure or equity concern, and determining whether a subsidy is the right tool to use

2.2 Under Step 1, public authorities should consider compliance of a subsidy with:

(a) Principle A: Subsidies should pursue a specific policy objective in order to remedy an identified market failure or address an equity rationale (such as local or regional disadvantage, social difficulties or distributional concerns); and

(b) Principle E: Subsidies should be an appropriate policy instrument for achieving their specific policy objective and that objective cannot be achieved through other, less distortive, means.[6]

Policy objectives

2.3 The Assessment states that the policy objective of the Subsidy is 'to support the CRT's waterway network infrastructure maintenance expenditure, to ensure the safety of the public on and around the network and the navigability of the waterways in line with statutory obligations, and enable delivery of a wide range of associated public benefits (including, but not limited to, human health and wellbeing, recreational activities, active travel routes, green corridors for flora and fauna, biodiversity, and mitigation of flood risks)'.

2.4 It explains that the failure of the assets the CRT maintains can lead to closure of its navigations,[7] flooding, loss of life, impacts on utilities and national infrastructure, and damage to third party property. The Assessment outlines that the Subsidy is particularly important to ensuring resilience of this ageing infrastructure in the context of increasingly extreme weather.

2.5 The Assessment sets out that the activities of the CRT contribute to the goals of Defra's 25 Year Environment Plan,[8] including clean air; clean and plentiful water; thriving plants and wildlife; enhancing beauty, heritage, and engagement with the natural environment; mitigating and adapting to climate change; and minimising waste. It sets out that in Defra's view, the CRT's activities also help to deliver

[6] See Statutory Guidance, paragraphs 3.33–3.59 and the SAU Guidance, paragraphs 3.6–3.10 for further detail.
[7] Navigations are waterways designed to be navigable by boat.
[8] 25 Year Environment Plan - GOV.UK.

some of the wider (long term) strategic government objectives relating to the environment, climate, health, place-based regeneration and economic growth, as reflected in the Government's Plan for Change,[9] and Defra's Environmental Improvement Plan 2025.[10]

2.6 In our view, the Assessment clearly describes and evidences the specific policy objective of the Subsidy.

Market failure

2.7 Market failures arise where market forces alone do not produce an efficient outcome. When this arises, businesses may make investments that are financially rational for themselves, but not socially desirable.[11]

2.8 The Assessment describes the following market failures:

(a) Public goods associated with public access to the CRT's towpath[12] network, and the associated opportunities for walking, cycling and jogging. It explains that this meets the definition of a public good as one person's enjoyment of the CRT's towpath network does not diminish or deplete the amount available to others, and it is difficult to prevent people from enjoying the benefits of their access. The Assessment goes on to explain that the CRT's navigations and towpaths provide important opportunities for recreational users in disadvantaged areas who would likely not be able to easily access suitable alternatives.

(b) Positive externalities arising from flood risk management and urban cooling. It explains that by intercepting surface water run-off, holding up excess flows, and safely diverting water away from at-risk communities, CRT can reduce pressure on overwhelmed traditional drainage systems and make land available for future development. The Assessment explains that in 2024 to 2025, the CRT estimated that its network currently provides flood protection benefitting 13.4 million people and 370,000 businesses while the urban network of navigations and docks can absorb heat and reduce the temperature of the surrounding area by an average of 1°C.

2.9 The Assessment sets out that research commissioned by the CRT estimated that, between 2018 and 2022, the social value of the CRT's network of canals and towpaths, river navigations, docks and reservoirs was £4.6 billion a year, including:

[9] Plan for Change - GOV.UK.
[10] Environmental Improvement Plan 2025 - GOV.UK.
[11] Statutory Guidance, paragraphs 3.36–3.51.
[12] A towpath is a road or trail on the bank of a river, canal, or other inland waterway.

£1.1 billion estimated annual savings to the NHS from active use of the waterways, and subjective wellbeing benefits valued at £2.9 billion per year.

2.10 The Assessment sets out that other public goods provided by the inland waterway network include natural capital, in particular biodiversity, which forms the 'living component' of natural capital, with a range of positive effects on social and economic welfare.

2.11 In our view, the Assessment clearly describes and evidences the public goods associated with public access to the CRT's towpath network market failure that the Subsidy seeks to remedy. However, to the extent that Defra wishes to rely on the flood risk management and urban cooling benefits, and natural capital benefits as market failures, it should better explain them, by:

(a) Further explaining that the flood risk management and urban cooling benefits it describes fit into the definition of a positive externality by setting out that:[13]

(i) third parties insufficiently compensate the CRT for the enjoyment of the flood risk management and urban cooling benefits; and

(ii) there is an insufficient provision of flood risk management and urban cooling benefits.

(b) Describing the natural capital benefits in more detail, and explaining that they meet the definition of a public good, by setting out:

(i) that the enjoyment of the natural capital benefits by one party still allows other parties to benefit without reducing their availability;

(ii) that people and businesses cannot be prevented from accessing or benefitting from the natural capital benefits but pay no, or insufficient, compensation to the CRT to be able to enjoy the benefits; and

(iii) that there is an undersupply of natural capital benefits in the absence of a subsidy.[14]

Equity Objective

2.12 Equity objectives seek to reduce unequal or unfair outcomes between different groups in society or geographic areas.[15]

2.13 The Assessment states that the Subsidy contributes to addressing an equity objective by ensuring that socio-economically disadvantaged user groups continue

[13] Statutory Guidance, paragraph 3.41.
[14] Statutory Guidance, paragraph 3.44.
[15] Statutory Guidance, paragraphs 3.52–3.56.

to have safe and free access to the CRT's towpaths and other green and blue spaces provided by the inland waterway network.

2.14 It explains that many of the CRT's navigations are situated in or close to major urban areas, and many of these are former industrial areas with economically disadvantaged populations who may lack access to other outdoor recreational opportunities.

2.15 The Assessment outlines that research commissioned by the CRT estimates that their canals and towpaths, river navigations, docks and reservoirs provide free and accessible urban blue-green space 'on the doorstep' for over 9 million people who live within 10 to 15 minutes' walk of one of these waterways, and within this population, more than 60% of households (over 2 million households) experience wellbeing inequalities.

2.16 It explains that access to the CRT's towpaths mitigate local and regional disadvantages, social difficulties and distributional concerns in relation to access to green and blue spaces and the wellbeing benefits that they provide.

2.17 In our view, the Assessment clearly describes and evidences the equity objective that the Subsidy seeks to address.

Appropriateness

2.18 Public authorities must determine whether a subsidy is the most appropriate instrument for achieving the policy objective. As part of this, they should consider other ways of addressing the market failure or equity issue.[16]

2.19 The Assessment explains that Defra has considered the following means to achieve the policy objective:

(a) Provision of a loan on commercial terms, which the Assessment discounts because it considers that the CRT could not afford to repay this level of debt given its annual operating losses and that it would impede the CRT's ability to respond to asset failures.

(b) The government taking over responsibility for the CRT's inland waterways network (bringing the waterways back into public ownership). The Assessment discounts this option, outlining and evidencing how the transfer of the waterways to the CRT from a public body in 2012 had led to significant income growth, improving financial sustainability and preventing the deterioration of assets beyond what would likely have been possible had the waterways remained in public ownership.

[16] Statutory Guidance, paragraphs 3.57–3.59.

(c) The government providing (non-selective) support for the CRT to find and leverage alternative funding sources instead of a grant. The Assessment discounts this option, as a grant review[17] found that although there might be opportunities for the CRT to increase its income, it would not be possible for the CRT to raise enough funds in the short-term to replace a significant proportion of grant funding.

2.20 In our view, the Assessment demonstrates that Defra has considered other ways of achieving its policy objective and clearly explains and evidences why a subsidy was the most appropriate option.

Step 2: Ensuring that the subsidy is designed to create the right incentives for the beneficiary and bring about a change

2.21 Under Step 2, public authorities should consider compliance of a subsidy with:

(a) Principle C: Subsidies should be designed to bring about a change of economic behaviour of the beneficiary. That change should be something that would not happen without the subsidy and be conducive to achieving its specific policy objective; and

(b) Principle D: Subsidies should not normally compensate for the costs the beneficiary would have funded in the absence of any subsidy.[18]

Counterfactual

2.22 In assessing the counterfactual, public authorities should consider what would likely happen in the future – over both the long and short term – if no subsidy were awarded (the 'do nothing' scenario).[19]

2.23 The Assessment outlines a short-term counterfactual where, absent the Subsidy, the CRT would immediately need to reduce costs relating to waterway operation, maintenance and repair by around one-third.[20]

2.24 The Assessment outlines that, without subsidy funding, the CRT would prioritise spending on reservoirs, principal assets in the poorest condition[21] and high-risk assets, to the detriment of the wider network with the consequence that some

[17] An external retrospective review of the CRT's financial and commercial position from financial year 2012 to 2013 to financial year 2020 to 2021, conducted as part of Defra's grant funding review of the CRT.
[18] See Statutory Guidance, paragraphs 3.60–3.74 and the SAU Guidance, paragraphs 3.11–3.13 for further detail.
[19] Statutory Guidance, paragraphs 3.63–3.65.
[20] The Assessment bases this conclusion on the fact that during the period 2024/25, grant funding from Defra amounted to 32% of costs relating to waterway operation, maintenance and repair.
[21] Class D and E assets. Classes A to E are used to denote the condition of assets for the purpose of the grant funding agreement, where A indicates a good state of repair. Classes D and E represent assets in poor condition that pose significant risks or require immediate monitoring.

waterways would close, including those that the CRT has a statutory obligation to keep open.

2.25 The Assessment states that the likely outcome in this counterfactual is that a proportion of the CRT's waterways and associated footpaths would close from 2027 onwards. It explains that they would either be closed proactively by the CRT or fall into disrepair. It estimates that, without government intervention, over the longer term (three to ten years), between 50 to 94% of the CRT's navigations and towpaths would close. The Assessment explains that this would lead to a corresponding loss in the socio-economic benefits derived from the CRT's network which the Assessment states would impact the achievement of the policy objective.

2.26 The Assessment explains that this loss of socio-economic benefits, combined with the impact of failures on the main routes of the CRT's network of navigations,[22] would mean that, over the longer term, it is likely that the government would need to intervene and take over responsibility for the CRT's network of navigations or find an alternative service provider, simply shifting costs that would have been incurred anyway through the Subsidy.

2.27 The Assessment acknowledges some additional uncertainty over the long-term counterfactual, noting that the CRT can potentially increase its income through sources such as its property portfolio and commercial activities. It explains that these additional revenues could offset or partially offset a reduction in Defra funding, although they would likely take time to materialise. However, the Assessment highlights the potential knock-on effects of the network closures predicted under the counterfactual scenario. It outlines that these closures could reduce the CRT's income in a number of areas, including income from fundraising, and in particular boat licences and moorings, which it explains could further increase the financial impact of withdrawing subsidy funding.

2.28 The Assessment discusses how Defra's consideration of the level of network reduction absent the Subsidy has been informed by the CRT's projections through financial year 2036 to 2037, where the CRT estimated the level of navigation closures needed under four different grant funding scenarios, including one where no subsidy was provided.[23] The Assessment outlines that these projections were considered by two external consultants in 2022, both of which agreed that while a complete grant withdrawal would necessitate a material level of network closure, this would likely occur more gradually than the CRT predicted.

[22]The Assessment explains that failures can be particularly disruptive, generating additional repair costs in the millions and gaining media attention. It cites a canal breach causing significant damage to the Llangollen Canal in 2025 to demonstrate this.

[23] In this scenario, the CRT expect a closure of 93.5% of the canal network, 65% of the towpath network, and all museums and attractions over a three-year period.

2.29 In our view, the Assessment describes and evidences what would be likely to happen if the Subsidy was not awarded.

Changes in economic behaviour of the beneficiary and additionality

2.30 Subsidies must bring about something that would not have occurred without the subsidy.[24] They should not be used to finance a project or activity that the beneficiary would have undertaken in a similar form, manner, and timeframe without the subsidy ('additionality').[25]

2.31 The Assessment states that, in the short term, the Subsidy would allow the CRT to continue its existing programme of waterway operation, maintenance and repair at current levels, in a safe, accessible condition, allowing the full extent of current socio-economic benefits and the policy objective to be delivered. It explains that the Subsidy enables a level of investment that would not otherwise be financially sustainable.

2.32 The Assessment explains that Defra expects that the 5% taper[26] on the level of annual payments made under the Subsidy over the next ten years will incentivise the CRT to further diversify and increase income sources, reducing the CRT's dependence on public funding over time. The Assessment notes that with the 5% taper, it is projected that 2% of the CRT's towpaths and 4% of the CRT's navigations will close by 2037, an outcome which the Assessment states is considered acceptable by Defra.

2.33 The Assessment projects that the CRT will be able to generate an additional £89 million revenue over the next ten years, which it considers will partially offset the impact of the 5% taper. It explains that this is supported by a report from an external consultant which suggested that several potential measures were available for the CRT to enhance its income. The Assessment explains that there is some uncertainty around the projections if the CRT is unable to generate additional revenue.

2.34 The Assessment describes the key performance indicators (KPIs) that will form a part of the grant funding agreement to ensure that the CRT maintains its navigations and towpaths in an acceptable condition. It outlines that Defra will monitor the CRT's delivery of the target outcomes over the duration of the agreement. The Assessment states that progress will be monitored throughout the agreement with regular review meetings each year, a risk register, performance assessments, forecasts against each KPI and quarterly invoice checks.

[24] Statutory Guidance, paragraph 3.67.
[25] Statutory Guidance, paragraphs 3.66–3.70.
[26] See paragraph 1.10.

2.35 The Assessment then considers whether the Subsidy supports costs that the CRT would have funded anyway. It outlines that, while the CRT has adequate short-term liquidity and a stable balance sheet position, it does not currently generate sufficient operating surplus to fund its waterway maintenance obligations without continued public support and that using reserves would provide only a temporary solution and not represent a stable long-term funding model.

2.36 The Assessment recognises that the Subsidy will support some of the CRT's day-to-day expenditure but outlines that a greater proportion of the Subsidy will support the CRT's asset plan expenditure costs[27] (see paragraph 2.42(d)).

2.37 In our view, the Assessment clearly explains and evidences how the subsidy would change the beneficiary's economic behaviour and that the Subsidy brings about changes that would not have occurred absent the subsidy.

Step 3: Considering the distortive impacts that the subsidy may have and keeping them as low as possible

2.38 Under Step 3, public authorities should consider compliance of a subsidy with:

(a) Principle B: Subsidies should be proportionate to their specific policy objective and limited to what is necessary to achieve it; and

(b) Principle F: Subsidies should be designed to achieve their specific policy objective while minimising any negative effects on competition or investment within the United Kingdom.[28]

Proportionality

2.39 The Assessment sets out how the Subsidy has been designed to provide no more than the level of funding necessary to achieve the policy objective. It describes various design elements relevant to this, including the following:

(a) Defra identified a funding gap using income and cost projections for the CRT over the proposed timespan of the Subsidy. The Assessment sets out that the total grant funding (£401.2 million) is £78.5 million below the forecast funding gap (£479.7 million) because Defra estimates the CRT can generate up to £89 million in additional revenue over the next ten years (see paragraph 2.33). It states that additional revenue projections are £10.5 million more than the £78.5 million shortfall, which 'provides for a small margin of uncertainty'.

[27] According to the Assessment, these costs include investment required to either replace, refurbish or repair an asset to achieve an improvement in asset condition/performance, thus increasing the operational life of the asset.
[28] See Statutory Guidance paragraphs 3.75–3.112 and the SAU Guidance, paragraphs 3.14–3.18 for further detail.

(b) The Subsidy will be paid in annual instalments that taper by 5% each year (see paragraph 1.10 and 2.32). The Assessment explains that the 5% taper was selected following an appraisal of alternative levels and was deemed the most suitable to achieving the policy objective. It also notes that the level of annual payments made to the CRT has remained constant since 2021, decreasing in real terms, meaning the annual payments under the Subsidy will represent a further decrease compared to the levels since 2021.

(c) Subsidy instalments will represent a minority of the CRT's annual income and maintenance expenditure over the proposed timespan. The Assessment states that the CRT has funded the majority of maintenance expenditure from other income sources since at least 2021, with grant funding coverage ranging from 31% to 42% over that period. It further explains that since 2021, the Defra subsidy as a proportion of the CRT's income has ranged from 22.6% to 24.5%. The Assessment states that the final payment in financial year 2036 to 2037 would represent 20% of current maintenance expenditure.

(d) The Subsidy is limited to a clearly specified list of waterway maintenance activities. The Assessment explains that these include the repair, refurbishment and replacement of long-life assets, alongside planned and routine maintenance such as servicing lock mechanisms and clearing vegetation.

(e) The Subsidy will have a ten-year timespan, from April 2027 to March 2037. The Assessment states this will provide the CRT with sufficient certainty to plan efficient maintenance and investment programmes without creating an open-ended commitment to public funding. More broadly, the Assessment sets out that the term reflects the long-term nature of managing nationally significant waterway infrastructure while ensuring that government support remains time limited.

(f) Monitoring arrangements will provide ongoing assurance of proportionality with delivery of the policy objective, and ensure that the grant is being administered in accordance with the relevant Government Functional Standard. The Assessment explains that underperformance against KPIs (see paragraph 2.34) will trigger clawback mechanisms until measurable improvements are made.

2.40 In our view, the Assessment clearly demonstrates and evidences that the Subsidy is proportionate and limited to the minimum necessary to achieve its specific policy objective, in line with the Statutory Guidance. In particular, the Assessment sets out how the Subsidy level will represent a decrease compared to the current level of public funding provided to the CRT and how it has been designed to decrease the CRT's reliance on public funding over time.

Design of subsidy to minimise negative effects on competition and investment

2.41 The Assessment states that the Subsidy is designed to support the continued provision of public goods and is not intended to support commercial expansion or provide the CRT with a competitive advantage. It explains that the design and size of the Subsidy was determined through a long- and short-listing process which involved applying objective criteria to various funding options, based on wider government objectives and Defra's objectives for the CRT. The Assessment explains that the final step involved appraising five short-listed options, (each for a ten-year grant cycle paid in fixed annual instalments with different levels of tapering), using a social cost benefit analysis and considering the performance of each option in relation to delivery of the policy objective, the critical success factors for CRT funding, as well as value for money.[29]

2.42 The Assessment addresses the design characteristics identified in the Statutory Guidance as relevant to minimising the negative effects on competition, including the following:

(a) The nature of the instrument. The Assessment acknowledges that grants have greater potential to distort markets compared to loans at or below market rates, but it considers that the impacts on markets likely to be affected will be low, and negative effects on competition could not be reduced further without compromising the policy objective. It discusses how a loan would not be a viable alternative to grant funding as the CRT would not have sufficient recurring income to service additional debt without reducing expenditure needed to achieve the policy objective.

(b) Breadth of beneficiary. The Assessment states that the CRT has been identified as the sole beneficiary, having considered that it is currently best placed to continue maintaining the network. It states that Defra considered whether CRT's waterways could be given to a different service provider but concluded that the CRT is best placed to continue maintaining the network.

(c) Timespan. The Assessment acknowledges that providing ongoing support increases the potential for market distortion, but that Defra expects that the downward funding taper will reduce the risk of competitive distortions over time (see paragraph 2.39(b)).

(d) Nature of costs covered: The Assessment states that the Subsidy will be split approximately equally between operational and capital expenditure. It acknowledges that one-off subsidies tend to be less distortive, and that ongoing subsidies which cover day-to-day costs are more likely to distort

[29] The critical success factors are the minimum factors for delivery of the CRT's high-level aims. They were determined by Defra in consultation with various government stakeholders and the CRT.

competition and investment. Accordingly, the Assessment states that the Subsidy will fund a greater proportion of capital costs compared to operational costs because the CRT's operational costs are lower than its capital costs. In the first year, grant funding will cover under 50% of capital costs and just over 25% of operational costs.[30]

(e) Ringfencing: The Assessment states that the Subsidy is ring-fenced to maintaining the inland waterway network and cannot be spent directly on commercial activities such as issuing boat licences, providing moorings, supplying water or hosting utilities. It states that this design feature is intended to ensure that the Subsidy is not cross-subsidising the CRT's commercial activities. However, the Assessment acknowledges that the Subsidy might support those activities indirectly by maintaining the assets which they depend on but outlines that this impact would be difficult to mitigate without compromising the policy objective.

(f) Performance criteria, monitoring and evaluation: The Assessment sets out that the grant agreement includes governance and KPI frameworks (see paragraph 2.34). It states that when combined with ring-fencing of permitted expenditure, the frameworks provide meaningful constraints around how the subsidy is spent. In particular, the Assessment explains that the grant agreement was updated to include an annual reporting measure to monitor the CRT's pricing in the relevant markets (see paragraph 2.44), following a recommendation by external advisers to monitor indirect impacts on competition or investment.

2.43 In our view, the Assessment clearly demonstrates and evidences how design features of the Subsidy contribute to minimising negative effects of the Subsidy on competition and investment within the United Kingdom**.**

Assessment of effects on competition or investment

2.44 The Assessment considers the possible impacts of the Subsidy on leisure uses, business boating, moorings, water supply and transfer and utility hosting. It draws on a report which Defra commissioned from an external adviser to assess the effects of the Subsidy on competition or investment. The Assessment does not consider the competitive impacts for angling and freight, as it explains that the CRT's activities represent only a small part of those markets.

2.45 The Assessment states that product markets which the CRT operates in are generally local or regional largely due to travel, relocation or infrastructure costs associated with switching. The Assessment acknowledges that geographic limitations frequently leave the CRT or another navigation authority with strong

local market positions. It outlines that this limits the importance of price as a factor at the network level (between navigation authorities) but does not rule out the importance of price in local areas where waterways are in competition with each other or within a particular waterway. For example, where waterways managed by different authorities are close together, the Assessment explains that private landowners provide competing moorings, alternative water networks are available, or infrastructure owners can offer competing utility routes.

2.46 For leisure and business boating, the Assessment states that subsidised maintenance could theoretically allow the CRT to charge licence fees that do not reflect the full associated maintenance cost, thereby disadvantaging other navigation authorities. However, it outlines that licence fees and similar charges for leisure boating are due to increase above inflation for five years and many competing navigation authorities also receive public funding. It therefore considers the scope for material distortion to be limited, and that increasing charges to address the risk would only reduce use of the waterways and conflict with the policy objective.

2.47 For moorings, the Assessment identifies effects in both upstream provision of water and land space and downstream provision to customers. It sets out that maintenance can increase the appeal of the CRT's own moorings and that the Subsidy may induce prices that do not fully reflect maintenance costs. The Assessment states that the risk may be greater in low-demand areas, because prices in high-demand areas are more likely to cover relevant costs. However, it explains that maintenance also benefits privately operated offline moorings on the CRT's network.

2.48 For water supply and transfer, the Assessment considers markets in which the CRT may be the sole supplier, or in which it competes either with entities using its network or with operators using separate infrastructure. It states that barriers to entry are high because a new provider would need substantial fixed assets. It explains that the potential distortion would arise if grant-funded maintenance reduced the CRT's costs and enabled it to price below market rates. The Assessment considers this unlikely because water companies co-fund maintenance, contracts are often long term, regulatory constraints are likely to limit CRT's pricing flexibility, and competitors are often publicly funded. The Assessment outlines that new agreements are also moving towards value-based pricing based on the cost of alternative use rather than the CRT's own cost base. It also states that it is likely that any new agreements will be actively negotiated on commercial terms, given the expectation for CRT to increase its revenue over the timespan of the Subsidy.

2.49 For utility hosting, the Assessment states that the CRT has more than 4,000 agreements covering infrastructure such as electricity, gas, water and fibre-optic cables. It sets out that grant-funded maintenance could reduce the costs of

providing access, but the likelihood of material demand diversion is low. It explains that installed pipes and cables are fixed and expensive to relocate, while routes for new infrastructure are driven mainly by geographical suitability rather than prices. The Assessment explains that sector regulation further reduces the likelihood that any CRT pricing advantage would translate into demand diversion or downstream distortions. It also notes that utility income is projected to remain broadly unchanged without the subsidy, indicating that grant funding has limited influence on this activity.

2.50 The Assessment notes that the Subsidy is intended to maintain existing infrastructure rather than support commercial expansion. It also notes that freight on the CRT's network has remained at broadly similar, low levels, and fixed infrastructure and established long-term contracts limit rapid entry or expansion in water transfer and utility hosting.

2.51 The Assessment acknowledges the risk of the CRT under-pricing its products as a result of the Subsidy and sets out various ways in which this is mitigated. It also explains that any price increases to address residual negative effects of the Subsidy may adversely affect usage and risk compromising the policy objective.

2.52 In our view, the Assessment clearly considers and evidences the effect of the Subsidy on competition and investment, in line with Annex 3 of the Statutory Guidance. In particular, the Assessment is thorough in identifying the relevant product and geographic markets and assessing the potential for distortive impacts, including by considering the mechanisms through which actual or hypothetical distortive impacts on competition or investment might be realised.

Step 4: Carrying out the balancing exercise

2.53 Under step 4 (principle G), public authorities should establish that the benefits of the subsidy (in relation to the specific policy objective) outweigh its negative effects, in particular negative effects on competition or investment within the United Kingdom and on international trade or investment.[31]

2.54 The Assessment sets out the expected benefits of the Subsidy. It explains that the Subsidy will enable the continued delivery of public goods, generating a range of public benefits that contribute to health and wellbeing, as well as the continued provision of natural capital and biodiversity benefits. The Assessment also explains how the Subsidy will enable the inland waterway network to continue generating positive externalities, including flood-risk management and urban cooling, while helping to ensure safe and free access to green and blue spaces, particularly for socio-economically disadvantaged groups.

[31] See Statutory Guidance, paragraphs 3.113–3.121 and the SAU Guidance, paragraphs 3.19–3.21 for further detail.

2.55 Overall, the Assessment concludes that the inland waterway network supported by the Subsidy generates wider socio-economic benefits estimated at around £5 billion each year, around £5 billion in annual gross value added and supports an estimated 150,400 full-time equivalent jobs which are directly and indirectly dependent on the waterways. The Assessment explains that Defra has conducted a Social Cost Benefit Analysis of the Subsidy which calculated a benefit-cost ratio of 9.4:1 and a Net Present Social Value to Government Spending ratio of 10.3.

2.56 The Assessment also considers the negative effects of the Subsidy on competition or investment within the UK. It explains that these effects, directly on the market for hosting utilities and indirectly in the case of leisure uses, business boating and moorings, are expected to be low and notes that many of the CRT's competitors also receive public funding, limiting the scope for the Subsidy to distort competition unduly (see paragraphs 2.44 to 2.51). The Assessment does note a residual risk that the subsidy could sustain below-market prices under legacy water abstraction and transfer agreements, for as long as these agreements are in place.

2.57 The Assessment does not identify negative effects on international trade or investment of the Subsidy because the relevant markets are predominantly local (see paragraph 2.45) and the CRT operates only in England and Wales. It also does not identify negative geographical or distributional effects of the Subsidy.

2.58 The Assessment concludes that Defra's view is that the benefits of the Subsidy outweigh the negative effects (which Defra expect to be minimal). It outlines that this is supported by the positive benefit-cost ratio, indicating that the Subsidy will generate substantial net benefits to taxpayers.

2.59 In our view, the Assessment clearly sets out the positive effects of the Subsidy in relation to the policy objectives, as well as potential negative impacts, and conducts a balancing exercise between them in line with the Statutory Guidance. In particular, the balancing exercise is well evidenced (see paragraph 2.55) and the assessment of the potential negative effects of the Subsidy is supported by the Assessment's thorough consideration of the Subsidy's effects on competition and investment within Step 3 (see paragraph 2.52).

Energy and Environment Principles

2.60 This section sets out our evaluation of the Assessment against the energy and environment principles.[32]

[32] See Schedule 2 to the Act, and Statutory Guidance, Chapter 4.

2.61 Defra has conducted an assessment of the Subsidy against Principles A and B. We have not identified any other principle that should have been addressed as part of the assessment.

Principle A: Aim of subsidies in relation to energy and environment

2.62 Subsidies in relation to energy or the environment should be aimed at (1) delivering a secure, affordable and sustainable energy system and a well-functioning and competitive energy market, or (2) increasing the level of environmental protection compared to the level that would be achieved in the absence of the subsidy. If a subsidy is in relation to both energy and environment, it should meet both limbs.[33]

2.63 The Assessment explains that, given the policy objective of the Subsidy is intended to address market failures relating to the environment including the provision of natural capital public goods, Defra considers the second limb of Principle A to be relevant to the Subsidy.

2.64 The Assessment explains that the Subsidy will enable the CRT to continue maintaining its inland waterways at present levels or with a lower level of closures than would occur absent the subsidy and provides relevant figures. The Assessment states that, as the navigations deliver natural capital public goods, the Subsidy will increase the level of environmental protection compared to the level that would be achieved in the absence of the Subsidy, particularly in relation to maintenance, restoration or enhancement of the natural environment.

2.65 In our view, the Assessment clearly explains and evidences how the Subsidy complies with Principle A of the Energy and Environment Principles.

Principle B: Beneficiary's liabilities as a polluter

2.66 Subsidies in relation to energy or the environment should not relieve the beneficiary from liabilities arising from its responsibilities as a polluter under the law of England and Wales, Scotland, or Northern Ireland.[34]

2.67 The Assessment explains how, as the owner and operator of most of the network of navigations in England and Wales, the CRT can incur liabilities in respect of pollution. The Assessment states that, although pollution management is an activity funded by the Subsidy, use of the Subsidy for the purposes of relieving the CRT of any liabilities arising from its responsibilities as a polluter would be in breach of the grant agreement.

[33] Statutory Guidance, paragraphs 4.19–4.28.
[34] Statutory Guidance, paragraphs 4.29–4.34.

2.68 In our view, the Assessment clearly explains and evidences how the Subsidy complies with Principle B of the Energy and Environment Principles.

Other Requirements of the Act

2.69 Defra confirmed that no other requirements or prohibitions set out in Chapter 2 of Part 2 of the Act apply to the Subsidy.

16 November 2026