Mode Shift Grants Review

02 February 2024

Summary

- The mode shift grants have played a vital part in moving freight from road, predominantly onto rail. Removing the grants will lead to a notable increase in road freight, impacting carbon emissions, air quality, road congestion and will also have an impact on the economy.
- Whilst the grants are welcome by the sector, there are calls from both the water and rail modes to improve and update the grant schemes and application process.
- The grants should not shift focus from their original intent to "reduce road congestion, decrease carbon emissions and create a more sustainable and resilient freight network that benefits both the economy and the environment."
- There is untapped potential to move more freight by rail and water and utilise 100% of funds if the grant application process is more responsive.

About Logistics UK

Logistics UK is one of the country's largest business groups, supporting, shaping and standing up for safe and efficient logistics. We are the only organisation representing the entire logistics sector.

We represent a sector delivering an increasingly innovative, productive and sustainable system of essential national infrastructure. This system ensures the availability of the products that households, businesses and public services rely on every day, and is supporting the UK's transformation for the future. Our membership of over 20,000 includes global, national and regional businesses and SMEs spanning the road, rail, sea and air industries as well as the buyers of freight services, such as retailers and manufacturers.

Response to call for evidence

Question 28

Do you agree or disagree that our schemes could benefit from being altered?

- ~~Agree, MSRS only~~
- ~~Agree WFG only~~
- Agree both MSRS and WFG schemes
- ~~Disagree~~
- ~~Don't know~~

Question 29

In your opinion, what changes could enhance the effectiveness of the existing scheme?

Improvements that apply to both the Water Freight Grant (WFG) and Mode Shift Revenue Support (MSRS) relate to the application process and accessibility of the funding.

Logistics UK members operating in both rail and water freight agreed that an online application process would be a major improvement. This would allow for a simpler application process and ultimately could support speedier decision making and further proposals such as the temporary increase in grant rate support as mentioned within this Call for Evidence.

One way to streamline the process could be for bidders to know how much money they were applying for and for the money to be paid automatically without having to request the funds.

Logistics UK has received calls for the reinstatement of the Benefit Calculator Tool (BCT) in tackling the perceived complexity of the application process, as reported by our members. The BCT is appreciated for its calculation of Mode Shift Benefits (MSBs) highlighting the noticeable reductions in carbon emissions and congestion on the roads as the result of freight being moved via either rail or water.

Question 30a

In your opinion, what changes could enhance the effectiveness of the existing MSRS scheme?

Water freight operators are critical of the application process and the Benefit Cost Ratio measurements on a calculation that is designed for rail routes.

Rail freight operators are also critical of the application process. Members highlighted that the window for applying for the grant does not necessarily align with the demands of the freight network's needs, and a route may need to apply for funding beyond the grant timelines. An online system with shorter and more frequent assessment periods would help mitigate this.

A new application process with a redesigned calculation taking into consideration inland waterway routes could help promote the scheme and encourage applications from this mode.

Question 30b

In your opinion, what changes could enhance the effectiveness of the existing WFG scheme?

There was general consensus that this being a start-up grant, compared to the MSRS, was a missed opportunity. Members raised concerns over the need to prove profitability within three years, which is not always possible to achieve.

The Waterborne Freight Grant is a start-up grant for coastal shipping. However, coastal shipping is not eligible for MSRS. Water freight operators have called for a rethinking of the WFG so that it is not only a start up grant.

Rail and water freight are not directly comparable, as the rail sector already has significant infrastructure to support freight growth. The water sector needs certainty from government for private investment, but also financial support for vital infrastructure.

Question 31

How in your view, if at all, could an effective temporary increase in grant rate be developed to respond to unexpected events?

Logistics UK members have requested clarification on the scope and what qualifies as an unexpected event. And, if possible, an example to illustrate the concept better.

However, irrespective of a definitive understanding, members believed that the current application process is not responsive enough to react to unexpected events and the system would need to be modernised and digitised in order to provide this.

One way to provide a financial incentive to move freight by rail during an unexpected event could be to reduce track access charges. This would of course only support rail movements and is beyond the scope of MSRS.

Question 32

How, in your view, can the mode shift grants effectively respond to the adoption of new vehicle technologies while preparing for the longer-term impact of emerging technologies?

Logistics UK rail and water operator members were unequivocal that the mode shift grants should not lose the focus of their original purpose, which is to "reduce road congestion, decrease carbon emissions and create a more sustainable and resilient freight network"[1]. Congestion causes delays on the roads, which impact not only emissions but also the economy. Having an HGV stuck in congestion costs £1.30 per minute to the operator and, overall, congestion cost the UK economy £9.5 billion in 2022 alone[2].

The MSRS application process asks for applicants to calculate the volume of carbon emissions that will be removed by the route. As we move closer to more zero tailpipe emission vehicles on the road, the grants need to recognise the additional benefits of modal shift, including congestion, safety and efficiency of other modes.

The economic impact of congestion is such that it has the potential to be lost by environmental consideration of the assessment process. Logistics UK members would like to ensure that this is not overlooked when the grants and application process is reviewed.

Question 33

The MSRS and WFG schemes are currently limited to funding modal shift to rail freight travel and water modes of freight travel. What additional areas, if any, do you think could be funded to promote environmentally sustainable freight?

As mentioned in our previous answer, the MSRS and WFG schemes should not lose their focus and purpose to "reduce road congestion, decrease carbon emissions and create a more sustainable and resilient freight network"[3]. The annual funding for the schemes is already low compared to funding for net zero projects, both within the Department for Transport and across other departments. Stretching the focus further could lead to fewer movements by rail and water.

The Department for Energy and Security and Net Zero possesses the £1B Net Zero Innovation Portfolio. However, there is no direct focus or inclusion of a strategy to ensure the decarbonisation of the logistics sector. Owing to their limited budgets, the MSRS and WFG schemes' sole purpose should be the prioritisation of ensuring modal shift, whilst funds such as the Net Zero Innovation Portfolio focus on the net-zero agenda.

Question 34a

How in your view, if at all, would the reintroduction of the freight facilities grant in England help accelerate the transition to alternative sustainable modes of freight transportation?

Logistics UK members were clear in their view that Freight Facilities Grants (FFGs) brought tangible results and would be a welcome addition to the grant schemes if they were re-introduced in England. Members have benefitted from the grants in England pre-2010, and members operating in Scotland have received FFGs more recently, leading to increased rail and water freight into and across Scotland. The new infrastructure built with the use of FFGs across Great Britain has not been insignificant and continues to provide benefits still today.

FFGs create a long lasting legacy beyond the initial grant period. Reintroducing FFGs in England would provide opportunity to move even more freight onto water and rail that will continue to produce benefits decades down the line, as those grants that were issued from the 1980s until 2010 continue to do.

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[1] Mode shift grants review - GOV.UK (www.gov.uk)

[2] Logistics UK, *Manager's Guide to Distribution Costs: October 2023 Update*, 2024

[3] Mode shift grants review - GOV.UK (www.gov.uk)

In Scotland, Carr's Flour Mills received two FFGs which created new silos in Kirkaldy Harbour. The grant provided Carr's with the facilities they needed to be able to bring grain into the harbour and has since moved over 1 million tonnes of wheat by water instead of road. This is one example of the power of the FFGs.

An example of how FFGs could benefit modal shift would be to mitigate the lack of operational wharves for freight. The lack of operational wharves can present challenging circumstances for freight operators when bidding for business. Members reported an inability to generate interest and, consequently, business without a sufficient amount of operational and functional wharves. If a FFG was available to bring wharves onto the network it would support businesses to bid for more work to bring more freight onto the waterways.

Members raised the question as to whether a new FFG would include refurbishment of existing facilities and vessels, which would have additional benefits to building new facilities alone. Refurbishment can often be a more cost effective and environmentally friendly way of making improvements to infrastructure.

Should the potential of the inland waterways be realised then there will need to be renewal of existing craft (from within the UK or abroad) and the creation of new vessels. However, members are concerned that if this cost is ineligible for grants, this will prove to be a significant barrier to success.

Question 34b

How in your view, if at all, would the modernisation of the scheme, GB wide, help accelerate the transition to alternative sustainable modes of freight transportation?

As mentioned earlier, one way to modernise the scheme would be to digitalise the application process. An online application could be easier for applicants to complete and could support faster decision making. In recent years, there has been some unused grant money left at the end of the grant period. An online system with speedier responses could support utilisation of all available monies.

Knowing how much grant would be awarded before a decision has been made would also be helpful.

Question 35

Any other comments about these schemes?

It cannot be overstated that without these grants, less freight will be moved by rail and water.

At the end of 2023, the Transport Secretary announced a rail freight growth target of at least 75% growth in freight carried by rail by 2050. Removing, reducing or restricting access to grant funding to support modal shift to rail would not only be detrimental to achieving that goal, but in direct contrast to the rail freight growth target.

Water freight, however, does not have a freight growth target, something that Logistics UK has been calling for over many years. This lack of direction from government has been a cause of concern given the Department for Transport aims to be modally agnostic. We consider a water freight growth target to be a vital requirement to meet net zero targets.

Despite the purpose of the grants being to decrease carbon emissions, we understand that emissions savings are not taken into account during the application process. We find this to be counterintuitive to the purpose and sends a mixed message about the focus and purpose.

Question 36

Any other comments.

Logistics UK will take this opportunity to reiterate the stated purpose of the mode shift grants is to "reduce road congestion, decrease carbon emissions and create a more sustainable and resilient freight network that benefits both the economy and the environment."[4] The grant is successful in doing this, but there is much

[4] Mode shift grants review - GOV.UK (www.gov.uk)

more potential if the schemes are more responsive and designed around the specific modes that are open to them – namely that the calculations for the benefit cost ratio for inland water freight is not designed around rail freight.

Logistics UK has regularly engaged with government on our key policy asks on rail and water freight. However, for completeness we will take this opportunity to repeat these as part of the bigger logistics picture:

Water Freight Key Policy Asks

Cross-Departmental Team

- *Colleagues across government should liaise with each other over shared policy areas.*

There are several government departments involved in policy for water freight, including the Department for Transport, Department for Levelling Up Housing and Communities, and The Department for Environment, Food and Rural Affairs. However, when it comes to speaking to the correct person in other departments regarding the shared interests, the departments have no relationship with each other and are unable to locate the correct individual. Government must address this by creating cross-departmental teams on shared interests such as waterways, led by a dedicated Logistics Minister.

Growth of Water Freight

- *Government must set a growth target for water freight.*

The Department for Transport aims to be 'modally agnostic', yet at the end of 2022 announced a target to grow rail freight by at least 75% by 2050. Water freight should also be given the same focus and commitment from the Department for Transport and Logistics UK is calling for a similar approach for water freight.

Planning and Infrastructure

- *Land use protection for wharves.*
- *Recognition of existing use when developing neighbouring land for residential housing.*
- *Support for modal shift in local plans and place making.*

Planning officers and elected councillors are typically not experts in logistics and this can be a perceived challenge to planning permission being granted.

In regards to water freight, access to waterways and wharves is often a challenge as land is frequently lost to housing. It can then also be harder to gain access once the area is residential and there is local opposition to logistics activities such as loading and unloading requirements at wharves.

Often, access to wharves and development of ports is a direct obstacle to expanding water freight inland.

Much of the logistics sector struggles with the planning system. To rectify some of the issues with the planning system and its relationship with logistics, Logistics UK will:

- Work with government to raise awareness amongst planning authorities of the logistics sector, and for planning officials to gain better understanding of the needs of the water freight industry when considering planning applications.
- Continue to call for world class connections to ports (road, rail and inland waterways) within national infrastructure and intermodality.
- Continue to fight for improved east-west connectivity between northern ports in England.
- Highlight that UK ports must be considered as part of the freight network and not peripheral to it.

Decarbonisation

- *Certainty over the fuels of the future and propulsion technologies.*
- *Financial support including rebates and incentives for decarbonisation.*
- *Standardisation of technology.*

Logistics UK supports the government's net zero ambitions and works closely with its members to promote their own decarbonisation efforts, including through our Route to Net Zero campaign.

The maritime sector is still waiting for clear targets within the route to net zero, including phase out dates, a defined fuel of the future and standardisation of equipment.

Logistics UK is calling for certainty over the future for maritime decarbonisation, which has yet to be clarified, despite the 2023 consultation on UK Domestic Maritime Decarbonisation. We also want to see additional support from government for research and development to decarbonise port, maritime and inland waterway operations.

The UK as a whole is committed to reaching net zero by 2050, with different targets set across the devolved nations, and with some targets, particularly in the multimodal sphere, yet to be set.

Maritime decarbonisation still poses more questions than it provides answers. Modal shift supports lowering emissions but will not produce net zero logistics until the maritime sector itself meets net zero. The sector requires certainty, targets and direction on where the future lies for technology, fuels and propulsion.

Rail Freight Key Policy Asks

Capacity

- *Implementing targeted infrastructure investments to create capacity for freight growth.*
- *A net-benefit led approach to investment and capacity allocation decisions.*
- *The publication of a clear roadmap of priority investment projects that create additional freight capacity.*

Rail freight has the potential to facilitate and support the achievement of wider policy goals. Net Zero and Levelling Up are prime examples. However, for rail freight to play its role the right decisions need to be made concerning investment, capacity allocation and modal shift across the industry.

The sector is currently limited by network capacity. Additional rail connected terminals and improved capacity will be necessary to substantially grow the rail freight market. The majority of which will be largely driven by private investment. As such, an environment must be created that gives the private sector the confidence to make sizeable investments. This includes ensuring that there is capacity on the rail network to accommodate additional services and more productive heavier and longer rail freight services, to ensure that rail freight can compete with other transport modes.

Decarbonisation

- *A sustained commitment to electrifying the railway through an investment in a long-term programme of electrification.*
- *Development of a framework that supports private sector investment in green technologies, including hydrogen and battery power.*

Rail freight has the potential to play an important role going forward in supporting priority policy initiatives, such as net zero. Rail freight reduces CO_2 emissions by up to 76% compared to road, whilst a single rail freight service can remove up to 129 HGV movements[5].

To decarbonise the railway, Logistics UK is in support of a rolling programme of electrification. Electrified rail transport is a fully mature, proven green technology which has been in use for more than 60 years. To enable 95% of rail freight to be electrically hauled, only 800 miles of additional electrification is needed in the UK[6]. Currently, only 10% of British freight trains are hauled by electric locomotives.

Rail freight also has advantages from an air quality perspective. Air pollutants produced by rail freight are generally emitted further away from people, and often in a contained environment where railway cuttings, tunnels, fencing and buildings can act as shields, limiting the impact on human health.

Incentives

- *Incentives to accelerate the use of low-carbon fuels.*

Incentives to increase the use of low-carbon fuels, such as HVO, should be considered to support the transition away from diesel within the rail freight sector.

[5] Rail Partners – Freight Expectations
[6] CILT, Freight Electrification Map

Skills

- *Campaign for clearer national strategies. Government to update and make its Industrial Strategy and Rail Strategy fit for purpose to help address the skills gap in the industry.*
- *Better signposting for career pathways. Reduce complexities around access to apprenticeships and where to go for career progression opportunities.*

The UK's rail network is growing; however, the sector is facing a significant skills shortage. Up to 120,000 additional people will be required by 2030 with the demand for skills peaking around 2025[7]. This is largely as a result of an ageing workforce. Nearly 50,000 rail industry employees are expected to retire by 2030 with the large majority of the personnel expected to replace this workforce to be over the age of 25. The proportion of under 25-year-olds in the rail industry has halved since 2016, from 10% to 5% of the workforce[8].

Recognition

- *Rail freight to be recognised and factored into central/local government policy.*

Government must recognise the importance of a stable policy framework to enable rail freight to grow and achieve its potential. As well, government must position rail freight at a higher point in the national economic agenda.

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[7] CWE, Transforming Rail Performance - Keeping Talent on Track: Addressing the Skills Shortage in the Rail Sector
[8] The National Skills Academy - Back on Track: Gearing up to meet the Increased Demand for Talent in the Rail Industry