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Partners

Response to the mode shift grants review call for evidence

February 2024

About Rail Partners

Rail Partners represents private passenger train operating company owning groups and freight operating companies – providing policy and advocacy functions on their behalf. We also provide technical services to train operating companies in both the public and private sectors. This call for evidence submission is on behalf of our freight operating company members.

Introduction: Mode shift grants play an essential role in enabling rail freight to deliver positive environmental and economic outcomes

Rail Partners recognises that government is interested in ways to simplify and improve the existing provision of grants as it considers how to support modal shift from road to rail when the existing state aid clearance for the Mode Shift Revenue Support (MSRS) scheme finishes at the end of the 2024/25 financial year. Although the Freight Facilities Grant (FFG) does not currently exist in England, we welcome its inclusion within the scope of this call for evidence. Rail Partners considers that both initiatives, where they exist, work very well and are effective government grant schemes and it is essential they are retained moving forward.

Following the recent announcement of the government's long-term freight growth target, and the introduction of regulated targets to grow freight by 7.5% in England and Wales, and by at least 8.7% in Scotland during Control Period 7 (CP7), this call for evidence is an opportunity to strengthen the link between grant schemes and the delivery of freight growth.

Achieving freight growth is key to deliver against national objectives including decarbonisation, improving air quality, and economic growth. Both the MSRS and FFG schemes recognise the wider external environmental benefits associated with moving freight by rail – with each tonne of freight moved by rail producing 76% less CO₂ than the equivalent transported by road, and every freight train removing up to 129 heavy goods vehicles (HGVs) from the road network.¹

A thriving rail freight sector is not only important for the environment, but it will also support economic growth. Each year rail freight generates £2.45bn to UK plc. These benefits can be broken down into user benefits (such as cost, time and reliability),

and non-user benefits (such as reduced carbon, decongestion and safety).² Rail freight operates on a GB-wide basis and supports businesses across the country, and with 90% of these economic benefits accruing outside London and the South East, the sector helps to support the levelling up of the economy.

As recognised in *the Plan for Rail* white paper, a largely private rail freight sector has innovated and adapted to changing market demands since privatisation. Previously prevalent markets such as coal have been largely replaced by growing intermodal and constructions sectors. Within a dynamic and price sensitive freight customer base this has required rail freight operators to be agile and the sector has invested over £3bn to improve the performance, safety, and productivity of their services in order to compete with other modes – particularly road haulage. Continued private sector investment from freight operators, their customers and third parties will be essential to deliver both short and longer-term freight growth targets and realise government's legislative commitment to achieve net-zero carbon emissions by 2050.

The call for evidence presents an opportunity to build on the success of current modal shift initiatives

The existing MSRS scheme plays an essential role within the freight and logistics sector. It helps to drive modal shift from road to rail on flows where rail would otherwise not be able to compete on cost within a highly competitive freight customer base. The *Transport Decarbonisation Plan* outlines that in 2021/22 alone MSRS grants prevented 900,000 HGV movements. Furthermore, successful MSRS applications yield a cost-benefit ratio of greater than 6:1 demonstrating that MSRS is a highly effective government grant scheme, relative to its existing annual budget of c.£20m, therefore representing impressive value for money for taxpayers by helping to decarbonise UK supply chains and decongest the road network by freeing up space for other motorists.

In an asset intensive industry, FFG also plays an important role by addressing the often-high capital costs associated with the development of new rail connected facilities, enabling freight customers to make investments which unlock significant modal shift from road to rail. The scheme has been instrumental in Scotland where we understand there has been a recent surge in interest from freight customers and developers, and also exists

¹ Freight Expectations, Rail Partners

² The role and value of rail freight, Deloitte

in Wales. Currently business cases for FFG funding are limited by geography as only the benefits that accrue in the respective nations can be included in a grant assessment. As rail freight operates on a GB-wide basis, with most Scottish and Welsh services crossing the English border, this is a significant constraint and means that many customers continue to use road haulage.

While MSRS is a grant that helps to bridge some of the cost differential between road and rail haulage, and FFG supports the construction of new or modernised rail-connected facilities, each scheme continues to incentivise freight operators to improve the productivity of their operations and deliver new facilities. In relation to MSRS, this is in part because the limited budget available through the scheme means that the application process is highly competitive. In many cases operators are incentivised to apply for grant funding below the published financial need figures for particular flows in order to achieve a higher likelihood of receiving funding, which increases the benefit-cost ratio. In the case of FFG, Ministers must be satisfied that in the absence of grant support the freight handling facility would not be developed, and the flow would remain on road. Furthermore, a specified level of modal shift following the delivery of the scheme must be realised otherwise the agreed grant can be withdrawn by the funder.

Both schemes also promote private sector investment. By supporting the carriage of freight by rail, they strengthen business cases developed by freight operators, customers and third parties in new assets and infrastructure which supports further growth, not only in the flows that are supported by MSRS but also for services that are already commercially viable without requiring MSRS funding. Realising both the short and longer-term rail freight growth targets will require significant investment from the rail freight sector and complementary investment from government, whether through grants or infrastructure investment, helps to give private businesses the confidence to invest.

The continuation and expansion of grants is vital to realise the external benefits associated by moving goods by rail. The recent introduction of private sector-led schemes, such as the DP World mode shift incentive, are welcome. However, as many of the benefits associated with rail freight do not accrue to users, public grants will continue to play an important role and must be retained to deliver national, social, and economic benefits.

In light of the significant benefits that are unlocked by MSRS and FFG, Rail Partners has called for:

- The annual MSRS budget to be doubled, expanding on the success of the current

scheme and the value for money it represents to taxpayers.

- FFG to be widened such that it becomes a GB-wide scheme, thus building on the significant benefits generated from projects the grant has supported in Scotland.

Such policy decisions would support the Government's legislative commitment to decarbonise the UK economy by 2050 while also being consistent with the UK Government's strong commitment to rail freight growth as outlined in the *Plan for Rail* white paper, *Transport Decarbonisation Plan* and *Future of Freight* white paper.

The current operational and commercial context

The continuation of government grants is key to addressing some of the current and future operational and commercial arrangements which risk making rail freight less attractive to customers. For example, recently the energy costs associated with transporting freight by rail have increased due to rising electric current for traction (EC4T) charges. Changes to red diesel duty eligibility in April 2022 have also impacted the rail freight costs as the entitlement to use red diesel within freight handling facilities was removed, which disproportionately impacted the rail freight sector which by its nature involves more freight handling than road haulage. On the other hand, road fuel duty has not risen for over a decade and has temporarily been reduced in 2022/23 and 2023/24, thus road and rail energy costs are driving further apart. Similarly, charges levied by UK ports on freight operators for access and container handling have also risen considerably in recent months. The current economic downturn has also created challenges, with freight volumes down across all modes, and there is now an oversupply of HGV drivers which leads them to be much more competitive on price.

Looking ahead, variable usage charges (VUC) paid by freight operators to Network Rail for using the rail network are due to go up by 18% on average in CP7 according to ORR's *PR23 final determination*, with further real terms increases signalled in CP8. These downward pressures and more challenging economics of rail freight, with the gap widening between road and rail costs, risks making rail less attractive for existing and prospective customers, despite the external environmental benefits delivered by rail freight services. The continuation of government grants is essential to help offset some of the challenges caused by the increase in

many charges for freight operators and help deliver the freight growth targets.

Incremental changes can build on the effectiveness of existing modal shift incentives

While we support both MSRS and FFG, we do recognise that there are opportunities to reform certain elements to make them simpler, more agile to changing market dynamics, and to further align them with the strategic objectives of government.

The suggestions proposed in the remainder of this response could help to expand the economic and environmental benefits delivered by rail freight thereby increasing the return to taxpayers from the schemes.

We outline a series of recommendations for the department to consider, both in relation to MSRS, FFG, and alternative approaches to support modal shift to rail freight.

- 1. A coordinated approach to grants is needed to ensure that grants are aligned with wider rail policy objectives**
- 2. The MSRS (intermodal) scheme works well and the rates should be updated to reflect current market economics**
- 3. The introduction of fixed grant rates should be considered**
- 4. Alternative approaches to promote modal shift in the bulk sector should be explored**
- 5. The link between grant initiatives and environmental outcomes should be increased**
- 6. Further flexibility to mode shift grant schemes should be introduced to yield even greater returns to the taxpayer**

1. A coordinated approach to grants is needed to ensure that grants are aligned with wider rail policy objectives

The current MSRS scheme sits within the road budget, reflecting the focus of the scheme on removing HGV movements, and the scheme is administered by the DfT grants team. While we recognise and support DfT's efforts to establish a crossmodal approach to freight within the organisation, particularly since the publication of the *Future of Freight* white paper, typically freight operators' interface with the DfT continues to be with the rail team. As a result, the rail freight team has the strongest departmental understanding of the rail freight sector. This is likely to help process industry queries more quickly and avoid duplication of work as there have been instances where information has been sought by separate areas of the department.

Further input from the rail team would have the added benefit of enabling schemes to become better aligned with government's rail policy including the *Plan for Rail* white paper. For example, ensuring that the incentives and budgets are consistent with short and long-term freight growth targets and support the creation of emerging markets where rail has significant potential to hold a larger market share consistent with market intelligence. Although Rail Partners considers that the MSRS budget should continue to sit within DfT, there could also be a role for Great British Railway's Strategic Freight Unit who will help to create the conditions for rail freight to grow as the infrastructure manager. Additionally, when the *Long Term Strategy for Rail* is published there may be opportunities to align the MSRS budget with the strategy – particularly in relation to planning and decarbonisation.

There is also a need to coordinate approaches to grants across different funders. As transport is a devolved matter, the administrative body for MSRS will be determined by where the majority of the environmental benefits arise from a particular freight movement where grant funding has been sought. Therefore it will remain necessary to engage with Transport Scotland and Transport for Wales regarding MSRS in some cases. A similar approach would be required for FFG, should it be expanded to become a GB-wide scheme.

Following the government's rail freight growth target announcement, there is also an opportunity to consider establishing a rail-specific budget. Currently MSRS is available for both rail and inland

waterway freight. We recognise that DfT may consider introducing an MSRS-style scheme for coastal shipping following previous recommendations from independent reviews of the current scheme. While Rail Partners does not have a view on the effectiveness of MSRS for freight transported by water, we consider that decoupling the rail and water elements of the scheme would be beneficial. This would mean that there is a ring-fenced budget for rail freight and would avoid the risk that government's commitment to rail freight growth is not compromised by expanding the scope of the scheme to other freight modes and potentially reducing the annual budget currently awarded to rail. While FFG is also available for rail and water freight in Scotland and Wales, if the scheme were to be expanded to England a ring-fenced rail fund is unlikely to be required as the scheme is accessed less frequently.

2. The MSRS (intermodal) scheme works well and the rates should be updated to reflect current market economics

It is considered that the intermodal part of the grant scheme works very well. Although we are aware that some stakeholders consider that the application process is complex and we would welcome conversations with DfT on opportunities for simplification, this is not necessarily the experience of freight operators – who are collectively responsible for the majority of MSRS applications. Through our engagement with the DfT grants team, we understand that it is also their view that the existing scheme is not more complex than necessary.

Intermodal flows are generally between fixed origin and destination points either between inland distribution centres (domestic) or from a port to inland terminal (maritime). In comparison with other markets, there is a much higher level of substitutability between road and rail within the intermodal market and customers will largely choose the cheapest mode to move their goods, so it is typically easier to demonstrate the financial need for MSRS support. Applications using the intermodal scheme are supported by a map with 18 separate zones, which applicants can use to calculate grant rates and associated environmental benefits between a specific origins and destinations for both maritime and domestic intermodal services. While it can at first seem complicated, after reviewing the scheme and engaging with the department a potential applicant can familiarise itself with the intermodal application process, and the feedback provided by DfT relating to unsuccessful applications has been helpful for operators and enabled them to refine applications

for future bid rounds. This means that bids can be put together by applicants in a time effective way and enables DfT to evaluate applications efficiently too. It is recognised that one of the reasons the intermodal scheme is considered to be so effective is because there is an abundance of granular data on cost for both road and rail, which can be used to establish the appropriate level of financial need - notwithstanding that this financial need data requires updating to account for recent cost pressures. Rail freight operators remain committed to working with DfT to ensure that it has the necessary information on rail costs in order to determine financial need.

An improvement for the intermodal scheme would be to widen the scope so that international traffic is no longer exempt and can benefit from grant funding. There are opportunities to grow the amount of international rail freight services which have remained below the level forecasted when the Channel Tunnel opened, however cost remains a significant barrier to modal shift, leading to worse environmental outcomes and suppressed trading opportunities for UK businesses. While it is recognised that only environmental benefits accruing inside the UK from the domestic portion of a particular movement could be assessed, it could still benefit some international freight movements. Alternatively, given the initial costs associated with starting an international journey by rail, it could be that those services (whether intermodal or another commodity) would be better suited to a bespoke incubator fund where financial support is awarded for a time limited period while the flow is established.

Furthermore, automotive rail freight traffic currently sits within the bulk scheme, but the operational and commercial characteristics of this market are similar to intermodal - there is a high level of substitutability between different modes and services typically run between ports or the channel tunnel and inland terminals. As such, the transfer of automotive traffic to sit within the intermodal scheme, supported by its own financial need analysis and environmental benefits, should be considered in order to promote the movement of cars, both domestically and internationally, by rail. As the high-speed rail freight market emerges, consideration should be given to how the MSRS intermodal scheme can better support this traffic too.

Opportunities to support short distance intermodal journeys, such as Felixstowe to Daventry, should also be explored. The ability of the existing MSRS scheme to support shorter distance flows is limited because while the financial need for these flows is typically higher, the maximum grant rates awarded are limited by the calculated environmental benefits, which must be at a minimum level of 2:1.

This means that grant rates for the flows with the highest financial need are capped by the environmental benefits and therefore MSRS is not effective at helping to bridge the financial needs gap for this traffic. Realising the freight growth ambitions will require securing greater modal shift of these shorter-distance flows and it is important that the review considers how MSRS can support such traffic. Increasing the environmental benefits by more fully considering the environmental benefits as well as congestion benefits could be one option to address the challenge of shorter distance flows.

3. The introduction of fixed grant rates should be considered

To build on the success of the current intermodal scheme, Rail Partners considers that fixed grant rates could be introduced between specific origin and destination points. Currently operators are able to bid below the maximum grant rates, which can result in different operators submitting applications for similar flows with different levels of financial need. Fixed grant rates would therefore support further competition between operators who would be competing for the same level of financial support through the MSRS scheme. Operators have their own commercial and operational pressures meaning that they will continue to be strongly incentivised to identify productivity even if grant rates are fixed. Freight customers would benefit from greater clarity on grant rates and more certainty that traffic will receive grant support, which in turn supports their own operational and commercial decisions when using rail. Such an approach would also provide further clarity on how much budget has been spent and should simplify the scheme so that it is easier for the department to administer.

The exact methodology used to set fixed grant rates for freight flows at an appropriate level would require further consideration, but it should be a reasonable average of previous MSRS funding awards for representative movements. It may be necessary to update these figures to ensure that they remain representative of current market conditions within the freight sector and are not set at a level that is either too low or high.

4. Alternative approaches to promote modal shift in the bulk sector should be explored

While there is an MSRS scheme in place for bulk traffic, there are much fewer successful applications through this scheme. This may reflect that, generally, bulk traffic has lower financial need,

but it is also a much more complex scheme from the grant applicant perspective.

One of the main barriers to more successful MSRS applications through the bulk scheme is that, unlike the intermodal scheme, there are currently no standardised grant rates, which means that bespoke applications have to be submitted to the DfT for assessment. This is because often bulk flows vary more across origin/destination pairings when compared to intermodal rail freight, but as a consequence developing compelling applications is much more challenging and time consuming for freight operators.

Looking ahead, MDS Transmodal freight forecasts indicate that there are significant opportunities for bulk traffic to grow, particularly in the construction sector, where rail and road compete against one another. To support this growth and to reflect the fact that bulk traffic will experience the largest real terms track access charges increases across CP7, Rail Partners considers that DfT should undertake a review of the bulk scheme. This review should assess whether there are opportunities to introduce a greater level of prescription to the application process to support further successful applications. It is recognised that this may be challenging given the range of commodities included within the bulk scheme, and the variation in origin and destination points. MSRS has shown itself to improve productivity within the freight sector by stimulating private investment, and it may be that by widening the number of bulk flows benefitting from the funding, further investment is unlocked in the bulk sector which improves the productivity of otherwise unviable flows which may improve future MSRS grant applications.

Another option to support modal shift from road to rail in the bulk sector would be through the reintroduction of FFG in England to establish a GB-wide scheme reflecting that freight services use the breadth of the rail network. Reintroducing FFG would be beneficial because the capital costs associated with developing new terminals and connecting them to the rail network, as well as modernising existing facilities, are considered to be significant barriers to the introduction of new bulk services. As outlined in the introduction, we strongly support the inclusion of FFG within the scope of this call for evidence and believe it could have instrumental impact on freight growth by building on the success of the scheme in Scotland.

Another alternative approach to support bulk traffic that freight operators have previously proposed to DfT would be to introduce time-limited track access discounts for new flows, for a period of two to three

years, where it is required to help address the higher start-up costs that are typically associated with new traffic. This initiative has been used in other European nations to support freight growth and we consider that it can be done within existing legal and regulatory frameworks under the Access and Management Regulations. This would also have the effect of reducing the often-prohibitive costs associated with establishing new bulk flows and would incentivise customers to make investments to transfer their movements to rail. Once the flow has been established it would become commercially viable in a short period of time and therefore the discount would no longer be required.

5. The link between grant initiatives and environmental outcomes should be increased

The core objectives of MSRS and FFG are to deliver better environmental outcomes through fewer HGV movements. As outlined in the introduction, rail freight already plays a central role within a low-carbon freight and logistics industry. Not only is further modal shift towards rail essential to lower emissions within the transport sector, which remains the largest polluter in the UK economy, but there are also opportunities to further reduce rail freight carbon emissions particularly through the MSRS scheme.

Most rail freight services are hauled using diesel traction, and while this remains the greenest way of transporting freight around the country, freight operators are continuing to seek opportunities to improve their carbon performance, whether through the wider use of electric locomotives or increasingly via low-carbon fuels such as Hydrotreated Vegetable Oils (HVO) on routes which are currently non-electrified. The use of lower-carbon traction options has markedly improved rail freight's environmental performance. For example, on a flow between Southampton and Coatbridge, where HVO and electric traction have both been used with the locomotive being changed at Crewe, it is estimated that carbon emissions have been reduced by 80% compared to using conventional diesel.³ Despite these benefits, the wider rollout of low-carbon traction is constrained by limited commercial viability as freight operators cannot absorb higher traction costs. EC4T charges paid by freight operators have risen markedly over the last two years owing to higher global energy prices, and HVO can cost anywhere between 20-50% more than diesel. While electricity may come down in future to be more in-line with diesel prices subject to market rates, low-carbon fuels are likely to

³ Freight Expectations, Rail Partners

remain at a premium price as the volume for this market is subsumed by other industries and suppliers are able to change a premium for their product. Only in extremely limited circumstances are customers willing to pay the additional costs associated with HVO or other low-carbon fuels in order to meet their own sustainability targets. Freight customers typically operate on tight margins and are highly price sensitive which limits the utilisation of low-carbon alternatives.

In order to expand the environmental benefits realised by moving freight by rail, the successor MSRS scheme could differentiate between different traction types, such that services operating using electric traction or low-carbon fuels can benefit from higher fixed grant rates. This would have the effect of addressing the existing cost differential between diesel and other energy sources, thus enabling operators and their customers to further reduce their carbon footprint in-line with government's commitment to reach net-zero carbon emissions by 2050. It would also help to address some of the challenges with MSRS eligibility for bulk traffic. It should be noted that due to operators' and customers' appetite for using low-carbon solutions, the grant uplift would only need to bridge the existing price gap between diesel and low-carbon fuels, rather than remove it, in order to create the incentive to switch to lower-carbon options. Due consideration should be given to how bi- and tri-mode freight locomotives, which allow freight operators to use multiple energy sources over one journey depending on which parts of the network are electrified, are treated in relation to grant funding to avoid placing additional administrative burden on freight operators or scheme administrators.

An alternative solution to promote low-carbon traction that the freight industry had proposed during PR23 was to enable track access discounts for electric traction or low-carbon fuels. While the scope for doing this is currently constrained by legal and regulatory requirements, there may be opportunities to review this as rail reform and the GBRTT commission are taken forward, as changes to the Access and Management Regulations are considered. This approach is preferred because the cost differential between energy sources exists equally for all traffic, rather than just services that are MSRS grant eligible (where this is demonstrable financial need). This would likely be the more effective means of supporting and incentivising lower-carbon traction and would mean that MSRS is importantly still framed around support modal shift.

There is also a strong case for updating the methodology used to assess the environmental benefits associated with moving freight by rail rather than road. The University of Hull's recently

developed the *Railfreight Energy and Emissions Calculator* (REEC) uses more detailed inputs (e.g. locomotive and wagon types) to assess the comparative environmental performance of both road and rail at a much more granular level than previously possible. It is able to quickly calculate carbon emissions and air quality pollutants from rail movements to a high degree of accuracy once the characteristics of the flow are entered. Using this tool would allow for a more accurate assessment of the environmental benefits realised from using rail freight, which could then be included within MSRS and FFG applications. It would support some of the shorter distance intermodal flows, which currently cap out based on environmental benefits, well before they get close to bridging the financial need of this traffic. It could also help to rebalance the focus of existing schemes, which currently ascribe more weight to decongestion than the wider environmental benefits associated with moving freight by rail. Such a shift is likely to improve the effectiveness of the MSRS scheme for bulk flows, which typically reduce higher levels of carbon than intermodal services. The focus on reducing rail's energy consumption would incentivise operators and the infrastructure manager to work together to consider operational improvements (e.g. more direct services with less idling) to further lower freight's emissions which would strengthen MSRS business cases. It would also encourage further investment from freight operators in more environmentally assets such as locomotives and wagons.

While Rail Partners is advocating for a more granular approach to the assessment of environmental benefits to inform future mode shift grants, the ability of the rail freight sector to decarbonise will in a large part be determined by future electrification projects. This could present some challenges in future, if technological innovations occur more quickly in the road haulage sector, leading to a reduction in the comparative carbon savings from transporting good by rail. Should government electrification policy mean that it is not possible for rail freight to decarbonise, it will be necessary to review whether this approach to the assessment of rail and road's environmental performance remains appropriate for mode shift grants where the core focus remains to remove HGVs from the road network.

6. Further flexibility to mode shift grant schemes should be introduced to yield even greater returns to the taxpayer

Within the current MSRS funding period, freight operators have welcomed the flexibility DfT has offered in relation to the scheme to ensure that the

full budget has been used up when external factors have affected the economics of road and rail – for example during the Covid-19 pandemic and more recently when industrial action reduced the volume of goods transported by rail and crucially reduced the utilisation of services, below what had previously been envisaged. This agility has been important, allowing customers to continue to move goods by rail where they may not be able to in the absence of adjusted grants. Freight customers are highly price sensitive, and the freight market can be very dynamic so it is important that the scheme can respond to this quickly. Adjusted grants not only preserve the environmental benefits associated with moving freight by rail in the short term, but also avoid the risk that customers revert to road and do not return to rail. In future, to avoid the lengthy clearance processes that are often required when temporary changes are made to grant rates, opportunities to enable this flexibility to be incorporated into the scheme should be considered. Frequent engagement between the rail freight sector and DfT on the MSRS scheme will help to identify where additional flexibility could be needed to ensure that grant rates remain well calibrated and rail freight is able to be competitive with road haulage.

To make the MSRS scheme more resilient to changes in the economics of freight, the MSRS grant rates should be recalibrated more regularly to ensure that they remain reflective of current market rates and economic conditions. As not all inputs have the same level of volatility, it would not be necessary to recalibrate all variables, but at least fuel costs, HGV driver costs and service utilisation should be recalculated on an annual basis. This annual recalibration would ensure that grant rates reflect the financial need and would also avoid overpayments to freight operators when the commercial environment means that rail is able to compete better with road. Such a change would also lessen some of the administrative burden incurred by the Department and reduce the need to seek legal clearances when temporary adjustments are deemed necessary. If FFG were reintroduced in England, Rail Partners would support the introduction of a similar level of agility within the scheme as considered appropriate.

One of the existing challenges outlined by DfT in relation to the current MSRS scheme is that it is possible for the entire budget not to be used up if freight volumes are lower than anticipated when applicants initially bid for grant before the start of the financial year, due to wider economic circumstances, which has been the case during recent years where the impact of Covid and the impact of a global economic downturn on consumption have impacted freight volumes particularly in the intermodal sector. To mitigate against this, a mechanism should be introduced

that enables further flexibility when it becomes clear that the existing budget will not be completely used during financial year. Consideration should be given to what an appropriate mechanism may look like which could satisfy legal and state aid requirements. It is likely that adjustments to fixed grants rates which ensure that rates remain in-line with market conditions, whether moved up or down, is the best way to ensure that budget will be used as has been demonstrated by the use of temporary grant rates in recent years.

