



# **Water Freight Facilities Grants in Scotland**

## **Guide for Applicants**



## SCOTTISH EXECUTIVE

Water Freight Facilities Grant

Administered in Scotland by the

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Learning Department

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# Water Freight Facilities Grants in Scotland

## Introduction

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

## About This Guide

2. This guide gives key information for applying for water freight facilities grant (FFG) in Scotland. The guide explains:

- who can apply for the grants
- the sorts of schemes that are likely to be eligible
- when a grant is likely to be awarded and when not
- how to make grant applications
- the decision process
- how the grant will be paid
- where to find out further information.

# SOME COMMON QUESTIONS ANSWERED

## Who can apply for the grants?

3. Any company wishing to move freight by sea or inland waterway may apply for FFG for water freight facilities in Scotland.

## Which proposals are eligible for the grants?

4. Most capital expenditure on facilities needed to handle or carry freight by water is likely to be eligible for FFG. In recognition of EU State Aid rules, grant will **not** be payable for the acquisition or modification of ships ie self-propelled vessels that require certification to operate outside domestic smooth water limits. Grant may, however, be considered for the acquisition or modification of vessels where the greater part of the freight movement which is the subject of the grant application is on an inland waterway. A summary of items that are likely to be eligible or ineligible are detailed on page 8.

## What is an inland waterway?

5. For grant application purposes, an inland waterway is defined as being within the outer limits of MCA Waterways Category D (UN/EU Zone 1). Please contact Justin Huthersall on 0131 244 0575 if you require clarification on a particular port or harbour.

## How much grant will I get?

6. The amount of grant offered will be the lower of the value of the environmental benefits or the amount needed as demonstrated by the financial case. There is a further cap of 50% of costs eligible for grant. In a case where (i) there are exceptional environmental benefits and (ii) financial analysis indicates that a figure in excess of 50% grant is required, it may be possible to award a higher percentage of grant (in the case of facilities outwith inland waterways it is necessary to secure EU agreement to a higher percentage award).

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

## How are environmental benefits calculated?

7. FFG is all about the benefits - public, environmental and social - arising from freight being moved by water rather than by road. In practice, this means the environmental benefits of removing lorries from roads. Broadly, these are calculated by taking the tonnage that you can commit to water over an agreed number of years and by working out how many lorry journeys this will save. An example of how environmental benefits are calculated is at Annex A on page 12.

**In this Guide when the term "environmental benefits" is generally used, it may include wider social and public benefits.**

## How do I apply for grant?

8. The three key steps are:

- Work up basics of proposal
- Informal approach to the Scottish Executive
- If eligible in principle, submit formal application to the Scottish Executive (forms available from the Freight and Inland Waterways Branch - see page 30 for contact details).

These steps are dealt with in detail, including the information you will need to support your application, under “How to apply” on page 9.

**While this Guide aims to give potential applicants key information, the Scottish Executive Freight and Inland Waterways Branch, address and telephone number on page 2, is available to deal with requests for additional information or other freight grant enquiries.**

## Can I apply for grant if I am tendering for work?

9. You may intend to tender for a contract and want to include a water option for some or all of the work e.g. importation of raw materials or removal of waste. You would therefore wish to know if, and how much, grant was likely to be available and how quickly you will find out.

10. Grant is assessed on the financial imbalance between water and road within the strict limits of the environmental benefits that will arise as a result of lorry traffic being removed from roads. It follows that you will therefore need to work up a costed road option to enable a proper water/road comparison to be made.

# KEY POINTS ABOUT FREIGHT FACILITIES GRANTS

11. Water FFG is dual purpose. It is designed to lead to freight travelling by water rather than road and also to ensure that freight currently on water does not revert to road. It does this by assisting companies with the capital costs of new freight handling facilities, improvement of existing facilities or investment which would re-open dormant facilities. This section explains:

- the powers to pay
- who can apply
- how much can be paid
- facilities likely to be eligible/ineligible
- where FFG is unlikely to be paid
- how to apply and the information needed to support the application
- how the application is processed
- the decision on the application
- how FFG will be paid
- how traffic is to be monitored after the facility becomes operational

## Powers to pay

12. The powers to pay are contained in Section 71 of the Transport (Scotland) Act 2001. In summary, FFG may only be paid if the Scottish Executive is satisfied that, if the facilities were not provided, the freight in question would go by road and that it is in the public interest for the freight to be carried by water.

## Who can apply?

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

## How much can be paid?

14. The amount of FFG that will be offered depends on:

- the value of the environmental benefits
- the need for grant support, determined by a financial appraisal of the project comparing water with the road alternative.

**14.1 The key requirement for payment of grant is that Scottish Ministers must be satisfied that if the proposed facility is not provided, the freight that would have used it will in fact be carried by road. This means that there will need to be soundly based predictions of the type and quantity of goods that would use the proposed facility.**

**14.2 FFG is paid in the clear expectation that the freight facility will secure the removal of lorries from specific routes for a specific number of years. You are, therefore, likely to have to give a commitment to use the facility for a certain period.**

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

## **Which facilities are likely to be eligible?**

15. Most facilities needed to handle or carry freight on water are eligible for grant but capital expenditure **must** be involved. Design and project management costs associated exclusively with the water freight facility are also likely to be eligible.

16. FFG can be paid towards **leased capital assets** such as barges provided the assets are specifically purchased or refurbished by the lessor to meet the requirements of the lessee. In such cases, FFG will be paid to the lessor on condition that the full amount is passed on to the lessee in reduced leasing charges. The Scottish Executive will need to see the terms of the leasing agreement before any offer of grant is made.

## **Which facilities are unlikely to be eligible?**

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

## **Where FFG is unlikely to be paid**

18. FFG will not normally be paid where:

- the freight facility can be commercially justified or would proceed anyway without FFG
- contracts for construction work or for water haulage have already been let or construction work has started, in respect of the facility which is the subject of the grant application, before grant has been approved
- the environmental benefits to be gained are insufficient to justify grant
- road transport is not possible; for example, where a planning condition or other legal restriction prevents or restricts the use of road.

19. The Scottish Executive will however be able to consider FFG where the traffic in question would move by road to or from a different site rather than one restricted to water only.

In addition, FFG will not normally be paid for:

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

## How to apply

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

21. Before this meeting, the Scottish Executive will want to know:

- the details of the proposed facilities and estimated cost;
- the estimated annual tonnage and the period for which this can be committed;
- the origin and destination of the traffic, the road routes taken, the payload of the lorries and details of any back loads;
- whether road haulage will be used as part of the water operation; and
- details of any discussions with navigation authorities and any other interested parties.

**\*To help you decide whether to proceed with a formal application, the Freight and Inland Waterways Branch can provide an assessment of the potential environmental benefits of your proposal.**

22. Once it has been established that the proposed project could qualify for FFG, and you decide to apply, you will need to complete a formal application form FTG1 and provide the following information:

- **Background:** a short description of the company, copies of last three years' annual reports and accounts and its history including details of its activities or products, other water use and anything else which may be relevant to the FFG application. If the company is newly trading, a business plan and evidence of bank support.
- **The proposed project:** a full description of the project including its nature and annual quantities, the precise origin and destination and any other special features of the freight to be carried, the proposed water operating plan, the duration of the traffic commitment and whether it is dependent on third parties, the level of grant applied for and, where only part of the facility is likely to qualify for FFG, the basis for apportionment. If possible, include a programme showing start and completion dates and any significant stages in between.
- **The road route:** a clear idea of the alternative road route including the origin, destination and amount of traffic.
- **The water route:** details of the water journey, mileage involved, and type and size of the vessel to be used.
- **Statutory planning and other requirements:** if planning permission is required, a copy of the consent or the stage reached and any other planning issues affecting the facility or associated traffic flows. FFG cannot be awarded until any necessary planning permission has been granted, but this need not hold up processing the application.
- **Cost estimates:** a precise description of the capital works or items with written budget estimates of costs (exclusive of VAT) - prices should normally be sought by competitive tender, and the lowest tender chosen. Details of work undertaken by consultants, the likely use of the company's own staff and any in-house design or engineering work should be given. The value of forecast credits or surplus assets should be offset against costs. A

site map should be provided showing the location of the proposed facilities. An explanation should also be provided of why all items of capital expenditure are required exclusively for transporting the traffic by water. **Contingency allowances should be shown separately as these will not normally attract grant.**

- **Support:** evidence of agreement with the relevant Navigation Authority/Port. If you are not the originator of the traffic, evidence of agreement with the producer. If you are leasing assets for the scheme, evidence of agreement with the lessor.
- **Financial case:** see Annex B.
- **Other grants:** details of any other grants, which have been applied for in connection with the proposed facility.

Annex C contains further detailed guidance.

**No contracts should have been signed as this implies that you are able to go ahead without the need for FFG and grant is unlikely to be paid in such circumstances.**

**General Conditions of Grant:** Annex D contains an example of the general conditions of grant.

## **Processing the grant application**

23. On receipt of the formal application, the Scottish Executive may decide to seek independent engineering advice to examine the design and specification of the project. The costs of the consultancy will be borne by the Scottish Executive. A visit to the site of the proposed facility, either by the staff of the Scottish Executive or by its appointed consultant, will be necessary.

## **Impact of Freedom of Information (Scotland) Act 2002**

24. In accordance with the Freedom of Information (Scotland) Act 2002 which came into force on 1 January 2005, the Scottish Ministers may be required to make details of any application for grant available for public scrutiny. When applying for grant, please identify any information included in your application or supporting papers which would prejudice substantially your commercial interests if they were made public. Please note there may nevertheless be a public interest in publishing the material submitted. In addition it should be noted that details about awards of grant will be published as a matter of procedure. This information will include the name of the company applying, the level of grant support, details of the grant funded facilities and the origin and destination of the grant funded freight traffic.

## How FFG will be paid

25. As eligible construction work progresses or eligible equipment is purchased, FFG (less a retention of 10%) will be paid within five working days of receiving claims for payment. These claims must be submitted through Independent Accountants subject to Annex E and be accompanied by either receipted invoices or invoices clearly indicating that the applicant/company have paid the amount in full.

The Independent Accountant should submit an assurance with each grant claim made by the applicant/company. Each assurance report should incorporate the Independent Accountant's opinion as to whether the claim represents an accurate view of monies expended by the grant recipient.

**The Scottish Executive will hold the retained 10% until it has confirmed, following a further site visit, that the facility is fully operational.**

26. In cases where the predictions of the type and quantity of goods that would use the proposed facility are less certain, the Scottish Executive may offer payment of half the grant as the facility is built and the remaining half in annual instalments as traffic moves through the facility.

## Monitoring traffic after the facility becomes operational

27. Traffic monitoring on an annual basis (1 April to 31 March) will begin when the facility becomes operational. You will be asked to provide a return of water traffic passing through the grant-aided facility. The Scottish Executive will verify the tonnages reported with the relevant Navigation Authority or other appropriate body.

## Possible repayment of FFG

28. In certain circumstances, Scottish Ministers may seek repayment of some or the entire grant if water traffic passing through the facility fails to match the forecast. It is unlikely that they will seek to do so where the reason for the shortfall is outside your control and you have made reasonable efforts to secure replacement traffic offering comparable environmental benefits. More details will be given at the time grant is offered.

## ROAD VALUES AND CALCULATION OF ENVIRONMENTAL BENEFITS

### ROAD VALUES

The Scottish Executive will value the environmental benefits of grant applications by applying the following rates per lorry mile to road journeys avoided over the qualifying routes:

#### Motorway by Congestion Band

High	£0.69
Medium	£0.27
Low	£0.04

#### Conurbation

Trunk & Principal	£1.38
Other	£1.74

#### Rural and Urban

Trunk & Principal	£0.53
Other	£0.45

### ROUTE VALUATION

Specific routes can be entered into a calculator available on the Strategic Rail Authority website at [www.railfreightonlinesm.co.uk](http://www.railfreightonlinesm.co.uk). This will calculate the exact value using the variables above. If you do not have access to this website please send details of the route/s to the Freight Branch (contact details over the page) and we will provide the relevant road values on request. The table below shows how this calculation is made.

Road category	Lorry miles	Road value £	Route valuation £
Motorway – Medium	5.0	0.27	1.35
Motorway - Low	28.0	0.04	1.12
Conurbation – Other	1.5	1.74	2.61
Rural & Urban – Trunk & Principle	8.0	0.53	4.24
Rural and Urban – Other	20.0	0.45	9.00
<b>TOTAL</b>	<b>62.5</b>		<b>18.32</b>

Two points to note:

- Servicing a facility by road may lead to an increase in lorry traffic in the locality. For the purposes of the grants, these dis-benefits will need to be taken into account to arrive at the **net** benefits of the rail scheme;
- Non public roads, e.g. those providing access to a power station or industrial complex, are excluded;

## CALCULATION OF ENVIRONMENTAL BENEFITS

Benefits per annum are obtained by multiplying the number of lorry **trips** by the route valuation calculated on the Strategic Rail Authority website.

The annual tonnage divided by average payload of lorries gives the number of loaded trips. Lorries will have to return either empty or with a "back load". In the case of empty returns or back loads which are part of the FFG project the environmental benefits are calculated on both legs of the journey (i.e loaded journeys multiplied by 2). If there are back loads **not** associated with the scheme (i.e. lorry journeys will continue to happen), the benefits will be based on a one way trip.

### Example of the Calculation of Environmental Benefits

Lorry trips = tonnage divided by average payload. In this example lorries are assumed to return empty (i.e. no back loads), therefore total lorry trips = loaded lorry trips multiplied by 2.

Tonnage per annum: 40,000 rising to 120,000

Average payload: 20 tonnes

### FFG Calculation

The stream of future environmental benefits is calculated on a discounted basis so that it is expressed in the same way as costs. A 3.5% discount rate is used to derive the grant potential for any given period.

Year	Tonnage	Total Lorry trips	Route valuation £	Benefits £	Discount factor	Grant potential (discounted benefits) £
0					1.000	
1	40,000	4,000	18.32	73,280	0.9662	70,803
2	60,000	6,000	18.32	109,920	0.9335	102,610
3	75,000	7,500	18.32	137,400	0.9019	123,921
4	100,000	10,000	18.32	183,200	0.8714	159,640
5	120,000	12,000	18.32	219,840	0.842	185,105
6	120,000	12,000	18.32	219,840	0.8135	178,840
7	120,000	12,000	18.32	219,840	0.786	172,794
8	120,000	12,000	18.32	219,840	0.7594	166,946
9	120,000	12,000	18.32	219,840	0.7337	161,297
10	120,000	12,000	18.32	219,840	0.7089	155,845

## Maximum Grant potential

For the worked example, the total environmental benefits are:-

over 5 years: £642,080

over 10 years: £1,477,802

Therefore the maximum grant potential is:-

over 5 years: £642,080

over 10 years: £1,477,802

However, the grant potential is not an indication of the level of the grant that the Scottish Executive will offer. It is the ceiling which the environmental benefits will allow, above which no offer can be made. The Scottish Executive draws on other elements of the application to determine the exact amount of its grant offer, including the financial assessment, the need for grant and value for money.

Normally FFG will be limited to 50% of the total eligible capital costs of the project.

## Quick Reference

Provided the traffic flow is **constant** and the route valuation is unchanged, the following single discount factors can be applied to a benefits calculation when the benefits start in year 1:

over 5 years: 90%

over 10 years: 83%

## Road Routes Outside Scotland

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

## A GUIDE TO THE FINANCIAL APPRAISAL OF FREIGHT FACILITIES GRANTS

### Introduction

1. The main financial requirement for FFG is that compared with the road alternative, the proposed water scheme would not be financially justified without grant. This guide explains how to calculate the amount of grant that makes water as financially attractive as road.
2. This can only be a general guide; it may not cover all the issues specific to each scheme.
3. The financial case should normally be presented as a discounted cash flow analysis. This includes year-by-year<sup>1</sup> breakdown of the capital and operating costs incurred under the water scheme and road alternative. These are set against revenues to derive the overall cash flows for both options.
4. FFG appraisals should be conducted over the expected length of commitment to water. All cash flows should be expressed in "real" (e.g. present day) prices to exclude the effects of general price inflation. The analysis should not include anticipated movements in real costs and revenues over time, although any significant effects can be mentioned separately.
5. The next step is to calculate the **net** cash flow of the water option minus the road option. This is discounted at a real discount rate of 8% and summed to give the Net Present Value (NPV). A negative NPV indicates that the water option is not financially viable without grant. The amount of grant needed to make good the shortfall can then be calculated<sup>2</sup>.
6. It is the applicant's responsibility to prepare the financial case. The following sections describe the sort of supporting information that may be needed and give an example of a typical financial appraisal.

### Relevant Information

7. The financial appraisal should include all relevant information on tonnages, costs and revenues associated with the project, supported by appropriate documentation. This will usually include the following:

#### Tonnages:

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

#### Road Option:

- Revenues from each flow (if these differ from the water option)
- Road haulage costs (supported by three written road haulage quotations) for each flow
- Cost of each capital item, with an estimated residual/scrap value at the end of the appraisal period<sup>3</sup>
- Full details of any capital allowances arising from the project's implementation
- Any other costs, e.g. administration and handling

<sup>1</sup> The choice of calendar years, financial years or simply years 1, 2, 3 etc does not affect the result of the financial appraisal.

<sup>2</sup> The amount of grant indicated by the financial analysis is only payable if other conditions are met - e.g. the amount of grant does not exceed the value of environmental benefits.

<sup>3</sup> The Scottish Executive may appoint consultant engineers to scrutinise a scheme's road and water capital costs.

### **Water Option:**

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

Also the financial case should include relevant information on:

- Benefits to other businesses from installing the water facilities, e.g. from the transfer of existing plant and assets
- Timing of capital expenditure
- Proposed financing, e.g. purchased vs. leased assets
- Non-financial benefits and costs of road or water, e.g. speed, reliability, planning issues, congestion
- If the proposed project remains financially unattractive even after grant, the reasons why water is nevertheless preferred.

### **An Example of a Financial Appraisal**

8. For a typical example of a financial appraisal see the Worked Example on page 18.

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

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

### **Corporation Tax Calculation**

11. The post-tax road-water comparison does not require the applicant to reveal its actual corporation tax position. Only the Inland Revenue can determine this. However, the analysis estimates the effects of the road and water options on corporation tax liabilities<sup>4</sup>.

12. The road and water options are assumed to incur corporation tax at a rate of 30%<sup>5</sup> of the taxable cash flow. In general a negative taxable cash flow leads to a saving in corporation tax. The taxable cash flows include capital allowances and interest payments. These are discussed in the following paragraphs.

13. Non grant-aided capital expenditure is assumed to attract capital allowances unless demonstrated otherwise. Capital allowances usually comprise Industrial Buildings Allowance (IBA) and the Plant and Machinery Allowance (PMA). IBA is calculated (written down) on a 4% straight line basis (i.e. 4% of non grant-aided capital per annum). PMA is calculated on a 25% reducing balance basis (i.e. 25% of the balance at the end of the previous year per annum).

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<sup>4</sup> The working assumptions should not be construed as official advice.

<sup>5</sup> If the Small Companies Rate or marginal relief is appropriate, this should be indicated in the application.

14. As the capital and interest allowances are in nominal terms they need to be converted into real terms for the appraisal. An inflation rate of 2.5% is used in the example, consistent with the Treasury's most recent medium-term underlying inflation target<sup>6</sup>.
15. The spreadsheet analysis makes the simplifying assumption that 50% of the liability for corporation tax occurs in the following calendar year.

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<sup>6</sup> Published annually in "The Red Book".  
FFG.072

## WORKED EXAMPLE OF A FINANCIAL APPRAISAL FOR A FREIGHT FACILITIES GRANT APPLICATION

The financial appraisal compares the costs of moving the same tonnage of freight between the same points using water and road and calculates how much grant is required using a discounted cash flow appraisal. There are 7 main sections to the appraisal:

- A - Economic assumptions
- B - Tonnage transported per annum
- C - Analysis of the road option
- D - Analysis of the water option without FFG
- E - Calculation of financial deficit
- F - Analysis of the water option with FFG
- G - FFG Calculation

Copies of FFG Appraisal Template on Excel are available on request from:  
[justin.huthersall@scotland.gsi.gov.uk](mailto:justin.huthersall@scotland.gsi.gov.uk)

This example assumes that the traffic flow would last for 3 years. All financial figures are given in thousands of pounds per year.

### A: Assumptions

#### ANALYSIS

Base Year	0	
Corporation tax rate	30%	
IBA (Industrial buildings allowance) capital allowance per annum	4%	calculated on a straight line basis
PMA (Plant and machinery allowance) capital allowance per annum	25%	calculated on a reducing balance basis
Inflation rate	2.5%	
Post-tax rate of return	8%	

**Please note, the following amendments have recently been made to the figures used for the financial appraisal of FFG applications**

**Interest allowance per annum is no longer included**

**Post-tax rate of return is now 8%**

### B: Tonnage 000s/year

	Year 0	Year 1	Year 2	Year 3	Year 4	The freight movement has two flows, A and B.
FLOW A		25	50	50		
FLOW B		25	50	50		
TOTAL		50	100	100		

### C: Road Option £000s/year

**Revenue**

	Year 0	Year 1	Year 2	Year 3	Year 4
Same as for water option		0	0	0	

As the revenue is the same for both options, no values are needed for this example.

**Road Haulage Costs**

	Rate (£) per tonne	Year 0	Year 1	Year 2	Year 3	Year 4
FLOW A	£5.00		-125	-250	-250	
FLOW B	£4.00		-100	-200	-200	
<b>TOTAL</b>			-225	-450	-450	

**Other on-going costs**

	Rate (£) per tonne	Year 0	Year 1	Year 2	Year 3	Year 4
Loading and Unloading Costs	£6.00		-300	-600	-600	
<b>GROSS PROFIT</b>			-525	-1050	-1050	

The total gross on-going costs for the road option

**Capital costs**

	Costs
Warehousing	-50
<b>Total IBA Assets</b>	<b>-50</b>
Barges	-200
Tugs	-100
<b>Total PMA assets</b>	<b>-300</b>
<b>TOTAL COSTS</b>	<b>-350</b>

The road option involves 3 items of capital cost. The division into IBA and PMA assets is used in the calculations of capital allowances.

**Residual value**

The value of the capital assets at the end of the appraisal period.					62	
		Year 0	Year 1	Year 2	Year 3	Year 4
Total pre-tax real cash flow	-350		-525	-1050	-1050	62

The total cost of the road option before tax.

## Capital Allowances

	Year 0	Year 1	Year 2	Year 3	Year 4	
IBA @ 4 %	-2	-2	-2	-2		4% of the capital cost of IBA assets p.a.
PMA balance (start year)	-300	-225	-169	-127	-95	The capital cost of PMA assets less 25% p.a.
PMA @ 25%	-75	-56	-42	-32		The reduction in the PMA balance each year.
Total nominal allowances	-77	-57	-42	-31		
<i>Inflation factor</i>	1.00	1.03	1.05	1.08	1.10	
Total real allowances	-77	-57	-42	-31		Capital allowances adjusted for inflation.
Taxable cash flow	-77	-582	-1092	-1081		Gross profit (as above) plus capital allowances
Corporation tax @ 30%	12	99	251	326	162	
<b>Total post-tax real cash flow</b>	<b>-338</b>	<b>-426</b>	<b>-799</b>	<b>-724</b>	<b>224</b>	The total cost of the road option once tax and capital allowances have been taken into account.

*The principles for evaluating the water option are the same as for the road haulage option.*

**D: WATER OPTION WITHOUT FFG £000s/year**

**i) Revenue**

		Year 0	Year 1	Year 2	Year 3	Year 4
Same as for Road Option			0	0	0	
Rate per Tonne						

**ii) Haulage Costs**

		Year 0	Year 1	Year 2	Year 3	Year 4
e.g. based on information from an operator.			-150	-200	-200	

**iii) Other on-going costs**

		Year 0	Year 1	Year 2	Year 3	Year 4
Loading and unloading costs	7.00		-350	-700	-700	
Admin' Costs			-25	-50	-50	

		Year 0	Year 1	Year 2	Year 3	Year 4
Gross profit		0	-525	-950	-950	

The total gross on-going costs of the water option

iv) Capital costs

The water option contains five elements of capital cost

IBA	% of total costs	Year 0
Handling & storage facilities		-100
<b><u>TOTAL IBA ASSETS</u></b>	<b><u>10%</u></b>	<b><u>-100</u></b>

PMA	% of total costs	Year 0
Barges		-500
Tugs		-100
Crane & Gantry		-200
Forklift Truck		-100
<b><u>TOTAL PMA COSTS</u></b>	<b><u>90%</u></b>	<b><u>-900</u></b>
<b><u>TOTAL CAPITAL COSTS</u></b>	<b><u>100%</u></b>	<b><u>-1000</u></b>

FREIGHT FACILITIES GRANT - Initially the analysis is without FFG

Capital cost less grant -1000

v) Residual value

155

	Year 0	Year 1	Year 2	Year 3	Year 4
Total pre-tax cash flow	-1000	-525	-950	-950	155

The total cost of the water option before tax

vi) Capital allowances

	Year 0	Year 1	Year 2	Year 3	Year 4
IBA @ 4 %	-4	-4	-4	-4	
PMA balance (start year)	-900	-675	-506	-380	-285
PMA @ 25%	-225	-169	-127	-95	
Total nominal allowance	-229	-173	-131	-99	
<i>Inflation factor</i>	1.00	1.03	1.05	1.08	1.10
Total real allowance	-229	-169	-124	-92	
Taxable cash flow	-229	-694	-1074	-1042	
Corporation tax @ 30%	34	138	265	317	156
Total post-tax real cash flow	-966	-387	-685	-633	311

The total cost of the water option once tax and capital allowances have been taken into account.

The last rows in Tables C and D give the net cash flows for the road and water options respectively. To assess whether there is a need for FFG to "tip the balance" from road to water, the following calculations are made:

- i. the net cash flow of the road option is subtracted from the water option
- ii. the resulting figure is discounted, assuming a 8% post-tax rate of return
- iii. the discounted figures are summed to give a Net Present Value (NPV)

A negative NPV suggests that the water option is not financially viable without a Freight Facilities Grant.

#### Water Freight Grants

##### E: CALCULATION OF FINANCIAL DEFICIT £000s/year

##### Real post-tax cash flow

	Year 0	Year 1	Year 2	Year 3	Year 4	Stage i
<b>Water</b>	-966	-387	-685	-633	311	from Table D
<b>Road</b>	-338	-426	-799	-724	224	from Table C
<b>NET</b>	<b>-627</b>	<b>40</b>	<b>114</b>	<b>91</b>	<b>87</b>	
<i>Discount Factor</i>	<i>1.00</i>	<i>0.93</i>	<i>0.86</i>	<i>0.79</i>	<i>0.74</i>	
<b>Discounted net cash flow</b>	<b>-627</b>	<b>37</b>	<b>98</b>	<b>72</b>	<b>64</b>	
<b>Net Present Value (NPV) Road vs. Water</b>		<b>-356</b>				<b>Stage ii</b>
<b>FREIGHT FACILITIES GRANT</b>		<b>0</b>	<b>Water is not financially viable without FFG.</b>			<b>Stage iii</b>

The actual amount of FFG that is needed to make water financially viable compared to road is calculated in Tables F and G.

**F: WATER OPTION WITH FFG £000s/year**

**i) Revenue**

		Year 0	Year 1	Year 2	Year 3	Year 4
Same as for Road Option			0	0	0	
Rate per Tonne						

This section is identical to Section D

**ii) Road Haulage Costs**

		Year 0	Year 1	Year 2	Year 3	Year 4
			-150	-200	-200	

**iii) Other on-going costs**

		Year 0	Year 1	Year 2	Year 3	Year 4
Loading and unloading costs	7.00		-350	-700	-700	
Admin' Costs			-25	-50	-50	
Gross profit		0	-525	-950	-950	

**iv) Capital costs**

The water option contains five elements of capital cost

IBA	% of total costs	Year 0
Handling & storage facilities		-100
<b><u>TOTAL IBA ASSETS</u></b>	<b><u>10%</u></b>	<b><u>-100</u></b>

PMA	% of total costs	Year 1
Barges		-500
Tugs		-100
Crane & Gantry		-200
Forklift Truck		-100
<b><u>TOTAL PMA COSTS</u></b>	<b><u>90%</u></b>	<b><u>-900</u></b>
<b><u>TOTAL CAPITAL COSTS</u></b>	<b><u>100%</u></b>	<b><u>-1000</u></b>

i.e. IBA assets are 10% of total capital cost and PMA assets are 90%.

<b>FFG =</b>	<b>426</b>	<b>£426,000 FFG is required (see below).</b>
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Capital cost less grant = -574	Capital allowances are payable only on non grant-aided capital cost.
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v) Residual value

155

	Year 0	Year 1	Year 2	Year 3	Year 4
<b>Total pre-tax cash flow</b>	<b>-1000</b>	<b>-525</b>	<b>-950</b>	<b>-950</b>	<b>155</b>

vi) Capital allowances

	Year 0	Year 1	Year 2	Year 3	Year 4
<b>IBA @ 4 %</b>	-2	-2	-2	-2	
<b>PMA balance (start year)</b>	-517	-388	-291	-218	-164
<b>PMA @ 25%</b>	-129	-97	-73	-55	
<b>Total nominal allowance</b>	<b>-132</b>	<b>-99</b>	<b>-75</b>	<b>-57</b>	
<b>Inflation factor</b>	1.00	1.03	1.05	1.08	1.10
<b>Total real allowance</b>	<b>-132</b>	<b>-97</b>	<b>-71</b>	<b>-53</b>	
Taxable cash flow	-132	-622	-1021	-1003	
Corporation tax @ 30%	20	113	246	304	150
<b>Total post-tax real cash flow</b>	<b>-555</b>	<b>-412</b>	<b>-704</b>	<b>-646</b>	<b>305</b>

Because of FFG, capital allowances are lower than in Table D

Table G, which is in the same format as Table E, demonstrates that £426,000 FFG is needed to balance out the water and road options:

**G: FFG CALCULATION £000s/year**

**Real post-tax cash flow**

	Year 0	Year 1	Year 2	Year 3	Year 4	Stage i
<b>Water</b>	-555	-412	-704	-646	305	<b>from Table F.</b>
<b>Road</b>	-338	-426	-799	-724	224	<b>From Table C.</b>
<b>NET</b>	<b>-216</b>	<b>14</b>	<b>95</b>	<b>78</b>	<b>81</b>	
<i>Discount Factor</i>	<i>1.00</i>	<i>0.93</i>	<i>0.86</i>	<i>0.79</i>	<i>0.74</i>	
<b>Discounted net cash flow</b>	<b>-216</b>	<b>13</b>	<b>82</b>	<b>62</b>	<b>60</b>	
<b>Net Present Value (NPV) Road vs. Water</b>		<b>0</b>	The NPV of water is equal to that of road  £426,000 of FFG is required.  This represents 43% of the £1m capital cost.			<b>Stage ii</b>
<b>FREIGHT FACILITIES GRANT</b>		<b>426</b>				<b>Stage iii</b>
<b>(FFG % CAPITAL EXPENDITURE)</b>		<b>43%</b>				

## FREIGHT FACILITIES GRANT: GUIDANCE ON PREPARING AN APPLICATION

1. Freight Facilities Grant is available to help offset the costs of switching traffic from road to water. Grant eligibility is determined from an assessment of three factors;

- a) the financial need based on a comparison of the costs of the proposed water operation with the alternative road option
- b) the environmental benefits which will be secured by switching to water from road
- c) the total capital costs of the project

2. Your application needs to contain the necessary information to allow us to assess these factors. We generally require the following information:-

### Background

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

- Description of company' s main activities and or products and trading history
- Copies of last three years Annual Reports and Accounts
- Details of any previous use of water and any previous grant applications whether successful or otherwise

### The Proposal

4. Brief overview of the proposal including the purpose and business benefits
- Details of the traffic which is the subject of the application indicating whether this is traffic new to water (if so, provide description of current operation) or existing water traffic which would otherwise revert to road
  - If the application is based entirely or partially on retained traffic explain clearly why this traffic will revert to road haulage in the absence of the capital investment proposed
  - Draft contract or letter of intent / support from consignor of traffic if appropriate or historic data / forecasts
  - Statement of period over which traffic can be committed

### Capital Costs

5. Details of capital works and equipment required and explanation of why they are needed
- Three recent supporting quotations (less than 6 months old) or independent professional estimates for capital expenditure
  - The total capital cost of the facilities being applied for and an indication of what proportion you are looking to the Executive to fund
  - Financial details of any leases proposed whether for land, buildings or equipment

## **Proposed Water Operation**

6. Description of the proposed water transport operation and full explanation of operating costs including costs for water haulage, onward road haulage if applicable and loading / unloading and intermediate handling costs

- A programme of construction works, including start and completion dates with any significant stages in between
- A clear letter of intent from a water freight operator that they are prepared to carry the proposed traffic

## **Alternative Road Operation**

7. Description of alternative road operation including costs for road transport supported by three independent quotes as well as loading and unloading costs to provide a like for like comparison with the proposal

## **Financial Case**

8. The financial comparison of the proposed water-based operation with the alternative road based operation for the period of the traffic's commitment. Annex B of the freight grants guide provides further details of this calculation

## **Environmental Benefits**

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

- Details of the routes that would be taken and the type and payload of road vehicles in both the proposed water-based (if any) and alternative road-based operations
- Explanation of the likelihood of backloads being available for any of the road or water movements

## **Planning Issues**

10. Evidence of planning permission of the proposed water operation.

- If planning permission is required and has not been obtained please provide details of the planning permission required for the proposed water operation, as well as any planning constraints which would prevent implementation of the alternative road option and also indicate the stance of the Navigation Authority (a letter of support will be needed).

## **Other Grant Schemes**

11. Details of any other Central Government, Local Government, EC or other grants being applied for or having previously been applied for in relation to project.

- Details of any existing inland waterways or rail FFG for the proposed traffic

12. Where appropriate, all the necessary evidence, supporting documents and layout drawings should be included in appendices.

13. Three copies of the full application should be forwarded to the Freight and Inland Waterways Branch at the Scottish Executive, one of which should, as far as possible, be in electronic format (i.e. forwarded by e-mail or on floppy disk).

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

**Scottish Executive  
Enterprise, Transport and Lifelong Learning Department  
Freight and Inland Waterways Branch  
Area 2-D (North)  
Victoria Quay  
EDINBURGH  
EH6 6QQ**

**E-mail: [justin.huthersall@scotland.gsi.gov.uk](mailto:justin.huthersall@scotland.gsi.gov.uk)**

**Tel: 0131 244 1526**

**TRANSPORT ACT 2000 – SECTION 249  
TRANSPORT (SCOTLAND) ACT 2001 SECTION 71  
SEA AND INLAND WATERWAYS FREIGHT FACILITIES GRANTS SCHEME  
GENERAL CONDITIONS OF GRANT**

In the following conditions:

“applicant” means the person, body or authority applying for the grant;

“approved purposes” means the purposes for which the facilities are to be used as described by the applicant and approved for grant aid by the Scottish Ministers;

“facilities” means the land, works, plant and equipment, or any part thereof towards the capital cost or leasing costs of which the grant is made;

“lessor” means the person or body from whom an applicant leases facilities towards the cost of which grant is made.

- 1 The applicant, and where appropriate the lessor, shall without delay inform the Scottish Ministers in writing of the occurrence of any of the following:-
  - a. a material change in the facts advanced in support of the application occurring at any stage before the facilities are completed and brought into use for the approved purposes;
  - b. failure to bring the facilities into use for the approved purposes within one month of the date of their completion;
  - c. cessation of use of the facilities for the approved purposes, occurring within \_\_\_\_\_ years, or such period as the Scottish Ministers shall determine, of the date of commencement of such use; or
  - d. sequestration of the estate of the applicant or lessor or the granting by the applicant or lessor of a trust deed for the benefit of their creditors, of a petition for the appointment of a liquidator or receiver.
- 2 The applicant, and where appropriate the lessor, shall inform the Scottish Ministers in writing of any proposal for the sale, transfer or disposal of the facilities within their reasonable working life or within \_\_\_\_\_ years of commencement of use for the approved purpose whichever is the sooner, or such period as the Scottish Ministers shall determine, and shall not sell, transfer or dispose of the facilities without the Scottish Ministers’ approval, and except upon such conditions as they may specify in giving such approval. This condition shall also apply to any proposal for the sale, transfer or disposal of facilities before the completion of their provision.
3. The applicant shall inform the Scottish Ministers in writing of any proposal for the sale, transfer or disposal of the applicant or any other event resulting in

the change of the ownership of the applicant. The applicant shall use its best endeavours to ensure that a guarantee in substantially the same form as that given by the applicant when accepting the offer of grant is obtained from the applicant's successor or new parent company.

- 4 The applicant shall notify the Scottish Ministers in writing within 7 days of the dates of commencement and completion of the works and the date when the facilities are brought into full operation.
- 5 The applicant, and where appropriate the lessor, shall within 28 days of receipt of notice in writing in that behalf from the Scottish Ministers, furnish the Scottish Ministers or any person authorised by them with such information and produce for examination such books, records or other documents as the Scottish Ministers or the authorised person may reasonably require in connection with the application.
- 6 The applicant, and where appropriate the lessor, will provide annually for \_\_\_\_\_ years or such period as the Scottish Ministers shall determine from the date of commencement of use of the facilities for the approved purposes:
  - a. details of traffic carried by the facilities for the approved purposes over a period specified by the Scottish Ministers, giving reasons for any variations from forecasts provided with the grant application;
  - b. confirmation that the facilities remain operational and continue to be based on the site described in the application; and
  - c. such other information about the facilities and their use as may be reasonably required.
- 7 The applicant shall permit any person duly authorised by the Scottish Ministers, on production (if required) of written evidence of their authority, to enter the facilities at all reasonable times for the purposes of inspecting the same, and the applicant shall furnish to any person so authorised such reasonable assistance as they may require in connection with the inspection.
- 8 Acceptance of an offer of grant shall be deemed to authorise the disclosure by the Scottish Ministers to the Commissioners of Inland Revenue of the information contained in the grant application and supporting documents, and also the disclosure by the Commissioners of Inland Revenue to the Scottish Ministers of any information in their possession relating to the subject matter of the grant application.
- 9
  - a. The applicant shall notify the Scottish Ministers at intervals not exceeding 3 months, starting with the date of the agreement to pay grant, of progress in the provision of the facilities and of any increase in the estimated costs towards which grant is made.

- b. There shall be no entitlement of grant in excess of the amount offered, though a claim for additional grant in respect of cost increases may be submitted to the Scottish Ministers for consideration.
- c. Any decrease in the estimated cost of the provision of the facilities shall be notified to the Scottish Executive Enterprise, Transport and Lifelong Learning Department, Transport Division 2, immediately it becomes apparent. The Scottish Ministers shall be entitled in these circumstances to adjust the amount of grant and if they think fit to require repayment of all or any portion of the grant already paid.

10 Facilities which are moveable shall be:-

- a. retained at (or in the case of locomotives or wagons and craft based at) the site or sites occupied by the fixed facilities (or in the case of locomotives or wagons and craft such location as may be specified by the Scottish Ministers);
- b. used for the approved purposes; and
- c. retained for the exclusive use of the applicant and not sub-hired or loaned to another party.

11 Calculation by the lessor of charges to be paid by the applicant for leased facilities shall take full and proper account of grant paid.

12 The timing of the commencement and completion of the provision of the facilities and of the submission of claims for payment of grant will be specified by the Scottish Ministers in prior consultation with the applicant and any departure from the dates agreed without the written agreement of the Scottish Ministers will be regarded as a material change of facts advanced in support of an application for the purposes of paragraph 1 above.

13 If at any time it appears to the Scottish Ministers;

- a. that any of the events specified in paragraph 1 above whether or not they have been notified to the Scottish Ministers have occurred;
- b. that there has been any failure by the applicant, or where appropriate the lessor, to observe in whole or in part of any of the foregoing conditions or other conditions set out in the letter of agreement to pay grant;
- c. that any statement made or document produced by or on behalf of the applicant in support of the grant application is false in any material particular; or
- d. that there has been any failure by the applicant, or where appropriate the lessor, to observe in whole or in part any condition as the

Scottish Ministers may specify in giving their approval to the sale, transfer or disposal of the facilities under paragraph 2 above;

Scottish Ministers shall by notice in writing to the applicant, and where appropriate the lessor, be entitled to withdraw his undertaking to pay grant, or where appropriate to require the repayment of the whole, or such part thereof as he may specify of the monies already paid. Acceptance by the applicant, and where appropriate the lessor of grant shall constitute an undertaking to make repayment accordingly.

14. A reduction of the volume of water traffic required by paragraph \_\_\_\_\_ of the letter of agreement shall not amount to a breach of the conditions of grant such as to allow the Scottish Ministers to seek repayment of part or all of the grant in accordance with paragraph 13 above, where in the opinion of the Scottish Ministers:-
- a. the applicant has used all reasonable endeavours to maintain the environmental benefits of resulting from the provision and use of the facilities for water traffic of the required volumes ; or
  - b. the volumes of rail traffic cannot be maintained as required as result of actions or events outside the control of the applicant, or if appropriate the lessor, or any parent company of either the applicant or the lessor, including in particular:
    - i any form of industrial action which affects any port, third party supplier or customer or customer and which materially affects the operation of the facilities;
    - ii the closure of a port, railway station, railway track or other railway facility (temporary or otherwise), which is outside the control of the applicant, or if appropriate the lessor, or any parent company thereof, and which materially affects the operation of the facilities;
    - iii the breach by any third party of any agreement with the applicant where such breach results in the failure to provide the applicant with access to a railway network or use of railway rolling stock essential to the operation of the facilities;
    - iv significant changes in national or local government policy resulting in loss of demand for the facilities;
    - v changes in the nature of industrial structure or advances in technology resulting in the reduction of customer demand for the particular goods passing through the facilities;

**and** the applicant has in the Scottish Ministers' opinion used all reasonable endeavours to prevent the occurrence of any of the above mentioned events and to mitigate and minimise the effects of such an event on the

environmental benefits resulting from the provision and use of the facilities for traffic of the required volumes.

15. For the purposes of paragraphs 14 a. and b. above, in considering whether the applicant has used all reasonable endeavours the Scottish Ministers may have regard in particular to the following:
- i any advertisements placed by the applicant, or where appropriate the lessor, publicising the facilities;
  - ii the extent to which any decisions or actions of the applicant, or if appropriate the lessor, or its parent companies have resulted in a reduction of the volume of rail traffic utilising the facilities; and the competitiveness of the operation of the facilities.

The applicant shall furnish the Scottish Ministers with such information and produce for examination such books, records or other documents as may reasonably be requested by the Scottish Ministers in connection with such consideration.

**APPOINTMENT OF ACCOUNTANCY FIRMS**

**THE INDEPENDENT ACCOUNTANTS QUALIFICATIONS REQUIREMENTS**

(a) All reports on grant claims and certificates required for other forms of assistance from:

i) companies, and

ii) businesses that are not incorporated under the Companies Act and where the total offer is over £25,000,

must be made by an independent accountant eligible under the terms of section 25 of the Companies Act 1989 for appointment as a company auditor, except that a person eligible under section 34(1) of the Companies Act 1989 for appointment as auditor of an unquoted company (as defined in that section) may report on claims made by such a company or from businesses that are not incorporated under the Companies Acts.

(b) Reports on grant claims and certificates required for other forms of assistance from businesses that are not incorporated under the Companies Acts and where the total offer is no more than £25,000 may be made by (1) those qualified as defined in (a) above; or by

(2) members of the following specified accountancy bodies:

The Institute of Chartered Accountants in England and Wales

The Institute of Chartered Accountants of Scotland

The Institute of Chartered Accounts of Ireland

The Chartered Association of Certified Accountants

The Chartered Institute of Management Accountants

The Institute of Company Accountants

The Association of International Accountants

The Chartered Institute of Public Finance and Accountancy

In every case the accountant must be independent of the business submitting the claim.