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Flood and Coastal Resilience Partnership Funding

Defra policy statement on an outcome-focused, partnership approach to funding flood and coastal erosion risk management

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Introduction

This policy statement sets out the arrangements that will apply for the allocation of capital Flood Defence Grant-in-Aid (FDGiA) to flood and coastal erosion risk management projects from now until the end of the 2012/13 financial year. This should be treated as a transition period, with arrangements for 2013/14 and beyond to be finalised based on the lessons of the coming months. The total amount of FDGiA being made available by Defra is unaffected by the new arrangements. The new approach applies in England only, as flood and coastal erosion risk management is a devolved matter.

Flood and Coastal Resilience Partnership Funding

Flood and Coastal Resilience Partnership Funding will form part of Environment Agency's overall capital allocation to grant fund flood and coastal erosion risk management projects in the 2012/13, 2013/14 and 2014/15 financial years. All projects supported by partnership funding will need to meet the criteria set out here, and as a minimum in every case, demonstrate that in present value terms the expected whole-life benefits exceed the whole-life costs of the scheme.

What will Government funding pay for?

There are four categories under which projects can attract FDGiA. These are:

- All benefits arising as a result of the investment, less those valued under the other outcome measures (Outcome Measure 1).
- Households moved from one category of flood risk to a lower category (Outcome Measure 2)
- Households better protected against coastal erosion (Outcome Measure 3)
- Statutory environmental obligations met through flood and coastal erosion risk management (Outcome Measure 4)

In the new system, there are important things that will be counted and used for performance management (outcome measures), and there are things that Government will explicitly fund at certain payment rates (outcomes and qualifying benefits). These are closely related, but not necessarily the same in all cases. A full table of the outcome measures (OMs) and benefits under each that will qualify for national funding can be found at the end of this document. Details and the rationale for payments under each category are set out below.

For all outcome measures, benefits in relation to any new properties (residential or non-residential) or existing buildings converted into housing after 1 January 2012 will not be counted. To qualify under OM2 and OM3, households must be permanent dwellings, e.g. not temporary or seasonal accommodation including mobile or static caravans.

How much national funding might a project attract?

The maximum amount of funding on offer to each project will be based on the value of qualifying benefits under Outcome Measures 1, 2 and 3, plus the number of environmental outcomes achieved under Outcome Measure 4, each multiplied by the relevant payment rate. Dividing this amount by the whole life costs of the project determines the share of project costs justifiable to national budgets. This is expressed as a percentage score; the OM Score.

All projects supported under the new approach will need to achieve an OM Score of 100% or above. Many projects will achieve this, and qualify for full funding. In other cases, cost savings and/or other sources of funding may need to be found. Both of these reduce the whole-life costs of the project to national budgets. Where an OM Score is below 100%, the deficit describes the amount of cost savings and/or contributions necessary in order for the scheme to proceed.

The OM Score calculation will differ slightly if ongoing maintenance costs are to be met by parties other than the Environment Agency, if costs relate to scheme development only, or where costs for approval exceed the present value of expected whole-life costs. In these cases, the actual costs being approved become an important consideration.

Detailed guidance for practitioners will be made available by the Environment Agency. A spreadsheet tool will also be available to make the calculation of national funding levels, OM Scores and potential contributions a relatively straight-forward and transparent process.

The maximum grant rate to each project will be capped at 100% of allowable costs. Allowable costs will be restricted to those that deliver the flood and coastal erosion risk management benefits of an investment over a scheme's lifetime. Where there is not a clear strategic approach setting out how benefits are apportioned to individual investments within a system of assets, the maximum grant rate allowable will be reduced to 45%. This means that all risk management authorities, including internal drainage boards, could receive up to 100% grant levels. The reduced grant rate, relevant for all risk management authorities, helps preserve value for money in cases where investments may only score well because benefits are being double-counted.

National funding will be allocated to project appraisal reports and other pre-delivery phase stages on the same basis as the construction or delivery phase itself – in line with the expected costs and benefits of the scheme being investigated. Project development for schemes expected to score 100% or above can be fully supported by partnership funding.

All funding approvals will be subject to a) the consent of the relevant Regional Flood and Coastal Committee (RFCC) and b) the overall availability of funding from all potential sources. Money raised using the existing RFCC local levy will count as a local contribution even though levy costs are subsidised by central Government through Formula Grant. If the demand for partnership funding outstrips its supply in any one year, the RFCC may decide to raise local levy to supplement partnership funding, in order to avoid any projects having to be deferred.

Qualifying household benefits under Outcome Measure 2

Qualifying benefits under OM2 relate to the reduction in direct damages to residential properties and their contents as a result of the measures being taken. Payment rates are described per £1 of present value whole-life benefit, with benefits in future years discounted in accordance with HM Treasury guidance. Payment rates for protecting households will be higher in deprived areas, so that schemes in these areas are more likely to be fully funded by Government. Levels of deprivation will be assessed using the existing Index of Multiple Deprivation, commissioned by the Department for Communities and Local Government.

Table 1: Payment rates per £1 of qualifying benefit, for each level of deprivation

Qualifying beneficiaries	**Payment rate, per £1 of present value benefit**
Households in the:	
• 20% most deprived areas	45p per £1
• 21-40% most deprived areas	30p per £1
• 60% least deprived areas	20p per £1

The value of qualifying benefits will be based on the number of households expected in each flood risk category before and after investment takes place. The value of qualifying benefits will also relate to how long the scheme is expected to last, the duration of benefits, i.e. the useful life of the asset before its next major capital investment, if it is maintained properly.

Table 2: Flood risk categories and assumed annual flood probabilities

Risk category	Annual chance of flooding	Assumed annual chance of flooding for the purposes of national funding
Very significant risk	5% or greater (1 in 20)	5% (1 in 20)
Significant risk	Greater than 1.3% (1 in 75) but less than 5%	2.5% (1 in 40)
Moderate risk	Greater than 0.5% (1 in 200) but less than or equal to 1.3%	1% (1 in 100)
Low risk	0.5% or less	0.5% (1 in 200)

The risk categories before and after investment, and the duration of benefits, need to take account of any defences already in place, and how climate change in the region is expected to reduce the effective standard of protection over time. Unless climate change allowances are made, the effective duration of benefits will be reduced.

In all cases the expected damages per household flooded will be £30,000. It is recognised that in reality some floods will cause more damages than this, and others less. This assumption is being used in order to keep the calculation of national funding relatively simple and transparent for all projects. As part of project appraisals it will remain important to understand the actual nature and characteristics of flooding in each case in order to design an appropriate approach to flood alleviation.

Property-level protection can be funded under OM2. Households need to be assessed as being in the very significant risk category in order to qualify.

Qualifying household benefits under Outcome Measure 3

Qualifying benefits under OM3 relate to the reduction in direct damages to residential properties caused by eroding coastlines. Coastal erosion is a natural process, and protection against it will only be temporary unless defences are sustainable (and are sustained) over the long-term. By delaying the processes of erosion, properties can be occupied for longer. The additional number of years of occupancy - the duration of benefits - will depend on the expected useful life of the coastal defence being built or upgraded.

The payment rates described are per £1 of present value whole-life benefit. These are the same as for OM2, including in deprived areas.

Table 3: Payment rates per £1 of qualifying benefit, for each level of deprivation

Qualifying benefits	**Payment rate, per £1 of present value benefit**
Households in the: • 20% most deprived areas • 21-40% most deprived areas • 60% least deprived areas	 45p per £1 30p per £1 20p per £1

The value of qualifying benefits will be based on whether a household is expected to be lost or damaged within 20 years, or after 20 years, if nothing further is done. For simplicity, and to treat all households equally for the purposes of national funding, an average annual loss of £6,000 per household is assumed. This is based on the average annual rental income of property in the UK. As the actual losses are not expected until sometime in the future, the £6,000 annual figure per household will be discounted based on when the losses are assumed to occur. This will be in year 20 if damages are expected within 20 years, and in year 50 if expected later.

Payments available under Outcome Measure 4

The connection between flood and coastal erosion risk management and the state of the natural environment at the coast, in river corridors and for wetlands is well established. To encourage every project to seek to deliver important environmental outcomes, standard payment rates per unit of outcome will be available as set out below. In some parts of the country these rates may be above the actual costs involved, and in others, where for example land is more expensive, it may be lower. The Environment Agency may vary from these standard rates on a project by project basis as long as the average cost per unit is at or below these levels.

Table 4: Payment rates per £1 of qualifying benefit, for each level of deprivation

Outcomes qualifying for national funding	**Payment rate**
4a - Hectares of water-dependent habitat created or improved to help meet the objectives of the Water Framework Directive	£15,000 per hectare
4b - Hectares of inter-tidal habitat created to help meet the objectives of the Water Framework Directive for areas protected under the EU Habitats or Birds Directive	£50,000 per hectare
4c Kilometres of river protected under the EU Habitats or Birds Directive improved to help meet the objectives of the Water Framework Directive	£80,000 per kilometre of river bed

The Environment Agency will continue to report to Defra on the area of biodiversity habitat created or improved through its flood and coastal erosion risk management functions. The first priority will be to meet the statutory objectives for areas protected under the Habitats and Birds Directives by 2015 - a requirement of the Water Framework Directive.

The Environment Agency, Natural England and Defra will work closely together to agree exactly what needs to be done to meet statutory objectives and establish a cost effective programme of work meet these requirements, based on the best available information. The programme will include creating sufficient intertidal habitat to offset losses in protected sites, rivers restoration work, and any other measures necessary to ensure that protected sites continue on a positive trajectory from recovering to favourable condition.

The Environment Agency will work with and through third sector bodies to meet these objectives and further enhance the natural environment through its flood and erosion risk management functions where opportunities allow, even where there is no specific payment rate for non-statutory habitat creation.

Qualifying benefits under Outcome Measure 1

Flood and coastal erosion risk management provides many benefits for the wider economy and society and it is important that risk management authorities continue to ensure these impacts are properly valued in accordance with HM Treasury and Defra appraisal policy. All such benefits arising, where not valued and paid for under OMs 2, 3 and 4, will be rewarded under OM1. Such benefits might include protection for businesses and in terms of enhancing agricultural productivity, ecosystem services, and avoided damages to public and private infrastructure. Guidance is already available to risk management authorities on how all such benefits should be valued as part of project appraisals.

Table 5: Payment rate for all other whole-life benefits

Benefits qualifying for national funding	**Payment rate, per £1 of present value benefit**
Present value of whole-life benefits of the current investment, less benefits paid for, or payments made under the other outcome measures.	5.56p per £1

For example, farming and food production should be taken into account through the economic appraisal of damages avoided to agricultural land and productivity together with impacts on infrastructure and other assets which play a role in growing food and making it available to consumers. Similarly the value of damages avoided to other business premises, impacts on community infrastructure and ecosystems should continue to be assessed and valued through project appraisal. Payments under OM1 recognise the value of these benefits to the wider community as well as to the individual parties concerned.

Encouraging long-term management of flood and coastal risk as part of each local strategy

Risk management authorities should be encouraged to consider all future investment needs, for all sources of flood risk (and coastal erosion if appropriate), as part of the local flood risk management strategy required under the Flood and Water Management Act. Some investments within a local strategy will score more highly than others against the new funding criteria, with some projects qualifying for 100% funding, and others less.

To help meet any funding shortfalls for lower scoring projects, risk management authorities could seek to leverage external contributions from all investments that proceed, including those qualifying for full funding. Any contributions secured towards projects scoring 100% or above can either a) reduce the cost of the scheme to the national taxpayer, making it more likely to go ahead sooner rather than later, or b) be used to help fund other schemes in the local strategy that score less than 100%. In this way, more schemes can proceed than otherwise would be the case, and the costs and benefits of all the investments within an area or region can be spread more evenly between groups and sectors.

Transparency and accountability for the data used in determining funding levels

Openness and transparency are important aims of the new system. The approach to national funding means it should be straightforward to understand why some projects are fully funded and others only part funded by the Environment Agency. To help with this, in addition to data published as part of the Environment Agency’s Medium-Term Plan, a summary of the data used in calculating national funding levels and contributions will be published for each project seeking support. Detailed appraisal documents, prepared by all risk management authorities, will also be readily available to those who wish to see them.

The Environment Agency's delegated authority for spending decisions

Defra currently has a delegated spending limit from HM Treasury of £100 million for major projects, £20m for PFI projects, £5m for IT-enabled business change projects, and £1m for back-office IT projects. Defra will continue to pass on its full delegation for major flood and erosion risk management projects to the Environment Agency subject to compliance with the terms of the financial memorandum. This includes a requirement for the Environment Agency to refer to Defra any novel or contentious project, as well as regional flood and coastal management strategies that point towards future public expenditure of £250 million or more in whole life costs.

No commitment must be made to projects above the delegated limits (which may be subject to Defra or HM Treasury variation at any time) without the approval of Defra and HM Treasury. These delegations are also conditional on the Environment Agency reporting quarterly on expenditure and outcomes to the agreed format, and co-operation in any scrutiny exercises that Defra considers appropriate. Delegations are also subject to co-operation with any National Audit Office or Major Projects Authority review that may from time to time be required.

Testing and refinement of the new approach

During the coming months the Environment Agency will work with Defra to test and refine aspects of the new approach in consultation with the Regional Flood and Coastal Committees, other risk management authorities, partners and community groups. This will allow final arrangements to be confirmed in advance of the 2013/14 financial year.

Table 6: Summary of outcome measures

OM no.	Outcome Measure definition	Benefits and outcomes qualifying for national funding	Payment rate	Examples of funding levels from Government
OM 1	Average benefit to cost ratio of schemes delivering OMs	Under OM1, present value of whole-life benefits of the current investment, less benefits paid for or payments made under the other outcome measures.	5.56p per £1 of qualifying benefit (i.e. seeking an 18 to 1 return from national investment)	These include avoidance of damages to e.g. business, agriculture, local government, communications, infrastructure, utilities and public health
OM 1a	*Present value of whole-life benefits per £1 of FDGiA*			
OM 2	Households moved from one category of flood risk to a lower category Households must be at direct risk of flood damage and have been built or converted into housing before January 2012 to be counted.	Under OM2, present value of direct damages to residential properties and their contents avoided, in the: – 20% most deprived areas – 21-40% most deprived areas – 60% least deprived areas	 45p per £1 30p per £1 20p per £1	Based on moving a single household from very significant risk to low risk for a duration of 50 years £15,399 per household protected £10,266 £6,844
OM 3	Households better protected against coastal erosion. Households must be at direct risk of damage from coastal erosion and have been built or converted into housing before January 2012 to qualify.	Under OM3, present value of the reduction in direct damages to residential properties, in the: – 20% most deprived areas – 21-40% most deprived areas – 60% least deprived areas	 45p per £1 30p per £1 20p per £1	Based on protecting a single household at risk of loss within 20 years, for a period of 50 years £35,601 per household protected £23,734 £15,822
OM 4	Statutory environmental obligations fully met through flood and coastal erosion risk management	Outcomes specifically funded under OM4:		
OM 4a	Hectares of water-dependent habitat created or improved to help meet the objectives of the Water Framework Directive	Water-dependent habitat created or improved	£15,000 per hectare	
OM 4b	Hectares of inter-tidal habitat created to help meet the objectives of the Water Framework Directive for areas protected under the EU Habitats or Birds Directive	Inter-tidal habitat created	£50,000 per hectare	
OM 4c	Kilometres of river protected under the EU Habitats or Birds Directive improved to help meet the objectives of the Water Framework Directive	Protected rivers improved	£80,000 per km of river bed	