

Flood and Coastal Resilience Partnership Funding - an introductory guide

The way that Government funding is allocated to flood and coastal erosion risk management projects in England is changing. The reforms aim to allow more schemes to go ahead and to give each community more of a say in what is done to protect them. The new system will begin from now for all projects seeking financial approval.

Instead of meeting the full costs of just a limited number of projects, the new approach could make Government money available towards any worthwhile scheme over time. Funding levels for each scheme will relate directly to the number of households protected, the damages being prevented, plus the other benefits a scheme would deliver. For the first time, grants for surface water management and property-level protection will be available alongside funding for other risks and approaches.

This guide aims to introduce the new approach and answer some common questions.

What is staying the same?	What's new?
The amount of funding from Government – at least £2.1 billion to be spent by March 2015	All projects have the potential to be supported by Government over time, rather than some being fully funded and others not at all
Many projects will still be fully-funded by the national taxpayer	More local choice, and greater emphasis on protecting those in the most deprived areas
All the potential benefits of a project will be valued, including protecting businesses, infrastructure, farming and food production	Properties built after January 2012 will not influence the funding of projects, to help avoid inappropriate development in areas at risk
At least 145,000 households expected to be better protected by March 2015	Grants for surface water management and property-level protection within core funding

An outcome-focused, partnership approach to funding flood and coastal erosion projects

The new system will mean funding from Government is more transparent than before, and it will provide greater certainty to communities over the prospect of national funding for each scheme. Three aspects of a project will influence the amount of national funding available:

- The value of benefits for householders as a result of flood or coastal erosion risks being managed, especially in deprived areas and where risks are significant.
- The value of other benefits achieved, such as the benefits to businesses, agricultural productivity and protection for national and local infrastructure, across the whole-life of the scheme.
- The environmental benefits of the scheme, needed to maintain healthy ecosystems as well as offset any habitats lost when defences are built to protect people and property.

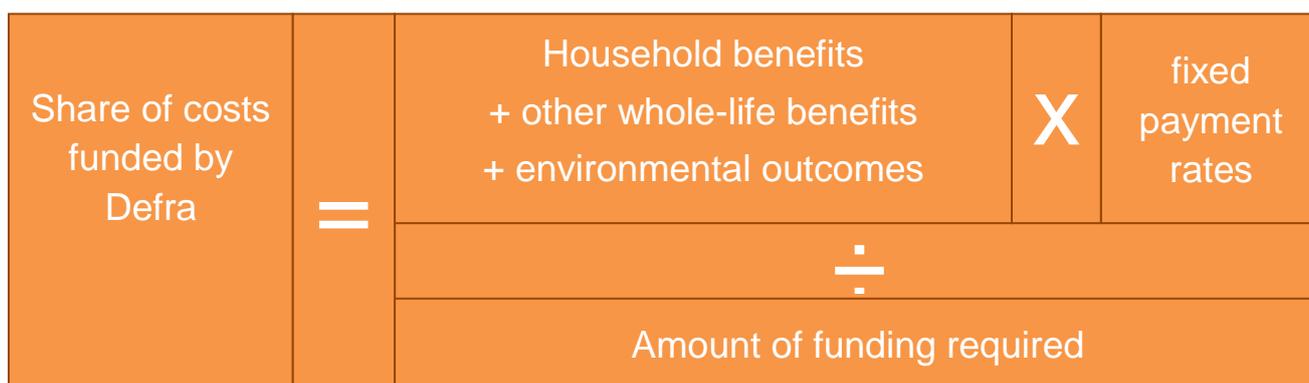
How much national funding might a project receive?

The maximum amount of funding for a project will be based on multiplying each of the aspects above by a set of payment rates, which are fixed amounts of national funding per unit of outcome or benefit achieved. 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. See www.imd.communities.gov.uk.

Many projects will still be fully funded under this approach, and those already under construction are not affected. Where full funding will not be available, the approach makes it clear how much might be. This means that projects can still go ahead in time if ways can be found to reduce the costs of projects, or if other funding can be found to meet the remainder.

The figure below describes how the share of project costs available from Defra will be calculated.



This shows that the share of funding from Defra increases in line with the benefits being delivered. Reducing the amount of national funding required will also mean Defra can meet a bigger share of what remains. This can happen either by finding ways to reduce the costs of the project, or by other sources of funding being found.

If a scheme qualifies for partial funding communities and local partners can decide what to do. A project qualifying for 90% national funding can still go ahead if costs are reduced by 10%, a 10% contribution is available, or a combination the two.

In return for such contributions, an area can benefit from improved protection in cases where it might otherwise not be possible. As a result, households and businesses could have improved access to flood insurance as well as avoiding the full impacts of future weather events. Land and property values might benefit too. If costs can be saved from even the most important schemes, or contributions found towards their significant benefits, it means taxpayer funding can go further and help more communities.

How will household benefits be calculated?

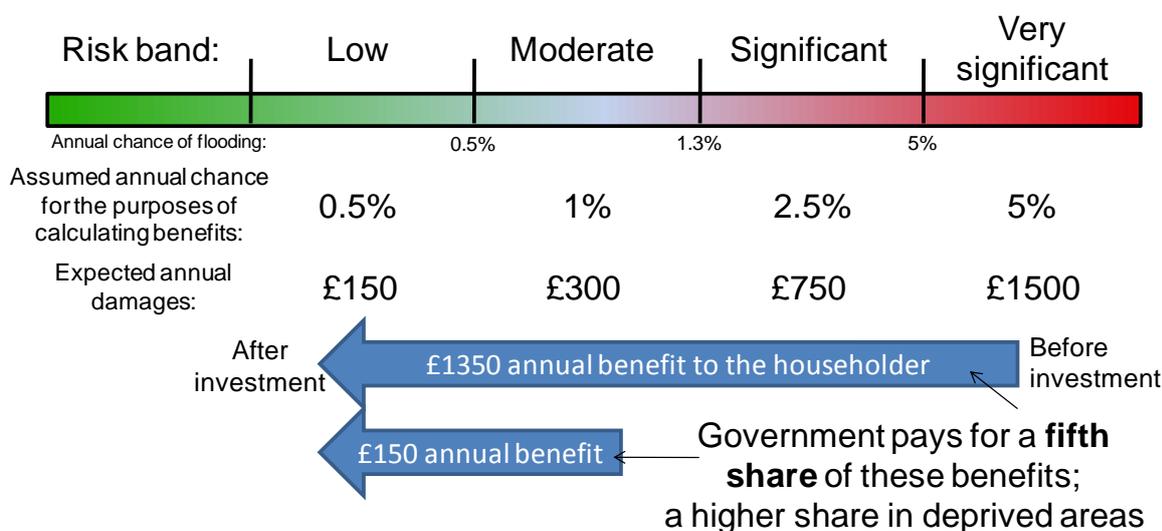
Flood alleviation and coastal management schemes mean that householders can expect future damages to their property and possessions to be significantly less than they might otherwise be. Based on the change in the annual chance of flooding, as a result of a scheme, it is possible to estimate the value of household damages being avoided. For simplicity, this will assume each flood causes £30,000 of damages per household. This figure is based on insurance claim data as well as evidence from the floods in 2007. The total value of household benefits over time will also depend on how many years a defence is expected to last for.

Benefits in future years need to be weighted to reflect how much it is worth paying now to avoid future damages, in line with normal HM Treasury discounting rules. Once calculated, Defra will pay an amount equal to a share of the expected household benefits. In most cases this will be a fifth share, or 20p per £1 of household benefit. Based on previous experience, projects typically deliver benefits worth at least five times the costs involved. So Defra paying a fifth share of the household benefits will

mean whole project costs could be met in many cases, solely based on the numbers of households protected. Paying for only a share of the benefits means we can achieve good value for taxpayers' money.

In deprived areas, Government will pay higher amounts, up to 45p per £1 of benefit. This is because households in these areas are less likely to be insured, can need more help than others to recover after a flood, and may be less able to contribute. The increases in payment rates in deprived areas are based on HM Treasury guidance.

The following diagram illustrates how much household damage is avoided when the risk of flooding is reduced for a single home. The expected annual damage figures are averages over the long-term, calculated by multiplying the potential damages (£30,000) by the assumed annual chance of flooding within each risk band.



In many cases, Government's payment towards a share of the benefits will be sufficient to meet the full costs of a scheme. In these cases, no cost savings or contributions are strictly necessary. However, any cost savings found or contributions secured made may mean the scheme is delivered sooner rather than later, and could allow other schemes in the area to also go ahead.

The following table provides examples of funding levels from Government per property protected, based on moving a single household from very significant risk to low risk. These are calculated by multiplying the household damages avoided by the relevant payment rate. The level of funding for a fifty year scheme is not 50 times the level of funding for a one-year scheme (figures have also been rounded). This is because discount rates are applied to benefits in future years, in line with HM Treasury guidance.

<i>From very significant risk to low risk</i>	National funding per household, for first year of protection	National funding per household, if protection expected to last 50 years
Level of deprivation		
20% most deprived areas	£608	£15,400
21-40% most deprived areas	£406	£10,270
60% least deprived areas	£270	£6,845

The benefits of moving households from and to each risk category will be valued in the same way. The total household benefits for a scheme can therefore be calculated by counting the number of households expected to be within each risk category before, and after, investment.

What about funding for protection against coastal erosion?

Schemes that protect households on eroding coasts will be funded in a similar way. Payment rates per £1 of benefit are the same as for alleviating flood risk, including in deprived areas. As the value of damages per household will typically be higher than when flooding happens – erosion can cause total loss of properties - funding from Government to protect each household will tend to be higher. The value of losses (and therefore benefits, if losses are delayed) relate to how many extra years of occupation is possible as a result of a coastal defence scheme.

In many cases, damages are not expected for a certain period of time, such as for twenty years. Funding levels will therefore take in to account how much it may be worth spending now to avoid damages in the future. This can be done by applying standard HM Treasury discount rates to the future benefits of the scheme. The overall result is that, for example, schemes that extend the life of properties by fifty years may attract £15,800 from Government, per household protected. In the most deprived areas this could rise to £35,600 per household.

Other benefits arising from alleviating flooding and coastal erosion

All the benefits of managing flooding and coastal erosion risk will be valued under the new system. This includes the protection of businesses, agricultural land, important national and local infrastructure, public buildings and sites of cultural heritage. To keep the system simple, these will all be paid for at a single payment rate. The payment rate is lower than those for protecting households in order to reflect the proportion of public sector, as opposed to private sector, benefits within this category.

The importance of taking a strategic, partnership approach to local investment

Within any one part of the country, there are likely to be some projects that stand to be fully funded and others that could attract partial funding from Defra. Lead local flood authorities are working together in partnership with others to develop local flood risk management strategies for their areas, as required under the Flood and Water Management Act. As part of this, local partners could decide to concentrate solely on those schemes likely to be fully funded by Defra. Alternatively, they may decide that the benefits to the community arising from some or all of the part-funded schemes going ahead more than justify the extra amounts of money required. In doing so, local partnerships can have a considerable influence on the overall number and priority of schemes taken forward.

Conclusion

In the past, local ambitions for flood and coastal defence have been artificially constrained by the amounts of funding available from Government. Sir Michael Pitt's review of the 2007 flooding said that Government should allow and encourage communities to invest in measures that protect them, so that more can be done whilst giving communities a bigger say. This new approach creates the opportunity for as many communities as possible to enjoy the benefits that flood and coastal defences bring. Any contributions that do come forward under the new approach will supplement Government funding and mean more households can be protected.

The new system will apply from now for projects seeking funding approval from the Environment Agency. Through to the end of March 2013 will be treated as a transitional period, allowing lessons to be learned and refinements made to the approach before being confirmed for the 2013/14 financial year onwards.

Further information

More information can be found at www.defra.gov.uk/environment/flooding, or by contacting your local Environment Agency office. Contact details can be found at www.environment-agency.gov.uk/homeandleisure/floods.

Defra
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Questions and Answers

What is Flood and Coastal Resilience Partnership Funding?

It is a new approach whereby Government funding is allocated to projects based on the number of households protected and other benefits achieved through flood and coastal erosion risk management. In the past, some projects have received 100% funding and others nothing. It aims to encourage greater partnership working between the authorities, sectors, communities and others that have an interest in tackling flooding and coastal erosion over the long-term, so that more schemes can go ahead.

Who will decide which schemes will and will not go ahead?

The Environment Agency will prepare a programme of schemes for approval by Regional Flood and Coastal Committees in each part of the country. These committees are responsible for overseeing flood and coastal defence activity and include local authority representatives. This allows greater local influence on which schemes proceed each year. Each committee can also raise money themselves if there are more schemes seeking funding than can be paid for nationally.

Will contributions be mandatory?

No. Decisions will be taken locally on whether a scheme is worth contributing towards.

How might local funding be raised?

Local authorities have a range of ways and existing powers to raise additional money towards the cost of defences if they wish to. Which they use (if any), and in which combination, will be for each local authority to decide. In doing so, they may consider who stands to benefit from projects, together with what might be fair to ask - taking in to account different groups' and sectors' ability to pay.

How are you prioritising those most at risk?

Payments from Government relate to the amount of damages being avoided, which will be higher in significant risk areas.

How are you protecting those in the most deprived parts of the country?

Households in the 20% most deprived parts of the England, according to the Index of Multiple Deprivation, will qualify for funding 2.25 times higher (45p per £1 of benefit) than that available to non-deprived households (20p per £1 of benefit). Households in the next most deprived band, the 21-40% most deprived parts of England, will qualify for funding 1.5 times higher (30p per £1 of benefit).

What is the local levy?

The local levy is an existing way that Regional Flood and Coastal Committees can raise money to help pay for additional flood and coastal erosion risk management. It is voted for, and paid by, the county and unitary local authority members of each committee. Each local authority's levy payments are supported by grants from central Government.

Why are you valuing environmental benefits?

Flood and coastal defence can have positive as well as negative effects on the environment and natural habitats. It is important that these affects are carefully managed. Habitats themselves often help to reduce the risk of flooding and erosion. They also support important ecosystems that benefit local economies as well as the wider environment. In some cases, there are also legal requirements to avoid the deterioration of particularly important sites or habitats that are of national or international importance. Such deterioration can happen when action is taken to protect people and property.

What will happen if local contributions don't come forward?

The new approach is designed to 'fail safe'. If cost savings are not possible, nor additional funding found, there are expected to be enough projects scoring highly enough to be fully funded to use up all the national funding available. So the new approach creates the opportunity for more schemes to go forward, but is not reliant on contributions coming forward.

How are you valuing food security?

Impacts on farming and food production are taken into account when options are considered, and costs and benefits assessed. These will include damages 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. Avoiding these impacts will be valued within the new framework alongside other non-household benefits.

Does this mean that the amount of Government funding for flood and coastal defences is being reduced?

No. The total amount of money being made available by Government for the Environment Agency to spend on flood and coastal erosion projects, or 'flood defence grant-in-aid' is unaffected by these changes.

Will this affect schemes already under construction?

No. It will apply only to new financial approvals.

Do schemes have to last fifty years to be funded?

No. Any scheme can come forward and be funded in relation to the length of time it is expected to deliver benefits.

What do you mean by a transition period?

It is important for all concerned that the new approach delivers the expected benefits for communities and that key aspects of the system are set up correctly. For this reason, the new approach will be monitored during the first year or so of implementation to allow lessons to be learned before the final system is confirmed. Final arrangements to apply from April 2013 will be announced in advance of the 2013/14 financial year.

Will funding be available for surface water management projects?

Yes, unless the projects are the responsibility of water and sewerage companies. In which case existing funding arrangements will continue, overseen by the water industry regulator OFWAT.

Will funding be available for property-level protection?

Yes, either through a sponsoring local authority or the Environment Agency.

Will affluent areas buy their way up the priority list?

Higher payment rates are available to protect those in deprived areas, meaning such schemes are more likely to be fully funded by Government. Each scheme will need to have the support of the Regional Flood and Coastal Committee. Depending on the circumstances they may decide to prioritise national funding towards a deprived community ahead of an affluent one, even where a contribution is available.

Who will pay if a scheme goes over budget?

This will be agreed before a project commences. In most cases any cost overruns are already born between the contractor and the sponsoring authority. Most projects come in under budget.