Operational principles to follow when setting up funding partnerships to tackle flood and coastal erosion

Version 3.0

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We are the Environment Agency. We protect and improve the environment.

We help people and wildlife adapt to climate change and reduce its impacts, including flooding, drought, sea level rise and coastal erosion.

We improve the quality of our water, land and air by tackling pollution. We work with businesses to help them comply with environmental regulations. A healthy and diverse environment enhances people's lives and contributes to economic growth.

We can't do this alone. We work as part of the Defra group (Department for Environment, Food & Rural Affairs), with the rest of government, local councils, businesses, civil society groups and local communities to create a better place for people and wildlife.

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Executive summary

In May 2011, the Secretary of State for the Department for Environment, Food & Rural Affairs (Defra) changed the way it allocates funding to flood and coastal erosion risk management (FCERM) projects. Flood and coastal erosion resilience partnership funding or ‘partnership funding’ aims to share the costs between national and local sources of funding.

This approach allows any worthwhile project (where benefits are greater than costs) to qualify for government money, known as grant-in-aid (GiA).

The success of this approach depends on:

- creating strong partnerships
- clearly defining roles for responsible organisations and their partners
- securing and managing contributions to help reduce flood and coastal erosion risks and achieve more benefits for the economy, local people and the environment

This guidance document shows organisations how to successfully set up funding partnerships. It lists the actions, conducts and obligations – the ‘operational principles’ to follow.

Roles and responsibilities

The Environment Agency updates the allocations of FCERM GiA to manage a national programme of projects within the funding available. Regional flood and coastal committees (RFCCs) set local priorities, with advice from other interested organisations, including lead local flood authorities (LLFAs), internal drainage boards (IDBs) and coastal groups. This secures further investment and manages risks efficiently.

A project always has a lead organisation, which makes sure that its staff have the right skills to achieve the project outcomes. It makes sure that all funding partners can meet their financial and resource liabilities and other obligations. The lead organisation is also responsible for putting the appropriate management structure in place. This will make sure that the right decisions can be made, project outcomes can be achieved, and that risks, liabilities and obligations are managed effectively.

Contributions agreements are only entered into by executive officers, senior managers or elected members who have suitable authority.

Lead organisations make sure that appropriate arrangements are in place to review their project proposals and their partners. The Environment Agency closely examines all projects that apply for FCERM GiA. This guidance is used to support this project scrutiny.

Partnerships

Setting up a funding partnership will begin as soon as a need to tackle flood and coastal erosion risk and possible solutions is identified.

The lead organisation develops a business case which can also be used to find funders to support the project. The Environment Agency only allocates FCERM GiA towards further stages of the project if the lead organisation can prove that extra funding is secure of if the project qualifies for full funding from FCERM GiA based on its expected outcomes.

Organisations that wish to contribute financially to the project must confirm their commitment at each stage of the project. Agreement with contractors to carry out major works will not be made until contributions agreements with funding partners are signed.

These are legally binding agreements that cover the overall investment needed to achieve the project outcomes.

Every project considers a range of options against economic, social and environmental measures to identify the preferred option overall while taking account of the preferences of local beneficiaries. Sometimes, the local choice is more expensive, provides more advantage and other local opportunities compared with the option identified by the national guidance. The lead organisation and the Environment Agency will support this local choice if the community, and others that will benefit, fund the extra costs, and obtain any extra permission needed.

If a local option provides less protection than that recommended by the national guidance, the lead organisation and the Environment Agency will support this choice if all funding partners are aware of the potential for significant risk and other financial costs.

The planning system

If a developer relies on a project to improve an existing defence, they are expected to contribute towards that project. The contribution should be in proportion to the benefit the developer receives as a result of the project.

Where development takes place in areas without existing defences or where development is the only beneficiary, the developer must pay for the full costs of all the necessary FCERM work. New developments must meet the aims of overall government planning policy to be considered appropriate. A development cannot be considered appropriate just because a developer will fund the required FCERM measures. However, contributions from a developer can form part of a package of measures for providing safe and resilient development.

Finance

The value of contributions is a proportionate share of the costs and the full risk contingency of the option proposed over a given period of time, where the project outcomes are being relied on (up until the next investment decision). Funding partners share the costs of this this option over its lifetime (whole life costs), including developing, designing, constructing, maintaining and operating for the agreed period of time. Risk sharing arrangements recognise that the government's contribution of GiA is capped based on the outcomes achieved.

Unused contributions will be returned to the funding partners when the final project accounts are agreed. This amount will be in proportion to the original amount given.

Lead organisations must have appropriate accounting arrangements in place to manage contributions efficiently, including releasing any necessary money for future maintenance.

A tool, known as the partnership funding calculator, is used to work out the amount of FCERM GiA a project is entitled to and the minimum amount of contribution it needs to obtain.

Contributions are considered from all groups and organisations that will benefit the most from the project. Private or third sector contributors (voluntary organisations) are encouraged, as this reduces the amount of funding needed from other local government spending.

The lead authority is responsible for negotiating individual contributions and making sure that project and funding arrangements include the full risk contingency and any measures to reduce risk (risk mitigation).

Contents

1. Introduction

1.1 The Department for the Environment, Food & Rural Affairs (Defra) introduced a new approach to funding flood and coastal erosion risk management (FCERM) capital projects in May 2011**.**

1.2 The flood and coastal resilience partnership funding policy 2011 ('partnership funding') reinforces the government's commitment to an approach that sees organisations working together to fund and develop FCERM projects in England. Projects progress by building partnerships that support sound investment choices and secure related funding agreements. These projects are funded in part by government with financial contributions from FCERM GiA. This approach offers organisations and communities greater opportunities and incentives to have a financial share in managing risks and a greater say in protecting their local area. Partnerships are formed as soon as a problem is identified through to finding the right solution, bringing together the right funding, developing and managing a project and maintaining the benefits into the future. Projects completed through these funding partnerships not only help to manage flood and coastal erosion risk, they also create a wide range of benefits, such as improving the look of an area, boosting tourism and helping towards regeneration.

1.3 These projects will prevent damages from flooding and coastal erosion, respond to existing or forecast changes in those risks, help with local recovery from the expected implications or enable adaptation to avoid or mitigate the implications of the risks (see draft Flood and coastal erosion risk management strategy 2020). Many projects will renew or replace existing defences at the end of their design life, increase standards of protection and resilience or reduce the risk of flooding or coastal erosion in areas where formal structures may not exist. More information on the partnership funding approach is available from gov.uk.

1.4 These operational principles do not replace requirements for risk management authorities (RMAs), their project teams and suppliers to comply with relevant legislation, policies or guidance. This includes complying with guidance on Managing Public Money and acting in a professional way when representing public authorities and when managing programmes and projects.

This guidance document

1.5 This document gives all risk management authorities (RMAs) and other potential partners advice about setting up and running FCERM funding partnerships. It lists a number of ‘operational principles’ to follow.

1.6 These operational principles, or guidelines, encourage trust between partners and promote confidence that partnership funding is being applied consistently and fairly. They make clearer the roles and responsibilities of the various parties, and the project management, financial and legal arrangements necessary to support the approach.

1.7 This guidance reflects current understanding of how partnerships can work to bring about improvements in flood and coastal erosion risk management. This is based on past experiences and discussions, along with the requirements of partnership funding. New knowledge and best practice will continue to emerge and may be used to improve this guidance over time. This document is supported by other guidance and tools.

1.8 This document replaces the previous version published in 2012, taking account of new ways of working. It may be updated in the future to reflect changes to the PF arrangements coming out of a planned consultation by Defra.

Audiences

1.9 This guidance is sponsored by Defra and the Environment Agency. It is for all organisations and communities with an interest in managing local flood and coastal erosion risks to use.

1.10 It will be used by the Environment Agency when undertaking project scrutiny activities to help to guide assurers and approvers (see section 2.31).

Objectives

1.11 The overall objectives of the funding arrangements for flood and coastal erosion risk management, as set out by government, are to better protect more communities and provide more benefits by:

- encouraging investment to increase beyond levels affordable to central government alone
- enabling more local choice, and encouraging innovative, cost-effective options where communities may play a greater role
- making national funding for individual projects clearer and more certain, while prioritising action for those most at risk and least able to protect or insure themselves

1.12 The Environment Agency and other risk management authorities (RMAs) are committed to making sure that the funding system contributes towards targets set by government.

2. Roles, responsibilities and capabilities

Background

2.1 Defra, the Environment Agency, lead local flood authorities (LLFAs), other risk management authorities (RMAs) and regional flood and coastal committees (RFCCs) have specific roles and responsibilities to manage the risk of flooding and coastal erosion.

2.2 Defra sets policy direction in consultation with other government departments such as the Ministry of Housing, Communities & Local Government (MHCLG) and the Cabinet Office. The Environment Agency retains a strategic overview of all flood and coastal erosion risks in England. This includes risks from surface water, groundwater, rivers and other watercourses, reservoirs, the sea and eroding coastlines. The planning framework also includes shoreline management plans and local flood risk management strategies overseen by LLFAs. The Environment Agency, LLFAs, other RMAs, water companies, reservoir owners, highways authorities and owners of land next to watercourses are responsible for flood and coastal erosion risk management activities.

2.3 None of these organisations or groups have a 'duty to protect' communities, businesses or other interests on the flood plain or around the coast. Their role is to work together in various ways to reduce damages as much as possible and achieve the greatest overall benefit in terms of managing flood and coastal erosion risk with the funding and other resources they have available.

2.4 Partnership funding depends on successful partnerships between these organisations and other interested groups, beneficiaries and funders. This makes sure that improvements in managing flood and coastal erosion risks and wider benefits are achieved for as many people as possible, and that all those involved have a say in what gets done. Partnerships will only be successful if roles and responsibilities are clearly defined and work in practice.

Grant allocation and national programme management roles

2.5 The partnership funding arrangements allow the maximum amount of FCERM GiA available for any project to be calculated based on the outcomes it plans to achieve over time. Once other sources of funding or 'contributions' are added, this gives a partnership funding 'score'. A score of 100% or more is needed before the project can go ahead.

Find information on how to calculate the FCERM GiA available for a project and the partnership funding score.

Principle 1

The Environment Agency allocates FCERM GiA to projects based on expected outcomes set by Defra.

2.6 The overall amount of FCERM GiA is limited and so the allocation of funding for any project is subject to availability at the time it is approved by the Environment Agency.

2.7 The Environment Agency allocates FCERM GiA to provide an affordable national programme of projects on behalf of Defra. Its local teams work with, and support, RFCCs, LLFAs and other RMAs, as well as communities at risk. They identify bids for FCERM GiA that promote local priorities, secure contributions and maximise reduction in flood and coastal erosion risk. When a jointly funded project proposal is accepted into the national programme, the Environment Agency aims to allocate the agreed level of funding for each year of the project, subject to the lead organisation implementing the project satisfactorily and contributors supporting it financially.

2.8 Every decision is made based on the outcomes of, and contributions to, individual projects. The Environment Agency and RFCCs work together, building an affordable and achievable national programme of projects.

2.9 The initial catalogue of projects for FCERM GiA funding is ranked according to their partnership funding scores. It is important to note that the threshold partnership funding score for including a project in this initial national programme varies depending on the amount of national funding available and the number of projects proposed.

2.10 This initial national prioritisation allows the Environment Agency's Flood Defence Finance Committee Board to set and approve indicative allocations for future years. This is communicated immediately afterwards to all RMAs.

2.11 Regional flood and coastal committees (RFCCs) review indicative allocations and propose changes that reflect local choices. They also secure or improve the FCERM outcomes from their indicative local programmes and make sure that any project can achieve a partnership funding score of at least 100%.

2.12 After this, the Environment Agency draws together a final national programme that all parties can afford and implement. This is agreed and published jointly by the Environment Agency's Board and the RFCCs.

2.13 Allocating funding to a project, particularly for the future of the national programme, does not automatically mean the FCERM GiA can be spent. Payment depends on securing approval at each stage of the project's life. For partnership funding, projects can generally be divided between their business case development stages and their detailed design and construction stages. Once the second stage starts, the presumption is that the Environment Agency continues to provide the eligible FCERM GiA, alongside any other secured contributions, to complete the project. Any significant changes to the project cost, scope and outcomes compared with the full business case will need further agreement.

2.14 The Environment Agency provides a forward look on the national programme using the information it has available.

2.15 If a project secures a financial contribution that has to be spent within a given time, the Environment Agency will seek to accommodate this within the constraints of the national FCERM capital programme.

2.16 In exceptional circumstances, the Environment Agency may allocate more FCERM GiA to a project than can be justified by the published funding criteria. This only applies if there is a legal requirement to act immediately or if urgent work is necessary. When this applies, contributions may still be sought.

2.17 Find further information on grant application, allocation and national programme management.

Project governance and project management

2.18 Partners need appropriate governance and management arrangements between each other in place at the appropriate strategic, national programme and project level. These arrangements must reflect the value and risk of the proposed investment, and must make sure that public funding is spent appropriately.

Principle 2

FCERM GiA will only be allocated if suitable project governance and project management arrangements are in place.

2.19 These arrangements set out how a project maintains role accountabilities and compliance, including when contributors are represented on the project board. They also set out the policies and processes the project board follows and the delegations and financial arrangements for each funder and contributor.

2.20 A lead organisation takes responsibility for securing funding for the project. This responsibility can be passed to another organisation if the project board and all funders agree.

2.21 The lead organisation is responsible for promoting the project and achieving the planned outcomes for itself and on behalf of funders and other interested parties.

2.22 Every project should have a project management structure that includes a project board with executive accountability. This board oversees the project and makes sure it stays on track to meet the agreed outcomes. A delivery team implements the agreed technical solutions and is accountable to the project board.

2.23 The project board can include funders and other important interested groups as agreed between the partners and the lead organisation. Where the project board does not include funders or other important interested groups, a group with a suitable representation advises them on relevant issues. Technical information can be provided directly to the delivery team. The governance arrangements are in place throughout the period during which the FCERM GiA outcomes are implemented.

2.24 Other interested parties are represented by a separate steering group, as needed.

2.25 Membership of these groups develops during the project stages. An appropriate governance structure, with suitably capable and relevant membership, is included in all the business case stages.

2.26 Some projects may be handled by different parts of an organisation at different stages in the project. Where this happens, hand-over arrangements strengthen relationships with funders and interested parties and improve the way risks are managed.

Figure 1: Roles and responsibilities for each project stage

	Regional Flood Defence Committee role	Lead organisation	Funding partners	Executive Project Board	Delivery team	Scrutiny and approval
High level plans and strategies	Develops and agrees high level partnerships; engages with at-risk communities to gain support for potential interventions		Supports promotion of project			
Prepare national FCERM capital programme	Supports promotion of project	Promotes project; approaches potential contributors; sets up executive board	Supports promotion of project			
Strategic Outline Case (SOC)	Agree local priorities including allocation of local levy	Supports engagement with potential contributors	Range of outcomes set; commitment made to business case development	Secures project governance; secures commitment from funding partners	Develops business case to justify further investment	Agrees SOC; ensures funding partners support further investment
Outline Business Case (OBC)			Agrees preferred option; secures own business case approval	Oversees the project; ensures preferred option can deliver partner outcomes	Develops options in line with agreed partner outcomes	Agrees OBC; ensures partner contributions are likely to be secure
Full Business Case (FBC)		Confirms investment decision; enters in agreements for contributions		Develops contributions agreements	Ensures partner outcomes can be met; promotes investment decision	Agrees FBC; confirms progress to works contract award
Delivery and operation		Supports delivery of agreed partner outcomes; manages partner and contributions agreements; confirms outcomes are met; arranges for continued partnership for operational stages		Confirms completion of delivery stages	Delivers outcomes as needed by partners; secures updates to business case	

2.27 Several organisations have roles in project governance. These are described in Figure 1, and include:

- RFCCs and the lead organisation are involved in developing local high level strategies and plans. They help promote the project to the national programme, agree local priorities and work with potential contributors
- the lead organisation enters into contributions agreements with funders and manages how outcomes are achieved over the lifetime of the package of measures undertaken
- potential funders identify their own outcomes and how these determine the value of their contribution. In addition, they secure their own approvals and confirm their support for the preferred option over the lifetime of the package of measures undertaken
- the project board maintains the governance arrangements and obtains commitments from other parties. It oversees the project and achieving the preferred option
- the delivery team develops the business case justifying the investment proposal and makes sure that results can be achieved for everyone involved
- scrutinising and approving the business case, the funding agreements and any significant proposed changes to budget, scope or time is undertaken independently of the project governance arrangements

Contributions agreements

2.28 Contributions agreements are entered into by executive officers, elected members or suitably delegated officers within a partner organisation who have the appropriate authority. This includes owners, shareholders or other senior management. Authority relates to the costs, liabilities and obligations required by, or placed on, the organisation by the agreement.

Principle 3

Contributions agreements are only signed by someone with appropriate authority within their organisation.

2.29 An agreement must be able to withstand changes in personnel or ownership of the contributor. A contributions agreement is not necessary where FCERM GiA is only being supplemented by local levy funding allocated by the RFCC.

Project scrutiny

2.30 The lead organisation puts arrangements in place to scrutinise and approve projects at the different stages of development and implementation.

Principle 4

Lead organisations put project scrutiny arrangements in place to make sure public and partner funds are correctly managed.

2.31 To make sure that public funds are management appropriately, all projects must be authorised by the Environment Agency through proportionate project assurance, including the Large Projects Review Group or the National Project Assurance Service. For high risk and high cost projects, Defra, the Cabinet Office and HM Treasury may also need to be involved.

Project development

2.32 Subject to availability of funds, the Environment Agency allocates FCERM GiA to develop business cases for projects for which it is the lead organisation. To make sure money is allocated efficiently, the amount of FCERM GiA given to support project development through to the full business case (FBC) will depend on the scale and risks of the proposed investment. For larger scale investments, review and approval for further funds may be required at the strategic outline case (SOC) and the outline business case (OBC) stages.

2.33 The allocation of FCERM GiA towards the development of a business case is not an open commitment to fully fund the design, construction and maintenance costs of a project.

2.34 Other RMAs can advance their business cases without FCERM GiA. These costs are part of the project whole life costs against which overall FCERM GiA eligibility is calculated. A proportion of these are recovered by the lead organisation from the FCERM GiA contribution when the project progresses to the FBC.

Principle 5

Lead organisations bear the costs of developing the strategic outline case and outline business case. FCERM GiA for subsequent development and implementation stages is based on the partnership funding formula and approval of the appropriate business case. All funding is subject to overall availability.

2.35 The lead organisation prepares the SOC and OBC in line with Environment Agency guidance. These business cases confirm how options, benefits and costs are weighed up and identify the nationally preferred option for the project. They also explain how the project is to be financed. Proposed funding partners should confirm how much they intend to contribute, and how this money will be provided, so that the Environment Agency can consider committing FCERM GiA to support the development of the FBC.

2.36 FCERM GiA is only available to further project development and implementation if the business case demonstrates that the available grant and the potential contributions can fully fund the proposed project over its lifetime. This makes sure that the Environment Agency continues to monitor the costs and efficiencies for developing FCERM projects.

2.37 The lead organisation develops a detailed FBC for large projects once the OBC is approved and suitable finances identified.

Allowable costs and benefits

2.38 FCERM GiA is only used to fund costs necessary to achieve and maintain the FCERM results of a project over its lifetime, including any associated environmental improvements. This applies to all FCERM GiA funded projects, including those with a partnership funding score greater than 100%.

Principle 6

FCERM projects also provide a range of other benefits. A project is encouraged to set broad objectives. FCERM GiA is used to fund the measures that contribute to the FCERM outcomes.

2.39 When funders justify investing in FCERM projects based on benefits other than reducing the risk of flood and coastal erosion, they identify the other benefits very early so that they can include them in the planned project outcomes. They fully fund the necessary extra work in terms of project development, construction and ongoing maintenance costs. This avoids local preferences and demands placing unjustified extra costs on the national taxpayer. Reasonable and proportionate measures for protecting or improving the environment are considered eligible costs, and these are evaluated individually in a project appraisal.

Skills and capabilities

2.40 All organisations develop their skills and knowledge to better identify potential beneficiaries, develop successful collaborations and partnerships and secure contributions.

Principle 7

The lead organisation makes sure its staff have the necessary skills to apply the requirements of partnership funding.

2.41 Lead organisations make sure that their staff who work with interested parties and partners, carrying out engineering projects and maintaining assets are suitably skilled. This includes making sure staff understand and can effectively deal with the related risks and liabilities.

3. Partnerships

Background

3.1 Working in partnership with others is essential where contributions are needed to achieve FCERM outcomes. Investing in FCERM infrastructure and assets also brings benefits beyond those directly related to reducing flooding and coastal erosion risks. These non-FCERM benefits are not used to help justify the levels of FCERM GiA. However, they are an incentive for others to contribute. Funding by Her Majesty's Government must be recognised publicly and in communications associated with the project. The Environment Agency can provide advice on how to do this. Other funders may choose whether or not to publicise their contributions.

3.2 People who benefit from FCERM projects include everyone who lives, works, provides or receives services or owns infrastructure and assets in areas that benefit from the work being carried out. It also includes everyone who represents them, and other commercial or voluntary enterprises.

3.3 Once those who benefit from FCERM projects are identified, it is possible to connect different parties with each other, including any organisations that need major investment in assets. This helps identify benefits that FCERM projects can bring about, such as local economic growth, business opportunities, land, improving the look of the area and environmental changes and improvements. At an early stage in developing a project the lead organisation identifies how to approach those that will benefit and explore options for funding.

National programme and project investment

3.4 The Environment Agency oversees all FCERM projects in the national programme. For each project, the lead organisation uses the Environment Agency's FCERM appraisal guidance to prepare an appraisal of options to assess and justify its proposed investment choices and outcomes, while taking account of local factors.

Principle 8

Investment choices are based on the benefits, outcomes and costs of individual projects. A partnership approach to funding a package of measures over time requires partners to contribute appropriately throughout the work programme.

3.5 It’s possible to reduce a project’s costs if local projects work together to benefit from innovation and economies of scale. However, each project will still need to justify its own investment from public funding.

3.6 Partnerships secure financial contributions for each project. Where contributions are made towards projects that would otherwise be fully funded by FCERM GiA, this releases FCERM GiA for other projects. Where beneficiaries contribute towards projects that have been allocated 100% FCERM GiA, the FCERM GiA released by the contribution is re-invested in other projects within the RFCC area. For those projects that need a contribution to go ahead, the full value of the contribution, including amounts that increase the partnership funding score above 100%, offsets FCERM GiA investment in the project. Contributions are only spent on a project for which they are raised.

3.7 The individual FCERM GiA contribution to any project is capped at 100% of costs.

3.8 Where funding agreements help implement a project that is part of a wider programme of works completed in phases, each phase will have to justify its own investment.

3.9 The potential FCERM GiA for a project is based on its overall benefits and costs. A share of the maximum grant payment is then made available at each phase of the project. At no stage do the benefits used to justify FCERM GiA depend on the later phases of a strategy being implemented.

3.10 The amount of FCERM GiA for each phase or project is calculated based on the benefits it will bring for an area at risk over a given period of time. Where successive phases of work provide protection to the same flood or erosion cell (area), no further capital work in that flood or erosion cell is eligible for FCERM GiA support for future phases during the period where benefits from the first phase are due to continue. Allocating benefits from the higher level plan or strategy avoids ruling out, or limiting, future FCERM GiA payments for future work in the same flood or erosion cell, and helps secure funding agreements for future phases.

3.11 The Defra policy statement on partnership funding sets the amount of national funding for each project. This also allows a separate funding decision for each project implemented in phases, while avoiding the overall benefit being double-counted or cross-subsidised. The funding allocation for the first phase does not set a precedent for future phases. Further operational guidance is available to help identify the results associated with different phases and how long the benefits will last.

3.12 Where investment deals with risk from a number of sources, such as surface water and river or tidal flooding, the Environment Agency can help quantify the benefits of a project that deals with only part of the risk.

3.13 In some situations, a work programme made up from a series of investments must be completed fully to achieve a specified flood or erosion benefit. If it is difficult to separate the costs for each part of the investment, the largest proportion of contributions is secured for the earlier investments. When an overall funding package for the work programme cannot be agreed from the start, it is appropriate to use the overall benefits and costs of the work programme to establish a 'flat rate' proportion of proposed costs for contributions to each phase. This approach offers flexibility, achieving benefits over time in given phases without having a complete funding package agreed at the beginning of the work programme. However, more FCERM GiA will not be allocated to a project if the benefits in the early phases are low or adequate contributions have not yet been identified. Working in partnership means that contributions should be expected for each phase. This approach guarantees value for money for the FCERM GiA funded share of costs only if all planned works are completed over time, and it is agreed in principle with the Environment Agency before the work programme starts.

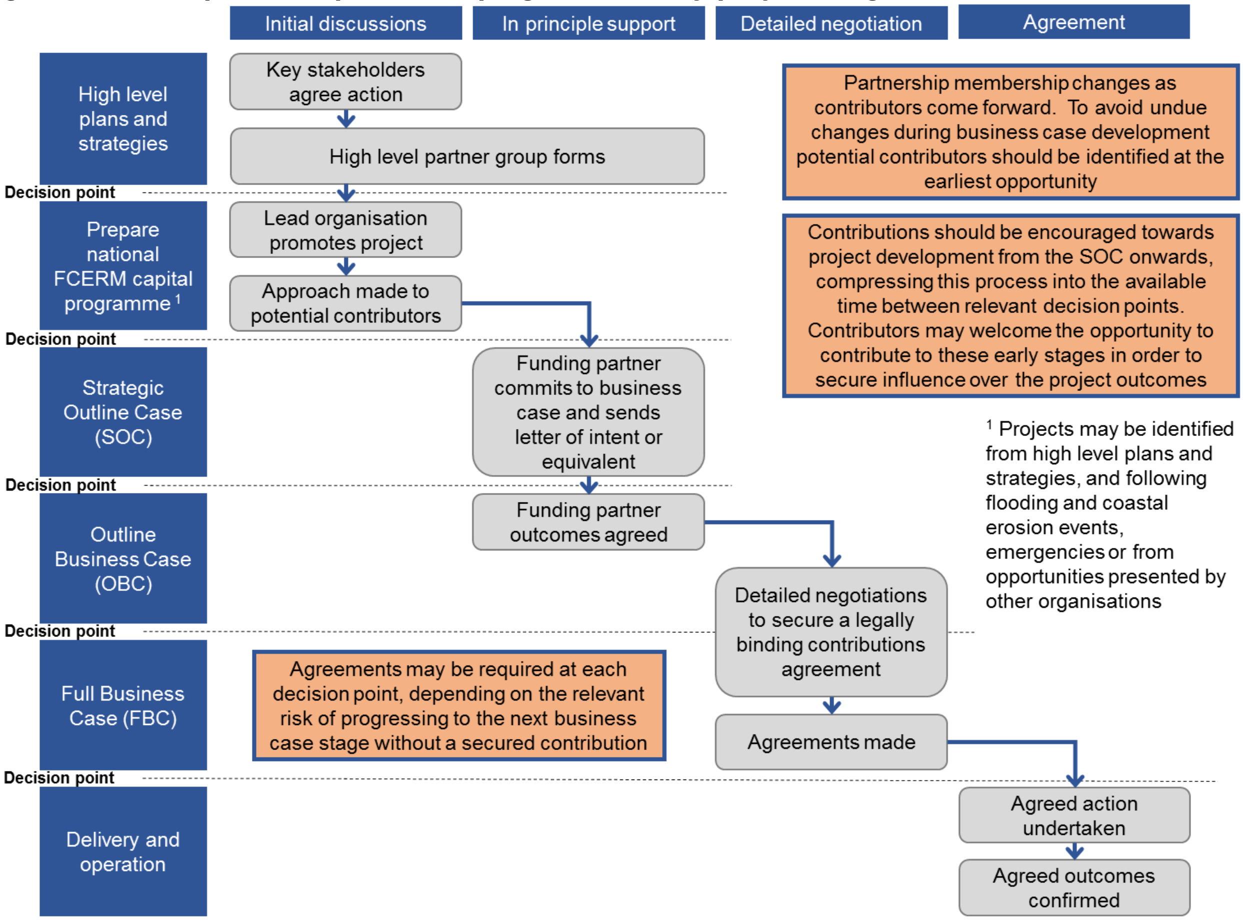
Partnerships and agreements

3.14 Once an opportunity to manage flood and coastal erosion risks is identified, the lead organisation develops an appropriate relationship with potential partners as soon as possible. This increases the chances of securing a contribution.

3.15 Partnership agreements develop as projects develop. Discussions with interested parties and potential contributors begin while projects are being considered at the high-level planning stage, and continue when applying for FCERM GiA to the national programme. In principle, support is built as projects progress through business case development from before the SOC is developed through to the OBC. Funding partner commitments are made in the business case, to develop shared results and as the project progresses through to the detailed design and planning stages. Appropriate negotiations aim to secure funding agreements between partners.

3.16 Partner group membership will change as contributors come forward. To avoid unnecessary changes during the business case approach, potential contributors should be identified as soon as possible. Contributions should be encouraged towards project development from the SOC onwards, reducing this process to the time between relevant decision points. Contributors may welcome the opportunity to contribute at these early stages to influence the project outcomes. Agreement may be needed at each decision point, depending on the relevant risk of progressing to the next project stage without a secured contribution.

Figure 2: Development of partnership agreements by project stage



Principle 9

A legally binding agreement is needed before the lead organisation can make any significant expenditure on a project that is dependent on a contribution.

3.17 The lead organisation develops a suitable agreement with funding partners. Agreements include details of the proposed works and the investment needed to achieve the planned outcomes. Using standard contract terms makes it easier to draw up agreements for low risk projects, particularly where the contribution covers a small proportion of the overall cost. A legally binding agreement is not needed where FCERM GiA funding is supplemented by local levy funding alone. Conditions for allocating FCERM GiA to RMAs are set out in the Grant memorandum.

3.18 Making sure that an organisation confirms its intention to contribute is an important part of the early development of a project, as described in section 2.35. This intent is obtained from officers with the appropriate authority to make commitments on behalf of their organisation. It reduces the risk of the commitment being withdrawn later. Legal advice is sought at, or before, this stage and at all subsequent stages. Legally binding terms are agreed before the contribution is due to be made, and before the project progresses beyond the FBC.

3.19 Binding terms include:

- aims and objectives
- governance arrangements
- roles and responsibilities
- financial and other contributions, including in-kind contributions and access to, or contributions of, land
- the purpose of the contribution, including the split between construction and maintenance contributions
- important decision-making processes and break points
- technical and operational factors
- ways of procuring services
- risks, liabilities and securities, including the liability for any cost overruns
- timescales, including time of contributions payments
- results expected
- changes and exit management, and resolving disputes
- security of payment, including the consequences of default
- intellectual property rights
- public availability of information

3.20 The lead organisation and each contributor is responsible for securing their own legal advice. The lead organisation will usually propose terms to potential funders, but takes care to avoid becoming legally bound before any agreement is made. The lead organisation also makes sure offers are suitably qualified and evidence provided in writing to avoid misunderstandings and the potential consequences from changes outside its control.

3.21 Contributions agreements are made between legal bodies, for example, public organisations, private companies or community-based trusts that may be established to fund a project. The lead organisation is responsible for carrying out due diligence to make sure the potential funding partners can meet the financial, resource and legal obligations involved in the contributions agreement.

3.22 The legal agreement does not have to make the lead organisation responsible for maintenance. For example, maintenance can be valued as an in-kind contribution within a funding agreement, and therefore be the responsibility of a contributor in future.

3.23 Appropriate agreements are needed so that projects can be completed to planned timescales and to the standard expected.

Partnerships and risks

3.24 All potential partners understand and manage their liabilities effectively. They make sure that actions and discussions leading up to an agreement being made are not misunderstood or misconstrued by others.

Principle 10

Partners are fully involved with FCERM projects and share the risks and liabilities through all stages of the project so that they are reassured that the project will bring about future benefits.

3.25 The lead organisation uses best practice approaches and tools to make sure it involves appropriately, openly and fairly anyone who benefits from the planned investment. Lessons learned from past experiences are shared with potential funding partners.

3.26 As far as possible, the project team identifies the project's risks and uncertainties, and agrees any plans to reduces these risk with the consultants and contractors commissioned for the proposed work. All funding partners are encouraged to get involved and think of ways to limit or remove the likelihood of risks occurring. This also means that they are given the opportunity to agree alternative actions before they incur any related costs.

3.27 Assessments of project options and valuations of benefits are clearly described and open to appropriate scrutiny, including the arrangements described in section 2.30 to 2.31. FCERM GiA will only be allocated based on the benefits that are subject to this review.

Local choice in FCERM solutions

3.28 When deciding which flood or coastal erosion risk solution is used in a particular location, the partnership evaluates a range of options against social and economic criteria.

Principle 11

FCERM solutions are supported by the funding partners and communities that benefit the most from them.

3.29 Unless otherwise agreed, the partnership uses the FCERM appraisal guidance for its assessment. The approach is acceptable to the local community and recognises there is a wider national programme of projects throughout England where communities are also seeking FCERM GiA funding. As far as possible, the lead organisation aims for a solution that will bring the results all funding partners want to see, and ones that have the most support within the communities benefitting from the work.

3.30 The lead organisation:

- advises the community benefitting from the project, and any potential funding partners, on the likely implications of each option being considered
- takes account of local high level strategies and catchment level policies
- using the FCERM appraisal guidance, identifies the preferred option from a national perspective. This option is the one that offers the best value for money, taking the wider national programme into account, and makes sure that significant investments of public funding could not be better spent elsewhere.

3.31 Where the lead organisation is not the Environment Agency, it can consult the Environment Agency for advice.

Principle 12

A funding partnership can choose a solution that offers less protection at a lower cost than the option preferred by the national guidance if the community is fully aware of the implications of this choice.

3.32 If communities choose an option that provides less protection at a lower cost than the option best suited to a national programme (the nationally preferred option), the lead organisation and the Environment Agency will need to be satisfied that the communities understand the implications of their choice. For example, this includes higher risks, reduced access to insurance products and reduced scope to cost-effectively improve FCERM in the future.

3.33 As part of its review role, as set out in section 2.31, the Environment Agency refers proposals to its Board or Defra when it considers the chosen option exposes the community to unacceptable risks or represents poor value for money.

Principle 13

A funding partnership can choose an option that has a higher cost than the option preferred by the national guidance if the cost difference is funded by the communities and other beneficiaries.

3.34 If communities choose an option that provides more FCERM results than the option best suited to a national programme (the nationally preferred option as identified using national guidance), the national funding is capped at the costs of the nationally preferred option. This makes sure that FCERM GiA is available to support projects in other communities across England. The communities and other potential beneficiaries are responsible for finding the extra money to pay for the locally preferred option.

The development planning system

3.35 Development facilitates growth, both locally and regionally. However, these benefits are not included in the results used to justify FCERM projects. In particular, the amount of FCERM GiA awarded to a project under partnership funding does not take into account any new residential dwellings completed or converted after 1 January 2012 (that is, first sold after this date). This avoids national taxpayers funding protection in the future for new development in areas at risk of flooding and coastal change as government policy (the National Planning Policy Framework) requires that the development is responsible for its own protection.

Principle 14

As part of government policy, all development must be appropriate. As well as meeting wider policy aims, this includes developers making a contribution to the cost of the necessary protection from flooding or coastal erosion to help provide safe and resilient development.

3.36 Where contributions are sought for new developments that rely on existing defences, the contributions from developers are in proportion to the benefits the development receives. This contribution does not remove other requirements placed on the developer through the planning system.

3.37 For new development in locations without existing defences, or where development is the only beneficiary, the developer must fund the full costs of appropriate risk management measures for the lifetime of the assets proposed. This includes initiation, promotion, approval, design, construction, commission, operation, maintenance, refurbishment and decommissioning, as well as reducing any flood risk impacts caused by the development elsewhere. Local enterprise partnerships (LEPs) can help developers with this.

3.38 Strategic and specific contributions are secured from development using tariffs (the Community Infrastructure Levy) and/or other planning obligations (Section 106 agreements).

3.39 Funding from developers is explored in partnership with the local planning authority and before planning permissions are granted. Securing contributions from a developer is part of the package of measures required by government planning policy to provide appropriate development. A development cannot be made appropriate just because a developer is willing to fund the cost of the necessary protection from flooding or coastal erosion as wider government policy aims must also be met.

3.40 During project planning, and especially when estimating the timing of funding streams, the partnership makes a reasonable allowance for the time needed to deal with planning issues, particularly where the project is linked to wider appropriate development to promote growth.

4. Finance

Background

4.1 HM Treasury and the National Audit Office (NAO) make sure that all public sector bodies follow rules on financing, funding and expenditure. There are strict rules governing the way in which income, including contributions, is treated.

4.2 Contributions are calculated based on present values (using social time preference indices) to make decisions on which options to choose. They are valued in cash terms for all agreements. All jointly funded projects have a clear agreement for how financial risks and liabilities are shared between partners.

Contributions, future costs and financial liabilities

4.3 Secured contributions share the costs of initiation, promotion, approval, design, construction, commission, operation, maintenance, refurbishment and, where necessary, decommissioning of FCERM assets. Contributions are calculated based on costs over the lifetime of the asset, including the full risk contingency. They are valued at the point they are spent throughout the period in which they provide protection. This is the same as with FCERM GiA.

4.4 Using the partnership funding score to justify eligibility for FCERM GiA (at FBC), any contributions that are not used are returned to the funding partners in the same proportion as they are given. This is reconciled when the final project accounts are agreed. Lead organisations can account separately for financing assets funded by the partnership.

4.5 For projects not managed directly by the Environment Agency, FCERM GiA is paid to the lead organisation 3 months in advance based on forecast capital expenditure.

4.6 Funding partners share the costs of project activities at each stage, making allowance for the constraints that exist for FCERM GiA and other funding streams as described in section 4.12 to 4.19. The ability of each funding partner to raise the money, or provide suitable commitments to raise the money, at the required time is considered and accommodated, where possible. Commuted sums and bonds help avoid future default.

4.7 A proportion of each funder’s contribution is reserved or ‘commuted’ for maintaining assets in the future unless other specific arrangements are agreed.

Principle 15

The lead organisation has accounting procedures to manage its obligations as set out in the contributions agreement.

4.8 The lead organisation is a legal body that can enter into a contributions agreement as outlined in section 3.21. In addition, the lead organisation's ability to secure appropriate stewardship of public funds is open to scrutiny under the Environment Agency's proportionate approach review arrangements described in section 2.30 to 2.31.

4.9 Contributions for future work are released by the relevant asset management organisation to fund asset maintenance over the agreed time period. These sums may only cover part of the future maintenance liability, so other funding secures the balance of the required costs, using the funding organisation's resources.

Principle 16

The total value of contributions required is based on the project's present value whole life cost less the amount of eligible FCERM GiA. The lead organisation is responsible for securing the required contributions, taking account of the wider benefits that other contributors gain.

4.10 The total value of contributions towards a project is worked out using the benefits and outcomes, including their timing, the remaining budget needed and size of the agreed risk contingency. In principle, contributors reflect the groups or organisations that gain the most from the planned investment. Private or third sector contributors are encouraged to contribute in proportion to the benefits they will receive. These contributions reduce the amount of money from any local public sector investment.

4.11 Cost and benefit values used in calculating potential FCERM GiA levels are based on present values (based on social time preference indices). Since the time value of money means, for example, that £1 is worth more today than it will be in 5 years' time, costs and benefits arising in future years are discounted using HM Treasury guidance and indices. This means that the contribution needed for a project is also considered in the same way. The cash value of the contribution is therefore different to the present value used when comparing options and prioritising government investment. Contributions agreements are based on the cash value of a contribution, sharing the costs of an activity in today's price base, plus inflation over a specified time. This is the same basis as the expenditure value of FCERM GiA for a project.

Sharing financial risks

4.12 When estimating the size of contribution needed from any funding partner, a range of values is discussed, representing the uncertainty in how much money is finally needed. This range is broader in the early stages of the project development, but decreases as cost certainties increase. Partners also work together to drive down the cost of implementing their project.

Principle 17

The partnership shares the costs, risks and liabilities for implementing, maintaining and operating the project assets.

4.13 Cost estimates are realistic and reflect experiences from previous projects. 'In-kind' contributions, such as commitments to maintain an asset, are included at a fair value within contributions. The Environment Agency can provide further information on estimating costs through its framework contracts.

4.14 The lead organisation secures agreement for sharing responsibility for any cost overruns across the funding partners. This recognises that the maximum amount of FCERM GiA for any project is set by the partnership funding tariffs, and therefore the ability to meet overspends through extra FCERM GiA payments is limited.

4.15 The maximum contribution agreed with other partners allows for the full project risk contingency. If this arrangement is in place, any cost overruns are shared across all funding sources, including FCERM GiA, in proportion to the size of their contribution. However, the FCERM GiA payment cap is not exceeded. If it is not needed, unspent money is returned to contributors in proportion to the amount they contributed.

4.16 A project entering the national programme with a partnership funded score of 100% has no allowance for potential overspend, so funding partners must meet any additional costs.

4.17 Where project costs are supported by a partnership funding score significantly higher than 100%, the lead organisation may cap contributions if it is satisfied that this does not affect the project being carried out. Where project costs are not supported by a partnership funding score significantly above 100%, contributions (fixed or capped) will take account of project risk contingencies. This reduces the risk that unforeseen costs will make the project unaffordable, and makes the implementation of the project more likely. Partners with the most control over costs can best deal with cost uncertainties. This is normally the organisation responsible for implementing the project.

4.18 Since unspent contributions are returned, a capped contribution to a project scoring significantly above 100% allows for both the risk of overspend and the benefit of underspend. Excess contributions are not returned when they are necessary to maintain the partnership funding score agreed in the relevant business case.

4.19 Where the lead organisation uses Environment Agency framework contracts for its project, it may be possible to assign some additional liability for overspends to the FCERM GiA funding share. This may also be possible if the lead organisation uses an established public sector supplier framework, such as a civil engineering framework. To do this, the lead organisation must prove that other contributions are not available, that reducing project costs is challenging and that a robust commercial approach has been followed. This approach preserves the overall value for money required by the partnership funding policy.

References

Department for Environment, Food & Rural Affairs (Defra)

- Flood and coastal resilience partnership funding policy statement 2011
- Partnership funding calculator
- Appraisal policy statement
- 25 year environment plan
- Government funding for flood and coastal erosion risk management
- Further evaluation of partnership funding

Environment Agency

- Draft Flood and coastal erosion risk management strategy for England
- Appraisal guidance
- Investment journey
- Calculate grant-in-aid funding for flood and coastal erosion risk management projects
- Flood risk and coastal change
- Climate change impacts and adaptation
- Integrated assurance and approval strategy

Ministry of Housing, Communities & Local Government

- Flooding and local authorities
- National Planning Policy Framework
- Community Infrastructure Levy
- Section 106 agreements

Legislation

- Flood and Water Management Act 2010

Wider guidance

- Alternative sources of funding for FCERM

Glossary

Beneficiaries – any individual or group that benefits from investment in an FCERM project that reduces flood and coastal erosion damage as well as wider benefits such as economic growth. These include households, businesses, water companies and other utility providers, power and transport suppliers and network providers, government and council bodies, councils, charities and any other legal bodies.

Business case

Strategic outline case (SOC) - the first stage of a business case, setting the strategic context for a package of FCERM measures to justify action and seek further investment.

Outline business case (OBC) - the stage at which a preferred option is chosen, taking account of local preferences, financial constraints and identifying contributors towards the whole life costs of the proposed option and outcomes. This stage seeks to justify further funding to progress to the full business case.

Full business case (FBC) - the final stage of a business case, setting out the investment choice to achieve the outcomes identified by the partners and/or the funding partnership when contributions are required. Where they have not been secured previously, contributions agreements towards the works are secured immediately after this business case is approved.

Bond - a legal guarantee issued to one party of an agreement should the other party fail to meet its obligations in the agreement.

Community Infrastructure Levy - a levy that local planning authorities in England and Wales can choose to charge on new developments in their area. The money is used to support development by funding infrastructure that the local authorities, communities and neighbourhoods want.

Commuted sums - A one-off payment of a capital sum as a contribution towards the future maintenance and operation of an asset, taking account of both interest and inflation estimates over a specified period of time.

Contribution

Cash contribution - the agreed (and capped) sum of money provided to one party by another to support the implementation of a particular project.

In-kind contribution - the agreed value for specified services and/or for specified materials provided by one party to another to support the implementation of a particular project.

Contributions agreement - legally binding terms for securing a contribution to support the implementation of a particular project.

Contributor - a beneficiary or other legal body who is providing a contribution to support the implementation of a particular project.

Defra - Department for Environment, Food & Rural Affairs.

Due diligence - a financial, business and reputational investigation of a business or person.

Duration of benefits - the period of time over which the outcomes a project can be relied on until the next major capital investment (or the end of the useful life of the asset), assuming it is maintained properly.

FCERM - flood and coastal erosion risk management.

FCERM appraisal guidance - the document that sets out the way in which FCERM projects are assessed to identify and justify investment in providing a preferred option.

FCERM GiA - flood and coastal erosion risk management grant-in-aid as provided by Defra to the Environment Agency to be allocated to all risk management authorities (RMAs) to support FCERM measures in England.

FCERM measures - the package of measures carried out by investing in projects to achieve FCERM outcomes results for beneficiaries.

Funder - an organisation that is paying, in part or in full, for an FCERM project.

Funding partner - an organisation that is paying, in part or in full, for an FCERM project that will provide benefits beyond those related to FCERM alone.

Funding partnership - a group of organisations or legal bodies that have agreed to fund a project, including sharing the risks and liabilities for implementing it, and which may provide benefits beyond those related to FCERM alone.

HM Treasury - Her Majesty's Treasury.

IDB - Internal drainage board.

Interested party - an organisation that has an interest in the potential FCERM measures.

Lead organisation - the organisation promoting the project, seeking to secure FCERM GiA, managing risks for the beneficiaries, and responsible for governance and funding.

LLFA - Lead local flood authority.

MHCLG - Ministry of Housing, Communities & Local Government.

NAO - National Audit Office.

National programme - the national programme of capital projects seeking funding from FCERM GiA to build new FCERM assets or to sustain or replace existing assets at any given point in time.

Nationally preferred option - the option that offers the best value for money, taking the wider national programme into account, and make sure that significant investments of public funding could not be better spent elsewhere.

Outcomes - the results achieved directly and indirectly from carrying out a package of FCERM measures. The eligibility for FCERM GiA depends on achieving specified results set by Defra.

Partnership - a group of organisations or legal bodies that have an important interest in a project in order to secure results that may allow some, or all, of the partners to realise benefits beyond those related to FCERM alone.

Project assurance

> ***NPAS*** - National Project Assurance Service
>
> ***NPAB*** - National Project Assurance Board
>
> ***LPRG*** - Large Projects Review Group

RFCC - Regional flood and coastal committee.

Risk contingency - the additional allowance included in the project costs to take account of uncertainties and optimism within the estimates for implementation. The full risk contingency is part of the whole life cost of a project.

RMA - Risk management authority.

Section 106 agreement - section 106 of the Town and Country Planning Act 1990, which allows a local planning authority to enter into a legally binding agreement or planning obligation with a landowner as a condition of granting planning permission.

Standard of protection (SoP) - the design standard, measured by annual exceedance probability (AEP), that an existing asset or proposed project provides, based on the current assessment of risk. The SoP changes over time due to climate change impacts and asset deterioration.

Standard of service (SoS) - the measurable and objective description of an asset such as the crest level of a wall or pumping capacity and a minimum condition grade.

Wider benefits - benefits that are beyond those directly associated with the FCERM measures, such as increased economic activity, increased recreational use, improvements to the environment and reduced costs of welfare.

Worthwhile project - any project where the benefits significantly exceed the costs of achieving the results over the duration of benefits period.

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