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5 December 2011

Dear Colleagues,

### **Distribution of the Flooding Component of The General Capital Grant for Spending Review 2011 - Guidance For Local Authorities**

As part of the 2008 Local Government settlement a number of former specific grants were rolled up and became part of the General Capital Grant paid to Councils. The flood prevention and coast protection capital grant was one such grant which was rolled up in this way.

Local authorities have identified that this has had implications for councils wishing to undertake large flood projects. As part of the Spending Review 2011, which covers the period 2012-2015, it has been agreed with COSLA that the distribution methodology for the flooding component of the General Capital Grant will change. The new distribution methodology is to allocate the flooding component only to large flooding projects.

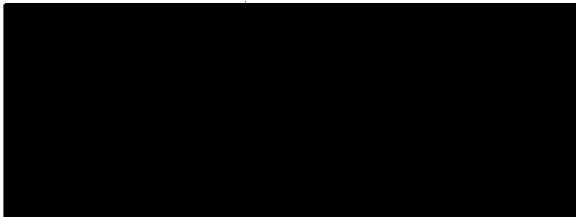
The Scottish Government and COSLA have agreed joint guidance for local authorities on how the flooding component of the General Capital Grant will be distributed for Spending Review 2011. This is attached. It sets out the process for applying for this component of the grant, the information which must be provided, the eligibility criteria, the assessment process and the payment process.

Local authorities seeking funding from this component of the General Capital Grant will be required to make an application for funding and provide the information as set out in the guidance. The first round is only for those projects which have been granted approval and have the necessary planning permission as part of the Flood Prevention (Scotland) Act 1961.

Local authorities should return individual applications which meet the criteria to the Scottish Government Flooding Team by **Friday 23 December**. Contact details are set out in the guidance.

I would be grateful if you could disseminate this information to your Director of Finance and other relevant staff in your authority.

Yours faithfully,



**W. George Burgess**  
**Deputy Director, Environmental Quality**  
**Scottish Government.**

# DISTRIBUTION OF THE FLOODING COMPONENT OF THE GENERAL CAPITAL GRANT FOR SPENDING REVIEW 2011

## GUIDANCE FOR LOCAL AUTHORITIES

### Background

1. As part of the 2008 Local Government settlement (SR2008) a number of former specific grants were rolled up and became part of the General Capital Grant paid to Councils. The flood prevention and coast protection capital grant was a specific grant which was rolled up. This specific grant was previously paid out to councils for agreed projects, the payments being made as expenditure was incurred over a number of years. When the grant was rolled up it was agreed that the allocation of the flooding component of the General Capital Grant for SR2008 and future Spending Review periods for a 6 year period would be made first to known and agreed flooding schemes with any balance then distributed on a formula basis of properties at risk of flooding. From 2014-15 this approach would have led to the flooding component being allocated solely on a formula basis.
2. Feedback from a number of local authorities identified a number of issues on what this meant for councils wishing to undertake large flood projects. Concerns were raised on the frequency of projects, the "lumpiness" of the expenditure profile and the financial issues these large projects particularly for smaller councils.

### Spending Review 2011

3. As part of the SR2011 political discussions which covers the period 2012-2015, it has been agreed that the distribution methodology for flooding component of the General Capital Grant will change. The new distribution methodology is to allocate the flooding component only to large flooding projects. The projects currently receiving funding have first call on the monies available. The balance of the grant (circa £73m over the SR2011 spending review period) is to be available for large projects. Local authorities are invited to apply for this element of the grant.
4. Applications will initially be restricted to those projects granted approval and necessary planning permission as part of the Flood Prevention (Scotland) Act 1961. Once these have been assessed, a further round of applications will be invited for new flooding schemes which have been granted appropriate statutory consent as outlined within the Flood Risk Management (Scotland) Act 2009. This reflects the priorities placed on projects by COSLA and the Scottish Ministers.
5. These arrangements are in place for the current spending review period only (2012 to 2015). Any new arrangements will be considered as part of the SR2015 discussions and are likely to take account of the development of local flood risk management plans. This will support the statutory requirement for responsible authorities to agree funding of measures in the Local Flood Risk Management Plans.

6. This guidance sets out the process for applying for this grant, the information which must be provided, the eligibility criteria, the assessment process and the payment process.

### **Process**

7. Local authorities seeking funding from this General Capital Grant component will be expected to make an application for funding and provide the information as set out in this guidance. Applications will be considered by a panel consisting of representation from: COSLA, Scottish Government and SCOTS Flood Risk Management Group. This group will make recommendations for grant allocation. These recommendations will be reviewed by an officer group which includes Directors of Finance before being recommended to COSLA Leaders and Scottish Ministers for consideration.
8. Over the Spending review period the officer review group will meet periodically as required. The officer group will review progress of projects, consider slippage/ projects ahead of schedule and ensure optimum resource allocation. It will also consider proposals for flood funding for SR2015.
9. The Scottish Environment Protection Agency (SEPA) may be asked to provide expertise as necessary. This will ensure there is consideration of potential benefits and a link to National Flood Risk Assessment is provided as appropriate. It is unlikely SEPA input will be required for the 1961 Act projects.

### **Eligibility Criteria**

10. The following criteria have been agreed by both COSLA Leaders and Scottish Ministers as an appropriate basis for project priority and eligibility for funding.

#### ***Project priority***

- i. In the first instance, priority should be given to those schemes which already have been granted approval and necessary planning permission as part of the Flood Prevention (Scotland) Act 1961.
- ii. Priority should then be given to any new flooding schemes which have been granted appropriate statutory consent as outlined within the Flood Risk Management (Scotland) Act 2009.

#### ***For projects to be eligible***

- iii. Schemes should be able to demonstrate a positive benefit cost ratio of greater than 1 and demonstrate project value for money.
- iv. Schemes should be able to demonstrate certainty of commencement within the Spending Review period;
- v. Schemes should be able to demonstrate multiple benefits, e.g. water environment, asset management in a catchment area;
- vi. Schemes should fit within a potentially vulnerable area as identified by the National Flood Risk Assessment.

## **Funding Criteria**

11. Grant funding will only be available to support large flooding projects. The project threshold is set at £2 million.
12. The General Capital Grant conditions apply to applications made for funding of flood projects. In essence only capital expenditure costs will be eligible for grant funding. Grant payments to third parties may be eligible if permitted by the General Capital Grant conditions.
13. Large flooding projects which meet the criteria will be eligible to receive grant funding of 80% of eligible capital costs. For clarity, any eligible costs already incurred by a council for a project can form part of the grant application and subsequent funding if the application is successful.
14. Initially, if an application is successful, a funding allocation will be made on the basis of the costs estimated in the application. This is only a provisional award of grant funding. Once the project has been tendered and a contract awarded the grant funding will be re-assessed and the final grant award based on contracted costs.
15. All cost increases after the final grant award is made will be met by the Council.

## **Information Requirements**

16. Demonstrate that the project will deliver a positive benefit – cost ratio of greater than 1 and demonstrate project value for money.
17. Provide information on breakdown of project costs (as per the headings outlined below). This should specify the costs incurred to date (excluding any ineligible costs), expected future costs and an anticipated spending profile. Any project must be able to commence within the Spending Review period (2012 to 2015).

## **Headings for Project Cost Estimates (eligible costs only)**

- Scheme Preparation
  - Construction Preparation
  - Works
  - Utilities
  - Survey and Site Investigation
  - Site Supervision/design office support and cost management
  - Land/Compensation and fees (e.g., District Valuer)
  - Client Risk
  - Miscellaneous (advertising, CAR fees, publicity, community engagement, etc)
18. Confirmation that the appropriate statutory consents are in place and there is Ministerial confirmation where required. This will include a copy of the letter confirming the Ministerial approval of a 1961 Act scheme, and any evidence of statutory consents.

19. Demonstration of the benefits that will be delivered by the project. These should not be restricted to reduction in flood risk within the local authority area but could demonstrate wider catchment or national level benefits
20. An outline programme to completion, setting out the various stages such as procurement, advance/enabling works, CAR, planning conditions, environmental licences, committee approvals, for example.
21. An expenditure profile to compliment the above (graphical and tabular form).

#### **Timing – Round 1**

22. This round is only for those projects which have been granted approval and have the necessary planning permission as part of the Flood Prevention (Scotland) Act 1961.
23. Councils should return individual applications which meet the criteria to the Scottish Government Flooding Team by **Friday 23 December**.
24. Ideally, applications should be made electronically to Stan Irvine at Stan.Irvine@scotland.gsi.gov.uk or by post to Stan Irvine, Scottish Government, 1H North, Victoria Quay, Edinburgh EH6 6QQ.
25. Applications received will be reviewed by the officer panel the week commencing 9 January 2012. It is hoped to gain political agreement by 27 January 2012.
26. Individual Councils will be notified of their allocation of funding as soon as possible following political endorsement, with the expectation that any award of funding will be included within the February 2012 Finance Circular.
27. Allocations of funding may change. An initial allocation based on estimated costs will be amended to reflect contract costs. Payments of grant will be made quarterly based on expenditure incurred/forecast.

#### **Timing - Round 2**

28. Further guidance will be issued in due course to allow Councils to apply for any remaining balance of funding after the round one applications have been assessed and awards of funding have been made. Future rounds will be for new flooding schemes which have been granted appropriate statutory consent as outlined within the Flood Risk Management (Scotland) Act 2009, and will be dependant on funding being available plus any remaining 1961 Act schemes.

#### **Payments**

29. An allocation of grant will be based not only on total project cost but will also reflect the expenditure profile provided. This means a council will be advised of the total grant award and the amount per financial year.

30. Actual payment of grant will be made quarterly. The quarters are April to June, July to September, October to December and January to March. The payment will be included as part of the General Capital Grant payment. This grant is paid monthly on or around the 15th of the month. To accommodate flood project arrangements the payment basis for these projects will be actual expenditure incurred with an estimate for the final month of each quarter. A council with flood funding is required to make a return to the Scottish Government (Local Government Division) on the last working day in May, August, November and February. The return must provide details of eligible project costs incurred to date (the date is to be provided), together with an estimate of expenditure to the end of the quarter, and should be signed by the respective Section 95 officer within each Council. From this should be deducted any previous grant paid to provide the grant due to be paid. Where this exceeds the annual allocation the payment may be restricted to the annual allocation amount. The costs to date should be broken down to reflect the projects costs set out in the original application.
31. The payment arrangements may mean that a council whose project is proceeding more quickly than anticipated may only receive the grant funding allocated for that year applying the original expenditure profile. Conversely, a council whose project has slipped will not receive the full annual funding allocated. The Scottish Government, working with the officer group, will seek to manage the sum available for distribution each year to ensure optimum allocation. Unallocated amounts, identified in February each year, will be distributed to all councils using the previously agreed formula distribution – properties at risk of flooding. This will be paid out as part of the March General Capital grant payment.
32. Any approved grant award that has not paid out during SR2011, for example due to slippage, will have first call on the General Flooding Capital Grant in the next spending Review period. This means that councils can rely on receiving the funding agreed is made available to them for the project.