

# **APPENDIX A**

**FROM THE SCOTTISH GOVERNMENT:**

**LETTER OF INVITATION TO SUBMIT AN  
APPLICATION FOR FUNDING**

**&**

**ASSOCIATED GUIDELINES**





12 December 2013

Dear Colleagues

### **Distribution of the flooding component of the General Capital Grant for 2014-15 and 2015-16 - Guidance for Councils**

In December 2011 we wrote to Councils inviting applications for funding of large flooding projects. At that time applications were restricted to those projects which had been granted approval and had the necessary planning permission as part of the Flood Prevention (Scotland) Act 1961. We advised that further guidance would be issued in due course to allow Councils to apply for any remaining balance of funding after applications from round one had been assessed and awards of funding made.

This approach to the funding of large flooding projects was for the period 2012-2015 (SR2011).

The Scottish Government and COSLA have agreed that this approach to funding large flooding projects is to be extended to include the financial year 2015-16.

We are now inviting applications for the funding of large, new, flooding projects which are to be funded from the remaining 2014-15 component and the 2015-16 component. Eligible schemes include both 1961 Act schemes plus any new flood protection schemes which have been approved and have the necessary planning consent as outlined in the Flood Risk Management (Scotland) Act 2009. Full details on project priority and eligibility can be found in the joint guidance for local authorities, which has been updated and revised. This 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. The guidance accompanies this letter.

Local authorities seeking funding will be required to make an application and provide the information required as set out in the guidance.



Local authorities should return individual applications which meet the criteria to the Scottish Government Flooding Team by 21 January 2014. Contact details are set out in the guidance.

I should be grateful if you would 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 2014-15 AND 2015-16**

## **GUIDANCE FOR COUNCILS**

### **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 raised, particularly for smaller Councils.

### **Spending Review 2011**

3. As part of the SR2011 political discussions which covered the period 2012-2015, it was agreed that the distribution methodology for the flooding component of the General Capital Grant would change. The new distribution methodology was to allocate the flooding component only to large, new, flooding projects. This is based on an application process.

### **Budget 2015-16**

4. COSLA and Scottish Ministers have agreed that the same arrangement for the flooding component of the General Capital Grant should also apply for the financial year 2015/16.

5. This arrangement only applies to 2014-15 and 2015-16. The distribution methodology for future flooding projects after 2015-16 will form part of the discussions for the next Spending Review, 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 and Scottish Ministers for approval.

8. The officer 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 future Spending Review periods..

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 the Flood Risk Management Planning process 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 and Scottish Government as an appropriate basis for project priority and eligibility for funding.

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

- I. In the first instance, priority is given to those schemes which have already 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 flood protection schemes which have been granted appropriate statutory consent as outlined within the Flood Risk Management (Scotland) Act 2009.

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

- I. The scheme/project must be new and has not been awarded/ received funding under any previous arrangements for funding flood protection/prevention schemes.
- II. Schemes should be able to demonstrate a positive benefit cost ratio of greater than 1 and demonstrate project value for money.
- III. Applications should only be made where the main construction of the scheme is either ready to start or will start in 2014. The application will need to include evidence which demonstrates the certainty of starting the construction works following an award of a grant, including a robust timetable ;
- IV. Schemes should be able to demonstrate multiple benefits in a catchment area, e.g. water environment, asset management;
- V. 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 new 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. A funding allocation will be made taking account of actual eligible costs incurred to date plus estimated costs to complete the project as set out in the Council's application for grant funding. Councils may be asked to provide additional information on their cost estimates.

15. For the avoidance of doubt, funding allocations will not be revisited. Any cost increase after the grant award is made are the responsibility of the Council who will need to fund all additional costs i.e. 100% of any cost increase. However, to ensure that projects do not receive funding in excess of 80% of actual project costs grant allocations will be reduced if the cost of the scheme is lower than the estimate.

### **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 the 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. Please include a commentary or evidence to support the cost estimates.

### **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 should 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 licence, planning conditions, environmental licences, committee approvals, for example.

21. An expenditure profile to complement the above (graphical and tabular form).

### **Timing**

22. Councils should return individual applications which meet the criteria to the Scottish Government Flooding Team by **Tuesday 21 January 2014**.

23. Ideally, applications should be made electronically to Bob Bridges at bob.bridges@scotland.gsi.gov.uk or by post to Bob Bridges, Scottish Government, 1D North, Victoria Quay, Edinburgh EH6 6QQ.

24. Individual Councils will be notified of their allocation of funding as soon as possible following political agreement, with the expectation that any award of funding will be included within the appropriate Finance Circular.

### **Payments**

25. There is only a finite amount of grant available within the General Capital Grant to fund flood projects. Council will receive 80% grant on eligible expenditure for an approved project. However, based on the experience of the current funding of approved projects it may not be possible to pay grant at 80% of eligible expenditure as it is incurred. Alternatively, to ensure the funding component is fully spent each year it may be necessary to pay some grant in advance of actual expenditure. Recognising that a Council will wish to have some certainty as to when funding will be received we will include details of when grant payments will be made when an allocation is agreed.

26. To ensure projects do not receive funding in excess of 80% of actual project costs we will need a return from the Council each year setting out actual cumulative eligible expenditure incurred to the end of the financial year. The expenditure analysis should be broken down to reflect the project cost elements as set out in the original application. The return must advise whether the project is financially complete. This return is to be signed as a correct record by the section 95 officer of the Council. When a project is financially complete any overpayment of grant will be repaid by a Council as a reduction in the next years General Capital Grant.

Scottish Government  
December 2014



## **APPENDIX B**

### **SCHEME STAGE 6 REPORT LAND & COMPENSATION STRATEGY**

**(Report Purpose and Summary only)**



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## **SELKIRK FLOOD PROTECTION SCHEME 2012**

**Report by Project Manager**

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### **STRATEGY – LAND PURCHASE AND COMPENSATION**

**30 July 2013**

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#### **1 PURPOSE & SUMMARY**

- 1.1 This report provides an overview of the Scheme’s strategy towards land. This is in relation to land purchase and compensation arising from the Scheme’s requirement to occupy land. The report considers such requirement both during construction stage and over the longer lifetime of the Scheme.**
- 1.2 This report does not relate to the compensation to be paid to land owners or others for any losses incurred during the Scheme construction. These costs are included in the Scheme Risk Register.
- 1.3 The project team have developed a process through which the Land & Compensation (L&C) Strategy Estimate can be calculated. This has been in place for a few months and was put in place early to ensure the Scheme could deliver a robust estimate to fit into the Scheme’s Total Cost Estimate in the event of a requirement to submit a bid for funding to the Scottish Government. This L&C Strategy Estimate is considered to be a worst-case ‘normal’ scenario cost and it is assumed the final / out-turn cost will be less than this estimate.
- 1.4 The project team have identified six different approaches through which the Scheme can gain access to land through the Flood Risk Management (Scotland) Act 2009 (the FRM). It is proposed to use five of these in different locations based on which is most suitable. It is proposed that the Scheme only revert to the sixth, compulsory purchase of land, as a measure of last resort.
- 1.5 The Scheme will minimise the instances of negotiated land purchase and in each instance where this approach is proposed an individual business case will be developed to determine the benefit of the approach. Where possible the Scheme will dispose of land once it is no longer required.
- 1.6 In most instances the Scheme will not purchase land. Instead it will require temporary and permanent use of areas of land: to undertake the construction work, and where land is permanently removed from its existing use, respectively. These are defined as temporary and permanent land take.
- 1.7 In a number of instances the Scheme has entered into individual agreements with land owners and is now bound by the terms of those

agreements. In general the cost of such agreements will be met through defined Scheme Operations however in some instances the cost will be through the L&C Strategy Estimate.

- 1.8 It is the responsibility of the land owner to come to the Scheme with their claims and the Scheme will establish a process through which the District Valuer (DV) will manage such compensation claims for the Scheme.
- 1.9 Where the Scheme must initiate contact with a land owner SBC Estates will take the lead and will utilise the project team and the DV as required.

## 2 RECOMMENDATIONS

2.1 The Project Board approve the strategy towards Land Purchase and Compensation defined in this report so that the project team can deal with this part of the Scheme through the delivery stage in accordance with this strategy and specifically:

- (1) That the general approach of the Scheme will be in accordance with section 83 (2) (d) of the FRM in that it is the responsibility of those with a claim to come to the Scheme and not vice versa; and
- (2) That notwithstanding this general approach, in a number of defined instances (as detailed in section 12.1 of this report) the Scheme's project team and not the property owner / occupier will initiate the discussion regarding compensation for permanent and temporary land take.

## 3 REVISION HISTORY

Version	Date	Summary of Changes	Author
0-1	15-11-2012	First draft	Conor Price
0-2	30-07-2013	Revision to first draft	Conor Price
0-3	02-08-2013	Consultation with HGL & PA	Conor Price
0-4	05-08-2013	Consultation with PE	Conor Price
1-0	11-09-2013	Approval from Project Board	Conor Price

## 4 TABLE OF CONTENTS

Section No.	Section Heading	Page No.
1	Purpose & Summary	1
2	Recommendations	2
3	Revision History	2
4	Table of Contents	2
5	Background	3
6	Overview of the Scheme in relation to the L&C Strategy	3
7	Approaches to Land Take	4
8	Land Ownership and Land Occupancy	7
9	Creating Land Plans	7
10	Identifying Relevant Land Owners	8
11	Estimating Probable Land Compensation Costs	8
12	Negotiated Land Purchase – Specific Instances	10
13	Disposal of Land – Specific Instances	11
14	Individual Agreements – Specific Examples	13
15	Method of Managing Compensation Payments	14
16	Consultation	16

## **APPENDIX C**

### **KPMG – EXECUTIVE SUMMARY OF THE SCHEME'S FINANCIAL MANAGEMENT STRATEGY**





*cutting through complexity*

# Scottish Borders Council

Selkirk Flood Protection Scheme 2012  
Financial Management Strategy arrangements

Audit: Year ending 31 March 2014

FINAL: 20 January 2014

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	<b>Page</b>
<b>Executive summary</b>	2
<b>Introduction and background</b>	4
<b>Project management and governance</b>	5
<b>Compliance with relevant guidance</b>	6
<b>Financial Management Strategy – cost estimations</b>	9
<b>Process to bid submission</b>	13
<b>HM Treasury Green Book checklist</b>	14
<b>Appendix – Agreed scope of work</b>	19

**About this report**

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of Scottish Borders Council ("Council") and is made available to Audit Scotland and the Accounts Commission (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.



Scottish Borders Council has embarked on a significant programme of works to provide increased levels of flood protection at a number of locations within the Council boundary.

The development of the Selkirk Flood Protection Scheme (Selkirk FPS) was initiated in acknowledgement of the high risk of flooding to various parts of the town from the Ettrick and Yarrow Waters and the Long Philip and Shaw Burns. Based on the eligibility criteria for this next round of Scottish Government Flood Protection Scheme funding, Scottish Government funding will be available for up to 80% of the Selkirk FPS's expected costs of £28.8 million, with the balance to be met by the Council.

### **Project management and governance**

PRINCE 2 project management methodology has been adopted for the Selkirk FPS; the project is currently at stage six of the eight identified stages. Based on our high-level consideration of the project management arrangements, including discussions with the Project Manager and consideration of key stage documentation, those arrangements appear appropriate for the project. The adoption of a formal project management methodology meets the requirements of HM Treasury's Green Book for such complex projects.

Overall, we have gained assurance that, at a high-level, the project has been undertaken within a controlled environment.

### **Compliance with relevant guidance**

The Selkirk FPS has been undertaken in accordance with the Flood Risk Management (Scotland) Act 2009, supplemented by Scottish Government regulations and guidance. In the absence of this in the early stages of the project, adapted English guidance was followed, in accordance with Scottish Government instructions. Updated guidance

published by the Scottish Government in 2012 has been incorporated into the later stages of the project, principally the detail design stage following the timing of the approval of the Selkirk FPS in August 2012.

To the extent necessary for the completion of our work, we are satisfied that there is evidence to support the project team's reference to, and guidance by, the appropriate and relevant documentation.

There is detailed reporting on the approach to meeting the requirement to build optimism bias into the project in accordance with the requirements of HM Treasury's Green Book and supplementary guidance. Where appropriate, a distinction has been made between 'standard' and 'non standard' civil engineering to reflect factors assessed as complex, difficult or innovative.

Overall, we are satisfied that the project team has demonstrated meeting the requirements of HM Treasury's Green Book in the inclusion, and estimation of, the optimism bias factors in the calculation of the basic construction costs. This has subsequently been updated to reflect Scottish Government guidance.

We have reviewed the risk register which has been maintained by the Project Manager during the course of the project. In addition, we reviewed the minutes of risk workshops held, as well as the minutes of the Project Board meetings at which risks were considered. In our view, this meets the suggested content requirements for a project risk register set out in the Green Book.

A risk workshop has been held to bring together the monetised risk register and to enable the Project Board to challenge the risk analysis for the project. This workshop was appropriately minuted, and discussion and challenge noted.

### Financial management strategy – cost estimations

Subject to revisions currently underway as part of the response to the invitation to tender for Scottish Government support for the Selkirk FPS, total costs are estimated at £28.8 million.

The project risk cost allocation reflects the monetised value of the risk register. The optimism bias and tenderer's risk allocation are primarily contained within the construction works costs and are reflected in the monetised value of the risk register.

Within the context of the evolution of the risk allowance as detailed design has progress, the monetised element of the risk register appears reasonable and is based on a robust process and challenge.

The construction works are the significant element of the project, comprising close to 80% of the total costs. The project team has identified a procurement strategy such that the main construction works will be let as one NEC3 Option A (Activity Schedule) contract.

The design consultant has applied his own quality assurance procedures to review and consideration of the cost estimates and the risk allocation.

In order to obtain some independent challenge to these costs, an approach was made to a main contractor for assistance in providing example pricings for certain more complex elements of the project design. A report was prepared by the main contractor providing quotes and costs for alternative solutions to the elements of the work requested. These were found to be within 7% of the construction costs used by the design consultant, and are considered to be supportive of the general approach to cost identification.

### Process to bid submission

Final cost estimates are being developed for submission to the Project Board on 13 January 2014.

That the Scottish Government funding level will be determined at the bid stage, leaving the risk of overrun or other costs with the Council, does not appear to have been explicitly documented within the approach to risk. It is noted that this risk was only confirmed with the publication of the invitation to tender by the Scottish Government on 12 December 2013, outlining the funding restrictions.

Prior to submission of the bid, we believe it would be appropriate that the Project Board ensures that it documents its approach to this risk, through appropriate engagement with senior Council officers.

This should cover inclusion in the appropriate departmental risk register, for monitoring through the Council's corporate Covalent system in line with the corporate approach to risk management.

### HM Treasury Green Book checklist

HM Treasury provide a checklist against the five components of a major project: strategic case, economic case, commercial case, financial case and management case.

We have used this checklist at a high level against the evidence made available to us during the course of our work.

No significant issues have been raised. However, we note the identified risk on funding for cost overruns and consider that this should be appropriately documented and incorporated in Council risk registers as part of the final procedures leading up to bid submission.

## **APPENDIX D**

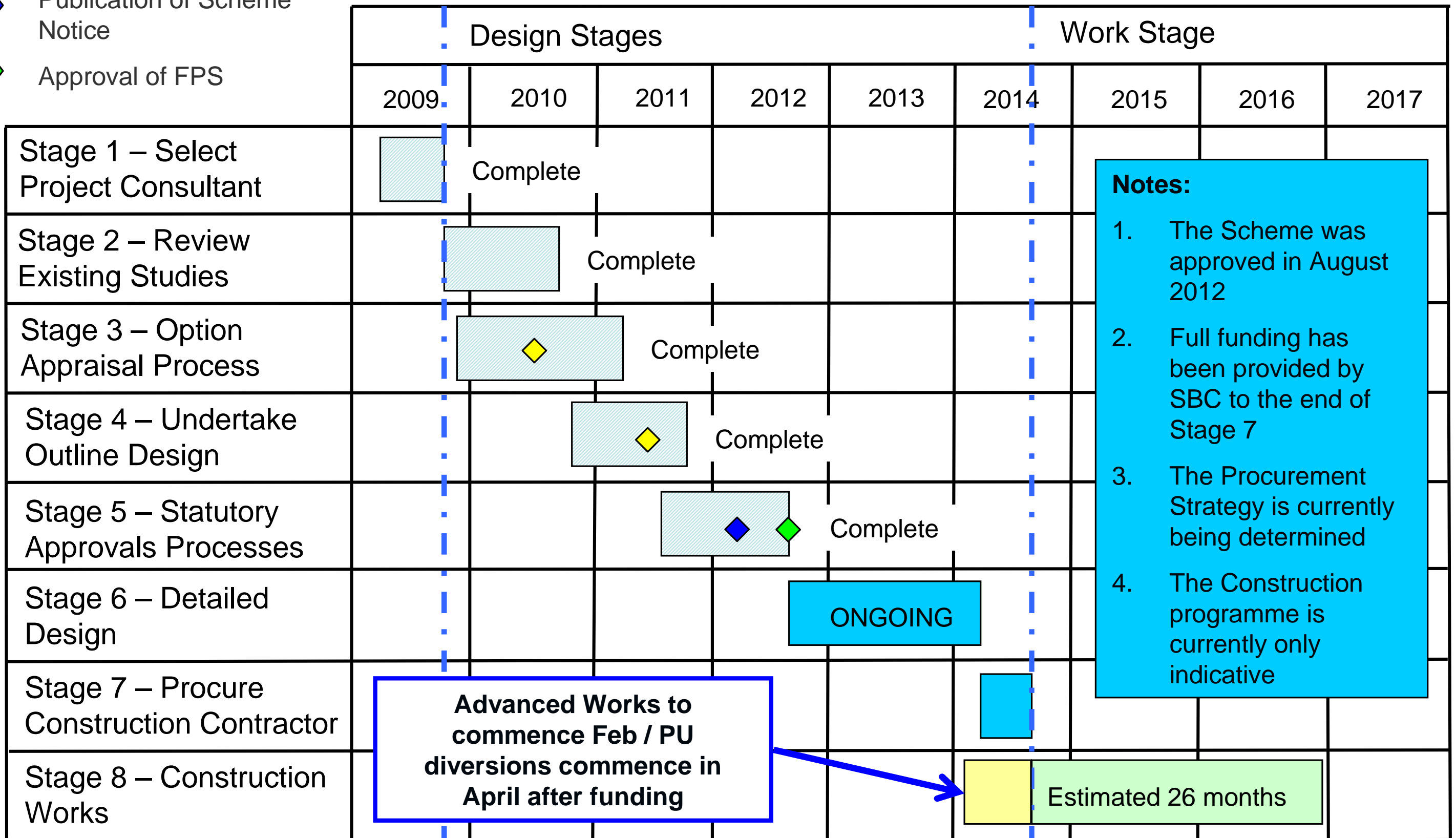
# **SCHEMATIC OF THE SCHEME'S PROJECT PROGRAMME**



# selkirk flood protection scheme

## SCHEMATIC SCHEME PROGRAMME – BY PROJECT STAGE

- ◆ Public Exhibitions No. 1 & 2
- ◆ Publication of Scheme Notice
- ◆ Approval of FPS



- Notes:**

  1. The Scheme was approved in August 2012
  2. Full funding has been provided by SBC to the end of Stage 7
  3. The Procurement Strategy is currently being determined
  4. The Construction programme is currently only indicative