

enhancing... improving... cleaning... restoring...
changing... tackling... protecting... reducing...
create a better place... influencing... inspiring...
advising... managing... adapting...

Outcome measure prioritisation

This document explains how to calculate an outcome measure prioritisation score.

Contents

1	Introduction	3
2	Calculation	3
3	Further notes	4

1 Introduction

What's this document about?

Defra outcome measures (OMs) and targets have been agreed as part of the Comprehensive Spending Review 2007 settlement, which covers the period from April 2008 to the end of March 2011.

Of the nine agreed measures, four will be used to prioritise capital expenditure for projects that result in a step change in standard of protection (SoP). This prioritisation mechanism replaces the existing priority score system for capital investment from 2009/10 onwards.

This guide explains:

- how to calculate an outcome measure prioritisation score for a project;
 - accounting for any contributions;
 - further information about the scope and application of the new system.
-

Who does this apply to?

This document is of general interest to all external bodies involved in managing and delivering FCERM projects and programmes.

The following groups have a specific need to use this document when appraising, designing and delivering FCERM projects and FCERM programme preparation, monitoring and reporting:

- local authorities;
 - regional flood defence committees;
 - internal drainage boards;
 - consultants.
-

2 Calculation

Introduction

The score for any given project ('project OM score') is calculated in three steps. These are described below.

Step 1

Divide the contribution to an OM target from the project by the overall target for that OM (see table below). Repeat this for every OM target to which a project contributes, to derive the OM score.

Outcome measure	Target	Derivation
OM1: Economic benefits (present value, PVb)	£3.7bn	Capital budget for the CSR period (£733m) multiplied by the CSR target ratio (5:1 benefit: cost).
OM2: Households at risk	100,000	CSR overall target for OM2 of 145,000, minus the targets for 2(b) and 3 below
OM2(b): Households at risk (significant category)	36,000	CSR overall target for OM2 of 145,000, minus the targets for 2 and 3 below
OM3: Deprived communities at risk	9,000	CSR overall target for OM2 of 145,000, minus the targets for 2 and 2(b) below
OM5: Biodiversity Action Plan (BAP) habitat	800 Hectares	CSR target

Note: For OMs related to households (2, 2b and 3), the project contribution to the targets needs to be adjusted to ensure that each household benefiting from the project does not contribute to more than one target.

Step 2

Add together each OM score. Then divide by the project's present value whole life cost (PVC) minus the present value of any financial contributions.

Step 3

Finally, multiply by 1,000,000 to derive the project OM score. The purpose of this final step is to ensure that the scores are converted into more manageable numbers.

Alternatively, the multiplication can be applied to each individual score without affecting the final result.

The final score represents how much a project contributes to each OM target per £1,000 of whole life costs.

Summarised formula

$$\left(\frac{PVb}{3,700,000} + \frac{OM2 - OM2b}{100,000} + \frac{OM2b - OM3}{36,000} + \frac{OM3}{9,000} + \frac{OM5}{800} \right) \times \frac{1,000,000}{PVC - contributions}$$

3 Further notes

Including Financial Contributions

Our recently released [FCRM External contributions policy](#) allows us to take financial contributions into account when deciding on the priority of a planned project.

The Outcome Measure Prioritisation Score calculator has been designed to take into account the value of any financial contribution when the final score is being calculated.

For the purpose of calculating the prioritisation score and contributions to OM targets, both benefits and costs, including financial contributions, should use the same year 0 baseline. Typically this will be the start year for the project.

- Calculating the actual size of any financial contribution where it influences the starting year of a project is more complex and reference should be made to the external contributions policy and project appraisal guidance

Projects and strategies

Although a score could be calculated for a strategy, as a measure of its overall contribution to objectives, that score will not normally be applied to all projects within the strategy.

Capital prioritisation continues to be based on scores for individual projects. In some cases, for example projects within an ongoing programme of works where discrete benefits cannot be identified, the contributions to outcome measure targets are apportioned on the basis of the capital cost of the works as a percentage of the whole life (present value) capital cost for the relevant strategy. In this case the outcome measure prioritisation score for the capital works to be prioritised, will be the same as the score for the whole strategy.

Funding thresholds

A feature of the previous Priority Score system was the implied funding threshold, meaning the score which a project would need to achieve in order to create a reasonable expectation of funding. This threshold will change from one year to the next, depending on:

- the other projects vying for funding;
- change in the funding levels, and;
- the timing of any proposed project.

Since the new system similarly creates individual project scores, this will be the case in the future. Usually, a project's OM score will be a significantly lower value than its old priority score.

Scope

For the 2009/10 capital allocation, relevant outcome measure targets have been set for the FDGiA capital improvements programme.

Although outcome measures for other areas of the Flood and Coastal Erosion Risk Management programme have been defined, and measures for maintenance activity are in development, they remain outside the scope of project prioritisation. OM prioritisation scores are only relevant to projects designated 'DEF' and 'CM' in the medium term plan.

Capital maintenance projects

Capital maintenance (CM) projects can only contribute to outcome measures where they result in a step change to the SoP by preventing a deterioration to a higher risk category.

In 2009/10, some intermittent maintenance work, that had been included in the maintenance allocation in 2008/09, will now be included as capital under the CM funding code. Intermittent maintenance does not result in a step change in the SoP, and therefore these projects do not contribute to outcome measures. This work will also be prioritised outside the outcome measure prioritisation system.

Future developments

The formula outlined in this guide sorts projects by contributions to a range of targets that have been set. Within this method, new measures could be introduced or the values used for the targets could change. For 2009/10 and 2010/11, the five published CSR07 targets for the capital programme form the basis of the ranking.

However, many projects prioritised now are likely to deliver their benefits in a future period for which targets are not yet set. In order to ensure that the programme aligns with longer term government aspirations, Defra will review the targets used in the prioritisation formula on an annual basis.

Review of existing OM definitions

Defra will also lead a review of the existing Outcome Measure definitions and proposals for any new measures, and some changes to the measures are expected to be introduced from April 2011. The assumption is that changes to the OM set will be incremental over time, and will not result in a major sudden change in priorities.

The rolling review of targets contrasts with the priority score, where the formula was fixed over a period of several years. This raises the possibility that the OM score for a project will not be a fixed value throughout project development. The scope for such change is limited by the need to maintain stability in the programme, so change to the targets will be managed so as not to radically alter the ranking of projects. However, just as the funding threshold might change, a project's priority might vary within a limited range as longer term priorities become clearer.
