

**SETTLEMENT WORKING GROUP****6TH JUNE 2005****FLOOD DEFENCE AND COASTAL PROTECTION****A PAPER PREPARED BY THE FLOOD DEFENCE GROUP****1. BACKGROUND**

- 1.1 Flood Defence and Coast Protection have their own components within the EPCS block of Formula Spending Share (FSS). Whilst these components are very small (£64.5 million in 2004/05) in the context of total FSS (£58 billion in 2004/05), it is nevertheless an essential service in coastal and low lying areas. In 2004/05 350 local authorities received some form of support for flood defence or coastal protection through the FSS process.
- 1.2 Spending on flood defence and coastal protection can take a number of forms:-
- Local Authority “own spending” on flood defence and coastal protection (£35 million).
  - Payment of Special Levies to Internal Drainage Boards (£23 million).
  - Payment of Special Levies to the Environment Agency through Flood Defence Committees (£28 million).
- 1.3 The Flood Defence and Coastal Protection component within FSS can be considered to be unique in the sense that it is based upon historical spending patterns. The local authority “own spending” element is based upon a three-year rolling average of past expenditure. The Special Levies element is based upon actual levies in the previous year.
- 1.4 In 1997 a thorough review of this component was undertaken in order to develop an appropriate formula within the (then) SSA process in order to reflect local authority need to spend on flood defence and coastal protection. It was not possible to identify a robust distribution formula and, therefore, historic spending patterns were retained.
- 1.5 It is understood that DEFRA/ODPM wish, once again, to review the financial arrangements for flood defence and coastal protection as part of the wider review of FSS for 2006/07. It is not clear, at this stage, whether DEFRA/ODPM have prepared a paper for discussion at the SWG on 6th June.

- 1.6 The Flood Defence Group (FDG) is most concerned to note that the actual reimbursement of spending on flood defence and coastal protection has fallen dramatically during the past 4 years, due to the application of a scaling factor to the Control Total. For example, in 2001/02, local authorities were reimbursed 102.9% of their relevant expenditure in respect of IDB levies. For 2005/06 reimbursement had fallen to 87% due to the scaling factor. In the case of environment Agency special levies and Coastal protection, the scaling factors are 41% and 98% respectively. In the case of Boston Borough Council, approximately 9% of the authority's own Council Tax requirement for 2005.06 stems from the Council's unavoidable obligation to finance the resulting shortfall.
- 1.7 The Flood Defence Group has commissioned Rita Hale & Associates Ltd. To undertake a study of financial arrangements relating to flood defence and coastal protection. A summary of the study is attached and the full study can be viewed on the LGA website at [www.lga.gov.uk](http://www.lga.gov.uk).
- 1.8 The remainder of this short paper highlights the main issues and makes recommendations for a way forward in 2006/07 and beyond.

## 2. **SPECIAL LEVIES**

- 2.1 Special levies are required from local authorities by Internal Drainage Boards (IDBs) and the Environment Agency through Regional Flood Defence Committees. It should be stressed that this is not permissive (or discretionary) expenditure and the levies must be paid to the relevant bodies.
- 2.2 There are 223 Internal Drainage Boards operating in the country and 50% are concentrated within the Environment Agency's (EA) Anglian Region. Many IDBs are quite small and there has been some evidence of mergers in recent years.
- 2.3 The IDBs concentrate on land drainage and undertake works on ordinary watercourses. Total expenditure of IDBs (revenue and capital) amounts to about £45 million per annum. Spending by IDBs has risen, in aggregate, by double the rate of inflation during the past seven years (to 2003/04).
- 2.4 Almost half of IDB spending is funded by local authorities through the annual notification of the special levies which relate to the non-agricultural element of land within the local authority's area. IDB levies rose by 27% during the past seven years compared with RPI of 18%.
- 2.5 Whilst local authority elected members are nominated to IDB Boards, they do not represent local authority interests when they sit on those Boards.

- 2.6 It cannot be over emphasised that local authorities have no choice but to pay the special levies to IDBs each year. For some local authorities, mainly small rural district councils, the special levies represent a significant proportion of budgeted spending. In Boston Borough Council, for example, it represented 19.5% of net revenue spending in 2004/05.
- 2.7 It was also noted that at least one local authority with significant IDB levies was “capped” in 2004/05 and another was threatened with “capping” in 2005/06.

### Environment Agency

- 2.8 It is acknowledged that the Government has made a number of recent changes to financial arrangements in respect of the Environment Agency. This has involved:-
- The introduction of a single annual block grant paid by DEFRA.
  - The phased transfer of responsibility for ordinary watercourses at high risk of flooding to the Agency from local authorities and IDBs.
  - The creation of a single tier of Regional Flood Defence Committees (RFDCs).
- 2.9 The above transfers have resulted in a significant reduction in the special levies payable by local authorities to the Agency with a consequent reduction in the flood defence element of FSS.
- 2.10 However, local authorities are still required to pay local special levies to RFDC's in order to fund local projects. In 2004/05 local authorities budgeted to spending £28.2 million on these special levies compared with a provision of £10 million within FSS.
- 2.11 When the new “block grant” (FDGIA) was introduced in April 2004, it was assumed by DEFRA that local authority levies would cease. This has not been the case. In addition, there is concern that the new structure for Flood Defence Committees, introduced in April 2005, will create financial pressures for some local authorities.

### **3. LOCAL AUTHORITY “OWN SPENDING”**

- 3.1 In low lying areas of the country where there are no IDBs, local authorities look after ordinary watercourses and undertake flood defence works. In 2004/05 local authorities budgeted to spending around £22 million on this activity.

- 3.2 It is recognised that the planned transfer of responsibility for Critical Ordinary Watercourses (COWs) to the Environment Agency will have an impact upon this element of local authority expenditure in the future. However, there appears to be some doubt over the reliability of figures for local authority spending on watercourses that may distort the impact of FSS distribution upon individual local authorities after the transfer has taken place.
- 3.3 There are 88 district councils and many county/unitary authorities that have powers to undertake coastal protection works. In 2004/05 local authorities planned to spend £12.5 million on this activity.
- 3.4 Whilst these elements of expenditure are miniscule compared with total local authority spending, they represent a significant proportion of budgeted expenditure for some small authorities. In Hertsmere, for example, flood defence represented 7.2% of planned spending in 2004/05.

#### **4. CONCLUSION AND RECOMMENDATIONS**

- 4.1 It is understood that one of the options being considered for simplifying the flood defence and coastal protection component within the FSS is to distribute this element by reference to the FSS formula for the district-tier EPCS.
- 4.2 This would have a catastrophic impact for many of the small local authorities undertaking flood defence and coastal protection works for the reasons outlined above. In fact, it would hurt most the authorities that spend a significant proportion of their budgets on flood defence and coastal protection whilst benefiting those authorities that spend the least on this activity.
- 4.3 The Flood Defence Group believes that it is still not possible to develop a robust FSS formula at a reasonable cost, without creating a serious adverse impact upon many small councils operating in rural areas.

#### **4.4 RECOMMENDATIONS IN RELATION TO FSS DISTRIBUTION**

##### **Flood Defence & Coast Protection**

It is recommended that the existing arrangements for distributing the FSS provisions for Flood Defence and Coast Protection be retained. If this cannot be supported, the Government should:-

- Introduce either a new specific grant for Flood Defence or a combination of direct funding of IDB levies by the Environment Agency coupled with a new specific grant in respect of local authorities' "own spending" on Flood Defence; and

- Introduce a new specific grant for Coast Protection.

### **Residual Environment Agency Special Levies**

It is recommended that the size of the RFDC special levies be restricted to the level of the FSS provision for continuing EA levies in their respective areas. If this recommendation cannot be supported, the Government should:-

- Abolish the continuing EA levies; and
- Transfer the £10 million FSS provision from the EPCS block to the Environment Agency.

### **Cowes Transfer**

It is recommended that urgent discussions take place between the FDG, DEFRA and the Environment Agency to identify accurate spending levels on the maintenance of COWs.

- 4.5 It would be helpful if a continuing dialogue could be maintained between the FDG, ODPM, DEFRA and EA in order to find an acceptable solution to these issues.

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AT/LGY

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