Flood and Water Management Bill – funding for local authorities

Defra is committed to fully funding net new burdens, and will keep the situation under review

Defra recognises that the Bill will place significant extra responsibilities and burdens on lead local flood authorities (county and unitary councils) and is committed to these being funded in full. Net new burdens have been assessed and agreed with the Department for Communities and Local Government (CLG), and estimates and assumptions will be kept under review as implementation takes place. If it becomes clear that local authorities have not been provided with sufficient funding to comply with the Act, or responsibilities under the EU Floods Directive, Defra will provide the extra funds in full.

The assumptions behind the assessment have been shared with the Local Government Association and we plan to work together to jointly monitor the situation. To provide added confidence, the assessment is based on the upper-end of potential costs, and the conservative end of potential benefits. To go further than this at this stage – to increase cost estimates or decrease saving assumptions – is not supported by the available evidence and would not represent value for money to the taxpayer.

Authorities are set to receive an extra £36 million a year to fund the leadership role

Following comments on the draft Bill, Defra commissioned additional evidence gathering to estimate the costs of the lead local flood authority. Overall, the evidence suggests there needs to be between £30m and £42m spent by authorities a year, in preparing local strategies and surface water management plans, on capital improvement works, designating third party assets, and resourcing in-house teams, etc. Maintenance of SUDS is considered separately, see below.

Local authorities are already funded to manage local flood risk, spending £18.5m in 2007/08[1]. Within this around a third is currently expected to be spent managing surface water issues, especially following the floods of 2007, meaning Defra needs to provide an additional £24m to £36m a year.

Given the importance of the role and local authorities' concerns about funding, Defra has agreed to use the upper end of cost estimates and provide the full £36m a year from commencement, allowing the amount of local authority flood risk management activity to triple. The extra money will be provided as an Area-Based Grant directly to every lead local flood authority, and Defra will consult through CLG's Settlement Working Group how to divide these sums fairly between individual authorities.

Defra is already funding early action amongst at least half of all lead local flood authorities

As evidence of Defra's commitment to the new role and to provide the necessary resources, the department will spend a total of £16m before commencement to allow at least half of all county and unitary authorities to take early action. An additional £1m is being provided to support local authority flood risk management apprenticeships.

In addition, the need for local authorities to spend more on flooding and coastal erosion was anticipated at the last Comprehensive Spending Review in 2007. As a result the local authority formula grant settlement for the current period to March 2011 included additional funds to spend on flood and coastal erosion risk management, including in levy payments to the Environment Agency and internal drainage boards.

[1] Source: Local authority returns to CLG, RO5 data – 'Defences against flooding'

As formula grant is unringfenced, it is for local authorities to decide how much to spend on each of their priorities. So far, local authorities are not spending as much on flood and coastal erosion risk management as expected. We will monitor the situation to see if this continues, before and following commencement of the new legislation.

Other new burdens will also be funded in full, such as SuDS adoption

As well as funding the lead flood authority role, Defra will also make sure that the ongoing costs of maintaining Sustainable Drainage Systems (SuDS), adopted as a result of the new duty, will be funded in full. These costs will be near zero in the first year following commencement but will rise as more and more SuDS are built by developers and adopted by authorities.

As a result of concerns raised by local authorities, Ministers have committed to publish a clear way forward on long-term funding for SuDS maintenance prior to implementation of the Bill. This will take account of circumstances faced by local authorities and developers, Whichever option is adopted, local authorities will be able to promote SuDS implementation in full certainty that there will be no shortfall in funding.

The Bill will also extend the role of the Regional Flood Defence Committees, to become Regional Flood and Coastal Committees, and as a result allow them to raise funds through the existing 'local levy' for locally important works to manage coastal erosion. Assuming this means the levy will increase by 10%, to reflect the national split between flooding and erosion work, county and unitary authorities will be provided with an extra £2.7m a year in their settlement[2]. Local authorities may vote as members of the committees to spend more or less than this.

Roles will be paid for by reducing local authority involvement in private sewerage

Private sewerage has been a problematic issue for many years, with individual home and property owners usually unaware of their responsibilities unless something goes wrong and they face a potentially large bill to put things right. Issues can drag on, and if they affect more than one home it can be even more difficult to resolve.

Local authorities, as well as owning property themselves, have historically stepped in to sort out many such issues on behalf of householders. In some cases they have charged householders and recovered their costs, but in many others it has not been possible or appropriate to do that, or councils have seen this as part of a service they provide on behalf of the community. As a result, local authorities have been amongst those calling for the Government to do something about private sewerage, citing it as a significant call on their time and resources.

After a long period of consultation, Government announced in December 2008 that it would transfer responsibility for private sewers to the water and sewerage companies. To inform the earlier consultation stages and the final decision, the Government compiled evidence on the potential costs and benefits of the transfer. Included in this was a survey that assessed local authority involvement in private sewerage, and captured cost data. A third of local authorities responded to the survey and 41 provided cost information. It is likely that some local authorities found it hard to provide numeric data as the costs of dealing with private sewerage are not routinely recorded, and are typically spread across a number of authority budgets such as drainage, highways, housing, etc.

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[2] The value of the RFDC local levy was £27.2m in England in 2007/08. This is due to increase to around £30m by 2010/11. Defra is therefore providing for this to increase to approximately £33m a year from commencement.

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The data that was provided suggested local authority costs could be as high as £125 million a year. For the final estimate, costs recovered from property owners and the proportion of sewerage within ownership of housing associations were removed from the analysis. As a result, the Department's best conservative estimate of local authority savings from the transfer is £50 million a year. The highest cost estimates were also removed from the analysis to suggest, if anything, this may be an underestimate.

As the potential transfer has been known for many years, local authorities may already be making savings by reducing their involvement and postponing work they would historically have undertaken. Separately, Ofwat estimates that water companies could need to spend an extra £130 million a year once transfer takes place, as well as invest over £1 billion in the early years to tackle existing problems with sewerage they will inherit.

The Government has a duty to reflect the estimated savings in future local authority budgets as otherwise taxpayers would be paying for an activity no longer performed. Based on recent outturn data, accounting for the transfer is expected to affect the relevant local authority funding provision by less than 1%.

Other benefits of additional local authority action

It should also be recognised that local authorities are likely to save money as a result of their additional risk management work, and investment by central government and agencies, in that there should be fewer and less severe floods occurring than otherwise. Expenditure on preventing floods is highly beneficial, given that responding and reinstating buildings, roads and repairing other damages can be extremely expensive.

Such savings could be significant in the long-term given projections of climate change. However, the savings are not needed to offset authorities' extra costs until at least 2014/15. If the ongoing maintenance of SuDS becomes funded by other means, as intended the savings will not strictly be needed at all.

It is important to recognise the savings available to local authorities resulting from the additional investment at both national and local levels. This is to prevent activity being paid for twice by the taxpayer and to encourage an "investment to save" culture amongst authorities. Risk management activity should only be funded if the costs are outweighed by the expected benefits.

For the Environment Agency's national investment programme, the benefits of improved defences outweigh the costs on average by 8 to 1 over the long-term. Local authorities should take a benefit/cost approach to everything they do to make sure the costs of plans and investments are well justified.

Ultimately, on top of the risk management activity paid for by taxpayers in general, local authorities can decide for themselves – as part of local strategies – whether extra up-front money should be raised and spent locally to further reduce future flood costs and damages in their area. This would be to avoid costs authorities themselves will otherwise bear, but more importantly, to help mitigate the costly and traumatic impact of flooding on local residents and businesses.