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Flood and Water Management Bill

Impact Assessment - Flood and Coastal Erosion Risk Management funding provisions

Last updated: 25 September 2009

Summary: Intervention & Options

Department /Agency: Defra	Title: Impact Assessment on Flood and Coastal Erosion Risk Management funding provisions	
Stage: Bill	Version: 2.0	Date: 25 September 2009
Related Publications: Floods and Water Bill, Explanatory Memorandum and related consultation document(s), consultation stage Impact Assessment on Flood and Coastal Erosion Risk Management Funding Reforms, Impact Assessment on Local Flood Risk Management.		

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What is the problem under consideration? Why is government intervention necessary? Government intervention is necessary to overcome market failures that result in too much flooding, too little prevention and inefficiency. Flood and coastal erosion risk management systems provide public good which the market otherwise fails to provide. Individuals' actions may be based on an incomplete appreciation of flood risk, or be based on pure self-interest, potentially placing themselves and others at greater risk. Intervention provides flood and coastal erosion risk management for the benefit of society (by reducing the risk of flood damage). Government intervention is delivered on the ground by operating authorities: the Environment Agency, Internal Drainage Boards and local authorities.

What are the policy objectives and the intended effects?

Two funding provisions are included in the Flood and Water Management Bill:

1. Powers to the Environment Agency to make grants in respect of a person's expenditure incurred, or expected to be incurred, in connection with flood or coastal erosion risk management; and
2. An extension of the 'local levy' available to Regional Flood Defence Committees to allow the new Regional Flood and Coastal Committees to fund coastal management and flood risk management in place of just being able to fund flood risk management.

The first provides the Environment Agency with powers it currently exercises under delegation from Ministers and the second supports the new role of Regional Flood and Coastal Committees. The second will help local authorities optimise their investment portfolio to include a balance of flood risk and coastal erosion risk management schemes. It is possible that it may increase the overall investment in risk management, which would be reflected in formal assessments of funding needs of operating authorities. Broader policy objectives are summarised at Annex A.

What policy options have been considered? Please justify any preferred option. Wider funding reforms are being considered, as trailed by the consultation-stage Impact Assessment on Flood and Coastal Erosion Risk Management Funding Reforms, and appropriate proposals will be taken forward at a suitable legislative opportunity. Options include those to simplify existing funding arrangements and increase flexibility for local contributions.

The preferred option, covered in this impact assessment, is to amend in scope the 'local levy' available to Regional Flood Defence Committees (RFDCs) so that it matches the new roles and responsibilities and allows a better balance between flood risk management and coastal management.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? Policy to be reviewed as part of future Government spending reviews.

Ministerial Sign-off For final proposal/implementation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:

.....Date:

Summary: Analysis & Evidence

Policy Option: Levy and Grants	Description: Extend Regional Flood Defence Committees (RFDC) 'local levy' to include coastal erosion projects and Environment Agency grant making powers
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COSTS	ANNUAL COSTS		<p>Description and scale of key monetised costs by 'main affected groups' Local authorities (county and unitary) pay the costs of the levy. The central case assumes net investment is unchanged and hence the cost is zero. The range of net benefits below reflects scenarios where local authorities exercise their discretion to invest additional funds from their funding settlement or to raise additional funds e.g. through existing mechanisms such as council tax, business rates, etc.</p>	
	One-off (Transition)	Yrs		
	£ 0			
	Average Annual Cost (excluding one-off)			
	£ 0	25	Total Cost (PV)	£ 0
Other key non-monetised costs by 'main affected groups' None				

BENEFITS	ANNUAL BENEFITS		<p>Description and scale of key monetised benefits by 'main affected groups' It is assumed in the central case that net investment is unchanged and hence the monetised benefits are zero. The range of net benefits below reflects scenarios where local authorities exercise their discretion to invest additional funds from their funding settlement or to raise additional funds e.g. through existing mechanisms such as council tax, business rates, etc</p>	
	One-off	Yrs		
	£ 0			
	Average Annual Benefit (excluding one-off)			
	£ n/a	25	Total Benefit (PV)	£ 0
Other key non-monetised benefits by 'main affected groups' Extension of local levy will increase choice to local government & Regional Flood and Coastal Committees, enabling local investment in coastal erosion & other flood risk management. Social benefits of Government Intervention will arise because there will be less risk to life and limb. Environmental benefits can also be delivered. These have not been monetised, but would increase the benefit to cost ratio.				

Key Assumptions/Sensitivities/Risks The grant making powers for the Environment Agency should have little impact of its administrative costs or quantum of investment in their own right, as they are primarily about replacing the powers already in exercised under delegation. Sensitivities focus on whether the discretionary levy making power will be used in practice, and how much benefit it would bring to society. If local authorities decide not to use it then there would be no additional costs or benefits. Local authorities would be able to optimise their investment portfolio to include a balance of flood risk and coastal erosion risk management schemes. Local authorities would be able to increase investment (reflected in the ranges and sensitivity tests). In monetising the potential benefit if funding were to increase, it is assumed that £5 in benefits are delivered for each additional £1 invested (which is the minimum expected of schemes funded by the Exchequer, which is currently achieving about £8 to £1). Both assumptions are subject to sensitivity analysis. Any additional funds raised through local levy would be subject to formal assessment for future spending periods.

Price Base Year 2008	Time Period Years 25	Net Benefit Range (NPV) £ 0 to 361 m	NET BENEFIT (NPV Best estimate) £ 0
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What is the geographic coverage of the policy/option?		England		
On what date will the policy be implemented?		April 2011		
Which organisation(s) will enforce the policy?		RFDCs / RFCCs		
What is the total annual cost of enforcement for these organisations?		£ zero		
Does enforcement comply with Hampton principles?		Yes		
Will implementation go beyond minimum EU requirements?		Yes		
What is the value of the proposed offsetting measure per year?		£ 0		
What is the value of changes in greenhouse gas emissions?		£ 0		
Will the proposal have a significant impact on competition?		No		
Annual cost (£-£) per organisation	Micro 0	Small 0	Medium 0	Large 0
Are any of these organisations exempt?	No	No	No	No

Impact on Admin Burdens Baseline (2005 Prices)		(Increase)
Increase of £ 0	Decrease of £ 0	Net Impact £ 0

Key:

Annual costs and benefits: Constant Prices

(Net) Present Value

Evidence Base (for summary sheets)

Funding Provisions

Contents

1. Background	3
1.1. Rationale for Government Intervention	3
1.2. Baseline Position	3
1.3. Policy Position Following Consultation	4
2. Measures in the Flood and Water Management Bill	6
2.1. Environment Agency Grant Making Power	6
2.2. Extension of ‘Local Levy’	6
2.3. Costs and Benefits.....	7
2.4. Assessment of administrative burden	10
2.5. Specific Impacts Tests.....	10

1. Background

1.1. Rationale for Government Intervention

Without Government intervention it is highly likely that there would be severe market failure resulting in too much flooding, too little prevention and inefficient investment. The beneficiaries of flood and coastal erosion risk management can fail to reach collective long-term agreement on what to do about flood risk and who should pay for it; individuals’ actions can increase flood risk and the cost of damages (through actions such as paving front gardens); risk can be underestimated and inconsistent information can lead to poor decisions being taken and too much exposure to flood risk; individuals may lack the incentive to protect themselves or to pay others to do it for them. This is why Government intervention takes place, and extends beyond minimum requirements in European law.

The main focus of this impact assessment is ‘local levy’ which is used to pay for local schemes at the discretion of local authorities through their Regional Flood Defence Committee. This is funded almost entirely by central government, whilst the benefits flow to individuals; which is the case for most Government intervention in respect of flood and coastal erosion risk management. The benefits are from reduced flood risk damages that would otherwise be borne by the owners and occupiers of property and land when it floods. Property owners should also be able to access better insurance terms (such as reduced premiums and excesses) and potentially improved property, land and rental values. There are also significant health and welfare benefits because flood events are incredibly traumatic for those affected. The local economy benefits too, protecting businesses and profitability from the effects of flooding. Small and Medium Enterprises in particular find it more difficult than larger businesses to remain in business after being flooded.

1.2. Baseline Position

The calculations on anticipated possible costs and benefits of the proposals in the Flood and Water Management Bill are comparing the impact of a specific intervention (i.e. a change to the scope of the RFDC local levy) to present-day arrangements. The present-day arrangements represent the baseline.

The baseline assumes that funding arrangements continue without any additional Government intervention by means of introducing the options presented in the consultation stage impact assessment through primary legislation.

Some change is anticipated as a result of planned initiatives such as the Community Infrastructure Levy, Business Rate Supplements and the Environment Agency's external contributions policy (which aims to secure funding for schemes from beneficiaries). It is likely that market forces will have an influencing effect, such as flood risk insurance premiums reflecting risk.

The baseline position assumes local authorities are funded as planned¹ to take forward surface and groundwater flood risk management, and in general take on the local flood risk leadership role announced as part of the Government's response to the Pitt review. It also assumes implementation of EA's external contributions policy, the Community Infrastructure Levy and Business Rate Supplements, and the continuation of Section 106 agreements in parallel with Community Infrastructure Levy. All of which could be used to increase funding for flood and coastal erosion risk management and allow additional local discretion over what and when projects are delivered in return for the funding provided.

It is assumed that the introduction of the Community Infrastructure Levy, used in tandem with continuing powers for Planning Authorities to impose planning obligations (s106 agreements), means that the burdens imposed on the public purse as a result of more people and property being placed in at-risk areas are fully compensated for as part of the planning process. This assumption will need to be reviewed as the Community Infrastructure Levy begins to be implemented by Planning Authorities.

A note worthy development is that the Environment Agency's Long Term Investment Strategy (the LTIS) was published after the consultation-stage impact assessment. The LTIS represents the latest research on flood risk and shows that 2.4 million properties are at risk of river and coastal flooding, representing economic damages of more than £1 billion a year.

The Agency's research, which incorporates the latest UK Climate Projections, suggests that funding will need to rise by 80% to over £1 billion a year by 2035 plus inflation to counter the effects of climate change. Hilary Benn has called for a national debate on how we meet the challenge, what our priorities should be, and importantly, how the costs should be met. The LTIS strengthens the case presented in the consultation-stage impact assessment for Government intervention and examining means of growing overall investment in flood and coastal erosion risk management from a range of national and local, public and private, sources in line with the benefits received.

1.3. Policy Position Following Consultation

The consultation paper included a series of questions on funding reforms. The reforms would seek to simplify the funding regime for flood and coastal erosion risk management, whilst strengthening accountability and value for money, to increase the total amount invested in flood and coastal erosion risk management, to allow greater local discretion in where and when projects are delivered, and to ensure developers bear both the short and long term costs of

¹ Official Record, 17 December 2008, Column 1098

managing the risk created by placing more people, property and infrastructure in areas of flood risk.

More than 600 consultation responses have been received, providing valuable feedback on the proposals. Some issues will need further consideration and will be subject to additional stakeholder engagement. We propose introducing appropriate reforms to the funding structure when a suitable legislative opportunity arises. An Impact Assessment will accompany any subsequent legislation.

The Flood and Water Management Bill will clarify the roles and responsibilities of operating authorities (the Environment Agency, Internal Drainage Boards and local authorities). In particular it will introduce a clear national oversight role for the Environment Agency and a local leadership role for county and unitary local authorities. The accompanying Impact Assessment on 'Local Flood Risk Management' sets out the detail of the relevant roles, responsibilities and associated costs and benefits.

This Impact Assessment outlines changes we are making to the funding provisions in primary legislation which are necessary to support the changes to the roles and responsibilities of operating authorities, in particular the Environment Agency, Regional Flood Defence Committees (which will become Regional Flood and Coastal Committees) and local authorities. It includes an explanation of the costs and benefits anticipated of the new funding provisions.

New burdens on local authorities, where they arise, have been assessed for the Flood and Water Management Bill and will be funded through the appropriate mechanisms, including Formula Grant settlements to individual local authorities.

The wider funding proposals, which are not being introduced in primary legislation at this time, are summarised at **Annex B** and described in more detail in the consultation stage impact assessment on 'Flood and Coastal Erosion Risk Management Funding Reforms'.

Two funding provisions are included in the Flood and Water Management Bill to support the new roles and responsibilities. The provisions include:

1. Powers to the Environment Agency to make grants in respect of a person's expenditure incurred, or expected to be incurred, in connection with flood or coastal erosion risk management; and
2. An extension of the 'local levy' available to Regional Flood Defence Committees to allow the new Regional Flood and Coastal Committees to fund coastal management in place of just being able to fund flood risk management. It is possible that it may increase the overall investment in risk management, which would be reflected in formal assessments of funding needs of operating authorities.

These provisions will contribute toward the intended effects of increasing total investment in flood and coastal erosion risk management, allowing greater local discretion and improving the effectiveness and efficiency of operating authorities. The policy does not exist in isolation, for example other measures being taken forward such as the lead local authority role, and wider initiatives such as community infrastructure levy and business rate supplements will help deliver the intended effects, including risk brought about by new developments.

The two provisions outlined above (Environment Agency grant making powers and local levy) are explained in this Impact Assessment.

2. Measures in the Flood and Water Management Bill

2.1. Environment Agency Grant Making Power

Under existing provisions, Ministers are able to make grant payments in relation to cost incurred in managing flood and coastal erosion risk management². Until now powers have been delegated to the Environment Agency such that it can make grant payments in respect of a drainage body or an Internal Drainage Board's expenditure on drainage activities.

The Flood and Water Management Bill includes a new power such that the Environment Agency will be able to make grant in respect of a person's expenditure in connection with flood and coastal erosion risk management.

The new power achieves three outcomes. First, it formalises in primary legislation the Environment Agency's grant making power which until now has been under delegation. Second, it brings the power in line with the new roles and responsibilities of the Environment Agency and the bodies with which it works. Lastly, it allows a greater range of risk management approaches to be considered and pursued by the Environment Agency in order to reduce the risk of flooding and coastal erosion – previous powers related to 'defence' and 'protection' as opposed to recent policy that also focuses on the need as a nation to adapt and be more resilient to the increasing risks posed by climate change. In short, to reduce the risk of flooding operating authorities need to be able to reduce the consequences of flooding should it occur as well as influence the likelihood of events happening in the first place.

In practice there will be little or no change to the Environment Agency's functions nor its administrative costs. This is because the existing power is being replaced by another one which is very similar to it. We expect the new power to be exercised in much the same way as the former. It is anticipated that the provision will be cost neutral to the Environment Agency. The provision will not necessarily create greater benefit to the individuals behind flood and coastal erosion risk management systems because it is not expected to increase investment in its own right. But it will allow and encourage a greater range of activities to be considered, such as adaptation and resilience, and be taken forward if, through investment appraisal, they are shown to be more advantageous than the more traditional approaches such as engineered defences. We are not expecting the Environment Agency to fund individual householders for property measures but to exercise the power along similar lines to that which has been available to Ministers. We will encourage the Environment Agency to keep a clear operational policy on the nature of funding requests it will and will not consider. The provision will also ensure that the Bill will bring the legislation on floods and coastal erosion up to date and in line with the existing practice.

There are no foreseen cost implications for businesses nor changes to current practices / expectations.

2.2. Extension of 'Local Levy'

Regional Flood Defence Committees (RFDCs) are committees of the Environment Agency through which flood risk management functions are carried out. The Environment Agency allocates funding (Flood Defence Grant in Aid that it has received from Defra) to its RFDCs according to the Environment Agency's national priorities and targets and in light of the RFDC's

² Ministers may make grants under section 59 of the Land Drainage Act 1991. The Environment Agency has certain powers to make grants by virtue of a delegation of the powers at section 59, which has been done under section 38 of the Environment Act 1995

priorities for works in its region. The funding takes the form of Flood Defence Grant in Aid from Defra to the Environment Agency, and capital and maintenance allocations on schemes via the RFDCs.

Until 2004, RFDCs were predominantly funded through local levies. A local levy was issued to the local authority members of an RFDC to pay for flood risk management schemes. Local authorities' costs were compensated through the funding settlement to local government. Since 2004, Defra Flood Defence Grant in Aid has been the main source of income for RFDCs and flood risk management schemes.

Despite the shift in funding from local government to central government, local levies were left in place so that RFDCs could raise money to fund locally important works. These would consist of schemes for which it has not been possible to allocate funding through the Environment Agency's programme, usually because they do not sufficiently contribute towards the national investment outcome targets.

In order to be set, a levy must be agreed by the local authority members of the relevant RFDC. The levy, once set, is paid by all county/unitary local authorities within the region in proportion to the number of Council Tax Band D properties within their boundaries. Local authorities continue to be in receipt of Formula Grant for their functions which includes funding for expenditure on local levies.

The consultation proposed replacing RFDCs with Regional Flood and Coastal Committees (RFCCs). The new RFCCs will have an extended role and membership to cover coastal erosion as well as flood risk management.

To support the RFCCs' extended role that embraces coastal erosion, it is the Bill's intention to extend the local levy such that it can also be used to fund schemes connected to coastal protection and to prevent erosion and to raise local funds in much the same way as at present. If the scope for applying local levy is not extended, it risks watering down the new roles and responsibilities for operating authorities and creating a disparity between an RFCC's expertise and its powers.

2.3. Costs and Benefits

Costs

It is anticipated that one off costs will be negligible. The local levy is well established and is used at present. Under existing provisions, local authorities invest around £27 million a year by means of local levy. Extending the scope of local levy will mean that there is greater choice and flexibility to local authorities to support local priorities that do not attract grant funding. It is not expected to incur significant administrative change to administer and the expertise will be brought about by the change to roles and responsibilities rather than funding provisions in their own right. Local levy is paid by local authorities and they are funded through the local government settlement to meet the expectation.

It is feasible that greater choice and flexibility may lead to an increase in the amount of activity funded by means of local levy (the ongoing costs) because it will be available for coastal erosion risk management for the first time.

Sensitivity analysis has been applied to the calculations of cost and benefit based on our understanding of the split between overall investment at a national scale on flood risk management and coastal management. It is assumed that over time, the application of local levy is consistent across regions.

The baseline used for local levy receipts is £27 million a year (which does not, at present, include coastal schemes). Nationally, coastal schemes account for 10% of all investment in flood and coastal erosion risk management. Assuming that the same split in overall investment is applied to the use of local levy if it includes both in-land flood schemes and coastal schemes, then the local levy could increase by £2.7 million a year (i.e. 10%). The potential increase in investment would apply in regions with coastal areas, paid (as is the case now) by all local authorities on an RFCC.

Because local authorities have a certain amount of discretion over the setting of local levy, it is possible that the local authorities on an RFCC choose collectively not to invest in coastal erosion projects at all. If this were the case then there would be no change to current practice and investment. It is also possible that local authorities might choose to invest more than 10% in coastal schemes given the new opportunity through the RFCC process. It is possible that local authorities exercise their choice not by increasing the amount they invest, but by spreading their investment across in-land and coastal schemes; with less investment in flood risk management and more investment in coastal erosion schemes, but the same amount of investment in total.

Given that it is not possible to predict future uptake, the sensitivity analysis provides projections for the uptake of local levy to include:

1. No use of local levy for coastal schemes
2. 10% of local levy invested in coastal schemes but no overall increase in investment
3. 10% increase in investment to pay for coastal schemes
4. 20% increase in investment to pay for coastal schemes

Cost implications of these scenarios are shown in the table in the section on ‘calculations’ below.

If we assume no change to the total amount of investment, then we would expect the actual uptake to reflect scenario 2, which reflects a greater choice about where local levy is applied. Scenario 2 has been used in the “Summary: Intervention & Options” section on page 2 of this impact assessment. Local authorities, at their discretion through the RFCC, will be able to invest more if they choose to do so, and funding for that would be established through the local government revenue support grant settlement³ as well as use of local sources of funding including council tax and other mechanisms such as business rate supplements. This is reflected in scenario 3, which assumes that total investment could, in theory, increase to reflect the split at a national level between investment in flood risk management and coastal erosion risk management. The revenue support grant settlement is overseen by Communities and Local Government. Engagement with Defra is ongoing to ensure that new burdens are appropriately funded, and the opportunity costs and any distributional consequences of raising any additional funding would be considered at the time.

Benefits

Investing in flood and coastal erosion risk management accrues benefit. Economic benefits, which will accrue to householders and businesses, include avoided damages to property and their contents, and loss of earnings. Social benefits include the avoided loss of life from flooding as well as the mental and physical wellbeing of those living in the area. Environmental benefits include the protection and creation of wildlife habitats, including sites of special scientific interest (SSSIs), some of which can only be maintained through flood risk management.

³ The revenue support grant at present includes a relative needs formula based on outturn returns. For more information see www.local.communities.gov.uk

Scenario 2 represents a balanced portfolio of investment in flood risk management schemes and coastal erosion risk management schemes, which will be made possible by the extension of local levy.

Sensitivity testing also indicated what might happen if investment increases above current levels. Any additional investment would be funded through the local government settlement and/or through existing discretionary mechanisms. It is assumed that any additional investment would be made on projects with a benefit cost ratio of 5:1. This means that every £1 invested would accrue £5 in long term benefits. This reflects the Environment Agency's current investment programme which overall delivers £8 in benefits for every £1 invested, and marginal schemes deliver around 5:1. In reality the benefits might be higher, if optimal schemes (in cost benefit terms) are taken forward. Benefits might also be less than 5:1 if local discretion favours schemes for different reasons. Background to the benefit to cost ratio is included at **Annex C**.

For the purpose of projecting cost benefit, and to reflect the degree of discretion available to local authorities, the sensitivity analysis uses the four scenarios outlined under the section on costs.

Calculations

The results of the calculations are presented in the table below. The Net Present Value is based on 2008/09 data, calculated over 25 years, with a discount of 3.5%. The figures represent a change from the baseline, which is explained at **Section 1.2**.

Scenario	Net Present Value Cost (£m)	Net Present Value Benefit (£m)	Net Present Value (£m)	Average Annual Cost (£m)	Average Annual Benefit (£m)	Number of years	Discount (%)
1	0	0	0	0	0	25	3.5
2	0	0	0	0	0	25	3.5
3	45	226	181	3	14	25	3.5
4	90	452	361	5	27	25	3.5

Additional sensitivity analysis representing a range for the ratio of benefit to cost has been carried and is presented in the table below. The Net Present Value is based on 2008/09 data, calculated over 25 years, with a discount of 3.5% and sensitivity tests for the benefit to cost ratio at 3:1, 5:1 and 8:1.

Scenario	Benefit Cost Ratio	Net Present Value Cost (£m)	Net Present Value Benefit (£m)	Net Present Value (£m)	Average Annual Cost (£m)	Average Annual Benefit (£m)	Number of years	Discount (%)
1	3:1	0	0	0	0	0	25	3.5
	5:1	0	0	0	0	0	25	3.5
	8:1	0	0	0	0	0	25	3.5
2	3:1	0	0	0	0	0	25	3.5

	5:1	0	0	0	0	0	25	3.5
	8:1	0	0	0	0	0	25	3.5
3	3:1	45	135	90	3	8	25	3.5
	5:1	45	226	181	3	14	25	3.5
	8:1	45	361	316	3	22	25	3.5
4	3:1	90	271	181	5	16	25	3.5
	5:1	90	452	361	5	27	25	3.5
	8:1	90	723	632	5	44	25	3.5

The expected outcome is scenario 2, but it is possible that in reality the outcome is within the range presented in Scenarios 2 to 4; this is summarised in the following table.

Scenario	Net Present Value Cost (£m)	Net Present Value Benefit (£m)	Net Present Value (£m)	Average Annual Cost (£m)	Average Annual Benefit (£m)	Number of years	Discount (%)
Most Likely	45	226	181	3	14	25	3.5
Range	0 to 90	0 to 452	0 to 361	0 to 5	0 to 27	25	3.5

2.4. Assessment of administrative burden

Any administrative burdens would be borne by members of RFCCs, which include local authorities and the Environment Agency. However, it is not anticipated that current administrative burdens would be affected under the option or by any change to legislation that it entails, because the mechanism to consider projects and raise funds are already well established and the expertise exists.

There are no foreseen cost implications for businesses. Local authorities would exercise their normal freedoms in respect of funding priorities. Under current funding arrangements local authorities receive formula grant toward the cost of paying local levy. Local authorities can exercise their discretion to generate income through their wider mechanisms such as Business Improvement Districts and other rates, but as local levy and these mechanisms already exist there should be no discernable difference for businesses.

2.5. Specific Impacts Tests

Competition Assessment

It is not anticipated that competitiveness is affected by any options under this impact assessment.

Carbon Impact Assessment

The proposals in themselves do not affect an activity or sector that may have a significant impact on emissions of greenhouse gases, and therefore a full carbon impact assessment has not been completed.

Disability Equality Impact Assessment

The policy proposals do not have any disability equality impacts.

Gender Equality Impact Assessment

The policy proposals do not have any gender equality impacts.

Health Impact Assessment

The policy proposals will not have an impact on health or health inequalities as outlined under the Department of Health's screen questions for health impact assessment.

Human Rights

There are no human rights issues raised by these proposals.

Legal Aid

This proposal does not introduce any new criminal sanctions or civil penalties.

Other Environmental Issues Assessment

The proposals could be affected by the projected effects of climate change. The Environment Agency's Long-Term Investment Strategy's modelling projected how much funding will be needed over time to counter the impacts of climate change. The proposals do not cause other issues to arise as indicated by the other environment issues checklist.

Race Equality Impact Assessment

This proposal does not have any race equality impacts.

Rural Proofing

The policy proposals would not introduce inequality in rural areas under the rural proofing checklist.

Small Firms

It is not anticipated that there will be any adverse impacts on small businesses. Where costs might be incurred, these would only be in return for significant additional risk management, and would help to ensure that other costs, such as flood damages and insurance costs, are kept to a minimum.

Sustainable Development

The proposals do aim to contribute toward the five principles of sustainable development.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	Yes	No
Sustainable Development	Yes	No
Carbon Assessment	Yes	No
Other Environment	Yes	No
Health Impact Assessment	Yes	No
Race Equality	Yes	No
Disability Equality	Yes	No
Gender Equality	Yes	No
Human Rights	Yes	No
Rural Proofing	Yes	No

Annexes

Contents:

Annex A – Broad policy objectives

Annex B – Proposals in the consultation

Annex C – Benefit to cost ratio

Annex A Broad policy objectives

The policy objectives of Government intervention include: (i) increase total investment in FCERM in order to realise the substantial additional benefits on offer, (ii) allow greater local discretion in where and when projects are delivered, (iii) ensure developers bear the full long-term costs of their activity, and (iv) strengthen operating authority accountability for achieving value for money, and simplify arrangements where possible.

In achieving these outcomes the policy aims to achieve a better balance between preventing flooding and coastal erosion and bearing the consequences, and better alignment between who benefits from investments and who funds them. The funding provisions in the Flood and Water Management Bill -and this Impact Assessment- contribute toward (i), (ii) and (iv). Other measures -including of relevance to (iii)- are being considered post consultation. The policy does not exist in isolation, for example other measures being taken forward such as the lead local authority role, and wider initiatives such as community infrastructure levy and business rate supplements will help deliver the intended effects.

Annex B Proposals in the consultation

Funding proposals from the consultation on the draft Flood and Water Bill are summarised in the table below.

Option	Title	Summary
Option 1	Do nothing	Assumes existing funding investment level continues (i.e. £800m/yr in total by Government). The funding regime (i.e. who gets paid how to do what), other than by reforms already announced, continues unchanged.
Option 2	Reform Regional Flood Defence Committee (RFDC) charging arrangements	<ul style="list-style-type: none"> a) Extend the scope of the RFDC 'local levy' to allow funding to be raised from local authorities for coastal erosion projects b) End Internal Drainage Board (IDB) highland water charges and the related RFDC precept on IDBs
Option 3	Reform IDB and agricultural land owner funding arrangements	<ul style="list-style-type: none"> a) Remove IDB powers to require local authorities to part-fund business plans through the 'special levy' b) Repeal the EA's Special Drainage Charge, which is unused c) Repeal EA's General Drainage Charge currently only used in one part of the country

Option 2(a) is being taken forward in the Flood and Water Management Bill. The other options will be considered in the context of representations made during the consultation exercise and taken forward as appropriate when a suitable legislative opportunity arises.

Annex C Benefit to cost ratio

A core principle underlying this impact assessment is that flood and coastal erosion risk management activity can deliver substantial long-term benefits far greater than the costs involved.

Investment in FCERM results in less flooding and coastal erosion than otherwise would be the case, and where it does occur it will be less severe than it would have otherwise been. Benefits from reduced flooding and coastal erosion broadly fall into the 'sustainable development' headings: social, economic and environmental.

Social benefits include the avoided loss of life from flooding as well as the mental and physical wellbeing of those living in the area.

Economic benefits include avoided damages to property and their contents, and loss of earnings.

Environmental benefits include the protection and creation of wildlife habitats, including sites of special scientific interest (SSSIs), some of which can only be maintained through flood risk management.

The benefits of individual risk management projects and schemes are assessed before funding is awarded, using a standard appraisal methodology based on HM Treasury 'Green Book' guidance. Benefits of projects⁴ typically exceed their costs by between 5 and 20 times, with benefit to cost ratios (BCRs) of over 50 to 1 in some cases.

The average BCR of schemes within the Environment Agency's capital programme for new and improved defences is around eight⁵, meaning that at the moment every £1 invested achieves an average of £8 in long-term benefits across the life of the scheme.

A growth in investment in FCERM would:

- enable schemes with BCRs of 5:1⁶ to be realised, which would not receive funding under current arrangements and available funds; and
- mitigate against the risk that increasing pressures of climate change will increase damages from flooding in the UK.

Even at present there is considerable scope to increase investment in FCERM before the potential projects for which benefits outweigh costs are exhausted (i.e. to bring the marginal BCR down to 1).

⁴ Evidence on benefit to cost ratios is based on Environment Agency assessment of the content of its medium term plan

⁵ The current average benefit cost ratio in the Environment Agency's medium term plan

⁶ An estimate of the benefit cost ratio of the 'marginal scheme' in the Environment Agency's medium-term plan (the marginal scheme is the next priority one that would be delivered if more funding were available).