By: Max Tant, Flood Risk Manager

To: Kent Flood Risk Management Committee – 21 November 2011

Subject: Flood Defence Financing

Classification: Unrestricted

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1 Introduction

(1) Flood defences and coastal erosion risk management schemes are generally paid for from a government grant called Flood Defence Grant in Aid (FDGiA) which is administered by the Environment Agency (EA) on behalf of Defra.

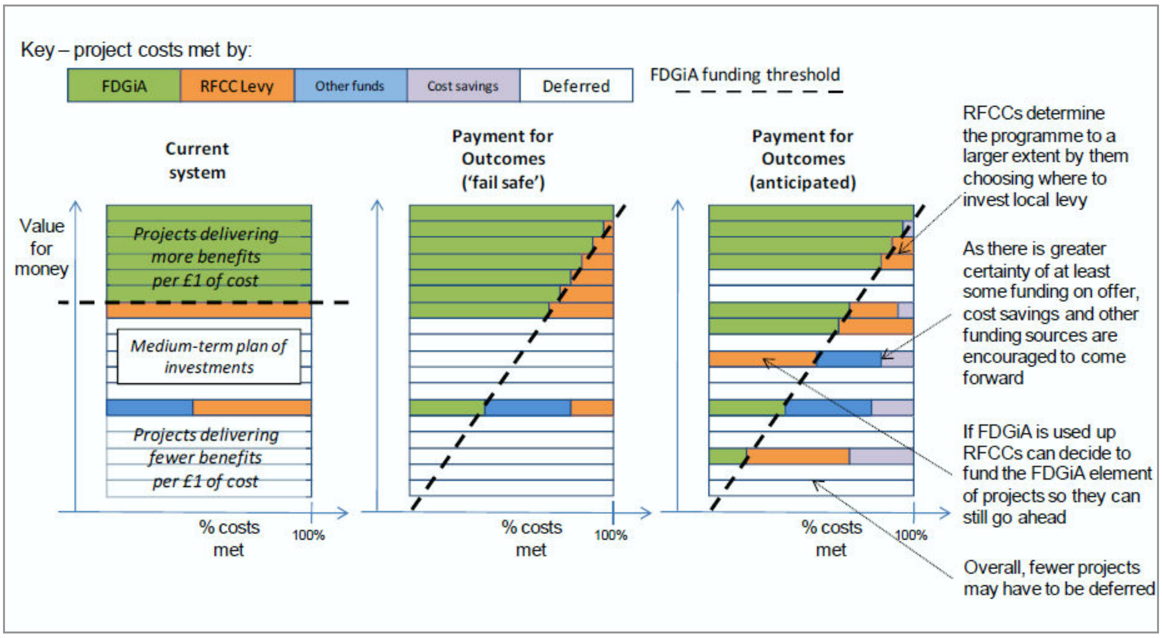
(2) Defra has recently announced changes to the way FDGiA will work from April 2012.

(3) In the past a number of schemes would receive full FDGiA funding each year if they met a certain cost-benefit ratio, while schemes that did not achieve this ratio would receive no grant.

(4) Under the new funding mechanism, Payment for Outcomes, each scheme will receive funding according to the benefits it delivers against defined outcome measures. For instance the number of homes protected or the amount of habit created.

(5) The funds allocated like this may be sufficient to develop the scheme. If they are not sufficient the difference will have to be made up from other "local" sources of funding.

(6) The figure below illustrates how the scheme will work.



(7) In order to qualify for any FDGiA funds under this scheme any necessary local sources must be secure before an application can be made.

2 Flood defences in Kent

(1) Kent is one of the most at risk areas of England from flooding, it is estimated that 86,000 properties are at risk from rivers and or the sea and 76,000 are at risk from surface water flooding.

(2) Kent faces significant challenges over the coming years to continue to protect areas that currently benefit from defences and to ensure that more defences can be built. The table below illustrates the planned flood defence work in Kent, which does not include any surface water management schemes yet.

Year	Total deliverable programme (est)	FDGiA potential allocation	Contribution required
2011 / 12	£19 million	£17 million - confirmed	£2 million
2012 / 13	£12.5 million	£9.3 million	£3.2 million
2013 / 14	£16 million	£9.3 million	£6.7 million
2014 / 15	£9 million	£4.5 million	£4.5 million

(3) A number of these schemes include funds to refurbish existing flood defences that are reaching the end of their life.

(4) Given the considerable shortfall in funds and the importance to Kent of flood defence schemes it is important to identify potential funding options that can be used to ensure all the schemes can be delivered.

3 Local funding options

(1) Overview

(a) There are a number of options for raising funds to meet the local contribution, which include:

(i) Local levy;

(ii) CIL and Section 106;

(iii) Council Tax;

(iv) Business rates;

(v) Tax Increment Financing; and

(vi) Charitable donations.

(b) It should be noted that where funds are required up front for a scheme a local authority may need to raise a loan to meet the contribution and then use some of the above mechanisms to finance the loan. In such instances the total loan repayment may be significantly larger than the initial contribution.

(c) For instance, for a loan of £1m with a repayment term of 25 years (longer loan repayment periods are not available to local authorities) the annual repayment would be approximately £90k per annum or approximately £2.25m in total.

(2) Local levy

(a) The local levy is a fund administered on a regional basis by the Regional Flood and Coastal Committee (RFCC). Kent is in the Southern Region RFCC, which stretches along the south coast from Hampshire to Kent. All upper tier local authorities in the RFCC region contribute to the local levy according to the number of Band D properties in their district.

(b) The Southern Region local levy is currently approximately £1.177m, which is one of the lowest in the country, despite this region have one of the largest risks. KCC currently contributes approximately £330k to the Southern Region local levy.

(c) The RFCC has 14 members drawn from the elected members of the contributing authorities (KCC has three members), and eight technical appointees.

(d) The local levy can be distributed to flood defence schemes at the discretion of the RFCC. It is often used to fund locally important schemes which would otherwise not receive funding.

(e) In this transitional period to the new Payment for Outcomes mechanism the local levy is likely to be used to finance feasibility studies to ensure that schemes can get to the stage where they can bid for FDGiA.

(3) Community Infrastructure Levy and Section 106

(a) Community Infrastructure Levy (CIL) and Section 106 are ways of raising money form new developments to pay for essential infrastructure that the development needs. These can only be used to fund infrastructure that the development directly benefits from.

(b) CIL is a new mechanism for raising funds and CIL charging schedules are currently under development in Kent. There are many competing objectives for CIL to meet aside from flood defences.

(c) These options may be suitable for developments in areas which already benefit from flood defences that may require refurbishment. However, FDGiA contributions are not calculated on houses constructed after January 2012, it is unclear at present if this includes areas that already benefit that are regenerated.

(4) Council Tax

(a) The local district council has the power to raise council tax. Parish and county councils can raise a precept on the district which is added to the local authority's council tax (the can Police Authority and Fire and Rescue Service have similar powers).

(b) All of the properties within the administrative area of the council tax raising council would have to pay the increase, even if they did not receive a benefit from the scheme.

(c) The table below provides an illustration of the increase in council taxes of financing a £1m loan repaid over 25 years. These figures are estimates and will change according to the number of homes in each council area.

Authority	Bearsted Parish Council	Maidstone District Council	Kent County Council
Area tax raised over	Bearsted Parish (approx. 4,200 houses)	Maidstone District (approx. 64,000 houses	Kent County (approx. 550,000 houses)
Council tax increase per band D property per annum	£24.6	£1.49	£0.16
Council tax increase range, for band A to H per annum	£16.4 to £49.2	£0.99 to £2.98	£0.11 to £0.33

(d) Where a small scheme is proposed with a small local contribution that could be argued to impact a parish or parishes a council tax precept may be a viable option for raising some of these funds. Distributing the funds over a large area may lessen the financial impact but be harder to justify to houses that do not benefit.

(5) Business rates

(a) Upper tier authorities can choose to raise a supplementary business rate of up to 2p in the £ (£s of rent) for all businesses with a rateable value of £50,000 or more. Business rates are currently 43.3p in the £ (not including any rate relief).

(b) The area subject to the increase would be determined by the upper tier authority. The increase would be subject to a ballot of all businesses in the area that would be affected.

(c) Supplementary business rates would be an attractive way of financing this sort of investment as it is easier for businesses to identify the benefits of flood defences and to justify, financially, the increased costs offset against reduced business disruption, damage to property, loss of stock and insurance premiums. However, the impact on future business growth should be considered

(6) Tax Increment Financing

(a) Currently a local authority can only borrow money to fund this sort of capital investment under “prudential borrowing” rules. The borrowing must be funded from future savings. If savings cannot be made the only way borrowing can be funded is through raising local tax.

(b) Tax Increment Financing (TIF) is used in other countries (notably America and Scotland) to fund major infrastructure by borrowing against future tax revenues. A local authority may raise money upfront to pay for infrastructure, on the basis that the increased business rate revenues generated by the scheme can be used to repay that initial investment.

(c) Under current legislation TIF is illegal in England. The government is currently consulting on returning business rate base growth to the local authority area in which it is raised. This would remove the legal barrier to TIF.

(d) The earliest business rate growth can be localised under the proposals is 2013/14. After this date the local or upper tier authority could use TIF.

(e) TIF is unlikely to be the panacea to fund all infrastructure requirements. It should only be used where there is a clear link between the new infrastructure and a net future business rate base growth. For instance it is unlikely to be useful for refurbishing existing defences.

(7) Charitable donations

(a) One-off contributions from individuals and businesses can contribute to the funding of schemes. Donations could include land needed for a scheme as well as money.

(b) KCC has the power to hold a lottery within Kent.

4 Cost saving options

(1) The Payment for Outcomes model encourages efficiencies and cost savings as the government contribution is fixed by the benefits of the scheme, therefore any savings are passed on to the funding partners.

(2) Local authorities in Kent should seek any opportunity to contribute to the design or maintenance of a scheme to keep costs down. For instance in Dover the property level protection scheme is being designed by Dover District Council, potentially saving £15,000 from a total scheme of £112,500.

5 Conclusions

(1) There are a number of mechanisms to raise funds for flood defence schemes. A range of options may be suitable to some schemes, although many options have restrictions which mean they will not be applicable to all schemes.

(2) Cost saving options should always be sought to ease the burden on local funding sources.

6 Recommendations

(1) The Committee is invited to note the report.

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Background papers: None