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Rt. Hon. Eric Pickles MP
Secretary of State
Department for Communities & Local Government
Eland House
Bressenden Place
London
SW1E 5DU
Sent via email: PSEricPickles@communities.gsi.gov.uk

23 July 2014

Dear Eric,

Partnership Funding and the River Thames Flood Defence Scheme

We write on behalf of South East Strategic Leaders (SESL) and South East England Councils (SEEC), which together represent all tiers of local government across the South East and 8.8m residents. At SESL's Group Meeting on 3 July, you invited us to set out our concerns regarding the allocation of Flood Defence Grant in Aid (FDGiA) funding, with particular reference to the River Thames Flood Defence Scheme (RTS), so that you might make representation at the Flooding Cabinet Committee.

We welcome your support to progress this issue and hope you will work with Cabinet colleagues, including Philip Hammond, Flood envoy for part of the affected area and Elizabeth Truss at Defra. You may also be interested in the attached leaflet, highlighting investment and actions required in the SE, sent to Dan Rogerson MP, SE Flood Envoys and SE MPs.

With the biggest population in England, the highest housing growth and the greatest economic returns to the Treasury, the human and economic cost of flooding in the South East is significant. Flood defence schemes are central to protecting our communities and our economy from the devastating impact of flooding. The RTS (see annex for more information) is fully designed, has widespread support and will reduce flood risk for the second largest concentration of undefended properties at significant risk in the country. It also has a very strong benefit cost ratio; yet, the way that current funding arrangements operate leaves us at a significant disadvantage and we are currently unable to take the scheme forward, despite local partners – including a group of 7 local authorities – contributing £27.5m.

FDGiA is based on the present value of benefits for three outcomes: reducing the flood risk for domestic properties; avoidance of other types of damage (including to business and infrastructure); and environmental outcomes – each multiplied by a payment rate. Present value benefits are calculated by applying a standard formula that ignores variation in the costs of flood risk reduction measures. FDGiA formula presents three major issues for the RTS, and other schemes like it, which we ask you and colleagues to address:

1. Economic benefit is downplayed

The payment rate for schemes that reduce damage to businesses and vital infrastructure is very low - just over 5p for every £ of benefit. With economic growth such a national priority, we believe the formula should take greater account of the economic benefits of investment in a scheme, including protection of critical business infrastructure such as major road or rail links. Under the current criteria, despite having a robust 6.4 to 1 lifetime benefit cost ratio, the RTS attracts only 53% funding.

We understand the payment rates assume that a much higher proportion of businesses will be insured compared to domestic properties; however, analysis of previous floods shows that the impact of costs on households and businesses is at a ratio of 1:1 rather than 4:1, as assumed in FDGiA. Indeed analysis of the 2012 floods by the Environment Agency found that costs incurred by businesses were in excess of the direct damage to residential properties.

2. Funding formula disproportionately prioritises deprivation

The formula sets a significantly higher payment rate for reducing flood risk to households in deprived areas compared to areas, like Surrey and Windsor, which are less deprived. While this reflects an expectation that levels of insurance will be lower in more deprived areas, it means that much of the South East attracts the lowest payment rate available - only 20p for each £ of benefit compared to the most deprived areas, which attract a rate of 45p for each £ of benefit. We urge Government to review this payment rate imbalance, which compounds the difficulties of funding major cross-council projects and presents a wider risk to SE transport infrastructure, which is vital to keeping our economy moving.

3. Geographical variation in costs is not reflected

No allowance is made for geographical variation in the costs of flood risk reduction. We believe Government should recognise additional costs in areas where geography affects flood protection options and outcomes. The gravel beds of the Thames, for example, exclude the option of bank raising because water seeps through and consequently we need to provide additional channel capacity.

We urge Government to address these three issues to consider how FDGiA funding formula could give greater emphasis to local and national economic impacts. Without Government support, major schemes such as the RTS, protecting thousands of homes and businesses, will not be able to progress. For the RTS, the FDGiA allocation is only just over 50% of the costs of a scheme with a net present value in excess of £256m. We are committed to doing what we can as local authorities working constructively together, but closing a gap of £92.5m is wholly unmanageable. We need additional support.

In addition to council Leaders making the case, we have made clear the strategic importance of this scheme through relevant Local Enterprise Partnerships and will be making the case for it as we move into the next round of Local Growth Fund discussions.

Thank you for agreeing to discuss our concerns with your Ministerial colleagues and we look forward to receiving your response.

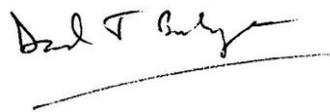
Yours sincerely,



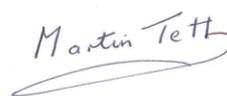
Cllr Gordon Keymer CBE
Chairman, South East England Councils



Cllr David Hodge
Deputy Chairman,
South East England Councils



Cllr David Burbage MBE
Chairman, South East Strategic Leaders



Cllr Martin Tett
Vice Chairman,
South East Strategic Leaders

CC:

Rt Hon Philip Hammond MP, Prime Minister's Flood Envoy (Thames Valley)

Rt Hon Greg Clark MP, Prime Minister's Flood Envoy (Kent, inland Sussex and Thames estuary)

Greg Barker MP, Prime Minister's Flood Envoy (South East Coast and Hampshire)

Owen Patterson MP, Prime Minister's Flood Envoy (Swindon and Wiltshire)

Elizabeth Truss MP, Secretary of State, Defra

Kathy Slack, Director, Enterprise M3 LEP

Tim Smith MBE, Director, Thames Valley Partnership LEP

Annex: The River Thames Flood Defence Scheme

Vision:

- **“The River Thames Flood Defence Scheme (RTS) - protecting our communities, securing our economy, enhancing our Thames.”**

Summary:

- The River Thames between Datchet and Teddington has the largest area of undefended flood plain in England. There are over 20,000 homes and businesses at risk.
- Councils in the affected area include the Royal Borough of Windsor and Maidenhead; Surrey County Council and the boroughs of Runnymede, Spelthorne and Elmbridge; in London the Royal Boroughs of Kingston and Richmond.
- The worst flood in this part of the Thames was in 1947, since then there have been 3 major floods in last 12 years, 2000, 2003 and 2014; in 2007 a major flood was narrowly avoided.
- The RTS was approved by the Environment Agency Board in 2010 and by Defra in 2012 as its preferred option.
- Including a 17km long flood channel, the RTS would be the largest ever inland scheme in England.
- The estimated scheme cost is £256m with a high benefit: cost ratio of 6.4.
- The scheme is eligible for £136m grant from Defra.
- Local partners can contribute £27.5m.
- However the scheme cannot progress as partners are currently unable to fill the £92.5m funding gap.

Risk to the Economy:

- The scheme runs through both The Enterprise M3 and Thames Valley Berkshire LEPS, two of the largest and fastest growing economies in the UK that make the greatest net return to the Treasury.
- The potential economic impacts both locally and nationally are undervalued in the current funding assessment

Working in partnership:

- The Leaders of the 7 affected local authorities are leading work with the Environment Agency, the two Local Enterprise Partnerships and other partners to identify funding and plan delivery. Securing sufficient funding from central government through the FDGiA will be critical to progressing the RTS.