# Appendix A: Levy Business Case for London within the Thames Catchment

## Introduction

The Thames Regional Flood and Coastal Committee (Thames RFCC) agreed, in January 2015, a programme of capital projects to reduce flood risk across the catchment over six years to April 2021. Together with the 10 year tidal programme to renew and upgrade the tidal defences within London, this programme represents £4.4 billion of direct benefits to London in damages avoided from all sources of flooding within the six year programme. Over the lifetime of the Thames RFCC programme (average lifetime of a project is 74 years) there are £122 billion of direct benefits in damages avoided from all sources of flooding.

This paper summarises the business case presented to TEC in 2014; provides an update on progress of the six year programme; and sets out the business case for a planned levy increase in 2017/18 totalling £217,157 which would be paid by the 47 London boroughs, unitary and county councils in the Thames RFCC area.

## London’s flood risk

London is at risk of tidal flooding from the Thames; river flooding from the many rivers and streams across London; as well as surface water and groundwater flooding, which can occur after heavy rainfall. Table 1 below summarises the number of properties at risk from these sources using national datasets. As can be seen, an appreciable number of properties remain at high risk of flooding (more than a 1 in 30 chance of being flooded in any year), particularly from surface water.

Table : Flood Risk in London by Category (rounded to nearest 1000)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Surface Water Flood Risk | | | River & Tidal Flood Risk | | |
| **Residential** | **Non residential** | **Total** | **Residential** | **Non residential** | **Total** |
| **High** | 59 000 | 7 000 | 66 000 | 11 000 | 3 000 | 14 000 |
| **Medium** | 96 000 | 13 000 | 109 000 | 29 000 | 5 000 | 34 000 |
| **Low** | 445 000 | 54 000 | 499 000 | 423 000 | 56 000 | 485 000 |
| **Total at risk** | **600 000** | **74 000** | **674 000** | **465 000** | **65 000** | **536 000** |

The Thames RFCC’s programme aims to reduce the number of properties at risk from allsources of flooding.

As projects on the Thames RFCC’s programme become complete, the properties at risk in Table 1 will reduce. The next full data update is expected at the end of 2017.

## Sources of funding for flood defence projects

The allocation of funding to flood defence projects within the Thames RFCC programme is based upon an established Defra framework. There are three main sources of funding for flood defence projects:

* Flood Defence Grant in Aid from central government (Grant in Aid);
* Local levy contributions from Lead Local Flood Authorities (all London boroughs as well as the unitary and county councils outside London in the catchment area);
* Partner / beneficiary contributions, for example from developers.

The maximum amount of central government funding on offer to each project is based on the number of outcomes it meets, which are defined by Defra. The projects that have large outcomes relative to their cost are eligible for full funding from central government, for example works to the Thames tidal defences. Many projects to address surface water, groundwater and river flooding require local contributions to secure the central government funding because their cost: benefit ratios are not as strong.

## Planned investment to reduce flood risk

In the original programme agreed in 2015/16 the Thames RFCC secured £302 million of Grant in Aid from government. It was able to do this because of the levy contribution of £67.5 million over six years (based on an ‘in principle’ levy increase) and having a Major Project Fund balance of £8.7 million (which is levy set aside over time for spending on major projects).

Each year, the Thames RFCC has the opportunity to refresh the six year programme to take account of any delays in projects, projects determined to be unviable, and any new projects coming forward for the programme. This annual cycle allows for continual strengthening of the programme as data and information improves and new opportunities arise, whilst maintaining the certainty of a six year programme. The January 2016 refresh maintained the £302 million of Grant in Aid and included an additional 43 potential schemes, of which 37 are being led by local authorities. As a result 69% of Lead Local Flood Authorities in the Thames RFCC area now have either a surface or groundwater scheme within the programme. Based on this revised programme the planned investment in London by 2021 comprises:

* £86m of investment at the Thames Barrier and walls and embankments along the Thames to ensure that the risk of tidal flooding in London remains at current levels;
* £16.5m of investment in reducing the risks from surface water flooding in London;
* £41m of investment to reduce the risk of flooding from rivers including large scale schemes in Bromley, Kingston, Ealing, Hillingdon, Redbridge, Waltham Forest, Brent and Harrow.

As part of this refresh the Thames RFCC was able to use the balances in the Major Projects Fund and the ‘in principle’ agreement for Levy increases to underwrite these additional 43 schemes and ensure that they were included in the refreshed programme to access future Grant in Aid that becomes available. As a result the total amount of planned levy spend in the programme currently exceeds the total levy income. The Thames RFCC has committed to maintaining this over-programming of schemes to ensure it continues to secure Grant in Aid investment. In any one year Grant in Aid originally allocated elsewhere in the country may become available. As this occurs the Thames RFCC will be in a position to secure and allocate any underspent Grant in Aid to the Thames RFCC programme, reducing the commitment on levy. Adopting this approach has enabled the Thames RFCC to secure an additional £10 million Grant in Aid to the 2016/17 programme.

As shown in Table 2 the Thames RFCC programme to April 2021 currently attracts a total of £314 million Grant in Aid capital funding. This is supported by a potential expenditure of £103 million of local levy across the 6 years. The Thames RFCC will manage the ongoing balance between levy and Grant in Aid on an annual basis at a ratio of Levy to Grant in Aid in London of around 1:7.5 during the six year programme. Surface water schemes tend to have a lower Levy to Grant in Aid ratio, and so over time this ratio may reduce slightly, as more surface water projects are added to the six year programme.

Table : Planned investment in the Thames RFCC area to April 2021

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | Properties at reduced risk | Thames RFCC Levy Investment (millions) | Grant in Aid allocation (millions) |  |
| 2015/16 | 4,132 | £ 4.8 | £ 34 |  |
| 2016/17 | 3,259 | £ 3.8 | £ 45 |  |
| 2017/18 | 8,211 | £ 17.2 | £ 51 |  |
| 2018/19 | 5,716 | £ 31.5 | £ 56 |  |
| 2019/20 | 10,687 | £ 20.2 | £ 53 |  |
| 2020/21 | 9,269 | £ 25.0 | £ 75 |  |
| **Total** | **41,274** | **£ 103.0** | **£ 314** |  |

*Note: 2015/16 shows actual figures, 2016/17 is based on the mid-year forecast, 2017/18 onwards shows planned six year programme figures*

In the first two years of the six year programme, flood risk has been reduced for over 5,000 properties in London. Through delivery of the six year programme, the Thames RFCC forecasts a reduction in flood risk to approximately 41,274 properties in the Thames RFCC area. This is an increase of circa 8,000 properties on the figure reported to TEC last year. This is due to the increased number of projects in the programme. The list of projects at Appendix B gives more information about where the properties are that will benefit.

## Use of levy

The Thames RFCC has agreed the following principles to guide the use of levy in its programme:

* risk-led approach with focus on significant risk;
* mix of schemes (major, smaller, community, innovation);
* value for money (assessed using cost: benefit ratio and partnership funding score);
* deliver efficiencies by planning ahead and packaging work;
* link to redevelopment and water company and transport investment;
* adopt integrated approaches to all types of flood risk;
* plan pipeline a planned pipeline including major schemes and “spade ready” portfolio;
* invest in existing assets as well as new;
* integrated approach to outcomes including environmental;
* good spread across RFCC area;
* a surface water scheme in each Lead Local Flood Authority (LLFA);
* an integrated scheme in each LLFA partnership.

Surface water flood risk is a significant risk in the Thames RFCC area. To achieve a surface water scheme in each local authority, the Thames RFCC uses levy to achieve a 100% partnership funding score in order to carry out investigative work. This approach has enabled new surface water schemes to be added to the six year programme for funding.

The principle of a 1.99% increase in levy each year has been agreed by the Thames RFCC, with a vote on the levy amount for the next financial year taking place each November. The levy increase, which ensures a healthy Major Projects Fund, allows the Thames RFCC to maintain a stable but flexible six year programme, and support the development of pipeline schemes. The Major Projects Fund allows the Thames RFCC to commit to large scale and long term river flooding projects; deliver critical projects tackling residual tidal risks to deliver benefits to people and the economy; and construct a strong pipeline of projects, including investing in the development of surface water schemes.

Efficiencies made throughout the six year programme also allow Grant in Aid to be reinvested across further projects. In 2015/16, £5.2 million of efficiencies were achieved.

## The Case for a Levy Increase totalling £217,157 in 2017/18

As described above, the Thames RFCC uses some levy to develop and maintain a Major Projects Fund.

Table 3 below shows the balance of the Major Project Fund in the far right column and its relationship to the annual levy increase in the middle column. Table 3 shows that even with the 1.99% annual increase the Major Project Fund, and the Thames RFCC’s capacity to initiate future major schemes, will reduce over the period to April 2021.

Table 3: Impact on levy

|  |  |  |
| --- | --- | --- |
| **Year** | **Annual levy income (with 1.99% increase)**  thousands | **Major Project Fund balance**  thousands |
| 2015/16 | £10,708 |  |
| 2016/17 | £10,910 | £21,072 |
| 2017/18 | £11,127 | £22,088 |
| 2018/19 | £11,349 | £10,319 |
| 2019/20 | £11,574 | £3,711 |
| 2020/21 | £11,805 | -£2,935 |

The Thames RFCC is currently reviewing the capital programme for 2017/18 and until this process is complete and the bid approved it is not possible to provide a fully revised projected levy spend. However, at present it is worth noting that the approach the Thames RFCC adopted last year has placed the Thames RFCC in a position where it can:

* Significantly increase investment to reduce the risks from surface water flooding in London from £16.5 to £35 million due to a number of new schemes entering the programme from local authorities. Investigations in Westminster, Enfield and Barking and Dagenham have progressed to scheme options being developed.
* Increase the investment to reduce the risk of flooding from rivers from £41 to £53 million. This includes schemes like the Lewisham and Catford scheme and the recently completed Salmons Brook scheme, as well as large scale schemes in Bromley, Kingston, Ealing, Hillingdon, Redbridge, Waltham Forest, Brent and Harrow. Many of these schemes have recently undergone initial assessment providing more accurate costs. Packaging work means some schemes have been accelerated into the six year programme, increasing spend on river schemes.

There are a number of factors that could increase or decrease the use of levy across the remaining period of the programme including;

* New projects coming forward for funding or projects not proving to be viable;
* Cost inflation;
* The costs of schemes changing as preparatory work and investigations proceed;
* Bringing forward expenditure on preliminary assessments for schemes in later years of the capital programme. This will ensure that there is a pipeline of schemes to accelerate, in case any existing schemes drop out and enabling the Thames RFCC to continue to secure government funding.

## Conclusion

It is recommended that Members support a 1.99% increase, which totals £217,157 in 2017/18. This would be paid by the 47 London borough, unitary and county councils in the Thames RFCC area, as part of the agreed six year programme.