



### **Southern Coastal Group Response to Defra Funding Review**

Although not directly invited to respond, Southern Coastal Group wish to participate in the consultation. We would be grateful that the Coastal Groups are added to your consultation list for future important matters such as this.

We are concerned that the method for determining the level of grant (Payment for Outcomes) appears to be too complicated.

It appears that additional layers of approval and bureaucracy are being introduced with Lead Local Flood Authorities, the Regional Flood and Coastal Committees as well as the relevant approval body in the Environment Agency all having an input into the decision making process. These would appear to increase the time and costs associated with scheme delivery.

While the general principles set out in the consultation seem logical and fair-minded in what they are seeking to achieve, a number of significant concerns remain in relation to the practical implications that the changes might have. There is a lack of detail provided as to how local funding might be raised. For example, local funding is often unlikely to be available which will lead to continuing uncertainty, not less as is suggested.

#### **Q1 Do you think that the existing funding prioritisation and allocation system should continue, in which government focuses on funding the most cost-beneficial schemes?**

Opinion is divided within the Southern coastal group regarding the preference to maintain the current system.

The present system contains many inequalities. For instance, the current suite of Outcome Measures is heavily skewed towards fluvial flood risk management schemes, or those that provide environmental benefits. The consequences of coastal erosion are given inadequate recognition. The current system also disadvantages rural areas.

The proposed system is reasonably simple to calculate, but is somewhat misleading in the final outputs. The calculation of habitat benefits seems particularly misleading. Impacts of infrastructure and integrated coastal zone management do not figure in the assessment. This is somewhat surprising particularly in view of DEFRA responsibilities to deliver ICZM to the EU. The proposed system generates considerable uncertainty as a result of the requirements for contributions. Since many coast protection schemes will require significant levels of contributions, often several million pounds per scheme, this is likely to be very difficult to achieve. According to a series of calculations conducted to test the system, the shortfall is likely to be so great on most schemes that the introduction of the proposed system will signal the end of funding for most coast protection schemes. The coast is very likely to degenerate into a zone which cannot be inhabited nor used for recreation.

**Q2 Do you have any other comments or anything to add to the analysis in Section 1?**

The new Outcome Measures come as something of a surprise as there has been no consultation with Local Authorities on these and they clearly need further development to deal with coastal issues.

Coast protection schemes aimed at reducing or preventing erosion risk are usually expensive. The coastal environment is a particularly harsh one often requiring substantial engineering, either soft or hard. Such schemes are usually well beyond the capacity of a local community and require support from core public funds. Often the communities requiring protection are not the most affluent as is reflected in areas of national deprivation statistics. As such these communities are frequently not in a position to provide the level of local support that appears to be required under this proposal, although they are likely to receive a higher level of contribution.

The beneficiaries of a scheme may extend well beyond the obvious area being protected making it difficult for a truly equitable distribution of costs to be identified. Any mechanism that relies on raising funds locally will necessarily carry a significant administrative burden for the client body.

It is important that the benefits of any proposed change are objectively assessed to ensure a likelihood of long term sustainable improvement. Issues such as the administration of a system with significant private contributions to capital and more significantly maintenance costs have potential to create additional cost, delay, and risk/uncertainty that the community may find difficult to accept. It will add a layer of legal administration requiring probably long-term commitments by residents or commercial operators and utilities to service a debt that may not be appealing or sustainable.

The costs of managing flood and coastal risks are currently managed nationally through general taxation. A more equitable approach might be to relate tax to risk. This will focus tax payers interests on areas where they live, perhaps discourage living in at risk zones and ensure those at most benefit contribute appropriately. It will also focus home owners on delivery of the defences by the relevant organisation

The expense of compliance with Habitats Regulations (Regional Habitat Creation Programme) is not transparent. These costs should figure properly in benefit cost benefit calculations. The costs of not complying with the legislation should be explored as a proper measure of any benefits.

**Q3 Do you agree with the objectives of Section 2? If not, which would you change, or what others would you add?**

In principle, yes although opinion is divided within the coastal group on this.. The current proposals are insufficiently well refined to deliver the desired objectives, largely for the reason given to Q2 above, as explained below. in succeeding questions.

iii) Insurance is not available against coastal erosion, leaving individuals and communities wholly dependent on defences or adaptation methods for their wellbeing.

It is suggested that that the proposals 'enable more local choice within the system....' This choice potentially enables local financial 'investment' but not local decision making. More clarity is required on how this governance mechanism is to work.

With reference to payment levels relating directly to the benefit - the reduction of flood risk from a moderate likelihood (1 in 100) to a low likelihood (1 in 200) may lead to low levels of future grant contribution being available for coastal flood and erosion risk management projects.

The document is extremely weak with regard to coastal erosion issues and seems to have been developed primarily with flood as the issue under consideration. Coastal erosion appears to be an after thought at best

**Q4 Do you agree with the guiding principles outlined in Section3? If not, which would you change, or what others would you add?**

The inclusion of Surface Water flood risk eligibility for FDGiA will increase demand on the already scarce grant allocation. This effectively increases competition for less funds, which may not be sustainable.

More detail is needed related to how beneficiaries will pay/contribute to FCERM; this is necessary to make an informed decision on the principles of these proposed changes. Phasing and commitment by both government and beneficiaries are needed and a robust legal form of agreement required for each project. The system is fraught with problems relating to phasing of fund availability.

**Q5 In particular, do you agree that the costs of protecting new development should not fall to the general taxpayer, now or over the long term?**

Yes - the tax payer should not contribute to protection of private development as these are run by businesses for profit. If following the relevant risk assessments a developer still wishes to build in a risk area then they should cover the costs of doing so. Developers must be made aware of the standards of protection that will be required in the long term. As part of this "beneficiary pays principle" a legally binding responsibility should be entered into/placed upon the developer/landowner/tenant or building maintenance firm at the planning stage for the long term management responsibility of the residual risks. There is a need to ensure that DEFRA liaise with CLG relating to the Supplement to PPS25.

The new proposals are likely to degenerate existing communities and limit regeneration due to the significant increase in development costs.

**Q6 Do you agree with the 'payment for outcomes' approach?**

Flood risk is the focus of outcome measures with very little reference made to coastal erosion – the outcome measure associated with coastal erosion needs to be more prominent

The recognition that losses caused by erosion are dissimilar to those caused by flooding: is important. The loss is total and cannot be recovered, whilst flooding is an ephemeral process. This section focuses (again) on fluvial flooding. Once again the coast is virtually ignored

Case Study 1 appears unrealistic. The example shows that local investment of £600k and £500k of RFDCC contributions (which equates to 55% of the £2million scheme cost) can be easily achieved. If this rate or theory is applied across the country then FDGiA grant could be distributed across more projects. The local communities of

England will however be expected to raise the funds to accommodate an apparent shortfall to the order of £100-300million per annum. It seems very unlikely that this could be achieved. There is a risk that schemes become too localised, more administrative (increasing costs), increasing the possibility of double counting and missing opportunities for collaborative working. It seems unlikely that raising funds in such a way is sustainable for the long-term. Within the short-term and during the forthcoming CSR period (the next 4 years) the economy is unlikely to be able to stimulate this level of “available funding” for contributions when cut-backs feature so prominently in private, public and commercial activities. This is likely to delay those schemes requiring contributions.

No. Case Study 2 –It seems very unlikely that “*local flood risk partners and community interests*” could realistically raise £10million. If this level of external contribution is not found, the scheme will not proceed. Increased budgets for RFCC contributions are likely to be far too small to provide any local top-up. The scheme already demonstrates a Cost-Benefit ratio of 12:1 which exceeds the 8:1 ratio described on Page 9 as: “*Value for money amongst the best in the public sector.*”*The aspirations to raise CBR of 12:1 to 17:1 is not realistic.* The amount of damages to the city remains the same but the reasoning for a 30% investment is inconsistent with Case study 1 (which had a CBR of 5:1 and justifiably needed contributions to enhance its business case.)

The objectives continue to ignore coastal related issues

**Q7 Do you agree that a payment for outcomes system would be more likely to deliver the objectives stated in Section 2, in comparison with the current prioritisation and allocation approach? An accompanying impact assessment provides a more detailed comparison.**

No. We do not understand how requiring local contributions to FCERM schemes constitutes enabling more local choice. It suggests that local communities will be faced with raising substantial sums of money to undertake what are, ultimately, less than adequate schemes, or facing an uncertain future while contributions are sought while their houses may be lost without any recourse to insurance, adaptation measures or defences.

The impact assessment suggests “*Around 200 properties are expected to be lost to coastal erosion over the next 20 years.*” This number is undoubtedly a significant underestimate as demonstrated in the recent SCOPAC research project ACCESS. It is suggested that the method generally used within SMPs generally provides a significant underestimate of properties at risk. For example at Havant, Portsmouth and Gosport at least 49 properties (Source: North Solent SMP) are at risk within the next 20 years but there is no reference to the current total numbers of properties at risk of long-term coastal erosion if no management took place. This information should be widely available from all SMP2’s. The number of properties at risk of coastal erosion from *No Active Intervention* along the Havant, Portsmouth and Gosport coastline alone is in the order of 1985 properties. A further 900 are at risk in Christchurch Bay. The assumptions made in the consultation are clearly incorrect. Flood risk consistently uses numbers of properties at risk of flooding if no defences were in place, coastal erosion should be treated the same especially in terms of providing a true understanding of the baseline position/incentive for a “beneficiary pays” principle.

There is a case for smaller scale rural defences (in situations where national funding is unlikely anyway) to reduce costs by accepting lower standards of protection. There may be a willingness for community groups and landowners to undertake timely maintenance of assets and minor improvements to defences. However, for this to succeed there is a need to reduce the bureaucracy associated with the consents processes.

The whole basis of the impact assessment has assumed flooding; no mention is made of erosion. All the scenarios used to compare the options are flood based.

A major concern in this debate is the almost universal focus on funding. While clearly this consultation is about funding, it seems perverse that there is no mention of the strategic management of coasts and rivers. Thus one reading of the consultation might suggest that if money can be raised locally a defence scheme could be constructed regardless of the wider strategic implications. There is no mention of strategic planning through Shoreline Management Plans. There is a danger that we therefore return to parochialism and lack of synergy in dealing with risk management.

Overall we believe that the new Payment for Outcomes will lead to a loss of the strategic approach to both fluvial and coastal risk management.

**Q8 Do you have any comments or suggestions on the role of RFCCs and the local levy?**

The new Regional Flood and Coastal Committees (RFCCs) will have a significant role to play. It is assumed, because it is not clearly stated, that the levy can be used to fund local authority coast protection schemes, not just schemes promoted by the Environment Agency.

It is not clear how RFCCs will prioritise expenditure. It would not seem appropriate for RFCCs to be the final arbiter on the progression or otherwise of LA IDB schemes without a high level of input by those bodies into the RFCC. This is currently not the case as there is no representation on RFCCs by the maritime district councils (except for the unitary authorities). There is little assurance that they will be represented on RFCCs in the proposed membership scheme. However as the authorities with responsibility for coastal erosion risk management they have a significant role and part to play. Thus any discussion of the role of RFCCs must always ensure that maritime district councils have representation. The recently published consultation does not ensure this provision and so the proposed membership appears deficient in this respect. If, however, it assumed that proper representation can be secured, then we support the principles of the role of RFCCs with support from the RCGs.

**Q9 Do you have any comments on the analysis in Section 6, or your own views of the potential benefits and risks of the payments for outcomes approach?**

As a hypothetical exercise the analysis in Section 6 is quite acceptable. However it makes a very large assumption: that contributions from the levy, local authorities, communities or the private sector will be forthcoming and that as a result some of the 'moderate' and the majority of the 'high' schemes will be delivered. It seems unrealistic to expect other sectors experiencing similar constraints to be in a position to meet any shortfall in central funding.

While payment for outcomes appears to offer a solution where the beneficiary pays, it makes the assumption that the beneficiary is able to pay. Thus the proposed new system will very much benefit those who can pay at the expense of poorer elements of society (public or private, corporate or individual) who cannot raise the necessary contributions. There is also the high probability that the programme management of different sources of funding will lead to extreme difficulties in delivery of any schemes.

**Q10 Do you have any suggestions for improving the way a payments for outcomes system might work.**

The new system might be improved by making greater use of the Indices of Multiple Deprivation (IMD). The new system has OMs 2c and 3c. These only relate to the additional benefits for households at risk of flooding or erosion. However by its very nature an area of deprived households suffers general deprivation with other sectors unwilling to invest in these areas. Therefore it is suggested that the use of IMD could be extended to an element of OM1.

We note that the uplift in benefit proposed for deprived households is quite significant. A more graduated level of enhancement could be introduced for, say, the 10%, 20% and 40% most deprived areas.

**Q11 Do you agree with these outcome measures for future periods? If not, which would you change, or what others would you add?**

The recognition within the OMs of the differences between flood and erosion risks is noted. The move to using the loss of rental income does not truly reflect the loss to the nation. While it is a measure of loss it does not reflect the cost to the nation of securing a replacement for that property. The rates used for average annual rental income are usually much higher for coastal properties than suggested in the valuations.

The valuation of OM3 has been distorted to try to make erosion risk appear more like flood risk. There is no such concept as average annual damages when it comes to erosion risk and so the OM3 series does not properly reflect the losses to the nation of erosion risk.

Loss of rental income could be said to be only time related and thus appears to assume that the property will be lost for a period, rather than the total loss experienced in an eroding scenario.

OM3a and OM3b should be amended and revert to some form of capital value. This could be related to market value or perhaps buildings insurance valuation. Arguably OM3c could remain based on a sum per household per year protected as the damages avoided in this instance could be regarded as being time related.

Are tourism and similar intangible benefits allowable under OM1? The guidance text is not explicit and refers to 'national' benefits which is contrary to the local focus given elsewhere in the document. Clarity is sought on this. It is suggested that local tourism benefits should be allowable as their omission would represent a significant obstacle to investment.

**Q12 Do you have any comments on the indicative payment values for each outcome, or the underlying assumptions used in their calculation?**

The proposed level of grant payable in respect of OM1 seems unreasonably low. It suggests that Government is seeking benefits 18 times what it is prepared to invest. Many of the infrastructure assets that are protected may be in private ownership, but nevertheless they are national assets. This applies to the major utilities and to railways. While some might be regarded as purely commercial they might more properly be considered as being in the ownership of the wider community. Certainly they may well have a benefit to that wider community and this is not reflected in the proposed new system.

It is therefore suggested that OM1 is split so that assets that are of benefit to the wider community qualify for a higher rate of benefit than the currently proposed £1 per £18 of benefit.

The principle of higher payments for properties in the highest risk zones and the most deprived areas is supported.

**Q13 Do you have any views on the National Priority Programme and the threshold above which projects would be selected for it?**

The concept of a National Priority Programme appears sensible. The methodology described appears appropriate and it gives some certainty to those schemes that provide the greatest benefit. It does not, however, make provision for taking forward schemes thought to be urgent. Earlier priority schemes incorporated an urgency factor. It is suggested that it is reinstated.

There appears to be bias towards only EA schemes achieving 120% being included in the National Priority Programme. Any scheme achieving this threshold should be included. This is another example of the preferential treatment given to the EA schemes and the penalising of LA & IDB schemes.

**Q14 Do you have any suggestions or preferences for determining what each RFCC's share should be, once funding has been allocated to the National Priority Programme.**

If flooding and coastal risk management is to be taken seriously it needs to be based upon an objective system that ranks schemes accordingly not on simply allocating across the Country/Region. This should apply to the risks within the purview of the various Committees.

Clearly each Region's needs will vary over time. But it is suggested there could be included in any funding mechanism an allocation based upon historic need. This would be supplemented by funding based on anticipated delivery against OMs. However, it should be remembered that flood defence schemes are able to score against OMs 1, 2 & 4 - 7 whereas coast protection schemes can only score against OMs 1 & 3 thus distorting the results.

The real issue here is lack of historic data and thus difficulty in assessing need. At this stage the Coastal Groups suggest that Preliminary Flood Risk Assessments be used initially as the basis of prioritisation.

**Q15 Do you have any other comments or suggestions on how prioritisation and funding allocation should work?**

There needs to be engagement at a detailed level with Coastal Groups in order to develop the thinking and implementation around this. Only with input from locally

based representative Groups will the public begin to accept the legitimacy of a system that they must rely upon for their existence and wellbeing.

We do not agree with the suggestion that Plans and strategies should be bundled with a works scheme. Plans and strategies by definition cover frontages from which several defence schemes may develop or other strategic management actions recommended. Under policies advocating retreat we would expect a strategy to include works to decommission a life expired and unsustainable structure and other adaptation measures. The proposed system does not appear to have the scope to justify funds to meet this need.

**Q16 Do you have any other comments or suggestions on these funding and delivery arrangements?**

With schemes potentially receiving funding from three different sources (FDGiA, Levy and other contributions) the decision making process will be complicated. There is a risk of confusion in the public mind as the process may be far from transparent, with some schemes proceeding and others not for little obvious reason.

The process of agreeing and securing contributions for capital and maintenance actions will be challenging, likely to lead to higher scheme development costs and introduce delays.

**Q17 Do you agree that it would be inappropriate under the new system to allow payments to be made under OM2 and OM3 in relation to households not actually at risk of physical damage?**

Yes; assuming that total loss due to erosion is classified as physical damage.

The Coastal Groups are unclear why this has been specifically raised, or to what it might refer. If it refers to the effects of blight, then we would argue that households not actually at risk of physical loss through erosion, but whose market value is reduced by the potential for loss, should be considered in the valuation of OM 3.

**Q18 Do you have any comments or suggestions on the key project metrics or the way in which they would be calculated?**

The methodology set out in the Technical Guidance contains some ambiguities. For instance it is not clear whether scheme costs are before or after the application of Optimism Bias. Neither is it clear how discounting is applied.

Section D (page 15) of Draft Technical Guidance (DTG) implies that contributions should be used to fund maintenance in addition to capital costs. This does provide the benefits of proper whole life costing and delivers a more equitable cost. The approach encourages cheaper long term solutions rather than high cost capital investments, with no maintenance. The logistics of securing and managing funds from contributors, and possibly local levy, to fund annual maintenance will be challenging. It might be more manageable if the private contributors' share of whole-life costs were converted to a contribution to the capital cost leaving operating authorities to fund R&M however this is not without risk.

The concept of linking benefits more closely to scheme life cycle is a far more equitable method of assessing benefits relative to that used for current schemes which does not encourage proper life cycle costing and permits inadequate design without penalty. This is likely to impact significantly on beach recharge schemes



which may typically have a life cycle of 5-20 years. It may have a significant adverse effect on some very large scale schemes that rely on regular (5 year) capital works to sustain performance, but does assure better economic assessment tied to scheme life.

The proposed system introduces an incentive to minimise whole life cost forecasts (possibly avoiding a realistic allowance for risk) in order to raise the probability of FDGiA award. This, combined with what is understood to be the transfer of whole life funding liability to the implementing authority as described in Section E of the DTG (Page 17 para 2) may place a significant future funding risk upon a community with no recourse to FDGiA – unless via Emergency works.

The low level of investment will result in fewer schemes proceeding and the resultant effect will be a declining infrastructure, dereliction and much lower values of property at the coast.

Whilst a cut off date is needed for consideration of new developments. January 2009 is not logical date; this will impact on many developments already in the planning, or development process where the economics have been based upon the current models. The proposed date appears to be unfair to developers and to planning authorities who might well change policy as a result of the propose changes.

The following examples have been calculated using the spreadsheet provided by DEFRA as requested from Daniel John and we are optimistic that the figures represent the cases correctly. In each of the examples the economic analysis suggests that significant levels of contribution would be required in order for schemes to proceed, whilst they would be expected to attract 100% funding under the current system. The prospect of achieving such funding locally is negligible in each case. This pattern appears to be a consistent trend for most coastal erosion schemes around the country and is very likely to halt the effective delivery of coastal protection.

**Example 1 – Barton-on-Sea**

Initial costs required for first phase = £3.38m (includes siphon drains + making good/reinstatement to sea rd access)

Costs based on strategy – could be updated/revised. Assume main capital construction of siphon drains over 3 phases between year 3 and year 21 with maintenance every 5 years.

Whole life costs (discounted) for 100 years are - £9,770,000

Whole life benefits (discounted) for 100 years - £49.77m

OM1 – business / emergency services / roads / utilities is calculated automatically based on the whole life benefits

OM3 (erosion) – allows for 766 properties being protected

Raw OM score = outcome payments / whole life costs = £5.981m / £9.77m = 61%

**Therefore contribution/saving required for phase 1 would be £1.3m**

BCA=5.09:1

**Example 2 – Barton-on-Sea – assumes all capital expenditure up front**

costs required = £9.18m

Costs based on strategy – could be updated/revised.

## Response to Defra Funding Review

Whole life costs (discounted) for 100 years are - £13,240,000

Whole life benefits (discounted) for 100 years - £49.77m

OM1 – business / emergency services / roads / utilities is calculated automatically based on the whole life benefits

OM3 (erosion) – allows for 766 properties being protected

Raw OM score = outcome payments / whole life costs = £5.981m / £13.24m = 45%

Therefore contribution/saving required would be £5m

BCA=3.76:1

**Example 3** – Milford-on-Sea – allows for 100 year costs, including rock structures, beach recharge, interim recharges and recycling costs sought for approval = £3.65m – design, rock, recharge

Whole life costs (discounted) for 100 years are - £6.11m

Whole life benefits (discounted) for 100 years - £30m – including loss of beach huts, beach hut income, car parking

OM1 – business / emergency services / roads / utilities is calculated automatically based on the whole life benefits

OM3 (erosion) – allows for 120 properties being protected

BCA = 5.1:1

Raw OM score = outcome payments / whole life costs = £2.166m / £6.11m = 35%

Therefore contribution/saving required would be £2.36m

**Example 4** – Hurst Spit BMP – allows for 100 year costs, including interim recharges, rock structure maintenance and BMP operations costs sought for approval (next 5 years) = £2.82m – interim recharge and BMP operations

Whole life costs (discounted) for 100 years are - £10m

Whole life benefits (discounted) for 100 years - £64m

OM1 – business / emergency services / roads / utilities is calculated automatically based on the whole life benefits – we've included moorings, recreation, avoiding damage to habitat.

OM2 + OM2b (flooding) – allows for 98 properties being protected

BCA = 6.4:1

Raw OM score = outcome payments / whole life costs = £4.086m / £10m = 41%

Therefore contribution/saving required would be £1.7m for the next five year phase.

This scheme provides major regionwide strategic benefits which are not well addressed by the new proposals.

Andrew Bradbury  
Chairman Southern Coastal Group