



House of Commons  
Environment, Food and Rural  
Affairs Committee

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# Managing Flood Risk

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## Third Report of Session 2013–14

### *Volume I*

*Volume I: Report, together with formal minutes, oral and written evidence*

*Additional written evidence is contained in Volume II, available on the Committee website at [www.parliament.uk/efracom](http://www.parliament.uk/efracom)*

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## The Environment, Food and Rural Affairs Committee

The Environment, Food and Rural Affairs Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Environment, Food and Rural Affairs and its associated bodies.

### Current membership

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### Powers

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The reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at [www.parliament.uk/efracom](http://www.parliament.uk/efracom)

### Committee staff

The current staff of the Committee are David Weir (Clerk), Anna Dickson (Second Clerk), Sarah Coe (Senior Committee Specialist—Environment), Phil Jones (Committee Specialist —Agriculture), Clare Genis (Senior Committee Assistant), Owen James (Committee Assistant), Yago Zayed (Committee Support Assistant), and Hannah Pearce (Media Officer).

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## Summary

Record rainfall in the past two years has led to extensive flooding across the UK, costing the economy millions and causing disruption and distress to individuals and communities. HM Treasury's recognition that effective flood protection is essential for economic growth and regeneration has led to welcome increases in capital funding for defences until the end of the decade. However, even after increases announced in the 2013 spending round, investment remains insufficient to meet growing flood risk. With the likelihood of more frequent severe weather incidents leading to increased flooding in future, Defra must convince HM Treasury that capital investment from all sources must be increased by £20 million year on year for 25 years to keep pace with threats due to climate and demographic changes. Reduced revenue funding in recent years has led to a failure to maintain defences and watercourses effectively. Pegging revenue investment close to current low levels is short-sighted and risks undermining the benefits of capital investment in flood defences.

Defra must demonstrate in the next 18 months that the partnership model for funding flood defence work can deliver much greater private sector funding since the approach has secured very little to date. Funding must be delivered more swiftly to local authorities. The current method for allocating funds is biased towards protecting property, largely in urban areas. This poses a risk to the security of UK food production. The Environment Agency must amend its scoring system so that agricultural land receives a higher proportion of funding.

The Environment Agency must undertake effective dredging and maintenance of watercourses. Internal Drainage Boards which wish to maintain local watercourses should be able to retain the funding they currently provide to the Environment Agency for this work.

Local authorities should be able to use Bellwin Scheme funds for repairing roads and other infrastructure damaged by flooding. The requirement for a local authority to incur costs of at least 0.2% of its annual revenue budget must be reviewed: it is not right that the size of an authority should affect its eligibility for funding.

The Committee is dismayed that Defra will not implement sustainable drainage provisions until April 2014. Sustainable drainage is a key aspect of managing flood risk and it is vital that the measures are adopted without further delay. The coalition agreement's commitment to end unnecessary building in flood plains has not yet been translated into effective action. The Government must review the effectiveness of the National Planning Policy Framework and, if necessary, amend guidance to prevent new developments adding to local flood risk. Defra must liaise more effectively with the Department for Communities and Local Government to stop planning rule changes, such as additional permitted development rights, having cumulative impacts on the ability of an area to absorb surface water.

We regret the Government and insurance industry's delay in agreeing a solution to the provision of affordable household flood insurance after the ending of the Statement of

Principles in July which led to uncertainty for those living in areas at high risk of flooding. We support the Government's proposals to embed the cross-subsidy from all household policies inherent in the current arrangements in a more transparent system which allows affordable insurance to continue to be provided for all. Flood Re has the potential to provide an effective model but many details need to be clarified, including how the insurance industry will be held to account in applying a levy on all household policies and how the taxpayer's liability for losses in extreme circumstances will be minimised. It is essential that the regulatory framework for the scheme is fully transparent and open to Parliamentary scrutiny. We will wish to scrutinise these issues further in due course and propose any necessary amendments during the Water Bill's passage through the House.

# 1 Introduction

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1. Record-breaking rainfall this year and last has led to a series of flood events which have had major impacts on many communities across the UK.<sup>1</sup> The frequency and severity of such flood events are predicted to increase in future years.<sup>2</sup> In December 2012, we announced an inquiry into the effectiveness of the Government's flood risk management policies. We received 18 written submissions and held five oral evidence sessions in February and March 2013. We are grateful to all who contributed to this inquiry.

2. This report is a follow-up to a number of previous reports on flooding, in particular our 2010 report *Future Flood and Water Management Legislation* and our *Draft Water Bill* report published in February. Further background can be found in these reports on a number of issues addressed below, such as organisational arrangements for managing flood risk and legislative measures in the Flood and Water Management Act 2010.

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1 2012 was the UK's second wettest year on record according to the Met Office. See <http://www.metoffice.gov.uk/news/releases/archive/2013/2012-weather-statistics>

2 Environment Agency, *Managing the environment in a changing climate*, November 2010, see for example p 5

## 2 Funding for flood risk management

### Roles and responsibilities

3. Managing flood risk effectively has economic as well as social and environmental benefits. The 2007 summer floods cost the UK at least £4 billion and several people died.<sup>3</sup> The Pitt review of those floods made recommendations on improving, monitoring and responding to flood risk; the majority were accepted by the Government.<sup>4</sup> Key measures were implemented in the Flood and Water Management Act 2010 (FWMA), including definitions of the key roles and responsibilities of the main bodies managing flood risk.<sup>5</sup> The Department for Environment, Food and Rural Affairs (Defra) has policy responsibility for flood and coastal risk management. The Environment Agency (EA) has a strategic overview of all sources of flooding and operational responsibility for managing risk from rivers and the sea. Upper-tier local authorities (i.e. unitary and county councils, known as Lead Local Flood Authorities) have responsibility for local flood risk such as from surface water and for encouraging greater local engagement and partnership working.<sup>6</sup> Within this framework, Internal Drainage Boards (IDBs) have a role in managing flood risk in a number of low-lying areas, such as Lincolnshire and the Somerset Levels.<sup>7</sup>

#### Flood risk: the figures

- More than 5.5 million (one in six) properties in England and Wales are at risk of flooding from all water sources.
- More than 2 million properties are at risk of flooding from rivers or the sea and nearly 3 million are susceptible to surface water flooding alone. A million properties are threatened by both.<sup>8</sup>
- Climate change is predicted to increase the likelihood of sea and river flooding and coastal erosion. Changing rainfall patterns and some new building developments are likely to make flooding from surface water more frequent.<sup>9</sup>

3 Environment Agency, *Review of the 2007 floods*, December 2007. Insured costs are estimated at £3 billion with additional costs of £1 billion

4 Sir Michael Pitt, *The Pitt Review: Lessons learned from the 2007 floods*, June 2008. Sir Michael Pitt conducted an independent review of the 2007 floods and their impacts at the request of the Government

5 See Flood and Water Management Act 2010, Sections 7 – 10 in particular

6 Report by the Comptroller and Auditor General, *Department for Environment, Food and Rural Affairs and Environment Agency, Flood Risk Management in England*, HC 1521, October 2011

7 Association of Drainage Authorities webpages <http://www.ada.org.uk/downloads/publications/IDB%20Vision.pdf>

8 Environment Agency flood webpages <http://www.environment-agency.gov.uk/homeandleisure/floods/31666.aspx>

9 Environment Agency briefing note, *Flood and coastal risk management*, June 2010



## Current funding arrangements

4. In January 2013, we published an analysis commissioned from the National Audit Office (NAO) setting out levels of public and private investment in flood defences and their maintenance, the level of protection this investment is providing, and how engaged local communities are in developing the delivery plans.<sup>10</sup> The NAO reports that Defra will spend an estimated £2.3 billion on coastal erosion and flood risk management in the current spending period.<sup>11</sup> This spend is divided into capital funding—on new and improved defences, major refurbishment of defences and other expenditure on assets, plant and equipment—and revenue expenditure.<sup>12</sup> The latter includes routine maintenance of flood defences, emergency planning and response, forecasting and warning services, and other running costs. Funding in 2012-13 was split with a capital budget of some £266 million, compared to a revenue budget of just under £295 million. For 2013-14, the figure for capital spend is higher at just under £294 million whilst revenue spend is set to decrease to around £280 million.<sup>13</sup>

5. Around 93% of Defra's flood defence budget is allocated to the EA as Flood and Coastal Erosion Risk Management Grant in Aid (FCRM GiA) which in turn is allocated to funding projects and ongoing work.<sup>14</sup> The method by which funding is allocated to specific projects changed from April 2012 to reflect a new 'Partnership Model.' This is discussed below. Defra retains a small proportion of the overall flood risk management budget for projects such as the Coastal Change Fund, Community Pathfinder projects, and research and development.<sup>15</sup>

6. Additionally, some £129 million will be provided over the current spending period in the form of retained business rates, revenue support grant and direct grants from Defra to Lead Local Flood Authorities (LLFAs) to support their new roles under the Flood and Water Management Act.<sup>16</sup> Central Government funding to local authorities via the Department for Communities and Local Government for flood and coastal erosion risk management has increased in recent years. Local authorities are free to decide how much of this amount to spend on their own flood and coastal risk management activity in light of other local priorities as the funding is not ring-fenced. Local authorities reported spending some £104 million in 2011-12 compared to some £90 million in 2008-09 on flood and

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10 Ev w9. This information updated the NAO's 2011 *Flood Risk Management in England* report considered by the Public Accounts Committee in January 2012

11 The current spending period runs from 2011-12 to 2014-15

12 Revenue expenditure is also referred to by the EA as resource expenditure

13 Defra webpages, <http://www.defra.gov.uk/environment/flooding/funding-outcomes-insurance/funding/>

14 Ev w10. FCRM GiA was formerly known as Flood Defence Grant in Aid (FDGiA). £2.01 billion in this spending period is allocated to the EA as FDGiA and an additional £120 million capital funding was announced in the 2012 Autumn Statement

15 The Coastal Change programme provided funding for local authorities to help their communities adapt to changes in their area due to, for example, coastal erosion. Defra launched the Community Pathfinder project in December 2012 to fund "innovative community responses to increase flood resilience"

16 Ev w10

coastal erosion risk management.<sup>17</sup> Local authorities also pay local levies to the EA of some £30 million a year towards funding local priority schemes.<sup>18</sup>

### Investment levels

7. The original provision of a total of £2.17 billion for the current spending review for flood and coastal defence works represents a 6% fall in central government funding compared to the previous spending period.<sup>19</sup> However, in the 2012 Autumn Statement the Chancellor of the Exchequer announced additional funding, raising spend to a level close to that of the previous spending period. Some £120 million of funding would be made available for flood defence work, to be spent in 2013-14 and 2014-15.<sup>20</sup> Table 1 below sets out the level of funding provided to the EA for 2007-08 to 2014-15.<sup>21</sup>

**Table 1: Environment Agency Flood and Coastal Risk Management Grant-in-Aid Funding: 2007-08 to 2014-15**



\* Additional funding refers to £120 million announced in the Autumn Statement 2012

Source: Report by the Comptroller and Auditor General, Department for Environment, Food and Rural Affairs and Environment Agency, *Flood Risk Management in England*, HC 1521, October 2011, p 13

8. The Secretary of State for Environment, Food and Rural Affairs, Rt Hon Owen Paterson MP, said that, when £148 million of partnership funding from sources other than central

17 Defra webpages, <http://www.defra.gov.uk/environment/flooding/funding-outcomes-insurance/funding/>

18 Q 115

19 Ev w10. The previous spending period ran from 2007-08 to 2010-11

20 "£120 million boost to flood defences will protect homes and businesses and help drive growth", HM Government press release, 1 November 2012

21 Report by the Comptroller and Auditor General, *Department for Environment, Food and Rural Affairs and Environment Agency, Flood Risk Management in England*, HC 1521, October 2011, p 13, updated to include additional capital funding information for 2013-14 and 2014-15 from HM Treasury press notice 115/12

government grants was included, more would be spent over the current four year spending period than during the preceding four years.<sup>22</sup>

9. In the last spending review period, 182,000 households were given improved flood protection against a target of 145,000.<sup>23</sup> No targets have been set for the current spending review period as Defra considers that short term targets do not always lead to the best long term outcomes.<sup>24</sup> Nevertheless, the Secretary of State told us that total funding committed to date would improve protection for some 165,000 homes by 2015; some 20,000 more than originally estimated reflecting the increased funding announced in the Autumn Statement.<sup>25</sup> This should be set in the context of the more than 5.5 million properties in England and Wales being at risk of flooding.

10. Many witnesses were concerned that overall funding for flood risk management was inadequate. The Local Government Association (LGA) considered funding was insufficient given the “huge” scale of the problem.<sup>26</sup> The Association of Drainage Authorities (ADA) pointed in particular to the “urgent need” for increased revenue funding for the EA.<sup>27</sup> Indeed, in 2009 the EA calculated that funding needed to increase by £20 million year on year between 2010 and 2035 to sustain current protection as risk increased owing to climate change. The EA considered that a “steady investment” in building and maintaining defences was needed so that funding would reach around £1 billion a year plus inflation by 2035.<sup>28</sup> This equates to an 80% increase on the £570 million investment in such work in 2010-11.<sup>29</sup> Funding for the current spending period would have needed to be some 9% higher.<sup>30</sup>

11. The NAO noted that current costs of damage to properties caused by flooding from rivers and the sea was around £1.3 billion per annum but that this could rise to between £2.1 and £12 billion by 2080, based on future population growth and if no adaptive action was taken.<sup>31</sup> The wide range in figures reflects the level of uncertainty over the impact of climate change and other factors on flooding over this long timescale.<sup>32</sup>

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22 Q 294

23 Ev w14

24 Q 304

25 Q 301

26 Q 3

27 Ev 75

28 Environment Agency, *Investing for the Future: flood and coastal risk management in England, a long term investment strategy*, 2009

29 This would equate to around an additional £5 billion over a 25-year period

30 Report by the Comptroller and Auditor General, *Department for Environment, Food and Rural Affairs and Environment Agency, Flood Risk Management in England*, HC 1521, October 2011, summary. This report refers to the Environment Agency report, *Investing for the future: flood and coastal risk management in England, a long term investment strategy*, 2009

31 The Foresight Flooding report published by the Department of Trade and Industry in 2004 estimated potential annual economic damage of between £1.5 billion and £21 billion by the 2080s depending on scenarios with varying levels of GDP growth, economic development, government structure and climate change. “Looking ahead to reduce flood risks”, DTI press release P/2004/150, 22 April 2004

32 The Met Office held a seminar in June 2013 to examine evidence on likely future trends in weather patterns. It noted that there was considerable uncertainty over trends for the coming decade. “Stand by for another decade of wet summers say Met Office meteorologists”, *The Independent*, 18 June 2013

12. We received evidence on the high ratio of benefits to investment in flood defences, with some £8 of benefits achieved for every £1 spent on flood defence work.<sup>33</sup> The Chairman of the EA, Rt Hon Lord Smith of Finsbury, considered that such a ratio compared “robustly with virtually any other bit of infrastructure development that the Government seeks to undertake”.<sup>34</sup> He outlined strong reasons why HM Treasury should ring-fence flood funding, including the efficiency of the EA’s programme, the 200,000 properties protected during the floods of late 2012 and early 2013, the increasing threat of erratic weather patterns, and the high benefit-to-cost ratio of schemes.<sup>35</sup>

13. HM Treasury appears to have recognised the economic growth and regeneration benefits to be gained from investing in flood defences. It stated that the additional capital funding of £120 million announced in the Autumn Statement in December 2012 would deliver up to £1 billion of economic benefits and “help drive growth”.<sup>36</sup> The Secretary of State told us that “emphatically these flood defence schemes help grow the economy”.<sup>37</sup> However, the press reported that Defra Ministers had to fight to preserve flood defence spending in the next spending period.<sup>38</sup>

14. After we finished taking evidence, on 26 June, the Chancellor announced that Defra’s budget for 2015-16 would be reduced by 10%; from £2.2 billion in 2014-15 to £2 billion in 2015-16. However, the settlement maintained resource spending on flood defences in cash terms.<sup>39</sup> Defra subsequently announced an additional £5 million for EA maintenance work.<sup>40</sup> Nevertheless, this is a modest increase since revenue funding for the EA is at its lowest since 2007 and some £50 million lower than in 2011-12.<sup>41</sup> The Chancellor also announced that there would be a “major commitment” of capital funding for new flood defences for the rest of the decade as part of an overall investment of £10 billion for specific science, housing and flood defence infrastructure projects over the period of the next Parliament.<sup>42</sup> Funding would rise to £370 million in 2015-16 then be protected in real terms until 2020.<sup>43</sup> This would deliver improved protection to at least 300,000 homes.<sup>44</sup> Despite this increase, capital funding in 2015-16 will be only £16 million higher than in 2010-11, and around £80 million lower than the level the EA anticipated would be necessary to match rising flood risk. Retaining funding constant until the end of 2020 will

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33 Report by the Comptroller and Auditor General, *Department for Environment, Food and Rural Affairs and Environment Agency, Flood Risk Management in England*, HC 1521, October 2011

34 Q 100

35 Q 113

36 “£120 million boost to flood defences will protect homes and businesses and help drive growth”, HM Government press release, 1 November 2012

37 Q 296

38 “Cabinet battle over flood defence budget”, *The Telegraph*, 2 June 2013

39 HM Treasury, *Spending Round 2013*, June 2013, Cm 8639, p 47

40 Letter from Secretary of State, Rt Hon Owen Paterson, to Anne McIntosh MP, on Spending Review 2013, 27 June 2013

41 Report by the Comptroller and Auditor General, *Department for Environment, Food and Rural Affairs and Environment Agency, Flood Risk Management in England*, HC 1521, October 2011

42 HC Deb, 26 June 2013, col 310

43 From £344 million in 2014-15; a 7.6% increase

44 HM Treasury, *Investing in Britain’s Future*, June 2013, Cm 8669

further increase the shortfall as the EA estimated that funding would need to continue to rise to reach £550 million in 2020-21.<sup>45</sup>

15. We welcome the Government's recognition that effective flood protection is essential for economic growth and for the regeneration of key parts of the country. Additional capital funding until the end of the decade announced by the Chancellor in the 2013 spending round is essential for securing flood defences to protect homes and businesses. However, funding has not kept pace in recent years with an increased risk of flooding from more frequent severe weather events and the relatively modest additional sums to be provided up to 2020 will not be sufficient to plug the funding gap.

16. Defra, together with the Department for Communities and Local Government, should act as an advocate for local communities with HM Treasury to secure additional investment for local flood defences. Defra must set out detailed evidence to demonstrate to HM Treasury that flood management capital funding must rise year on year by £20 million over the next 25 years to keep pace with increasing flood threat. This must be matched by a better balance between revenue and capital funding, whether from government or other sources. A review must take place prior to each spending period to ensure that funding is neither excessive nor inadequate in the light of developing scientific evidence on the likely long term impacts of changing weather patterns on flood risk.

## Partnership funding

17. From April 2012, the EA has operated the Flood and Coastal Erosion Resilience Partnership Funding model, a new scheme for allocating funding to specific projects. It aims to encourage non-Government sources to provide funding for flood defence schemes. The proportion of central funding that a project receives will depend on the benefits it will bring. The EA notes that "instead of meeting the full costs of a limited number of schemes, the partnership funding approach means that government money can help meet the costs of any worthwhile scheme [...] As a result, more schemes are likely to go ahead than under the previous 'all or nothing' funding system". The amount of money that the Government will allocate to a scheme is based on the numbers of households protected, the damages being prevented, and other benefits the project would deliver.<sup>46</sup>

18. The Public Accounts Committee has questioned the extent to which Defra could rely on funding from local sources for flood risk management given that local authorities face their own funding challenges.<sup>47</sup> These challenges have increased with the 2013 spending round announcement of a reduction in local government spending of a further 2.3% for 2015-16.<sup>48</sup> The NAO told us that during the previous spending review period sources other than central government funded only a relatively small proportion of the overall £1.02

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45 In his 27 June 2013 letter to Anne McIntosh MP on the Spending Review 2013, Defra Secretary of State, Rt Hon Owen Paterson MP, states that funding in 2020-21 will be over £400 million

46 [www.gov.uk/flood-and-coastal-erosion-risk-management](http://www.gov.uk/flood-and-coastal-erosion-risk-management) pages

47 Public Accounts Committee, Sixty-fourth report of Session 2010-12, *Flood Risk Management in England*, HC 1659, recommendation 2

48 HM Treasury, *Spending Round 2013*, June 2013, Cm 8639

billion budget: £2 million in 2008-09 rising to nearly £13 million in 2010-11. The private sector contributed 20% of this external funding. The EA had expected that under the new approach external funding of £9.5 million would be achieved by 2011-12, with 70% coming from the private sector over that year and the following year. However, out-turn figures show that a total of only £5.3 million of partnership funding (from public and private contributions) was achieved for 2011-12. Nevertheless, the EA now expects that partnership funding between 2012-13 and 2014-15 will total £70.6 million, rising to around £160 million if local levy contributions are included.<sup>49</sup> Although higher than estimated at the time of the NAO's previous report, total funding from non-government sources remains low and only a small proportion of this is from the private sector with relatively few schemes including significant private funding.

19. Evidence on the effectiveness of the partnership approach was mixed. The LGA welcomed the principle of leveraging in private funds since this potentially allowed more schemes to go ahead than the previous system and established an “important link between the beneficiaries and flood defence investment”. However, the Association also considered that the model needed to be reviewed to ensure that communities achieved the best value for money from limited public funds. It recommended speeding up the approval process which was currently “too long and complex”, taking up to a year before final funding approval was given. Councils considered that this lowered confidence among potential funding partners and made long term planning difficult. The Association also wanted support for a more diverse set of outcomes since “smaller, more rural and dispersed areas” were unable to compete for funding owing to the allocation criteria being applied on a national basis according to outcomes set out in the Partnership Funding Score.<sup>50</sup> The Association also noted that, while many local communities recognised the need for more funding to go into flood defences, in many areas there were “simply not the businesses” to fund this.<sup>51</sup>

20. There were concerns that the partnership approach could allow some schemes to proceed ahead of more urgent schemes owing to their ability to secure additional funding from private sector or other partners. The EA acknowledged that there would be projects which had not proceeded that might have under the old system, but argued that other projects had gone ahead that would not have under the previous system.<sup>52</sup> Lord Smith noted that there were only a “handful” of schemes which had gone ahead with private sector investment.<sup>53</sup> The Secretary of State told us that the Partnership approach was a “good thing”,<sup>54</sup> referring to schemes, such as a project in Leeds, which were going ahead

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49 Ev 9. The Local Levy is raised by Regional Flood and Coastal Committees (RFCCs) and their predecessor Regional Flood Defence Committees (RFDCs) from county and unitary councils and is used to support flood risk management projects that are not considered to be national priorities and so do not attract national funding

50 Ev 99

51 Q 4

52 Q 117

53 Q 129

54 Q 344



that would not have done so previously.<sup>55</sup> However, he acknowledged that more private money could be delivered.<sup>56</sup>

21. In our 2010 report *Future Flood and Water Management Legislation*, we supported the principle that beneficiaries such as developers should help to fund new schemes but doubted whether additional contributions from other sectors would be forthcoming, particularly from local government which is already contributing to many existing and planned local flood defence projects.<sup>57</sup> On the evidence of early experience of the scheme, those doubts appear to have been well-founded.

**22. Although the effectiveness of the Partnership model for allocating flood funding will become fully apparent in time, we are concerned that only small amounts of private sector funding have been secured to date. Defra must demonstrate in the next 18 months that this model can deliver much greater private sector funding.**

**23. The Department and the Environment Agency must simplify procedures to speed up delivery of funding to local authorities for whom efficient cash-flow is vital if project funding is to be secured from private bodies.**

24. Our *Natural Environment White Paper* report published in July last year recommended that the Government work with like-minded Member States to incorporate sufficient flexibility in the revised Common Agricultural Policy such that agri-environment scheme funding could be spent on ecosystems management schemes, such as land management to reduce flooding.<sup>58</sup> **The Government should ensure that maximum use is made of natural methods to prevent and manage flooding, which could enable the application of wider funding streams such as those available for EU agri-environment schemes.**

25. We recommended in that report that Defra commissions and publishes an assessment of the possibility of requiring licensed water supply companies to deliver specific benefits to the natural environment, including improved water flow management. We further recommended that a series of pilot schemes, similar to that in Pickering, Yorkshire, which use ecosystems management approaches to slow the flow of water be established across England and Wales.<sup>59</sup> The Government's response explained that such approaches were being evaluated and that consideration of such issues took place within the price review process.<sup>60</sup> **We regret that the current regulatory framework does not permit innovative investment in natural flood defences by water companies and expect Ofwat's next Price Review to rectify this.**

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55 Q 311

56 Q 344

57 Environment, Food and Rural Affairs Committee, First Report of 2010-11, *Future Flood and Water Management Legislation*, HC 522

58 Environment, Food and Rural Affairs Committee, Fourth Report of Session 2012-13, *Natural Environment White Paper*, HC 492

59 Environment, Food and Rural Affairs Committee, Fourth Report of Session 2012-13, *Natural Environment White Paper*, HC 492

60 Environment, Food and Rural Affairs Committee, Fifth Special Report of Session 2012-13, *Natural Environment White Paper: Government response*, HC 653

## Funding the defence of agricultural land

26. Some 14% of the agricultural land in England and Wales is at risk of flooding from rivers or from the sea.<sup>61</sup> The National Farmers' Union (NFU) told us that 58% of the most productive English farmland (grade 1 land) is within the floodplain.<sup>62</sup> The EA recognised the benefits of flood defences for agricultural land, noting that projects in 2011-12 had provided flood protection to more than 74,000 hectares of agricultural land.<sup>63</sup> Nevertheless, around 30,000 hectares of high-quality arable and horticultural land floods each year and this figure is likely to increase. Defra has estimated that some 35,000 hectares of high-quality horticultural and arable land will be flooded at least once every three years by the 2020s, and that this could rise to around 130,000 hectares by the 2080s if there is no change to current flood defence provision.<sup>64</sup>

27. Witnesses criticised the method used by the EA to assess the benefits of schemes since this skewed funding allocations. The NFU considered that the Agency's scoring model failed to reflect fully the benefits for food security of protecting agricultural land and that greater consideration must be given to the future value of food production.<sup>65</sup> The Country Land and Business Association questioned the 5 to 1 cost-to-benefit ratio set for household protection schemes, whilst for other assets the ratio was required to be much higher at 18 to 1.<sup>66</sup> The LGA also expressed concerns that the mechanism for partnership funding would not lead to strategic protection of land required for food security, and that it was not feasible for local communities to fund the necessary protection measures.<sup>67</sup> The EA acknowledged that the impact of flooding over a sustained period on places such as the Somerset Levels had "diminished the economic prospects of the farming community very substantially".<sup>68</sup>

28. We acknowledge the need to protect life and property adequately from the impacts of flooding but this does not mean that other imperatives, including the need to ensure food security, should not be taken into account when decisions are made on allocating scarce flood defence funding. We concluded in a previous report on food security that, faced with global challenges of meeting the world's demand for food in the face of climate change and population growth, the UK has a "moral duty" to make the most of its natural advantages for producing certain types of food and should aim to "increase production of those crops suited to be grown here".<sup>69</sup> The Prime Minister told the House in June that farmland must be protected "not least because, with global populations rising, the demand for food production is going to increase, and we should make sure we have a good level of food

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61 Q 135. 1.5 million hectares

62 Ev w21

63 Q 132

64 Defra, *UK climate change risk assessment 2012*, July 2012, Agriculture section. Figures are for England and Wales

65 Ev w22

66 Ev w6

67 Ev 99

68 Q 136

69 Environment, Food and Rural Affairs Committee, Fourth report of Session 2008-09, *Securing food supplies up to 2050, the challenges facing the UK*, HC 213



security in this country”.<sup>70</sup> However, failure to adequately protect agricultural land from flooding is working counter to that aim and threatens to undermine the UK’s ability to buffer itself against future crises in food supply.

**29. The current model for allocating flood defence funding is biased towards protecting property, which means that funding is largely allocated to urban areas. Defra’s failure to protect rural areas poses a long term risk to the security of UK food production as a high proportion of the most valuable agricultural land is at risk of flooding. Defra must require the Environment Agency to amend its scoring system to put a higher value on the benefits delivered by agricultural land, so that such land becomes eligible for a higher proportion of flood defence funding.**

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70 HC Deb, 19 June 2013, col 887

### 3 Maintenance of flood defences and watercourses

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30. The EA has powers to conduct maintenance work on main rivers and the coast, with local authorities having powers to carry out work on other watercourses and coastal erosion protection assets, except for watercourses in Internal Drainage Board (IDB) districts and public sewers (which are the responsibility of IDBs and water companies respectively).

31. Maintenance is prioritised according to flood risk, with 79% of the EA's £81 million revenue maintenance budget for 2012-13 allocated to high-consequence systems.<sup>71</sup> In March 2012 more than 98% of assets in high-consequence areas were maintained at or above target condition.<sup>72</sup> The EA spends £20 million a year on channel maintenance.<sup>73</sup>

32. The Association of Drainage Authorities (ADA) criticised the EA's maintenance approaches. The EA's annual regional revenue maintenance budget for 2010-11 was just over £100 million but was set to decrease to £60.7 million in 2014-15. This was "significantly short of the investment required to keep up with even the most essential works to keep our rivers flowing". The ADA concluded that "in short, the Environment Agency's maintenance budget will have nearly halved since the turn of the decade. Yet this budget will have to stretch ever further" with new capital investment in defences.<sup>74</sup>

33. The EA told us that future investment in maintenance would continue to be prioritised to ensure that the greatest possible overall outcome was achieved with the funding available. Works fell into four categories with the top priority being assets for which there was an economic case for maintenance to reduce the risk from flooding to people and property.<sup>75</sup> Nevertheless, the EA acknowledged that maintenance budgets were on a "slightly reducing line".<sup>76</sup> Lord Smith stated that asset management spend would equate to £169 million in 2012-13, reducing to £146 million in 2013-14 and £136 million in 2014-15.<sup>77</sup> He noted that there were some "pinch points" in specific places such as on the Parrett and Tone rivers.<sup>78</sup> He further noted that no additional revenue or operating funding was being provided to match the new £120 million capital funding announced in the Autumn Statement.<sup>79</sup>

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71 The Environment Agency classifies maintenance according to the impact of flooding on people and property depending on factors including land use, population, topography, and development proposals. A 'high consequence' system is one where thousands of people are at risk

72 Ev w11. See also Ev 106. Since March 2012 there has been a small fall in asset condition as a result of extreme wet weather in 2012-13 and reductions in overall expenditure on maintaining and replacing assets

73 Q 141. See also Ev 106. The EA estimated in 2012-13 that dredging investment alone was between £10-20 million per year

74 Ev 76

75 Environment Agency, *Protocol for the maintenance of flood and coastal risk management assets (England only)*, November 2011

76 Q 94

77 As above

78 Q 97

79 Q 145

34. Local authorities allocate funds to the maintenance of ordinary water courses and coastal defences in their areas according to local needs and priorities. In 2011-12, local authorities spent £88.6 million on flood defence and land drainage.<sup>80</sup> The LGA noted that councils worked locally with the EA and other partners to find “long term sustainable solutions to the withdrawal of maintenance activity” by the Environment Agency. However, it stated that the EA “must ensure that its withdrawal does not place additional cost burdens on councils and local taxpayers”.<sup>81</sup>

35. The Secretary of State acknowledged that some rural waterways had been allowed to get blocked up, flooding agricultural land and eroding bridges and other assets. This needed to be resolved.<sup>82</sup> However, as noted above, only £20 million a year is spent on channel maintenance, including dredging. On 27 June, the Secretary of State informed us that an additional £5 million would be provided for EA maintenance work.<sup>83</sup> However, this represents only a fraction of the increase necessary to counterbalance budget reductions of recent years. The EA’s revenue funding for 2014-15 is at the lowest level since 2007 and is some £50 million below 2010-11 levels.<sup>84</sup>

**36. We are deeply concerned at the decision to reduce funding for maintenance of flood defences and watercourses which could leave communities exposed to the threat of flooding despite having benefited from considerable capital investment in flood defences. It is essential that adequate revenue funding is provided to enable the Environment Agency to conduct the necessary dredging and maintenance of watercourses so as to minimise flood risk to local communities.**

## Role of Internal Drainage Boards

37. Internal Drainage Boards supervise water level management of land within their district boundaries.<sup>85</sup> The ADA told us that its members would welcome in principle the maintenance of some main rivers being transferred to new and existing IDB’s, particularly where the river was maintained by an IDB prior to its designation as a main river in the mid-2000s. However, it urged that proper financial support be provided in the transitional period to avoid management of sections of the main river network becoming “piecemeal and disjointed”.<sup>86</sup> Further, a commensurate reduction in the precept paid to the EA by IDBs undertaking this work was needed.<sup>87</sup> The EA told us that if the IDBs were willing to

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80 Ev w11

81 Ev 100

82 Q 316

83 Letter from Secretary of State to Anne McIntosh MP on the Spending Review 2013, 27 June 2013

84 HM Treasury, *Spending Round 2013*, June 2013, Cm 8639

85 Internal Drainage Boards (IDBs) are independent statutory bodies responsible for the land drainage of more than 1.2 million acres of lowland England which comprise areas of special drainage need. These bodies operate predominantly under the Land Drainage Act 1991 and have permissive powers to undertake work to secure drainage and water level management of their districts. They may also undertake flood defence works on ordinary watercourses (i.e. watercourses other than ‘main river’)

86 Ev 77

87 Q 58

do the work then it was likely that the local flood committees would be willing to consider this.<sup>88</sup>

**38. We recommend that Internal Drainage Boards which wish to undertake maintenance of local watercourses be supported in doing so, including by enabling them to retain the funding they currently provide to the Environment Agency for these services.**

39. Schedules of work for river clearance and dredging have been shared with partners including IDBs in response to the recommendation in the Pitt Report that the maintenance work undertaken by the EA be made more transparent.<sup>89</sup> The use of conservation volunteers should be encouraged. We endorse this approach. **We recommend that the Environment Agency continues to provide Internal Drainage Boards and local authorities with schedules of maintenance work to enable effective co-ordination of such work. Information should be published so that interested parties and the public are fully informed on the activities being undertaken.**

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88 Q 95. The local committees referred to are the Regional Flood and Coastal Committees. These have a duty to levy a precept on IDBs to contribute towards maintaining the main river due to the benefits that accrue to the Boards

89 Sir Michael Pitt, *The Pitt Review: Lessons learnt from the 2007 summer floods*, June 2008

## 4 Local authority flood recovery work

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### Bellwin scheme

40. In 2011-12, local authorities spent £156.3 million on flood defences, land drainage and coastal protection. This is up from £91.5 million in 2009-10.<sup>90</sup> Nonetheless, many communities have suffered costly damage in recent floods. The LGA noted that summer rainfall and flooding had caused “substantial damage” in 2012 to local highways and transport infrastructure in a number of areas. The Association highlighted the “pivotal” role of councils in helping affected communities to recover from recent floods.<sup>91</sup>

41. The Bellwin scheme provides emergency financial assistance from central government funds to help local authorities meet uninsurable costs incurred when responding to a major emergency. However, there are statutory restrictions on the types of expenditure eligible for central funding. The Government will reimburse authorities for 85% of the costs of “immediate action to safeguard life or property or prevent suffering or severe inconvenience to inhabitants”, so long as these are more than 0.2% of the authority’s annual revenue budget.<sup>92</sup> Both the threshold of spend required before help is provided and the narrow criteria for assessing eligible costs were criticised by local government witnesses.

42. The LGA told us that setting a percentage threshold presented a problem to county and/or large unitary councils, where parts of their area might have suffered significant economic damage from flooding but the overall impact was diluted across a large area so that costs might not reach the threshold for securing assistance.<sup>93</sup> This problem is particularly evident for those large unitary authorities which have recently replaced the previous two-tier county and district authorities.<sup>94</sup>

43. Furthermore, the Bellwin scheme does not fund capital repairs such as those to roads and bridges. We note that the Department for Transport set up an Emergency Capital Highways Maintenance Fund to provide funding to repair exceptional damage to such infrastructure caused by the summer 2007 floods. The LGA told us that, in the absence of a similar capital fund being established in response to more recent flood episodes, councils have had to divert funding from planned improvements to support their local economies.<sup>95</sup> The Association acknowledged that although extending the scheme to apply to costs of repairing infrastructure would be expensive, it would represent only a very small proportion of central government budgets.<sup>96</sup> Defra told us that 100% of eligible costs of floods in June and July 2012 were refunded by the Government and that emergency funds

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90 Ev w11

91 Ev 97

92 See Section 155 of the Local Government and Housing Act 1989

93 Q 13

94 For example, for Cornwall the threshold for Bellwin Funding is equivalent to £1.4 million, compared to a threshold which previously applied for the districts of Restormel and Caradon councils of £30,994 and £26, 908 respectively

95 Ev 100

96 Q 17

were available to deal with specific impacts on infrastructure. However, no single flood incident in 2012 had had an impact sufficient to release these funds.<sup>97</sup>

**44. We recommend that the Bellwin scheme be amended to enable local authorities to secure central government assistance for repairing and reinstating roads and other infrastructure damaged by flooding.**

**45. It is not logical that the size of a local authority should determine whether or not it is eligible for central government support in the event of a flood. We recommend that the requirement for a local authority to incur costs of at least 0.2% of its annual revenue budget in order for it to qualify for Bellwin Scheme funding be reviewed. A fairer measure of the impact of an event on a locality must be adopted.**

## 5 Sustainable Drainage Systems (SUDs)

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46. Councils are already working with developers to introduce Sustainable Drainage Systems (SUDs) to reduce flood risk. The LGA noted that more than 40% of newly built properties have connections to SUDs.<sup>98</sup> However, key provisions of the Flood and Water Management Act which require new developments of two or more properties to adopt SUDs are yet to be commenced, some three years after enactment. These measures would make the right to connect surface water to the public sewer conditional on the drainage system being approved by a SUDs Approving Body. Sewerage undertakers, the EA, IDBs, British Waterways and Highway Authorities are to be statutory consultees to the Approving Body.<sup>99</sup>

47. We expressed dismay in our report on the *Draft Water Bill* published in February 2013 that implementation of the SUDs regulations had been put back until April 2014. Witnesses to this inquiry were also disappointed at the lack of action to implement these measures. The LGA noted that councils were “frustrated by the delays” since the publication of national standards and establishment of SUDs Approving Bodies would provide “certainty for developers and councils in the design and approval of suitable schemes”.<sup>100</sup> The Secretary of State gave assurances that the Water Bill would include measures to encourage water companies to use SUDs.<sup>101</sup> After we finished taking evidence, on 27 June, the Government introduced a Water Bill. This includes measures aimed at encouraging the use of SUDs by sewerage undertakers which we will wish to examine. However, we remain concerned that existing primary legislation on SUDs remains to be commenced.

**48. Three years after enactment of the Flood and Water Management Act 2010, its provisions on sustainable drainage have yet to be implemented. We have previously criticised the Government for failure to reach agreement with key parties, such as local authorities, on how implementation is to be funded and managed, yet Defra is unable to commit to commencement before April 2014. Sustainable drainage is a key aspect of managing flood risk and it is vital that the measures are implemented without further delay.**

49. We were not able to examine in this inquiry wider issues on SUDs such as the potential for such systems to minimise water run-off from roads. There is a need for Highways Authorities and local councils to take more action to prevent surface water from highways overwhelming the capacity of combined sewers and flooding homes and businesses. **Defra must liaise with the Department for Transport and the Department for Communities and Local Government on measures to encourage local authorities and Highways Authorities to install sustainable drainage measures which will improve the management of water run-off from roads.**

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98 Ev 100

99 British Waterways became the Canal and River Trust in July 2012

100 As above

101 Q 353

## 6 Planning issues

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50. The coalition agreement states that the Government will “prevent unnecessary building in areas of high flood risk”.<sup>102</sup> Evidence to the Committee’s previous *Future Flood Management Legislation* inquiry supported this approach—for example, an insurance company urged that “clear attention” be given to curbing construction in areas exposed to high flood risk.<sup>103</sup> Evidence to that inquiry also noted that although the then current Planning Policy Statement on flooding (PPS 25) was helpful, it was not being applied consistently across the country.<sup>104</sup> The Government reviewed national planning policy and published the National Planning Policy Framework in March 2012; this largely adopted the principles of PPS 25 and existing technical guidance on its application was retained.<sup>105</sup>

51. A key aim of the PPS was to ensure that local authorities framed policies to locate development in places that “avoid flood risk to people and property where possible”, and which “manage any residual risk, taking account of the impacts of climate change”.<sup>106</sup>

52. Under the policy, local planning authorities (LPAs) are required to consult the EA on developments and the EA may object. However the LPA is not obliged to accept the objection, although it must notify the Secretary of State. Dialogue between the EA and planners is encouraged to try to identify solutions which would enable the EA to withdraw its objection. The LGA noted that councils avoided “unnecessary development” in areas of risk and ensured that new developments built in such areas were more resilient to flooding. The Association referred to evidence from 2011-12 which showed that EA advice was followed in more than 99% of planning decisions on new residential units.<sup>107</sup>

53. However, the position remains that many new developments receive planning permission despite being located in flood risk areas. The press reported that in the last year the EA objected to some 3,000 applications which would lead to nearly 28,000 homes being built in areas prone to flooding.<sup>108</sup> The Home Builders Federation told us that “clearly” homes had been built in areas of flood risk but that planning permission would always be dependent on putting appropriate mitigation or defence mechanisms in place.<sup>109</sup> The Secretary of State acknowledged that “some properties have been built in idiotic, silly

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102 Coalition agreement p 17

103 Environment, Food and Rural Affairs Committee, First Report of Session 2010-12, *Future Flood and Water Management*, HC 522

104 As above

105 www.gov.uk planning webpage <https://www.gov.uk/government/publications/national-planning-policy-framework--2>

106 Planning Policy Statement 25, *Development and Flood risk*, was published by the Department for Communities and Local Government. It has been superseded by the Department for Communities and Local Government, National Planning Policy Framework, March 2012. PPS 25 technical guidance is extant. [www.gov.uk](http://www.gov.uk)

107 Ev 98

108 HC 714-iii Q 228 refers to the Daily Telegraph article, “Thousands of homes planned for flood plains”, 1 December 2012

109 Environment, Food and Rural Affairs Committee, *Rural communities*, HC (Session 2012-13) 714-iii Q 225



places” but that new guidance was clear with a “very clear steer not to build in places where there is a risk of flooding”.<sup>110</sup>

**54. We are disappointed that the coalition agreement’s commitment to end unnecessary building in flood plains has not yet been translated into effective action. Planning guidance allows building to take place too readily in areas at high flood risk. Local planning authorities need stronger support from the Government to resist inappropriate developments in such places. We recommend that the Government review how effective the National Planning Policy Framework has been in preventing new development from increasing flood risk. If necessary, guidance must be amended to enable local authorities to reject planning applications where flood risk will be increased as a result of building in a specific location. Liability for householders’ future costs, for example for increased insurance premiums, needs to be placed on the final planning authority for new developments authorised in areas the Environment Agency considers to be at high risk of flooding.**

55. In 2013, the Government announced that it would relax planning rules to allow some houses to be extended up to a certain length under permitted development rules, rather than requiring planning permission to be obtained.<sup>111</sup> This policy runs counter to aims of limiting the impact of development on surface water run-off which have been embedded in recent planning policy changes supported by Defra. For example, in 2008 the then Government imposed planning restrictions such that permission was required for the laying of impermeable driveways larger than a certain size in recognition of the cumulative impact of small developments on the ability of urban drainage systems to cope with surface water run-off.<sup>112</sup>

**56. Extending permitted development rights, for example to certain house extensions, could have incrementally small but cumulatively significant impacts on the ability of local areas to manage surface water flows. Defra must in future liaise more closely with the Department for Communities and Local Government to ensure that all planning rules are consistent with sustainable drainage aims. We invite Defra to set out the mechanism to be used to establish such closer liaison.**

57. The impact of new development must be considered fully in respect not only of flood management but also in relation to demand for water, yet at present there is no mechanism to enable water supply constraints to be taken into account within the planning system for new developments. In our *Future Flood and Water Management* report published in 2010, we noted that some regions of England, such as the South East, suffer serious water stress with average water availability per person lower than in many Mediterranean countries.<sup>113</sup> Water companies considered that they should be included in the list of statutory consultees with whom planners are required to liaise when making decisions on

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110 As above Q 361

111 During passage of the Growth and Infrastructure Act 2013 the Government indicated that it wished to extend permitted development rights in some circumstances for house extensions. These have now been introduced to apply from May 2013 to May 2016 to extensions up to 6m or 8m in length dependent on house type, with the additional requirement that a neighbour consultation process is followed. [www.planningportal.gov.uk](http://www.planningportal.gov.uk)

112 See Communities and Local Government/Environment Agency, *Guidance on the permeable surfacing of front gardens*, September 2008

113 Environment Agency, *Household metering: position statement*, November 2010

planning applications for new developments since large-scale new developments in water-stressed areas, such as South East England, could lead to “deeply unsustainable communities”.<sup>114</sup> The LGA told us that it would be helpful for water companies to be statutory consultees on planning applications for this reason. It noted that the companies were already providing pre-application advice to councils considering schemes and developing local plans.<sup>115</sup> The Secretary of State told us that as “local organisations of some significance, water companies can always make a submission on any planning application”.<sup>116</sup>

58. In its response to the recommendation made in our 2010 report, Defra undertook to consider with the Department for Communities and Local Government the case for a statutory requirement for consultation with water and sewerage companies on those making applications for specified developments. **The Government must now set out how it will reform the planning system to ensure that new developments do not jeopardise water supplies in areas of water stress, for example by placing a statutory requirement on all those making applications for developments consisting of more than 10 homes or on sites larger than 1 hectare to consult water and sewerage companies.**

## Reservoir safety

59. The Flood and Water Management Act 2010 included measures to introduce a new regime for reservoir safety, including arrangements for inspection of reservoirs. Regulations have recently been approved by the House to bring these arrangements into effect, some three years after enactment of the 2010 Act.<sup>117</sup> However the necessary guidance has not yet been published despite Defra officials’ assurances that this would be published in June at the same time as regulations were passed.<sup>118</sup> Defra now expects to publish the *Guide to the Reservoirs Act* in July, with publication by the Institution of Civil Engineers of the *Floods and Reservoir Safety 3<sup>rd</sup> Edition* by the end of June 2014.<sup>119</sup> **We regret the delay in introducing vital measures to improve the reservoir safety regime and urge the Government to publish for scrutiny necessary guidance on the regulations at the earliest opportunity.**

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114 Environment, Food and Rural Affairs Committee, First Report of Session 2010-12, *Future flood and water management legislation*, HC 522

115 Q 50

116 Q 367

117 Draft Reservoirs Act (Exemption, Appeals and Inspections) (England) Regulations 2013

118 Q 286

119 HM Government, *Government response to the EFRA Committee’s pre-legislative scrutiny of the draft Water Bill*, June 2013, Cm 8643 (see recommendation 15)

## 7 Household flood insurance

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60. Around 2% of households are considered to be at high risk of flooding; in a free market these properties would incur higher premiums than if they were located in a low flood risk areas to reflect the higher risk of claims for flood damage.<sup>120</sup> Insurance for such homes, as well as for small businesses, is currently provided in line with a ‘Statement of Principles’ agreed between the Association of British Insurers (ABI) and the Government in July 2008. Under this, insurers agreed to provide until the end of June 2013 flood insurance to the vast majority of households and small businesses in areas of ‘significant flood risk’ where plans exist to reduce the risk below ‘significant’ within five years. Properties built from 2009 onwards are not covered by the Statement.

61. The ABI considered that the Statement of Principles was only ever meant to be a temporary “sticking plaster,” not appropriate for the long term for the key reasons that customers typically tend to have no choice of insurer, affordability is not safeguarded, and those new to insuring homes have no legacy of commitments under the agreement giving them a “a significant commercial advantage”.<sup>121</sup> We raised with Ministers on numerous occasions the urgent need to reach agreement, including in our *Draft Water Bill* report published in February.<sup>122</sup> The report cited evidence from the Local Government Association that, should the insurance industry’s agreement to provide cover to the more than 5 million properties in flood risk areas be withdrawn, there would be a danger of blight, with significant impacts on the housing market and social cohesion.

62. Ministers told us that they were working urgently to find a solution with the insurance industry, but did not wish to conduct negotiations in public.<sup>123</sup> We requested that Defra provide details of the legislative solutions being considered in the Government’s response to our *Draft Water Bill* report. We regret that, in spite of repeated requests from us, the Government only published this on 27 June, promising a further public update at the earliest opportunity.<sup>124</sup> On the same day, Defra launched a public consultation on how the Government intended to move forward. Insurers agreed to continue to meet their commitments under the Statement of Principles until such time as a new model, Flood Re, could begin operating.<sup>125</sup>

**63. We welcome the Government’s increased funding for flood defences which has enabled the insurance industry to undertake to continue to provide affordable flood insurance under the Statement of Principles regime until new arrangements can be put in place. The Government and insurance industry have had a number of years to consider future arrangements and we regret the delay in announcing a solution. This uncertainty has exacerbated the concerns of householders facing potentially significant**

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120 Q 168

121 Ev 71

122 Environment, Food and Rural Affairs Committee, Sixth Report of Session 2012-13, *Draft Water Bill*, HC 674

123 Q 374

124 HM Government, *Government response to the EFRA Committee’s pre-legislative scrutiny of the draft Water Bill*, June 2013, Cm 8643

125 Defra, *Securing the future availability and affordability of home insurance in areas of flood risk*, June 2013

**risers in insurance premiums. The Government must conclude negotiations urgently on the details of the measures it proposes so as to spell out clearly the arrangements which will apply in the future and end the current uncertainty.**

## Potential models for flood insurance provision

64. The focus of evidence to us was on two main approaches—‘Flood Re’ and ‘Noah’ (modified to ‘Flood Mu’). Much media focus has been on the former; a model proposed by the ABI. However, representatives of the insurance and reinsurance industry presented arguments to us on the merits of alternative models, including the Noah/Flood Mu model, and Flood Re Mutual proposed by Richfords Fire and Flood, discussed below. Media reports indicate a high level of disagreement within the sector over the best way forward, and no model garnered universal support from witnesses to this inquiry.<sup>126</sup>

### *Flood Re*

65. The ABI told us that, in the absence of any proposals from Defra, the insurance industry had developed a ‘Flood Re’ model with economic consultants Oxera. This approach would provide a not-for-profit fund to provide flood insurance to the 1-2% (around 200,000) of properties where, according to the ABI, obtaining insurance on the open market would be “problematic”.<sup>127</sup> The Association told us that under Flood Re policies for these properties would be charged at a set price, according to council tax band. It estimated that in a free market premiums for a home in a high risk area would be around £1,400 as opposed to around £750 under Flood Re.<sup>128</sup> Any insurer paying a claim for flood damage to such a property would be compensated from a fund built up from annual contributions from insurance companies based on their level of overall premium income. Companies would fund this contribution from a levy applied to all their household insurance premiums.<sup>129</sup> The ABI told us that this household levy would be around £3 per contents policy and £5 per buildings policy per annum.<sup>130</sup> Under this model, the Government would be required, at least initially, to be the ‘insurer of last resort’ in the event of an extreme flood event that overwhelmed the capacity of the fund to meet consequent claims. The ABI noted that taxpayer support would be withdrawn once the fund had accumulated sufficient funds to enable it to “handle any likely flood on its own”.<sup>131</sup> However, if the Government did not provide such back-stop funding guarantees, the scheme costs would increase from the current annual cross-subsidy value of some £150 million to around £280 million.<sup>132</sup> This would significantly increase the estimated cost per household per year.<sup>133</sup>

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126 For example “Free Market looms for flood insurance”, POST online, 27 March 2013

127 Q 168

128 Ev 72

129 As above

130 Q 179

131 “Flood insurance talks at critical juncture”, ADA Gazette, Winter 2012

132 Q 222

133 The cost per household premium per year is cited in the Government’s consultation on Flood Re as being £10.50 per year

66. Flood reinsurance is a key aspect of the model. Reinsurance company, Aon Benfield, which has been working with the ABI on the details of Flood Re, noted that all insurance companies in the UK buy some form of reinsurance protection for their property exposures (risks) which provides “a robust, proven, and well regulated mechanism for transferring risk and protecting insurers’ financial positions”.<sup>134</sup> The company considered that reinsurance had a key role to play in managing Flood Re’s ‘survivability’ (the ability to meet its obligations) and ‘sustainability’ (the ability to survive and trade after an event). Reinsurance achieved this through substantially reducing both the probability of failure and the volatility of results. The company’s early estimates were that Flood Re’s ability to pay out for a single catastrophic event would be some £2 billion, “far in excess” of the scheme’s estimated premium income.<sup>135</sup>

67. However, Flood Re has been criticised by some in the insurance and reinsurance industry. Insurance company Marsh Ltd suggested that the model would create perverse incentives for homes in high-risk areas not to manage their flood risk and for developers to build in such areas, prices would rise excessively as tariffs would not be contested, and reinsurance costs would be substantial.<sup>136</sup> The ABI countered that the scheme would not apply to newly built homes and that by improving individual property protection a home could come out of the scheme and find cheaper cover in the 98% of the market which remained a free market.<sup>137</sup>

### *Noah/Flood Mu*

68. An alternative approach, Project Noah, was proposed in April 2012 by the insurance companies Marsh and Guy Carpenter.<sup>138</sup> This aims to provide a pooled risk approach and is predicated on balancing out risk across the country since it was considered unlikely that floods would impact on all areas of the UK at once. Risk would be ceded in some proportion to the reinsurance industry. The model would use detailed flood risk maps to assess premiums and risk. The company described a key advantage of Noah as the fact that the model would require “no taxation, no subsidy, no levies, no legislation, and no additional infrastructure”. Further, under Noah, there would be no contingent liability on the Government for flood losses, the relative merits of proposed flood defences could be considered, and householders could reduce premiums by improving their property’s resilience to flood.<sup>139</sup> The ABI has criticised the Noah model, stating that it would not ensure affordable cover for customers, would require extensive government support, and was reliant on the international reinsurance market being able to accommodate it. It further added that control over price would sit with one organisation in charge of the Noah pool and that this would lead to the loss of the free market advantages which would,

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134 Ev 68

135 As above

136 Ev 103

137 Ev 75

138 “Ground breaking industry solution to enable fairly priced flood insurance for all UK households”, Marsh Ltd press release, 3 April 2012

139 Marsh Ltd background note to the Committee

however, continue to apply under Flood Re.<sup>140</sup> Noah was therefore not supported by the ABI's members.<sup>141</sup>

69. Marsh Ltd presented a variation on Noah, 'Flood Mu', during its evidence session with us in March. This proposed a risk-pooling solution, with a pre-set amount of flood claims in a given period being redistributed across all insurers in proportion to the size of their business in household cover. Some risk would stay with the original insurer, the proportion of which had yet to be determined.<sup>142</sup> Insurance companies could obtain reinsurance for their retained risk via the Noah model. The ABI also criticised this variant of Marsh's model, considering that it would not safeguard affordability of premiums or the availability of cover, nor would it incentivise the Government to invest in flood defences.<sup>143</sup>

### *Flood Re Mutual*

70. The Committee received evidence from Richfords Fire and Flood proposing a variation on the Flood Re model; 'Flood Re Mutual' under which a levy on all insurers offering household insurance would be pooled to fund reinsurance and pay out for areas with a greater than 1-in-75 year flood risk.<sup>144</sup> It considered the advantage of this approach would be that the insurer of last resort would be a mutual fund with assets invested for the benefit of its members—the UK public not corporate shareholders. Richfords recommended that legislation be put in place requiring all insurance companies to impose a levy equivalent to the value of 0.03% of the rebuilding cost specified in buildings insurance policies and 0.06% of the sum assured in contents policies".<sup>145</sup> This appears to produce a higher average cost per household than Flood Re. The ABI questioned whether a method similar to that used by Noah, such as the Richfords model, which cedes flood risk into a mutual pool could guarantee to maintain affordable premiums.<sup>146</sup>

### *Open market*

71. It should be noted that some parts of the industry consider that an open market in flood insurance could provide an affordable approach for homeowners. The British Insurance Brokers Association (BIBA) told us that, for the 2% of high-risk properties which found it harder to find insurance, the Association's not-for-profit signposting facility would help "suitable cover" from a specialist broker.<sup>147</sup> BIBA stated that its members already found cover for 95% of homes rejected by insurers for flood cover. Under a free market the vast majority of property owners would continue to access flood insurance "in the normal way with insurers providing cover as part of the standard bundle of perils".<sup>148</sup> The Association considered that only some 10,000 properties would present a

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<sup>140</sup> Q 172

<sup>141</sup> POST online, 4 April 2012

<sup>142</sup> Ev 103

<sup>143</sup> Ev 74

<sup>144</sup> This represents a 1.3% chance of a flood event occurring in any one year

<sup>145</sup> Ev w25

<sup>146</sup> Q 216

<sup>147</sup> Q 242

<sup>148</sup> Ev 85



real problem.<sup>149</sup> BIBA noted that any of the three approaches (Flood Re, Noah, or open market) could be developed to provide a “suitable solution” and recommended that a combination of approaches be discussed. However, for a market solution to work after the Statement of Principles expired it would be necessary for there to be signposting to specialist brokers, more promotion of resilience in properties, a fuller appreciation of the value of flood defence spending, and co-operation between owners, insurers, brokers, Defra, the EA, HM Treasury, reinsurers and local authorities.

### *Government proposals: Flood Re*

72. After we finished taking evidence, on 27 June, the Government launched a six week public consultation on its proposal to adopt the Flood Re model under which up to 500,000 high risk households could benefit by paying “significantly less for their insurance than they might otherwise”. The model would also constrain the excesses that could be imposed on households at high flood risk.<sup>150</sup> An insurance pool would be established in which premiums paid by households at low risk subsidised those of households at high risk of flooding. Ministers noted that as the levy would capture the existing cross-subsidy it would not impact customers’ bills “in general”.<sup>151</sup> The levy would be set at £180 million per annum which notionally equates to around £10.50 per customer per year, set for the first five years.<sup>152</sup> This is an increase on the £8 figure that the ABI cited in evidence to us as the likely cost per customer each year. If the scheme were to have insufficient income to meet outgoings, an additional amount would be charged to each member company. The Memorandum of Understanding between the Government and the insurance industry notes that the flood risk element of premiums paid by households in Flood Re would not exceed £210 for a council tax Band A property, rising to a limit of £540 per annum for a Band G property. However, “genuinely uninsurable” properties would be excluded from the scheme, as would Band H properties and those built after 2009. In addition, the Memorandum commits the Government to long term investment in flood defences and to taking primary responsibility in the event of an extreme flood event, with Flood Re and representatives of the insurance industry, in deciding how any available resources should be distributed to Flood Re customers as part of “wider Government action to respond to such a national emergency”. The annual liability collectively to insurers would be capped at the level of claims payable in a 1 in 200 year loss scenario.<sup>153</sup>

73. Flood Re would only operate for a limited time; it would be withdrawn within 20-25 years. Whilst stating that an immediate move to a free market would cause “significant hardship for many households”, the Government wished to see a “transition to a free market for flood insurance so that flood risk is accurately reflected in prices and the right incentives are in place to manage the risk of flooding”.<sup>154</sup> Ministers stated that “in the long term we need to create a situation where everyone is fully aware of their level of flood risk,

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149 Q 250

150 HC Deb, 27 June 2013, col W468

151 As above

152 Defra and Association of British Insurers, *Flood Re Proposal: Memorandum of Understanding between Defra and the Association of British Insurers*, June 2013

153 As above

154 Letter from Richard Benyon MP to Anne McIntosh MP, 27 June 2013. See [www.parliament.uk/efracom](http://www.parliament.uk/efracom)

and households and communities are rewarded through their future bills for the steps they take to reduce flood risk”.<sup>155</sup> However, the consultation does not propose measures to ensure that developers who have built in areas at high flood risk share with householders the future costs of premiums which reflect fully the risk of flooding.

74. The Government acknowledges that Flood Re does not achieve “the level of value for money normally required of Government policies” since the costs of Flood Re, including the necessary reinsurance contract, are expected to be greater than its economic benefits. A Ministerial Direction would be required before implementation can proceed.<sup>156</sup> However, it is not clear how Parliament will scrutinise this Direction, but it must be subject to Parliamentary scrutiny.

75. Provisions are included in the Water Bill to enable direct regulation of the insurance market if Flood Re “does not deliver what we need and insurers are otherwise unable to keep prices at affordable levels”.<sup>157</sup> The regulatory fall-back option, the ‘Flood Insurance Obligation’, would require insurers to cover a set share of high risk properties or face penalties.<sup>158</sup> Such a regulatory framework must be open, transparent and subject to Parliamentary scrutiny.

76. Ministers concede that Flood Re constitutes a “novel approach,” with many details still to be worked through with the industry, including the relationship between Flood Re and Parliament. Flood Re, rather than Ministers, would be directly accountable to Parliament for its operations, with Ministers remaining accountable for overall flood insurance policy. The Government proposes introducing a “bespoke scrutiny, administrative and regulatory arrangement” for Flood Re since this would avoid the scheme’s funding being considered tax and therefore public expenditure.<sup>159</sup> However, the Government states that these arrangements “offer Parliament less control and less insight into Flood Re’s operations” than if the scheme were treated as part of the public sector. Flood Re would also be likely to be classed as State Aid and would need European Commission approval.<sup>160</sup>

77. It is clear that no single approach has the backing of the entire insurance and reinsurance industry. There are advantages and disadvantages to each approach but the fundamental choice to be made is whether or not some flood insurance customers should be subsidised through an increase in premiums paid by all households. The ABI noted that it was a decision for “us as a society to make about our willingness for the 98% to effectively pay something towards the costs of the 2%”.<sup>161</sup> The Government has proposed that ultimately the free market should provide flood cover in order that risk is accurately reflected in the premiums charged so as to prompt the right decisions on the location and resilience of homes to flooding. It has, however, recognised that to move immediately to

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155 As above

156 Defra, *Securing the future availability and affordability of home insurance in areas of flood risk*, June 2013

157 See Water Bill Clause 47 and Explanatory Memorandum

158 Letter from Richard Benyon MP to Anne McIntosh MP, 27 June 2013

159 Defra, *Securing the future availability and affordability of home insurance in areas of flood risk*, June 2013

160 As above

161 Q 174



such a free market would cause some people “significant hardship”.<sup>162</sup> The Government estimates that some 500,000 households would benefit from a subsidy system, while the insurance industry told us that some 200,000 of the UK’s 26 million households could face increases in premiums without it. However, according to insurance brokers only 10,000 households posed a significant problem. Nevertheless, the threat of increased premiums exacerbates the fears of those living in flood-prone areas about the impact not only on their ability to pay the annual insurance costs but also on the value of their homes and the potential blighting of whole communities.

78. The ABI conceded that evidence was “patchy” on whether or not those living outside high flood risk areas would be willing to pay a levy to support those living in such areas”.<sup>163</sup> However, the current Statement of Principles already provides an element of cross-subsidy, albeit hidden within the insurance system.

**79. We were not persuaded that the open market would be able at present to offer affordable insurance to all households. We welcome the Government’s recognition that, whilst premiums should in time reflect a property’s risk of flooding, this transition should only take place over a long timescale. A solution must be found to ensure that insurance is available for those homes built in areas at high risk of flood which would be unable to obtain insurance.**

**80. We endorse in principle the agreement between the Government and the insurance industry to introduce a levy-funded insurance pool for households at high risk of flooding which will keep premiums affordable for all. Flood Re will make transparent the current implicit cross-subsidy under the Statement of Principles so that householders are fully aware of the contribution they are making. This approach will provide stability for communities and certainty for householders in future.**

**81. However, the Government’s announcement raises many questions about the operation of Flood Re, in particular how the scheme will be accountable to Ministers and Parliament, and how taxpayers’ interests will be protected in the event of an extreme flood event requiring funding beyond the capacity of the scheme. It is unclear who will bear the costs from such a 1 in 200 year flood event.**

**82. We are also concerned that the approach does not achieve the value for money normally required of Government policies. Furthermore, it is not clear how assurances will be enforced to limit the amount of levy to be paid by all householders and maintain premiums at affordable levels for those in the scheme. The regulatory regime must be fully transparent and open to Parliamentary scrutiny.**

**83. Ministers concede that they must publish further details on these issues. These must be provided urgently so that Parliament can scrutinise fully both the Flood Re scheme proposals and the measures in the Water Bill.**

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<sup>162</sup> Letter from Richard Benyon MP to Anne McIntosh MP, 27 June 2013

<sup>163</sup> Q 180

## 8 Conclusion

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84. One of Defra's core roles and largest area of expenditure is managing flood risk, including through ensuring the provision of effective flood defences. Measures to improve the value for money and co-ordination of flood risk management, including those introduced by the Flood and Water Management Act 2010, have undoubtedly improved the Department's ability to fulfil this role. Additional capital funding announced in June by HM Treasury is welcome, however in recent years overall funding has not kept pace with rising flood risk and these modest increases will not be sufficient to close the gap. Furthermore, revenue funding is set to stay at current low levels until at least 2015-16 with only modest increases in maintenance budgets. Protecting vital infrastructure and communities must be a priority for the Chancellor when setting budgets for future spending periods, both for capital flood defence works and for revenue funds to maintain assets and keep watercourses flowing effectively. Defra Ministers must ensure that Treasury and local government Ministers are given clear evidence to convince them fully of the benefits that sustained investment will bring not only through protecting individual properties but in spurring economic growth in key parts of the country.

85. The Government allowed uncertainty to continue for far too long over arrangements to apply after the ending of the insurance industry's Statement of Principles agreement with the Government. A more transparent framework is needed to embed the inherent cross-subsidy provided by all household insurance policies under the Statement of Principles such that those living in high-risk flood areas do not face unaffordable rises in their premiums. We support in principle the Government's proposal to introduce a Flood Re model, but there is an urgent need for Ministers to conclude negotiations with the insurance industry on the details of the scheme's application. Parliament must be reassured as to how such a model will be properly governed and scrutinised and must be given sufficient information to determine whether the policy delivers adequate value for money. The public must be reassured that the contributions of policy-holders will be set at a reasonable level and that the scheme's liabilities in the event of extreme floods are not passed on too readily by the insurance industry to the taxpayer. We will wish to return to these issues in due course and put forward any necessary amendments during the Water Bill's passage through the House.

# Conclusions and recommendations

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## Funding for flood risk management

1. We welcome the Government's recognition that effective flood protection is essential for economic growth and for the regeneration of key parts of the country. Additional capital funding until the end of the decade announced by the Chancellor in the 2013 spending round is essential for securing flood defences to protect homes and businesses. However, funding has not kept pace in recent years with an increased risk of flooding from more frequent severe weather events and the relatively modest additional sums to be provided up to 2020 will not be sufficient to plug the funding gap. (Paragraph 15)
2. Defra, together with the Department for Communities and Local Government, should act as an advocate for local communities with HM Treasury to secure additional investment for local flood defences. Defra must set out detailed evidence to demonstrate to HM Treasury that flood management capital funding must rise year on year by £20 million over the next 25 years to keep pace with increasing flood threat. This must be matched by a better balance between revenue and capital funding, whether from government or other sources. A review must take place prior to each spending period to ensure that funding is neither excessive nor inadequate in the light of developing scientific evidence on the likely long term impacts of changing weather patterns on flood risk. (Paragraph 16)
3. Although the effectiveness of the Partnership model for allocating flood funding will become fully apparent in time, we are concerned that only small amounts of private sector funding have been secured to date. Defra must demonstrate in the next 18 months that this model can deliver much greater private sector funding (Paragraph 22)
4. The Department and the Environment Agency must simplify procedures to speed up delivery of funding to local authorities for whom efficient cash-flow is vital if project funding is to be secured from private bodies. (Paragraph 23)
5. The Government should ensure that maximum use is made of natural methods to prevent and manage flooding, which could enable the application of wider funding streams such as those available for EU agri-environment schemes. (Paragraph 24)
6. We regret that the current regulatory framework does not permit innovative investment in natural flood defences by water companies and expect Ofwat's next Price Review to rectify this. (Paragraph 25)
7. The current model for allocating flood defence funding is biased towards protecting property, which means that funding is largely allocated to urban areas. Defra's failure to protect rural areas poses a long term risk to the security of UK food production as a high proportion of the most valuable agricultural land is at risk of flooding. Defra must require the Environment Agency to amend its scoring system to put a higher value on the benefits delivered by agricultural land, so that such land becomes eligible for a higher proportion of flood defence funding. (Paragraph 29)

### Maintenance of flood defences and watercourses

8. We are deeply concerned at the decision to reduce funding for maintenance of flood defences and watercourses which could leave communities exposed to the threat of flooding despite having benefited from considerable capital investment in flood defences. It is essential that adequate revenue funding is provided to enable the Environment Agency to conduct the necessary dredging and maintenance of watercourses so as to minimise flood risk to local communities (Paragraph 36)
9. We recommend that Internal Drainage Boards which wish to undertake maintenance of local watercourses be supported in doing so, including by enabling them to retain the funding they currently provide to the Environment Agency for these services. (Paragraph 38)
10. We recommend that the Environment Agency continues to provide Internal Drainage Boards and local authorities with schedules of maintenance work to enable effective co-ordination of such work. Information should be published so that interested parties and the public are fully informed on the activities being undertaken. (Paragraph 39)

### Local authority flood recovery work

11. We recommend that the Bellwin scheme be amended to enable local authorities to secure central government assistance for repairing and reinstating roads and other infrastructure damaged by flooding. (Paragraph 44)
12. It is not logical that the size of a local authority should determine whether or not it is eligible for central government support in the event of a flood. We recommend that the requirement for a local authority to incur costs of at least 0.2% of its annual revenue budget in order for it to qualify for Bellwin Scheme funding be reviewed. A fairer measure of the impact of an event on a locality must be adopted. (Paragraph 45)

### Sustainable Drainage Systems (SUDs)

13. Three years after enactment of the Flood and Water Management Act 2010, its provisions on sustainable drainage have yet to be implemented. We have previously criticised the Government for failure to reach agreement with key parties, such as local authorities, on how implementation is to be funded and managed, yet Defra is unable to commit to commencement before April 2014. Sustainable drainage is a key aspect of managing flood risk and it is vital that the measures are implemented without further delay. (Paragraph 48)
14. Defra must liaise with the Department for Transport and the Department for Communities and Local Government on measures to encourage local authorities and Highways Authorities to install sustainable drainage measures which will improve the management of water run-off from roads. (Paragraph 49)

## Planning issues

15. We are disappointed that the coalition agreement's commitment to end unnecessary building in flood plains has not yet been translated into effective action. Planning guidance allows building to take place too readily in areas at high flood risk. Local planning authorities need stronger support from the Government to resist inappropriate developments in such places. (Paragraph 54)
16. We recommend that the Government review how effective the National Planning Policy Framework has been in preventing new development from increasing flood risk. If necessary, guidance must be amended to enable local authorities to reject planning applications where flood risk will be increased as a result of building in a specific location. Liability for householders' future costs, for example for increased insurance premiums, needs to be placed on the final planning authority for new developments authorised in areas the Environment Agency considers to be at high risk of flooding. (Paragraph 54)
17. Extending permitted development rights, for example to certain house extensions, could have incrementally small but cumulatively significant impacts on the ability of local areas to manage surface water flows. Defra must in future liaise more closely with the Department for Communities and Local Government to ensure that all planning rules are consistent with sustainable drainage aims. We invite Defra to set out the mechanism to be used to establish such closer liaison. (Paragraph 56)
18. The Government must now set out how it will reform the planning system to ensure that new developments do not jeopardise water supplies in areas of water stress, for example by placing a statutory requirement on all those making applications for developments consisting of more than 10 homes or on sites larger than 1 hectare to consult water and sewerage companies. (Paragraph 58)
19. We regret the delay in introducing vital measures to improve the reservoir safety regime and urge the Government to publish for scrutiny necessary guidance on the regulations at the earliest opportunity. (Paragraph 59)

## Household flood insurance

20. We welcome the Government's increased funding for flood defences which has enabled the insurance industry to undertake to continue to provide affordable flood insurance under the Statement of Principles regime until new arrangements can be put in place. The Government and insurance industry have had a number of years to consider future arrangements and we regret the delay in announcing a solution. This uncertainty has exacerbated the concerns of householders facing potentially significant rises in insurance premiums. The Government must conclude negotiations urgently on the details of the measures it proposes so as to spell out clearly the arrangements which will apply in the future and end the current uncertainty. (Paragraph 63)
21. We were not persuaded that the open market would be able at present to offer affordable insurance to all households. We welcome the Government's recognition that, whilst premiums should in time reflect a property's risk of flooding, this

transition should only take place over a long timescale. A solution must be found to ensure that insurance is available for those homes built in areas at high risk of flood which would be unable to obtain insurance. (Paragraph 79)

22. We endorse in principle the agreement between the Government and the insurance industry to introduce a levy-funded insurance pool for households at high risk of flooding which will keep premiums affordable for all. Flood Re will make transparent the current implicit cross-subsidy under the Statement of Principles so that householders are fully aware of the contribution they are making. This approach will provide stability for communities and certainty for householders in future. (Paragraph 80)
23. The Government's announcement raises many questions about the operation of Flood Re, in particular how the scheme will be accountable to Ministers and Parliament, and how taxpayers' interests will be protected in the event of an extreme flood event requiring funding beyond the capacity of the scheme. It is unclear who will bear the costs from such a 1 in 200 year flood event. (Paragraph 81)
24. We are also concerned that the approach does not achieve the value for money normally required of Government policies. Furthermore, it is not clear how assurances will be enforced to limit the amount of levy to be paid by all householders and maintain premiums at affordable levels for those in the scheme. The regulatory regime must be fully transparent and open to Parliamentary scrutiny. (Paragraph 82)
25. Ministers concede that they must publish further details on these issues. These must be provided urgently so that Parliament can scrutinise fully both the Flood Re scheme proposals and the measures in the Water Bill. (Paragraph 83)

# Formal Minutes

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**Tuesday 2 July 2013**

Members present:

Miss Anne McIntosh, in the Chair

Richard Drax  
George Eustice  
Iain McKenzie

Sheryll Murray  
Ms Margaret Ritchie  
Dan Rogerson

Draft Report (*Managing Flood Risk*), proposed by the Chair, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 13 read and agreed to.

Paragraph 14 read, amended and agreed to.

Paragraph 15 read and agreed to.

Paragraph 16 read, amended and agreed to.

Paragraphs 17 to 20 read and agreed to.

Paragraph 21 read, divided and agreed to (now paragraphs 21 and 22)

Paragraph 22, now paragraph 23, read, amended and agreed to.

Paragraph—(*George Eustice*)—brought up and read the first and second time and added (now paragraph 24).

Paragraph—(*Miss Anne McIntosh*)—brought up and read the first and second time and added (now paragraph 25).

Paragraphs 23, to 31, now paragraphs 26 to 34, read and agreed to.

Paragraph 32, now paragraph 35, read, amended and agreed to.

Paragraph 33, now paragraph 36, read, amended and agreed to.

Paragraphs 34 and 35, now paragraphs 37 and 38, read and agreed to.

Paragraph 36, now paragraph 39, read, amended and agreed to.

Paragraph 37, now paragraph 40, read and agreed to.

Paragraph 38, read, divided, amended and agreed to (now paragraphs 41 and 42).

Paragraphs 39 to 49, now paragraphs 43 to 53, read and agreed to.

Paragraph 50, now paragraph 54, read, amended and agreed to.

Paragraphs 51 to 60, now paragraphs 55 to 64, read and agreed to.

Paragraph 61, now paragraph 65, read, amended and agreed to.

Paragraphs 62 to 67, now paragraphs 66 to 71, read and agreed to.

Paragraph 68, now paragraph 72, read, amended and agreed to.

Paragraph 69, now paragraph 73, read, amended and agreed to.

Paragraph 70, now paragraph 74, read, amended and agreed to.

Paragraph 71 read, divided, amended and agreed to (now paragraphs 75 and 76)

Paragraphs 72 and 73, now paragraphs 77 and 78, read and agreed to.

Paragraph 74, read, amended, divided and agreed to (now paragraphs 79 and 80).

Paragraph 75, read, divided, and agreed to (now paragraphs 81 and 82).

Paragraph 76, now paragraph 83, read and agreed to.

Paragraph 77, now paragraph 84, read, amended and agreed to.

Paragraph 78, now paragraph 85, read and agreed to.

Summary read, amended and agreed to.

*Resolved*, That the Report be the Third Report of the Committee to the House.

*Ordered*, That the Chair make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 3 July at 2.30 pm]



## Witnesses

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### Wednesday 6 February 2013

Page

**Cllr Andrew Cooper**, Deputy Chair, LGA Environment and Housing Board, and Leader Green Group, Kirklees Council and **Richard Wills**, Executive Director for Communities, Lincolnshire County Council

Ev 1

**Henry Cator**, Chairman, **Dr Jean Venables**, Chief Executive, and **Ian Moodie**, Policy and Technical Researcher, Association of Drainage Authorities

Ev 11

### Wednesday 13 February 2013

**Rt Hon Lord Smith of Finsbury**, Chairman, and **David Rooke**, Director of Flood and Coastal Risk Management, Environment Agency

Ev 17

### Tuesday 26 February 2013

**Otto Thoresen**, Director General, Association of British Insurers, and **Angus Milgate**, Managing Director UK and Ireland, AON Benfield

Ev 30

### Wednesday 20 March 2013

**Nick Starling**, Director of General Insurance, Association of British Insurers, and **Paul Miller**, Head of International Catastrophe Management, Aon Benfield

Ev 37

**Mark Weil**, Chief Executive Officer, Marsh Ltd, and **Graeme Trudgill**, Head of Corporate Affairs, British Insurance Brokers Association

Ev 42

### Tuesday 26 March 2013

**Owen Paterson**, Secretary of State for Environment, Food and Rural Affairs, **Sonia Phippard**, Director, Water and Flood Risk Management, Defra and **Andrew Rhodes**, Director of Operations, Food Standards Agency,

Ev 50

## List of printed written evidence

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Aon Benfield	Ev 68
Association of British Insurers	Ev 70; Ev 73; Ev 74
Association of Drainage Authorities	Ev 75
British Insurance Brokers' Association	Ev 85; Ev 87
Department of the Environment, Food and Rural Affairs	Ev 104
Environment Agency	Ev 91; Ev 96; Ev 97
Local Government Association	Ev 97; Ev 101
Marsh Ltd	Ev 102

# List of additional written evidence

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(published in Volume II on the Committee’s website [www.parliament.uk/efracom](http://www.parliament.uk/efracom))

Christine Beaumont-Rydings	Ev w1; Ev w1
Jeff Charlton	Ev w2
Council of Mortgage Lenders	Ev w3
Country Land and Business Association	Ev w5
Paul Hinton	Ev w7
Bill Hollis	Ev w8
Ewan Larcombe	Ev w8
National Audit Office	Ev w9
National Farmers Union	Ev w21
Richfords Fire and Flood	Ev w23

# List of Reports from the Committee during the current Parliament

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The reference number of the Government's response is printed in brackets after the HC number.

## Session 2013–14

First Report	Draft Dangerous Dogs (Amendment) Bill	HC 95
Second Report	Vaccination against bovine TB	HC 258

## Session 2012–13

First Report	Greening the Common Agricultural Policy	HC 170 (HC 654)
Second Report	The Water White Paper	HC 374 (HC 602)
Third Report	Pre-appointment hearing: Chair of the Water Services Regulation Authority (Ofwat)	HC 471-I & -II
Fourth Report	Natural Environment White Paper	HC 492 (HC 653)
Fifth Report	Desinewed Meat	HC 120 (Cm 8462)
Sixth Report	Draft Water Bill	HC 674 (Cm 8643)
Seventh Report	Dog Control and Welfare	HC 575 (HC 1092)
Eighth Report	Contamination of Beef Products	HC 946 (HC 1085)

## Session 2010–12

First Report	Future Flood and Water Management Legislation	HC 522 (HC 922)
Second Report	The Marine Policy Statement	HC 635
Third Report	Farming in the Uplands	HC 556 (HC 953)
Fourth Report	The draft National Policy statement (NPS) on Waste Water	HC 736
Fifth Report	The Common Agricultural Policy after 2013	HC 671 (HC 1356)
Sixth Report	Implementation of the Common Fisheries Policy: Domestic Fisheries Management	HC 858 (HC 1485)
Seventh Report	Pre-appointment hearing: Chair of Gangmasters Licensing Authority	HC 1400-I & -II
Eighth Report	EU proposals for the dairy sector and the future of the dairy industry	HC 952 (HC 1548)
Ninth Report	The Welfare of Laying Hens Directive—Implications for the egg industry	HC 830 (HC 1664)
Tenth Report	The outcome of the independent Farming Regulation Task Force	HC 1266 (HC 1669)
Eleventh Report	The draft National Policy Statement for Hazardous Waste	HC 1465 (HC (Session 2012–13) 540)
Twelfth Report	EU proposals for reform of the Common Fisheries Policy	HC 1563-I & -II (HC (Session 2012–13) 108)

# Oral evidence

## Taken before the Environment, Food and Rural Affairs Committee on Wednesday 6 February 2013

Members present:

Miss Anne McIntosh (Chair)

Thomas Docherty  
George Eustice  
Barry Gardiner

Mrs Mary Glendon  
Neil Parish

### Examination of Witnesses

*Witnesses:* **Cllr Andrew Cooper**, Deputy Chair, LGA Environment and Housing Board, and Leader Green Group, Kirklees Council, and **Richard Wills**, Executive Director for Communities, Lincolnshire County Council, gave evidence.

**Q1 Chair:** Order, order. Good afternoon and welcome. Thank you very much indeed for agreeing to participate in our inquiry on flood funding. You are both extremely welcome. Could I please just ask you to give your names and positions for the record?

**Cllr Cooper:** I am Councillor Andrew Cooper. I am Chair of the Local Government Association's Inland Flood Risk Working Group.

**Richard Wills:** I am Richard Wills. I am Executive Director with Lincolnshire County Council and Chair of the LGA's Inland Flood Risk Officers Group.

**Q2 Chair:** Just as an opening question, could I ask what the relationship of flood funding is to other items of your budget expenditure? Is it ringfenced?

**Cllr Cooper:** No, there is no ringfenced funding for flooding. It is for local authorities to determine how that money is best spent. However, it is fair to say that you would not expect that money to go elsewhere without a certain amount of public scrutiny. It is unringfenced.

**Q3 Chair:** Do you believe that the Government is being as ambitious as it might be in terms of extending flood funding to protect a large proportion of the up to 5 million properties now at risk of flooding?

**Cllr Cooper:** If you look at the amount of money that is provided for funding, we have recently had £120 million of additional funding put forward for flood defences. About £60 million of that £120 million was for shovelready projects that were already in the pipeline, so you are talking about roughly £60 million. Looking at an example such as Runnymede, to do the flood defences for the Runnymede area would require about £200 million. The scale of the problem is huge, and the amount of the funding that is given is not sufficient.

In terms of projects that we have got lined up or programmed, these will cover about 10% of the properties that are at flood risk. What we have got programmed is certainly not going to cover all of those properties that are required. We are at about 10% of what should be covered.

**Richard Wills:** It is fair to say, Chairman, that the demand will always exceed supply. That goes for all public sector infrastructure.

**Cllr Cooper:** Of course, we also have the issue of climate change. As climate change begins to bite, the likelihood of these events continuing will be that much greater.

**Q4 Chair:** Would you say that the funding recognises the new threat of surface water flooding? Certainly in my area, this seems to have posed a much bigger threat since 2007 and in particular during last year. Do you think that the funding reflects that as a new risk of flooding?

**Cllr Cooper:** Partnership funding as exists can be directed for that purpose. Of course, the funding that comes with that requires additional funding to come from other places. We do not get 100% funded schemes any more. To a certain extent, we have to look around for either local authority funding, which will have an impact on other areas, or private sector funding if that money is available. You get an awful lot of areas where there are simply not the businesses or the funding there to do that.

**Richard Wills:** It is interesting that, since 2007, local authorities and local communities have been more willing to put money into the pot. If you remember, Gloucestershire County Council got its residents to agree to a higher council tax rate immediately after the 2007 floods. I think there is recognition from local communities that more money does need to go into flood defence.

**Cllr Cooper:** Having said that, you can, for example, look at a high street in a town that could be prone to flooding. If you have got small businesses there—say, a small coffee shop that may be familyowned, that sort of property—it would be very difficult for that sort of business, which may be running at the margins, to actually put money into such a partnership funding project. If you have a business from a national chain like Starbucks, or something like that, they have greater access to funding than small businesses do. If you look at Hebden Bridge, for example, those are all generally small shops that are independently owned.

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**Q5 Chair:** The Government is only intending to help some of the 145,000 properties deemed to be at most significant risk of flooding. Do you think that that adequately reflects the concerns and views of the local communities that you represent?

**Cllr Cooper:** It would be very easy to say that, of course, it does not. As I have mentioned, as you look at the size of the problem and the size of the funding required, that clearly is not being met by the funding that is being made available.

**Q6 Chair:** The Government announced in November an additional £120 million to be made available for flood protection schemes over the next two years, which will be capital expenditure. Is there a revenue implication for that?

**Cllr Cooper:** There is. Of course, once flood defences of whatever nature go in, they will require maintenance and they will require maintaining over a period of time. That funding does not come with this, and therefore we do not have the money to do that. Where are the revenue costs going to fall? It is going to hit local authorities. Local authorities, as we know, are taking the brunt of public sector cuts. We have had additional cuts that have come through over this coming finance round, in addition to the ones that we have already had. Therefore, the question is where does that money come from? What does not get funded because we do not have the funding to maintain flood defences? Of course, there are some very difficult choices that councils have to make.

**Richard Wills:** There is another aspect to the restriction on revenue funding, which is this: how do you fund your repayments for any borrowing? Most local authorities are actually signed up to the concept of partnership funding and are willing to do that. My own authority is putting £6 million into two schemes as part of partnership funding; indeed, the district council and the town council are putting in money as well. However, the question is twofold. Firstly, schemes need preparation, and generally speaking that has to be charged against a revenue account. You cannot charge that to a capital account until it is ready to be built, so if there is a restriction on revenue funding, you may not be able to prepare schemes in the future. Then, of course, if you are going to take out a mortgage—as it were—to build a capital project, you need some sort of growth in your revenue stream in order to take out new borrowing. There will be restrictions for some local authorities who may be willing, in theory, to add money to the partnership funding. If they cannot borrow their share because of revenue restrictions, then that could be a problem in future.

**Cllr Cooper:** There is another key area that I would like to expand upon, which is whether the schemes follow the money, as opposed to following the need. It may well be that the schemes go where partnership funding is available, and that might not be the best use of that money. It might be better used in places where there simply is not that resource available. That is one of the tricky things with partnership funding: councils welcome it, but there are issues associated with it.

**Q7 Chair:** We will come on to partnership funding. Can I just be clear in my own mind? Is the £20 million a year the figure that the Government spends on maintenance? That is the figure that I have heard the Minister quote.

**Richard Wills:** I am not aware of that.

**Cllr Cooper:** That is not a figure that I have heard.

**Q8 Chair:** Obviously, this additional money that was announced last November is welcome. Would you like to see it extended over a period beyond the next two years, into the next spending review?

**Richard Wills:** The £120 million could be said to replace money that was cut, of course. We have got back to a level of expenditure that the EA had prior to the last comprehensive spending review. It is most certainly welcome, but both we and the Environment Agency would probably say that we would have liked to have had more money. In the view of most local authorities, certainly, they have got schemes that would be beneficial. Of course, the Environment Agency's own figures say that there is about an 8:1 ratio of benefits to costs for flood risk management schemes, so they do offer tremendous value for money. Therefore, I think there is a question for Government to consider the balance of how it spends its limited resources, and whether it might get better value for money from flood risk capital schemes than other capital schemes.

**Cllr Cooper:** The recognition of that would be helpful.

**Q9 Chair:** Would you say that such spending also contributed to economic growth, and could you give us examples?

**Cllr Cooper:** It certainly contributes towards economic regeneration and it is a way of getting people involved in the construction sector. The Government does seem to be looking at housing as almost a onetrack pony to stimulate the economy, but if you look at things like flood defences, they preserve existing housing and help it in that way. It is a good use of money, particularly when you have got a depressed construction sector, if construction is the area that you would be looking at.

**Richard Wills:** There are certainly places that are developing their local plans now that will probably need investment in flood risk infrastructure if they are to enable growth to take place. That is something that many local authorities are looking at as part of their planning process at the moment.

**Q10 George Eustice:** It is clear there is now a big onus on local authorities to take the lead on some of these flood schemes. What sort of oversight is there of the work that they are doing, or how much they are spending or not spending? Does the Environment Agency come along and chivvy councils that they do not think are taking the threat seriously enough and shake them down for money? Does Defra have some kind of communication with councils on this, or are they pretty much left to their own devices?

**Cllr Cooper:** I would not regard the Environment Agency as having an oversight role. It is very much a partnership that we have with the Environment Agency. It is quite a positive relationship that we

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have. Obviously, there are issues from time to time, but where the Environment Agency advises local authorities on the use of money and where it should be spent on projects, planning and those sorts of things, generally 99% of these recommendations are accepted in relation to planning. It is a good relationship.

In terms of oversight, we know the areas at risk. Those are well mapped. There is some new work being done by the Environment Agency to look at surface water issues, particularly in terms of mapping. The information is getting better all the time so that we can better target our resources.

**Richard Wills:** There are some encouraging examples developing around the country. I suppose I know Lincolnshire best. We are working very closely with the Environment Agency, internal drainage boards and district councils. We now operate a common works programme. We have not actually pooled our budgets but we are working out how we can get best value from the budgets we have. In Lincolnshire, for example, we are sharing our aspirations for improvement and then making sure that we are complementing our expenditure to get the maximum benefit. Other local authorities are doing similar things. I suppose that the clue is in the word “local”: every local area will probably develop its own partnerships. There is certainly public scrutiny of money, and most of us have set up flood scrutiny panels, which now have a number of organisations on them.

**Q11 George Eustice:** I wanted to pick up on something that Councillor Cooper said earlier, which was regarding the danger of projects following the money rather than following need under this system. I think that was how you put it. Is there a need to redesign the way that funds are allocated to prevent that happening?

**Cllr Cooper:** With limited resources, there is certainly a need. In a lot of ways we are at the beginning of this, and we are going to have to scrutinise what happens and what does not happen. One of the early indications is that generally the partnership funding will go where it affects people and where actual householders are affected. Hebden Bridge is again a classic example of where it is generally shops and small businesses which are affected. That, having been flooded three times in the last year, is obviously of huge concern to them. They might not necessarily be assisted under partnership funding. There are similar issues with agricultural land. I am sure that you will hear evidence from farmers a little bit later, but agricultural land and that sort of business may well not receive partnership funding either because they would not be regarded as a priority.

**Q12 George Eustice:** Going back to that point, I think that one council floated the idea of a flood risk management pot of money held nationally that councils bid into. They would be judged based on the strengths and the benefit-cost ratio of their scheme, rather than by how much matched funding they have got to go with it.

**Cllr Cooper:** That would make sense. If we are looking at issues of need, as opposed to where the

money goes, having something to fall back on would give you the flexibility to do that. When you are looking at issues of insurance and insuring areas that may be prone to flooding but might not necessarily get the funding, that would make an awful lot of sense. It would be a good suggestion, I would think.

**Q13 George Eustice:** Would you accept, though, that there still needs to be some sort of local stake in the scheme? Councils have always got somewhere else to spend their money, but if part of the aim is to get them to take a responsibility, they need to put some money down. How do you get the balance right between getting the councils to take responsibility versus making sure that the most important schemes get funding?

**Cllr Cooper:** Councils are democratically elected bodies. We are responsible to our electorate, and if we were not doing the right thing regarding citizens and flooding, the people would be rightly making an awful lot of fuss. Councils should respond to that. I am not aware of issues where people are upset about councils: they are upset about the lack of funding, and the funding requirements there. With limited resources, councils do the best we can with the funding we have.

**Richard Wills:** There may be a question about what happens in extremis, when you have a flood event. A small local authority can suddenly be overwhelmed by the costs associated with that, and the Bellwin Scheme does not really cover the costs adequately. There may be a case for having a national pot of money somewhere to help with the aftermath of schemes, particularly in terms of capital infrastructure, as opposed to the revenue consequences of just tidying the place up.

**Cllr Cooper:** Bellwin is a classic example. You will hear of flood events, and you will hear Ministers saying, “The Bellwin scheme is going to come in here, and national resources are going to flood down”—for want of a better term—“to help a local area.” Taking Calderdale as an example, when the events happened three times in one year to them they reckoned that the impact of that on council budget was about £2.5 million. For Bellwin to take effect the impact has got to be more than 2% of your council’s annual budget. Of the eight councils that put themselves forward under the Bellwin scheme, only three councils out of those qualified. They did not qualify for all of the funding, because Bellwin does not cover all costs. Of the £2.5 million that Calderdale had to pay out, Bellwin paid about £86,000. Therefore, to a large extent, that £2 million is coming off the council’s bottom line. It is coming off local services and local people. It is, effectively, a flood tax on councils. Bellwin is unfit for purpose for a lot of those councils. It needs reviewing in terms of what it does; “how useful Bellwin is” is one of the areas that this Committee could look at in more detail.

**Q14 Neil Parish:** That leads me quite neatly into my question, because I have got the Bellwin scheme here. You have recommended that the Bellwin scheme be revised, such that capital expenditure on repairing infrastructure such as roads damaged by floods becomes eligible for additional central Government

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support. What is your estimate of the additional cost to the Treasury of such an approach? If you take the roads down in Devon, for example, some of them have virtually been washed away, especially when you get off the B roads and onto the C roads. Some of them largely do not exist, and I am not exaggerating. Have you got any idea, or a guesstimate, of the cost?

**Cllr Cooper:** It would vary from council to council. It would be wrong of me to come up with figures for particular councils. It would be significant. Then again, those significant costs—if they fell on the council—would have a detrimental impact on essential services. That is the thing to take away from this.

**Q15 Neil Parish:** One benefit, taking Devon County Council as an example: if you were actually to add in the cost of repairing these roads, it would not take you long before you would get to 2.5% of Devon County's budget. It is a case of whether we look at when it cuts in, or probably it may be best looked at as "what Bellwin covers"; I think that is what you are saying.

**Cllr Cooper:** That is very much what we are saying.

**Richard Wills:** Devon actually estimated that the floods they had had cost £5 million, or did £5 million worth of damage to Devon's roads. Calderdale was about £1 million; South Tyneside was £2.4 million; and Newcastle estimated £7 million to £8 million. We are talking about big sums of money that are, in themselves, a very high proportion of the total highways budget that most of those councils would have.

**Cllr Cooper:** Also, investment in flood defences in the first place might alleviate some of those costs. Prevention work is another thing to look at.

**Q16 Neil Parish:** There is a little bit of a sting in the tail in my next part of the question. Naturally, central Government and local government have played pingpong for years with each other, but the answer is you want more money. The Government says that it has not got more money. You are saying that you want more money from the Treasury for Bellwin to cover the roads: what are you going to cut back?

**Cllr Cooper:** What are councils going to cut back?

**Q17 Neil Parish:** No, what generally do you want to see the Treasury cut back? If it is coming from the Treasury, we can open it up to the Treasury if we want, not just to the councils.

**Cllr Cooper:** If you are asking me what Government should cut back, I can give you a huge list.

**Neil Parish:** Feel free.

**Cllr Cooper:** These are very personal things as to what you believe should be cut back, aren't they? These are only personal opinions of mine, but I would say to cut back on prestige projects such as HS2 and get the basics right, such as council services. I would say cut out funding for Trident missiles; I would say get rid of that. These are, of course, my opinions. You have asked for those, and I am quite happy to give them. Government is about choices.

**Neil Parish:** I think that you made a good point earlier, when you said that growth can be created—especially in the construction sector—by repairing, as

well as building, new roads or new houses. I think that is a relevant point.

**Richard Wills:** As an official, of course, I would not dream of offering a political opinion.

**Neil Parish:** You had probably better not.

**Richard Wills:** As a technical observation, the budgets you are talking about are very small in terms of Government's total expenditure. A 1% efficiency saving in the health budget, the social care budget and the education budget yields £4.5 billion.

**Neil Parish:** The trouble is that they are wanting more.

**Q18 Chair:** Have you estimated what the cost to the Treasury would be of the additional funds that you are seeking for Bellwin?

**Richard Wills:** We have not done that calculation yet. We have got examples of what it is costing individual councils, but we have not got a comprehensive view yet. It is something that the LGA is trying to seek, so when we have got it we can certainly share it with you.

**Q19 Neil Parish:** So you are going to give it to us in writing?

**Richard Wills:** We can certainly share what we have got, and we can tell you where the gaps are.

**Neil Parish:** Thank you very much.

**Q20 Chair:** We are about to move on to partnership funding. Just before we do, could I just ask: in 2007, I think, Hull and Gloucestershire did have money from the Department for Communities and Local Government—or whatever the Department was called then—for flood damage for roads and bridges. North Yorkshire made an application last year, because we have got the longest roads in the country.

**Neil Parish:** No, you have not.

**Q21 Chair:** We will have a debate over a drink later. What changed between 2007 and 2012, so that one bid was successful and the other was not?

**Richard Wills:** I think it was lack of money. In 2007, we were not quite into the recession and there was more money about. That money largely came from the Department for Transport, or ultimately from the Treasury, I suppose. There is less money in government departments for these emergency covers. Having said that, the Department for Transport have just awarded money for drought damage and winter maintenance damage over the last two or three years. It would be unfair to say that the Government does not respond to adverse weather issues. It really depends on how much money they have got in their budget, and whether there is any contingency left at the time that you ask. I suspect that in 2007 there was money and in 2012 there was not.

**Chair:** That is fair enough. Thank you.

**Q22 Neil Parish:** The Government is, in many ways, quite rightly keen on partnership funding. However, does the current partnership model hinder the development of shovelready flood defence projects?

**Cllr Cooper:** Shovel-ready projects, as with many things, will follow the money. They will look at where

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money can be adapted, and where events have occurred. That is going to be the area where it is going to go in. Shovelready projects really should follow need. Does need follow funding? I have mentioned that particular issue, and the difficulties there, earlier on. One of the things that we need to be doing is monitoring this, to see what does occur where money has not been allocated or not been found. We did have Richard Benyon, the Minister, coming to a conference that we had on flooding about three or four months ago, and he was bemoaning the fact that private sector money was not being found in certain areas. Where private sector funding is not being found, that responsibility then falls back on local authorities. That is the reality of a lot of these projects. If we are the ones who determine where need is, and private money is not coming, then that is where it happens. There are examples of that that we can share.

**Richard Wills:** The Environment Agency and Defra have both undertaken to work with the Local Government Association to review the current partnership funding model. We accept that that is the right principle: it is just a question of whether it works in practice. I would allude to an answer I gave earlier, which is that at the moment we probably have enough schemes in the pipeline that the partnership model is not hindering us. However, as we move forward into newer territory where we have not yet done the preparation works, we may run into difficulty, partly because of the revenue funding, but also because you need more than one term of a council—or, indeed, a Parliament—to prepare and build. One of the things that was impressive to me as a professional looking in on the political processes between 2007 and 2010 was that Parliament across the parties decided that this was an issue of importance. From a local government perspective, Parliament continuing that line of “this is important to any Government” would certainly help the Environment Agency and local government to have confidence that they could invest some money in preparation now, knowing that at some point in the future—we accept that this might be five years ahead, but that is as long as it takes to design some of these schemes—that confidence would be very helpful.

**Q23 Neil Parish:** How can we actually get the partnership model to generate more funds and bring people together? For instance, in a local village of mine I was a facilitator of bringing all the various agencies, councils and people together. There does not always seem to be a mechanism to sit everybody down and say, “What are we going to do with the limited resources?” Who is going to make the plan as to what the village needs to get rid of the water?

**Cllr Cooper:** Bringing people together is very much a local authority role, and it is a role that we already have and is already being used by local authorities. If local authorities were not there, the question would be, “Who will do this work? Who would do this coordination work?” It is a vital area. One of the issues that we do have—particularly with some of the cuts that councils are having to make—is that key staff who have got these responsibilities may disappear. It then becomes part of somebody’s job and part of somebody’s role, and that it makes it more

difficult to plan in some areas. This is particularly true in smaller councils, where capacity is not as great. That becomes a concern.

**Richard Wills:** I think that some communities are more alert to this than others, if I am being honest. Those communities that are tuned in to this are almost writing their own agenda, which we as councils are following. In other places, we are leading. I do not think either is right or wrong; I think that both are valid. In my local area, we have had local communities that have said, “We need you to do this. We are prepared to put some money into the pot as a local community. We are working with our internal drainage boards: they have put money into the pot as well.” There are some really good examples of where this could work, and as the Local Government Association we are making sure that those case studies are shared through the local government community so that others can learn from good practice.

**Neil Parish:** It is just a question of where you have got very small parish councils and very small areas still having quite big floods, but not necessarily having the wherewithal to kick it off. That is where you have got to get the local districts or whatever coming in.

**Cllr Cooper:** Yes, the principal councils.

**Richard Wills:** Sometimes that is about perhaps compromising on the very best design standards that you might hope for. Rather than having, for example, a 120year or a 200year return time, some communities would be grateful if the return time was not as frequent as 30 years. We, therefore, have put in some relatively cheap schemes—I will not say cheap and cheerful, because that sounds rather disparaging—which have done, not as much good as we might have absolutely liked, but have done more than otherwise would have been done. We know for certain that this year, we have prevented floods.

**Neil Parish:** Therefore, the Environment Agency would have to remodel some of their schemes, because they are the ones who sometimes—perhaps for good reasons—make the schemes very expensive for one flood every 120 years, if you see what I mean.

**Richard Wills:** If local authorities had a little more influence over some of the money, we might be able to adapt the standards to an acceptable local standard. We would have to help our public understand that that is not as good a scheme. We have a duty to help communities understand what that means.

**Q24 Chair:** I think it was Councillor Cooper who spoke about the Floods Minister bemoaning the fact that there was no money from the private sector coming forward. That will actually impact quite badly on flood defence spending, because we understand that the funding from the private sector is expected to be around 10% of all funding.

**Cllr Cooper:** He did not say that there was no funding. He said that it was not as much as he expected.

**Q25 Chair:** Could you give us some examples of where there has been private sector funding?

**Cllr Cooper:** I could not.

**Chair:** You could write to us with it.

**Cllr Cooper:** Yes, we could provide that.

**Richard Wills:** We can do that, yes.



**Q26 Barry Gardiner:** Just to clarify what you have been saying: I take it that the partnership model is good for priorities in one way because it ensures that local authorities that are prepared to put money in—because it is clearly a local priority for them—are reflecting that in the prioritisation of the scheme. However, in another sense it may mean that local authorities might be unable to put that funding into play, and that therefore even though their scheme might on any independent analysis—not looking at funding and resource—be a more important, or at least equally important, scheme to do it might be deprioritised by the local authority not being able to contribute in that way.

**Cllr Cooper:** That could happen. That could occur.

**Q27 Barry Gardiner:** Therefore, on this balance of swings and roundabouts, where do you come down on that? Do you say that the partnership model really is worth doing, because of the voice it gives to local authorities and the connectivity it makes, or on balance, do you wish that the money could be put together and delivered in a strict priority order?

**Cllr Cooper:** The principle is fine, in that the people who are going to benefit from the scheme in terms of industry or whatever in the private sector make some contribution in that way. Of course, it does not always work, as we have discussed. Anything like this, if it is going to match the need, is going to need flexibility. There is going to need to be flexible funding that enables schemes that have merit and are valid, but do not meet the funding model, to be assisted. That does seem to be a role for central Government, to provide assistance where things that have merit will not otherwise occur. The point you made earlier was a good one on that scope.

**Q28 Barry Gardiner:** Does the partnership model ensure that the economic value of agricultural land is fully captured in the cost-benefit analysis that the EA uses? Have you any comments to make around that? I know that the NFU have been quite vocal on that issue.

**Cllr Cooper:** I am sure that the NFU will have plenty to say. I have spoken to farmers who have been affected by flooding. Obviously, last year was one of the worst years on record for them. The loss of prime agricultural land has an impact on food prices and on businesses around the area. It has an impact on the economy in those areas. Therefore, the question is whether that is properly reflected in the funding model. Of course, you look at that and it brings it into question. We ought to be having schemes that do protect agricultural land and do help the local food chain.

**Q29 Barry Gardiner:** Is there a way of tackling that within the current framework?

**Richard Wills:** It is not really being tackled adequately, I think. Lincolnshire has an interest in this.

**Barry Gardiner:** I thought you might.

**Richard Wills:** We have got the most Grade 1 agricultural land, and therefore it is of interest. The Greater Lincolnshire Local Enterprise Partnership is taking an interest in this, because of its significance

to that particular economy. The problem is the rather simplistic way in which it is taken into account—which looks at the value of the land itself—does not take into account the future value of food production that, if lost, would be difficult to replace. In Lincolnshire, 39% of our land mass is at or about sea level, so the coastal flood defences are relatively important to us: hence why we are quite active in this field, and, I suppose, why I am here today. I think we are saying that we believe you somehow need to take into account that national food security issue. Costing it is difficult, but there ought to be a mechanism for taking that into account, because you can lose some parts of the economy and go somewhere else to set it up. However, if you lose that land—and land that is being inundated by the sea will take seven or eight years, if not more, to recover—that is lost from production for that length of time, at least. That also assumes that you can get the sea back again.

**Cllr Cooper:** Defra will probably tell you that agricultural land is actually included in “under consideration”, but in reality, it rarely gets a look in with this funding approach. I would suggest that it would be reasonable to ask them, “How often has agricultural land been protected by partnership funding?”

**Barry Gardiner:** Thank you. That is a very helpful suggestion.

**Q30 Mrs Glendon:** Your written evidence expresses concerns about the Environment Agency’s withdrawal from uneconomic maintenance activities. What impact has this had, or what impact will it have, on local communities?

**Cllr Cooper:** Every time a scheme happens, there will be some form of maintenance required at some point. We have got basic maintenance issues, such as dredging rivers and things: the lack of dredging rivers that is happening at the moment is a revenue cost, and, of course, rivers that are shallower—that have not been regularly dredged—do increase flood risk. The lack of work there is particularly of concern. It is certainly going to have an impact, and it will get worse.

**Richard Wills:** Silting up of rivers reduces the amount of flow that you can get through a river. However, equally significantly, they are also storage areas for water. We think that it is important that you maintain those adequately. Indeed, if you were to come and have a look at how internal drainage boards work—which will be in evidence shortly, I think—you would see a difference between the way in which they work and the way in which the Environment Agency works. There is a difference, of course, in purpose, but nevertheless our view is that we do need to maintain them. That is not to say that the Environment Agency needs to maintain them. They may need to contribute towards the cost of maintenance, but we as a county council are working in partnership with our internal drainage boards to do some of our consents and regulatory work. I see no reason why internal drainage boards should not do some of the maintenance where they exist, given that they are geared up to do it and have done it very effectively.

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**Q31 Mrs Glindon:** Have you got any specific examples where reduced maintenance has already led to flooding that might otherwise not have happened?

**Richard Wills:** Most local authorities are now doing some of the investigations that we are required to do postflooding. There does appear to be some evidence—at the moment, I would not want to suggest that it was conclusive evidence—that lack of maintenance has led to some floods. It would be unwise to just use one round of floods to say that that is the principal cause, but there has certainly been a lack of maintenance, not just by the Environment Agency. Sometimes local highway authorities—*mea culpa*—have not maintained their drainage systems as well as they perhaps should have. One of the things that I think the Lead Local Flood Authority rules and statutory rules will require us to do is to look more at our own house. Therefore, before I criticise others, I would certainly want to make sure that we have got our own house in order.

**Q32 Mrs Glindon:** Has the LGA had any direct discussions with the Environment Agency and Defra about the potential problems arising from reduced dredging and other watercourse maintenance?

**Cllr Cooper:** We are always talking to the Environment Agency and Defra through the Local Government Association Inland Flood Risk Working Group. We have officers within the LGA who do some excellent work in terms of the liaison with them. We are forming quite a coordination role there, in terms of bringing different people together—CLG, Defra and a variety of different interested bodies—to have a forum to have these discussions, and I think it is pretty much appreciated.

**Richard Wills:** I think it is appreciated. To be fair, those conversations happen on the ground as well. It is just that we do not always agree with each other.

**Q33 Mrs Glindon:** Do they go beyond discussion and conversation? Do you feel that they can be fruitful?

**Cllr Cooper:** They can certainly be fruitful. There are certainly recommendations. We have sat down with the Minister on occasions: Merrick Cockell, who is the LGA's chair, has sat down with the Minister. Therefore, a lot of the things that have come out of those discussions have gone directly to Ministers through those sources.

**Q34 Neil Parish:** Can I just come in, Mary, to pursue that? My view is that for 20 years—nearly 30 years, now—there has been a policy of not dredging rivers. That is one of my pet themes. I think that we have got to be much more proactive in reversing what I consider to be the policy of allowing our rivers to silt up. Would that be your view?

**Cllr Cooper:** I would leave that to the professionals. I am not an expert in flood risk or drainage. However, what I would say is that you need to take advice from the professionals in that area. It is certainly something that has been raised by professionals, and has been raised with us at today's Inland Flood Risk Working Group as an area of concern by people who work in

the sector. You are not out of line with some professional thought on that area.

**Richard Wills:** We would be looking for some proper modelling, to say what the effect on the flow is of higher riverbeds. Those models are available to be done, technically. One of the things we have asked for in our area is for the Environment Agency to demonstrate why they think it does not need doing. Sometimes they are able to convince us, and sometimes they are not.

**Neil Parish:** Thank you. Sorry, Mary.

**Q35 Mrs Glindon:** That is okay. How do councils make cost-benefit judgment as to the appropriate spend on maintaining watercourses for which they are responsible? How can this lead to local communities being confident that these judgments would lead to sufficient levels of investment before a flooding incident occurs?

**Cllr Cooper:** Councils are, as we know, multifaceted bodies with a range of responsibilities. These include health and social care; education, to a certain extent; street lighting; emptying the bins; and any number of other things. It is part of those overall judgements; it has to be. Of course, as funding levels decrease, those choices—between basic social care and flood risk—become harder and harder. If you cut council funding, that is what is going to happen. Every council is going to be different; every council is going to have different pressures on it. It is certainly an area you would expect scrutiny bodies within councils to look at. One thing I would suggest is that this could perhaps be an area for a model scrutiny, as to what sort of questions councillors ought to be asking about their own council in terms of what it is doing about flood risk and those sorts of areas. Councils actually having a model scrutiny to look at this issue could be a recommendation that comes out, so that they can consider that themselves within their own governance mechanisms.

**Richard Wills:** From a technical point of view, looking at an individual scheme, the sort of things we would take into account are how many properties were protected, what amount of land was protected, if you are talking about agricultural land and what benefit that land would have on the overall economy and wellbeing of the place. You can look at an individual scheme in much the same way as the Environment Agency does now. We would probably use similar models. Then, as Councillor Cooper has said, you then have to say, "Does that 'good value for money' scheme compare better than a good value for money scheme in social care, or in some other things?" There are two aspects to value for money, therefore: is it good value for money as a scheme, and how does that scheme compare with other things that the council wishes to do?

**Q36 Chair:** Thank you. Could we move on to sustainable drainage systems, in which the Committee—and particularly myself—are extremely interested. Do you think SUDS have a role to play in flood defence and surface water run-off?

**Cllr Cooper:** Yes, they do. The ultimate question is why it has not been done earlier.

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**Q37 Chair:** Why has what not been done earlier?

**Cllr Cooper:** Why have sustainable urban drainage systems not been in place much earlier, and why is it very much a voluntary mechanism that, as we understand, is now going to come into play in 2014? Only a few months ago, we had no idea when they were going to be implemented. Of course they have a role to play, but one of the issues that is going to be facing us is the impact on viability of new developments. One thing that we are up against is the housing lobby and what they are going to be saying in terms of the use of sustainable urban drainage systems.

**Richard Wills:** Amongst other things, I am a fellow of the Institution of Civil Engineers, so I guess that I am supposed to know some of the technical aspects of this. Partly, it is about design philosophy and the way we have gone about doing things. Historically, our rainfall patterns have allowed us to get rid of water from where it falls as quickly as possible and put it somewhere else, which is usually into some river or whatever. What we have realised as a profession—belatedly, I think—is that attenuation of water plays a very significant role in the ultimate flood risk management. That came out very clearly in Sir Michael Pitt’s review, hence the recommendation that eventually found its way into legislation, albeit with a lot of enabling clauses.

I think that most people in the drainage world would now accept that sustainable drainage systems are a way forward. You have got to look at the particular geology of a place: it is not just a matter of digging a hole and hoping that the water will soak away, because I can tell you that it will not in some of my patch. That is the way forward. There is plenty of international experience around this from which we can learn, particularly in Holland. Partly it is about design philosophy, and my view is that we will be able to improve our flood risk management through that technique. However, it is very difficult to retrofit. At the moment, one of our problems is that we have got a lot of combined surface water and dirty water sewage systems. At some point—we discussed this briefly this morning—we are going to look at whether sewers should just be for sewage and surface water should be dealt with somewhere else. That, I suspect, is also a massive investment if you are going to retrofit, but it is something at which we are going to have to look.

**Q38 Chair:** Mr Wills, can I just ask you what, in your view, the reason is for the delay in the enabling regulations being passed? You are obviously a very clever person.

**Richard Wills:** You might have to ask the Department for Environment, Food and Rural Affairs for their answer to that. I think that we are mainly waiting for the financial instruments. I do not think that it is the technical bit, because we could go away and write our technical rules. The question is, “Who is going to fund the cost of adoption?” In the highways world—which is a parallel issue—if a developer builds a road, we ensure that it is built to a good standard and then it is adopted and becomes part of the public expense. That methodology could be used for drainage, but Defra—

in both this Government and the former Government—said that there would be no extra burdens on local authorities. Both have said they will keep that promise. I think that is where the problem lies, because it is probably not possible to do that very easily.

**Q39 Chair:** Can I just ask what councils are doing to help expedite the funding aspect? Would you see a role in my own area? I know this is not uniform across the country, but Yorkshire Water would be keen to have a role. Do you see that being part of the solution?

**Cllr Cooper:** I certainly think that we need to be working with the Environment Agency and with water companies on this. One of the issues that we do have is that, come 2018, Government funding falls out in support of SUDS. Going beyond 2018, we have an issue with our ongoing funding. We do not know where it is going to come from.

**Richard Wills:** There are a number of water authorities that are developing sustainable drainage systems in their areas: Northumbria, for example. I think that you could get evidence from the water companies that would say what can be done, and sometimes they may well find that it is beneficial for them. One of the things that I have asked my colleagues to do is that, when we next have a flood that is about surcharging of a combined sewer, we at least do a desktop study to say what would happen if you took that water out; how much would it cost; and whether it is economically feasible. Then you could ask the question of who could pay for it.

**Q40 Barry Gardiner:** I would love to pursue your combined sewer, but I will not. I have been working on ours for 10 years and trying to get people together to agree who should pay for it. We have got to stop building in areas that are susceptible to flood risk, haven’t we? PPS25 has been less than universally effective in getting that to happen. Do you think that we need more legislation in this area?

**Cllr Cooper:** Local authorities are being highly pressured in terms of providing land for developments. I mentioned housing being part of the onetrick pony to boost the economy earlier, and certainly councils have got a role to play there. In terms of the local plans that councils have been developing, we have areas of green belt that are under threat. If it is not going to be the green belt—if we are not going to redesignate areas there—and the brownfield and provisional open land is not available, then it veers councils towards considering the possibility of building in floodplains. The reality is that there has not been an awful lot of work done around the country in which floodplains have been brought into use. The irony is that a lot of the design stuff—and I might hand over to Richard there—means that you can build properties that are less susceptible to flood damage if they are new than if they are old properties, where it is more difficult. You generally would not like to see building in a floodplain, but there are ways of limiting the damage there. It is a pressure about more housing development.

**Richard Wills:** You could certainly argue that we are in a floodplain at this moment.

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**Q41 Barry Gardiner:** Before I ask Mr Wills to come in: just specifically from your own experience on your council, are you—or have you been—building in areas that you know are susceptible to flooding risk?

**Cllr Cooper:** That was certainly one of the proposals in Kirklees Council's local plan, yes. There were areas that were in the floodplain.

**Q42 Barry Gardiner:** What did the Environment Agency say about that, in terms of their role as commenting upon it?

**Cllr Cooper:** The council looked at it and looked at the proposals there and deemed it to be an acceptable risk.

**Q43 Barry Gardiner:** Sorry, the EA did, or the council did?

**Cllr Cooper:** The council did.

**Q44 Barry Gardiner:** That was not my question. My question was, "What did the EA say?"

**Cllr Cooper:** I cannot remember what the EA said. I cannot remember the EA's advice on that.

**Q45 Barry Gardiner:** That is fine. My point is this: is that not always the way? The EA come in and they say, "You really should not be building here." Councils—and I perfectly understand those pressures, Councillor Cooper—then say, "We have not got any alternative. We have got a waiting list that is so long, and we just need to do this."

**Cllr Cooper:** As I mentioned early on, councillors go along with 99% of the advice that they receive from the Environment Agency with regard to local plans. Usually, it is only a very small amount of advice that does come into question. That is the advice that we have received.

**Richard Wills:** It has to be riskbased. Taking Lincolnshire as an example, you would be unable to build on 40% of Lincolnshire if you took it strictly. It is a floodplain. We are almost certainly in a floodplain here, but this building has been around for a while. It is about risk. What local authorities are doing with the Environment Agency is they are looking at the hazards that are available: what would happen, for example, if you got a breach of the coastal defences? We have done hazard mapping, for example. What we have not done yet is put a probability to that and you actually need both in order to determine whether it would be safe to build.

But what do you mean by that? If you are going to have six inches of water across a large area, that is not the same as rapid inundation and a wall of water coming at you at 60 miles an hour. It has to be riskbased, and therefore a simple answer that says, "You should never build in a floodplain" is not right. To allow floodplain building with no risk assessment would be wrong. I think that it has to be a riskbased system, and, as Councillor Cooper says—I think it is 97%, rather than 99% of the cases—

**Cllr Cooper:** I will give you 2%.

**Richard Wills:** Where the Environment Agency offers advice, councils accept 97% of that. That, in itself, is not the problem. We have got problems where in the past we have built in floodplains and frankly we have

not provided for that. Hull, Doncaster and parts of my own area are certainly some of those.

**Q46 Barry Gardiner:** Do I take it from both of your answers that you would not advocate a stronger role for the EA, such that they could effectively veto a particular build, even though they are the best risk analysis experts that we have in this area?

**Cllr Cooper:** Given what we have said about the 97% or 99%, then it is not a huge issue.

**Q47 Barry Gardiner:** You do not see it as an issue?

**Cllr Cooper:** It is not a huge issue in that way.

**Q48 Barry Gardiner:** So you would not advocate them having a stronger role?

**Cllr Cooper:** No.

**Q49 Chair:** Would you advocate that water companies be statutory consultees?

**Richard Wills:** Yes.

**Cllr Cooper:** Yes.

**Q50 Chair:** Yes, Mr Wills? You would? Could you work that into the record rather than nod your heads?

**Richard Wills:** I think it would be helpful for water companies to be statutory consultees. Indeed, when we are developing schemes, they are participants in what might be called preapplication advice, as well as working with local planning authorities as we are developing local plans. That is not just for flood risk, of course. It is also from a water resources point of view.

**Q51 George Eustice:** This is quite a good thing to follow on, given that we were just talking about flood risk. I just wondered what information the LGA has been getting regarding communities' ability to secure insurance in the light of the Statement of Principles being about to expire and the recent flooding that we have experienced?

**Cllr Cooper:** We have had quite a bit of information from a number of areas. One that springs to mind is Runnymede Council. We have heard that people have had to get excesses of about £10,000, so insurance is costing a huge amount of money, which is basically unaffordable for those households. That is a real issue for many. It runs out in June 2014, and so obviously it is an issue now. We have sat down with the Association of British Insurers, and spoken with them directly about this. They have told us that their proposal has been to establish a scheme similar to the way that Government insures against terrorist events. It is a scheme that they call "Pool Re".

The Association of British Insurers told us—and you might want to ask them about this—that to establish such a scheme in the UK would cost between about £100 million and £200 million, which would enable us to have affordable insurance for householders. That would roughly be the cost of doing that. We have spoken to Defra about this, to try to get their view on the ABI's suggestion—so we are trying to get the two bodies to give us some kind of information on this area—and Defra has been quite cautious. It has not been showing its hand at all in this area, so we have

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got concerns. The Pool Re model that the ABI are talking about is worthy of further investigation. If you can elicit information as to the true cost and get Defra to go along with that, I would be interested to know what you manage to find out.

**Richard Wills:** We did get some information from the Morpeth Flood Action Group, which was badly affected. They said that the increase in building and contents premiums between 2008 and 2010 for owner-occupier households that were flooded was 71%, compared with 9% for nonflooded housing.

**George Eustice:** Is that because the existing Statement of Principles have not covered that?

**Chair:** We are just coming on to that.

**Q52 Neil Parish:** Has the Government involved local authorities in discussion about the continuation of affordable flood insurance to households after the expiration of the Statement of Principles in the middle of this year? Have you been consulted enough?

**Cllr Cooper:** We have certainly been making representations, making our views quite clear and facilitating discussions. We have provided opinions, but we are not getting an awful lot back.

**Richard Wills:** There was a working group that they set up, which was mainly about evidence gathering, and we have participated in that. Clearly, we have not been engaged in the consultation between Ministers and the ABI.

**Cllr Cooper:** That is direct, one-to-one consultation.

**Q53 Neil Parish:** In an ideal world, what model would you prefer to see adopted by the Government—there is a nice blank sheet of paper for you.

**Cllr Cooper:** I was quite impressed by the idea of taking a similar approach to terrorism. These are unexpected events; they are expensive; for the areas concerned, they are catastrophic. You look at that and think that there is a lot of synergy between those two elements.

**Q54 Neil Parish:** That is where the Government would be the insurer of last resort, then? That is what it is under terrorism, is it not?

**Cllr Cooper:** It would underwrite those costs. However, when you look at £100 million to

£200 million for the level of distress and problems that are there, this does not seem unreasonable. The other way of looking at it, of course, is that it will help to direct and provide an impetus for flood defences, and mean that if Government is trying to renegotiate that and look at that again it will have more incentive to get the defences right and get the defences in the right place. It will reduce the impact of that cost.

**Richard Wills:** I am aware that Defra have looked at what other countries do and what they model. There are some counterintuitive things. For example, the Federal Government of the United States underwrites major flooding, but the Government in Germany does not. You sometimes have a Government that says, “We will underwrite the basic risk,” and in other areas it has to be fully covered through insurance systems of one sort or another. Most councillors that I have spoken to are talking about property level insurance: understandably, since why would insurers risk insurer certainty? There has got to be something about property level, but we also ought to be taking into account the property level protection as well.

**Q55 Neil Parish:** Would a community-based method of pooling flood risk work for areas of high flood risk, for example? Would that be something that you would quite like to see?

**Richard Wills:** One of the issues that we have got to talk about is the question of where the flood emanates from. The beneficiaries, who are often the people that are flooded, are not necessarily the causes of the problem.

**Neil Parish:** That’s right. They could be further upstream.

**Richard Wills:** They could well be. Therefore, pooling at a community level may not work if the cause is a river away.

**Cllr Cooper:** It could also be across a number of different council areas.

**Chair:** We have very heavily overrun. We are extremely grateful to you for being so generous with your time. Mr Wills, Councillor Cooper, thank you very much indeed.

**Richard Wills:** Thank you.

**Cllr Cooper:** Thank you.

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### Examination of Witnesses

*Witnesses:* **Henry Cator**, Chairman, Association of Drainage Authorities, **Dr Jean Venables**, Chief Executive, Association of Drainage Authorities, and **Ian Moodie**, Policy and Technical Researcher, Association of Drainage Authorities, gave evidence.

**Q56 Chair:** Before we start, may I thank you very much indeed for being with us this afternoon. May I declare my interest, in that I am a Vice President of the Association of Drainage Authorities, a privilege that I hold with great contentment and glee. Could I ask you each to introduce yourselves for the record and give your position, starting with Dr Venables?

**Dr Venables:** I am Jean Venables. I am Chief Executive of the Association of Drainage Authorities.

**Henry Cator:** Henry Cator, Chairman of the Association of Drainage Authorities and also Chairman of the Broads IDB in East Norfolk.

**Ian Moodie:** I am Ian Moodie. I am the Policy and Technical Researcher to the Association.

**Q57 Chair:** Thank you. At the outset, could I ask a general question? Are you able to share with us what your budget is overall as an association; what the resources available to IDBs are; and how many engineers are retained by IDBs? If you do not have it, we could ask you to write to us on that.

**Dr Venables:** The Association of Drainage Authorities is a membership organisation. As such, we have a very tiny budget. I am looking to Ian for the number. Our internal drainage boards raise money locally for their own activities. I am seeking Ian to support me on this one. It is £60 million.

**Ian Moodie:** Yes, that is about right. The actual budget of the Association is in the region of £250,000 annually, or just slightly less than that at the moment.

**Q58 Chair:** This is a personal view, which I have discussed with yourselves and with local drainage boards in my own area, and, indeed, with Lord Smith. Do you think there is an argument for drainage boards retaining some of the levy that they raise from their members—from the local farmers—and that they currently pass to the Environment Agency? Do you think that there is an argument that that should be kept with some of the local drainage boards so that they could do some of the necessary maintenance and dredging of both major and minor water courses?

**Dr Venables:** The funding is often complex to the outside, but there are checks and balances and there is a logic to the way in which the levies and precepts are raised and spent. There is some money that some IDBs give to the Environment Agency for maintenance of rivers, particularly main rivers, outside of the IDB area, but from which the IDB benefits. There has been some concern expressed recently, and we have been having quite a long dialogue with the Environment Agency over the extent to which that maintenance is being done and can be accounted for. There is a move in some places to take that maintenance from the Environment Agency and do it directly. As such, they would then be looking for a reduction in that precept.

**Q59 Chair:** In your written evidence, you express concerns about the Environment Agency's reduction in its maintenance budget and the decrease in desilting

work, which has exacerbated recent flood events. What level of maintenance budget do you believe should be adequate to deliver effective levels of dredging across the country?

**Dr Venables:** There are two things in that question: there is one about the maintenance budget altogether and then there is the other one about dredging. The maintenance budget itself—at the moment, this year—is inadequate to do all the work that needs to be done. That is why they drew up their protocol as to the economic appraisal of work. I have to say that it is the EA's economic appraisal, not necessarily whether or not that river is worth maintaining. It may well be that if you have got lower costs and have different benefits that you can attribute to the benefit of maintenance, then it would be worth doing, and a lot of local communities see the worth of doing it. It is not necessarily a criterion that the EA can include in its calculations. When the EA say that a stretch of river is uneconomic to maintain, it is uneconomic from their point of view, and should not be taken as, "It should not be done by anybody."

**Henry Cator:** Could I give an example? In the Anglian Central region, for the year 2013/14, the Regional Flood Coastal Committee put in a bid for £6 million, for what they considered to be essential maintenance work. They were awarded £2 million only.

**Q60 Chair:** Would you say that the Environment Agency is being effective in prioritising spend in areas most at risk of high consequences due to flooding, and what more should the Environment Agency be doing to raise revenue for maintenance?

**Dr Venables:** The Environment Agency has been given the target of reducing flood risk to properties. Therefore, that actually targets their maintenance at conurbations. Other priorities for other people are not on their list. This is just the way in which they have been told to do it, and they run out of money before they get to the bottom of their list of things that need to be done. There are a lot of areas in this country that are not getting adequate maintenance and this is just storing up problems for the future.

With particular regard to dredging the Parrett and Tone down in Somerset, they reckon down there that we have lost a third of the capacity of the river and it needs dredging. However, in order to justify the dredging, one has to find benefits of £2 million. You are looking at an area that has been devastated since late spring—June or July—last year. It has been under water, and so many of the local businesses have been completely undermined by it. It is a fundamental problem down there. There has been land underwater now for months and months, and it will take years to recover. That is not just agricultural land: it is also all of the local businesses that are consequential on that. Therefore, if one were to clear the river, it would not necessarily prevent flooding in Somerset, but it would reduce the extent and duration of it. If you reduce

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the duration of it, then the water quality would not deteriorate, and you could pump it out faster.

**Q61 Chair:** What do you think, Mr Moodie?

**Ian Moodie:** Just to add a bit further: you asked about other sources of revenue funding. We have already talked about the precepted rate that the Agency raises on IDBs; that is a form. We have also talked about IDBs potentially taking on sections of main river that are not a high priority of the Agency. Where you have an IDB, you have a local source of funding from their ratepayers, but also from the special levy they place on local authorities. The Environment Agency have a couple of powers in this regard as well. They can charge a general drainage charge to agricultural beneficiaries of maintenance works that happens on rivers, and that happens across the Anglian region at present. They also have, under the Water Resources Act, the ability to charge a local special drainage charge over a discrete area of beneficiaries. It may be that, for a specific reason, they want to hold on to a section of main river. It should be enained, and they will be able to do a level of maintenance once every five or 10 years. However, for the more rural community around that, a greater level of work would need to be done. That could be a means to subsidise that work from other sources.

**Q62 Neil Parish:** I just wanted to speak specifically about the Parrett and the Tone. Bridgewater and Taunton are at risk, ultimately, so I think that needs to be added into the figures. I also think it is about the amount of time that the water is hanging around on the moors. It is not a case of it just flooding the grass and then taking off again, and the grass then recovers: it has actually destroyed it all. We really do have to wake up, in my view, and smell the coffee. What you are saying is music to my ears, but it is important to make sure that something actually happens, because we have been talking about this for some years now.

**Dr Venables:** Sadly, it did not smell as nice as coffee down there when we went down last August.

**Neil Parish:** No, it does not. No, I realise it does not.

**Henry Cator:** For years and years, we have been depleting the maintenance budget, thinking that we could get away with it. We are now finding that we cannot get away with it, and the cost has caught up with us. It is time that people who are in a position to do something about it increase the amount of revenue that is available for the maintenance budget, at the expense of capital spend if necessary. Looking after what you have got is actually much more important than putting in new schemes.

**Q63 Chair:** Could I just ask: should the Environment Agency be using its levy-raising powers more widely, in view of what you have just told us?

**Ian Moodie:** I certainly think that it has the ability to do that. As we have said, there is a need to recognise the importance to revenue funding of basic maintenance activity. I think it has been clear across 2012 that it is having an impact now, and it is having an impact on the national economy.

**Henry Cator:** One of the problems is that we have gone away from local executive responsibility. When

local flood defence committees were replaced by regional flood and coastal committees, we were told that those RFCCs will have more executive power. That has not been the case, and so you do not get the same local interest and prioritisation that you got in the past. I am a great believer that local knowledge in a local catchment is key. To give the power back to local people so that they can then prioritise that spend for themselves and explain how they have done that prioritisation to the communities that they serve is, I think, very helpful. One has a problem at the moment, because it is all centralised, and we are just told that there is not enough money to go around, so we will just prioritise highrisk areas. Of course, lowrisk areas also have a very high consequence, so you cannot ignore them.

**Q64 Barry Gardiner:** Mr Cator, you just said that there is not enough money to go around. You will recall that in, I think, 2010 Defra was saying at that stage that it was going to take double the existing budget in order to maintain and reconstruct some of the ageing infrastructure. That, I think, was the budget of £2.17 billion that we have over this spending period as well. Actually, I think there has been a 6% drop now. Is that commitment that the Government has given—that £2.17 billion over the spending period—enough to give you any reassurance about the priority that is placed on flood protection?

**Henry Cator:** In my opinion, no, quite simply because if one looks at the figures going forward for maintenance, they are still being reduced. We have to understand that there is a fundamental difference between maintenance and capital spend.

**Q65 Barry Gardiner:** Thank you. Dr Venables, what do you think?

**Dr Venables:** We have to remember that we are not just looking after individual properties, important as they are. We are looking after infrastructure as well. 53% of the generating capacity in this country is built inside internal drainage board areas: i.e. they are at special drainage need. That is a very important contribution to our civilised life and the way in which we live as a community. We have got to look after that. We have got to not only look after the power stations, but also the roads and the railways that go into those areas. We have got to think about our transport network, as well. We have got to think about the utilities, transport, communications and the power that we depend upon. We are not just talking about flood risk when there has been a storm: we are talking about water level management keeping the water a sensible distance below the surface, so that the soil is not waterlogged. That is where drainage comes into it, as well as flood risk management.

**Q66 Barry Gardiner:** Have you already provided to the Committee—and forgive me for not knowing this—some information about the figures that you gave us on power generation capacity that are located in drainage board areas?

**Dr Venables:** Yes, I believe we have, but I will supply that.

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**Barry Gardiner:** Grand; in that case, I need to do my homework better. I feel appropriately chastised. I think that would be very interesting.

**Henry Cator:** There is your answer, sir.

**Q67 Barry Gardiner:** Thank you. It would not only be interesting to this Committee, but also the Energy and Climate Change Committee. Last November, the Government announced an additional £120 million over the next two-year period. Have you any assessment of the impact that that might have on the IDB districts?

**Ian Moodie:** The £120 million, as has already been stated, is for a lot of shovel-ready projects. I believe that Leeds has been named as one of the schemes that they want to take forward, so it has already been targeted. Of the £120 million, £60 million of it is particularly for growth areas affecting economic development. We have talked about Somerset today, and the economic impact that is having. I think that there is possibly some flexibility about considering that fund being used to tackle the acute problems that have been felt during 2012 in that area, and that would be a key benefit to the internal drainage board areas around there.

Coming back to energy briefly, it is important to note that Hinkley Point was cut off for a time during the November events of last year. This is a very real threat, and then you obviously have the West Coast Mainline rail network, strategic roads and motorway. There is a lot more there than just a rural community. There is a lot crossing that area, and that needs to be fully considered in economic appraisal.

**Q68 Barry Gardiner:** Is that not considered in the EA's appraisal process at the moment?

**Ian Moodie:** It is, but I do not think enough is considered. The direct impact on the rail companies is considered, and on the operating authority, Network Rail. I am not sure whether the wider economic impact on the people travelling through that area is properly considered. Just people being delayed by an hour getting to school; having to drop their kids off an hour later; a school being closed: it mounts up very quickly. There is no way that a model can ever properly consider those things, but I do not think that it even properly estimates it to a full extent at the moment. I would say that is especially so in a more rural community than within a city centre. It is a bit more discrete. You can hold on to it and capture the figures a bit easier.

**Q69 Neil Parish:** Just as a comment, there are still roads closed in the Levels that have not been opened at all. That is an impact in itself. I wanted to go on and talk with you about the internal drainage boards and local communities. Are you assured of the effectiveness of local authority expenditure in flood management? Are more specific outcome measures needed for councils on the impact of their flood spend? Are you involved enough? We have just had the local authorities in.

**Ian Moodie:** We have not been involved in looking at indicators for local authorities. However, at the moment, Defra have a project ongoing with the

consultants, looking at indicators for performance measures for internal drainage boards. I think that it is a useful exercise, but it is a difficult exercise as well when you consider that geography and social conditions vary quite widely across the country and the different pressures that are being felt, particularly on local authorities, but on IDBs themselves as well. You have to be quite intelligent with how they are placed, and it is a challenge, but in principle they could be useful.

**Q70 Neil Parish:** Can I just draw you out onto another one of my pet themes? There is nobody actually physically being there to be able to open a sluice when it is necessary to let water go, if there is somewhere to let it go into. It is not only about funds: it is about management, and there just does not seem to be any actual local management. You have got a very good role there, but are you being allowed to do enough locally?

**Dr Venables:** Internal drainage boards cover one tenth of this country.

**Neil Parish:** I know, yes.

**Dr Venables:** Therefore, in those areas that the internal drainage boards manage, I can assure you that those sluices are operated when they need to be. I am confident in saying that. There are other areas where there are not IDBs and then it would be down to the local organisation.

**Q71 Neil Parish:** For instance, the Tiverton Canal in my area burst its banks. It was overtopping for four or five weeks before it burst. If somebody had actually let the water go, we would not have a £2 million to 3 million cost. I know it is always clever in hindsight, but is there not a way that you, the drainage boards, could actually perhaps help some of the local authorities in that local management of water?

**Henry Cator:** I am so glad you have asked that question. The answer is yes, by extending the area over which IDBs have control.

**Neil Parish:** The Chairman had better declare an interest at this point. Seriously, I could not agree with you more.

**Dr Venables:** We have written a report about how to form new IDBs. There are areas in this country—Cumbria, Sussex and Kent, for example—where there is active discussion about new IDBs being formed.

**Q72 Neil Parish:** One last question: are there merits in the suggestion that one council has made of adopting a single flood risk management funding pot for all public funds, which we allocate on the basis of an area's flood risk zone and surface water vulnerability?

**Henry Cator:** In my opinion, no, because it is much better to do it on a catchment basis where local people can decide how to prioritise the spending of the scarce resources that we have. One of the advantages that IDBs have is their ability to raise funds from their constituent ratepayers and businesses. Therefore, we start the year by saying, "What do we need to do?" From that, we can do a budget and realise how much money we have to raise, and from that we go back to the councils and the ratepayers and say, "This is how



much we are going to have to charge you this year.” That is a completely different standpoint from one that says, “I have only got this much money, so therefore what can I do with it?”

**Q73 Barry Gardiner:** Does the current partnership model hinder in any way the development of flood defence projects that could protect lowlying areas such as the Fens?

**Ian Moodie:** I think that this comes down to what the previous speakers from the LGA were talking about: an evaluation of agricultural land. We would completely agree with all of that.

**Barry Gardiner:** I am asking the same question to both sets of witnesses.

**Ian Moodie:** We would support what they said. We have also talked about the infrastructure that is crossing those areas, and we would also add on that that is not properly considered. You are talking about quite isolated rural communities. They are disparately spread across a wider area. They are very reliant on the transport links across that area, so that is quite critical, as well. You asked the question of how it is affecting internal drainage boards: another issue is the length of time and the length of prestudy that needs to go on to satisfy the criteria of the Environment Agency. It is quite detailed, and that requires quite a significant level of revenue investment in its own right. That is a challenge to internal drainage boards or smaller organisations.

**Dr Venables:** It is very early days. I think that there has got to be some process developed that goes around the funding and how you actually put a project together with such a range of different funding pots, all with different rules about timing and expenditure. IDBs have stepped forward and have cooperated where there are local projects.

**Q74 Barry Gardiner:** In terms of the way the model allows the generation of additional funding, how would you want to see it developed so that you can more easily secure nonpublic sector funds going into projects?

**Dr Venables:** It is always good when you have other funding streams. I would not want to become reliant on outside money to the extent that it skews which projects are done, and I would share the concern about projects being done in places where there is a pot of money that can assist it, rather than on the basis of need.

**Ian Moodie:** In a lot of ways, IDBs are quite familiar with the partnership funding idea. Prior to it, flood defence grantin aid was distributed purely on a needs basis. There was quite a complex formula to get to that point, but once you got there, an Environment Agency scheme or a local authority scheme got 100% of funding. That was never the case for an internal drainage board: an internal drainage board only got around 45% of the funding from flood defence grantin aid. They made up the rest of the money from their own local revenue sources. In a lot of ways, we are very much at the forefront of local funding of schemes. That is, in part, coming from private ratepayers. It is also coming from local authorities. Therefore, in a lot of ways, we are already doing it.

**Q75 Mrs Glendon:** What level of support is needed to ensure an effective transition of responsibilities from the Environment Agency to new or existing IDBs?

**Dr Venables:** In some cases, this transfer has already been done. In some cases, it is going through. There are other rivers where the receiving body—usually the internal drainage board—would want to see some investment being done in the asset before it was handed over, because it is in such poor condition that it would need quite a lot of money being spent on it to get it up to condition. Having the work done beforehand or it coming with a pot of money that would enable the work to be done is, I think, what we would like to see changed. We would like to see the Environment Agency being in a position to have the ability to spend money on transferring its assets for the longterm benefit to the EA, but it might be a shortterm cost in terms of handing it over and transferring it.

**Ian Moodie:** That is particularly acute in areas that maybe historically had an internal drainage board, but now do not. There is an area called the Lower Alt and Crossens catchment up in Lancashire—this is an area just north of Liverpool—that I believe used to have internal drainage boards. They were taken away in the 1970s and 1980s, but now the Environment Agency wants to withdraw from maintaining a number of pumping stations in that area. Indeed, what used to be a lot of internal drainage board watercourses remained and became main river, and they want to step away from maintaining a number of those as well. In areas like that, an IDB would be the best way to go forwards. There is a potentially large agricultural ratepaying community there. There is an appetite for them to invest to look after their needs. The cost is very much in getting to a point where you have set up a new statutory body to manage that local risk, and the Environment Agency and Defra could maybe do more to facilitate that.

**Q76 Mrs Glendon:** Would you think that the Environment Agency and Defra are sufficiently aware of these issues that you are raising?

**Dr Venables:** I believe so.

**Henry Cator:** I think they are aware. It is back to this funding thing, isn't it? They are prioritising their money where there are a lot of people, rather than in areas where the risk is low but, often, the consequence of failure is high. Many of the problems that internal drainage boards face is that their systems may be very beautifully maintained, but if you are pumping water into a river and the river is not maintained, the river will not take the water away, and so it is beyond our control. Therefore, we are saying “Put the control back to the IDBs and we will do the job”, or “We will raise the money locally”, because it needs doing. It is what the local community wants.

On the whole, if you ask people who are flooded what the problem is, they say “Please don't let me be flooded again.” Well, we are talking about people who have been flooded time and time and time again. It is very hard to hold up credibility with them, and say that we are doing our job to keep you free of water, if we are prevented from doing so. We want to take the

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job seriously and keep these ratepayers dry: that is the whole purpose of an IDB. It is very much delivery-driven. If people get their feet wet and their businesses wet, we have failed. We take a certain pride in trying to deliver that kind of approach.

**Dr Venables:** It is also fundamentally damaging to environmentally designated areas if they are flooded to too great a depth for too long. We have lost some SSSIs on the Somerset Levels because of the flooding. Controlling water levels is absolutely vital, and we have had water level management plans up and down the country for some years. If one does not continue to effectively carry those out, then you will actually have quite severe environmental damage in a lot of places.

**Q77 Mrs Glindon:** Do you think that the ADA is doing its utmost to support IDBs?

**Dr Venables:** It could always do more.

**Henry Cator:** Certainly, the ADA is doing all it can to support them. We are a membership organisation, so we are only as good as the last deal we do to represent our members. However, the fact is that we are here representing members who have repeatedly told us that the maintenance regime is not good enough. It is not up to scratch. It is woefully inadequate, and we are trying to make that point as vociferously and as loudly as we can.

**Ian Moodie:** You asked the question earlier about whether Defra was understanding of the concerns that we are raising. I think that there is a level of understanding of it. Defra is certainly looking at some of the ways and means of freeing up some of the bureaucracy within the Land Drainage Act to allow internal drainage boards to make changes themselves. They were also looking at the legislation around main river, and the process by which main river is either enmained or demained—becomes main river, or becomes an ordinary watercourse again—that could be looked after by an internal drainage board. They are at least looking there, but the speed at which action is being taken is a concern, and we have been pressing this point for a number of years now.

**Q78 Mrs Glindon:** Why can a catchment-based approach to flooding not be adopted under existing Environment Agency structures, rather than having to split out some EA functions into different bodies, as you recommend?

**Ian Moodie:** The approach that we have taken there to regionalise it is based on a concern that there is maybe quite a long chain between the head office of the Environment Agency and its regions and areas. We have moved with the Flood and Water Management Act to a basis where the Environment Agency takes a national lead on flood risk and flood risk strategy, and lead local flood authorities take a local strategic lead. The reason we put forward the approach that we did within our written statement was that there needs to be a closer working relationship within the regions of the Environment Agency, the lead local flood authorities and other local authorities, and the internal drainage boards in their area. Very often, the approach that needs to be taken is one that

involves more local beneficiaries and more local means than having a locally homogenous approach.

**Dr Venables:** Can I also add that it is very important that one remembers that local authorities are on administrative boundaries, whereas water acts on a hydrological boundary. There is often a need for local authorities to work very closely with each other, because they share hydrological background. If the basis of the regions was to be catchment-based, they could not be county-based. It would not work for managing water.

**Q79 Mrs Glindon:** Would separating Environment Agency flood management functions from other agency functions such as water quality management reduce the effectiveness of the Environment Agency in delivering overall water management services?

**Dr Venables:** The Environment Agency is a body that is both a regulatory body and a delivery body. It is a large, diverse organisation with these two distinct functions. When we were asked for our views on the Triennial Review, we were asked whether we wanted to keep the Environment Agency and Natural England, or whether we wanted to join the two together. If that was the question you were actually asking, then our answer was keeping them separate, with some changes. We then went on to say that if we were wanting to have a third choice—a proposal model—then we would be looking more at regional catchment approaches. We think that if you actually manage a catchment for its water functions and do a delivery model, then that might be more effective and put some of the regulatory functions in with the Natural England functions.

**Henry Cator:** One of the things that we are witnessing is a change in our weather patterns in this country. We are getting extremes of weather in relatively small areas, which I think we can all cite personal experience of. Therefore, the only way to really deal with that is on a catchment basis. A national pot does not quite cover it, in the sense that you are not addressing the issues as to where the pinch points are.

**Q80 George Eustice:** Sorry, I had to pop out, so you might have covered some of these areas. I wanted to address whether or not you thought there needed to be any change in legislation regarding the operation of internal drainage boards, because I know that when the draft Flood and Water Management Bill was published, some of the notes coming out talked about maybe repealing its supervisory role and giving it the power to form consortia, limited companies, and other things. I do not think that was taken forward in the end, but do you think there was merit in that, and is that something that should be considered now?

**Dr Venables:** We did actually have the clause put in about forming consortia and giving services to each other, so we were very grateful for that being put into the Act. With the Public Bodies Act, that is giving Defra sufficient powers to make changes that we are actually seeking at the moment, which are changes to electoral processes that are somewhat antiquated and written in primary legislation. We are working with Defra to modernise those sorts of processes, and we

feel that that is very useful and going to move us forward.

**Q81 George Eustice:** What is antiquated about the current processes that they have for that?

**Ian Moodie:** An example might be in terms of advertising. IDBs have to advertise elections, which means that they have to put an advert in a local paper. In reality, that can become quite a small paragraph, buried in the *Goole Times* or some very small paper. We think that there is some merit in that, potentially, but there are other ways of advertising that. Most principally, we want to see IDBs with quite well-resourced webpages, so that they can make it clear on those. We think that the most appropriate way for a lot of elections, for instance, would be through their rate demand letters that they send out annually to all ratepayers within their district. That way, everyone would be aware, whereas people are only aware of elections at the moment if they happen to be reading a paper at one point in time on a given day.

**Q82 George Eustice:** That is quite a modest technical change, clearly. Is more fundamental legislation—legislation to change a scope or remit—something that you would stop short of? I know that the NFU were concerned that, if you tried to change too much about the way they work, you might cause an upset.

**Henry Cator:** We would like to see the area over which IDBs could operate expanded. We believe that if they had more control over a larger percentage of the catchment, you would be able to deliver much more of a joined-up system of delivery of water management in the catchment.

**Q83 George Eustice:** Would that require a change in primary legislation?

**Dr Venables:** We have been discussing with Defra modifications to what is called the Medway Letter, which is what the Minister uses if there is a dispute over boundaries. We are making progress, but it has been a long series of conversations.

**Ian Moodie:** I think it is fair to say that we are broadly content with the legislation, but there are tweaks that can be made in a number of areas—particularly some of the bureaucracy around IDBs—which can be improved and streamlined. These are not wholesale changes. You touched on the supervisory role of the EA as well. We are quite happy that it sits with the EA or a future body that takes on the EA's role, with the understanding that that is done on a catchment basis. It would not sit as well with lead local flood authorities, not because we do not think there should be a good, close working relationship there, but because, as local authorities are not catchment-based, an IDB can sit within six or seven local authorities in some cases, and they could be being pulled in a number of directions if they had that supervisory role.

**Q84 Chair:** Just before we conclude, can I ask whether you regret the delay in SUDS regulations being adopted?

**Ian Moodie:** The main concern we have there is not so much the delay, although it is a concern. The concern is that we have never had a very clear timetable from Defra about when it is going to be implemented. Authorities—lead local flood authorities and SUDS Approval Bodies (SABs)—will need a lead-in time to have a staff resource put in the sort of mechanism through which they are going to manage SUDS adoption, and they just have not been given that opportunity. There is still not the clarity in place that there needs to be around the April 2014 date, but I think that a more pressing concern that was raised in the earlier session was around the maintenance of SUDS in the future, and how we can fund that.

**Q85 Chair:** Do you have a view on who should maintain either existing SUDS, or new SUDS for new developments?

**Ian Moodie:** There are good examples in IDB areas. The Bedford group of IDBs take on and maintain a number of quite strategic SUDS sites for large distribution centres and centres of industry. That has been managed through a commuted sums approach, where they have taken a commuted sum from a developer and then have invested that money over a number of years in a scheme of continually doing maintenance work. That can be a 20, 30 or 40-year scheme. We think that something like that would be a better and more sustainable approach in the long term.

**Q86 Chair:** Do you believe that water companies potentially have a role to play in certain areas?

**Dr Venables:** Yes. They certainly do, and I would emphasise Ian's point: every SUDS needs a contract for maintenance.

**Henry Cator:** It is also very important to get the planning correct. There is no point in having a lovely dish to take water, and then planting a fence to keep a cycleway, because you cannot then subsequently maintain the watercourse when someone puts a supermarket trolley in it.

**Q87 Chair:** Do we have a clear timetable for the reservoir safety guidance?

**Dr Venables:** That is still with Defra.

**Q88 Chair:** Do we have a timetable of when it might be?

**Dr Venables:** I do not know it.

**Chair:** Can I thank you most warmly on behalf of the Committee for being with us this afternoon, and being so generous with your time in answering our questions as part of this inquiry? We are very grateful to you. We stand adjourned for the formal session, but we carry on, if we may, in private session.

**Wednesday 13 February 2013**

Members present:

Miss Anne McIntosh (Chair)

George Eustice  
Barry Gardiner  
Mrs Mary Glendon

Sheryll Murray  
Neil Parish  
Ms Margaret Ritchie

### Examination of Witnesses

*Witnesses:* **Rt Hon Lord Smith of Finsbury**, Chairman, and **David Rooke**, Director of Flood and Coastal Risk Management, Environment Agency gave evidence.

**Q89 Chair:** Good afternoon and welcome, Lord Smith and Mr Rooke. For the record, could you simply give your names and titles, if you would?

**Lord Smith:** Thank you very much, Chairman. I am Chris Smith, Lord Smith, Chairman of the Environment Agency, and David Rooke, who is with me, is Director of Flood and Coastal Risk Management.

**Q90 Chair:** You are both very welcome, and we thank you for participating in our inquiry into flooding. On behalf of the Committee, can I congratulate you, Lord Smith, on your reappointment to this position?

I should just declare my interest: as you probably know, I am a Vice President of the Association of Drainage Authorities, of which I am immensely proud, and on which we will be questioning you. As regards flood funding, to begin with, there seems to be a discrepancy in the number of households that are at risk of flooding. Am I right in thinking that the Environment Agency give one figure, and the insurance industry give another figure, as to those properties that are most at risk of flooding, and those that are at risk of various types of flooding, including the new surface water flooding that we are seeing increasingly?

**Lord Smith:** On the whole, the insurance industry tends to take its information almost entirely from the facts, figures and maps that we publish. Our figures are, and have consistently been, that overall there are 5.5 million properties in England and Wales at risk of flooding from rivers, sea, and surface water, so that is the total figure. Of those, 3.8 million are at risk of flooding from surface water. There are of course some properties that are at risk of both flooding from surface water and from rivers or the sea.

**Q91 Chair:** The Flood and Water Management Act 2010 gives the Environment Agency overall responsibility for flood management. What advice have you given Ministers as to the adequacy of the Government's flood defence funding plans?

**Lord Smith:** I preface my answer by saying there is always more to do, and there always, I suspect, will be more to do. Under the provisions made for us in the spending review, we have £2.1 billion over the four year period. Our estimate is that that will enable us at least to improve protection for 145,000 properties. We have recently, of course, in the Autumn Statement had an increase of £120 million over the

next two years: £60 million for schemes to enable and facilitate economic growth, and £60 million for advancing and enhancing the existing programme. With that additional funding, our estimate now is that at least 165,000 properties will be able to secure better protection over the course of the spending review period.

**David Rooke:** To add to what Lord Smith said, in 2009 we published a long-term investment strategy, which set out options for the Government in terms of the costs and benefits of different scenarios of funding, and we are updating that work. We will be presenting that work to the Government later this year or early next year, in preparation for the next spending review.

**Q92 Chair:** Could you give an indication of what the balance of spending is between capital expenditure on capital projects and maintenance, in any given year?

**Lord Smith:** I am rapidly looking through for the figures. The total amount in the current financial year on capital is £260 million, and on revenue is £265.1 million. The revenue figure, of course, includes not just maintenance work but also all the flood warning systems, emergency response and so forth.

**Q93 Chair:** In terms of a balance between what I would call soft flood defences, like the Pickering Slowing the Flow project, and hard physical defences, would you accept that the money goes further if it is allocated to soft flood defences, and may bring more benefit to certain communities?

**Lord Smith:** Frequently that will be the case, but the response has to be what is best in any individual catchment, or any individual flooding issue. There will be some places where soft defences absolutely are the best possible answer. There will be other places where hard defences have to be included, because that is the best way of responding to flood risk in that particular situation.

I should also probably have given you the figures for the forthcoming financial year, 2013–14. The balance shifts between capital and revenue: capital is £293.8 million next year, and revenue is £242.9 million. The shift is because of the new capital money that was announced in the Autumn Statement, and a continuing pressure, because of the spending review, on the amount that we have available for maintenance.

**Q94 Chair:** We are coming on to discuss maintenance, but can you assure the Committee today that there is no threat of less maintenance being performed, such as regular dredging?

**Lord Smith:** We will have progressively less money available for maintenance work, as a result of the spending review settlement, over each of the next two years. Maintenance, of course, includes a variety of different things; it includes keeping all our assets in good, tip-top condition, it includes pumping and drainage where it is needed in response to particular flooding, and it includes dredging and channel maintenance, clearing of watercourses and so on. All of that comes under the heading of maintenance. The amount we have for maintenance this year is £265 million, and next year it is £242.9 million.

**David Rooke:** That is the total revenue, Chairman.

**Lord Smith:** Yes, sorry. Asset management, within those figures, is £169 million this year, £146 million next year and £136 million the year after, so it is a slightly reducing line.

**Q95 Chair:** I would like to ask you a question I have asked before, and you have always been quite positive about this. In my area we have drainage boards, and they pay, say, £60,000 a year to the Environment Agency for dredging and channel maintenance. Do you envisage a situation where they would agree a programme with you, but be allowed to retain that money to use their own engineers to conduct their own maintenance programme? Is that something that you would look on positively? I think Mr Rooke would like to say a word.

**David Rooke:** Yes, thank you.

**Chair:** I think you know the area rather well.

**David Rooke:** I do. There is provision; in fact, there is a duty on our committees—and I do stress it is our regional flood and coastal committees—to levy a precept on internal drainage boards to contribute towards the costs of maintaining the main river, and the benefit that that then accrues to the drainage boards. So it is a matter for our committees, but clearly if internal drainage boards are willing to do the work that they believe is necessary as a local priority, and there is agreement from our committees, I am sure that our committees would be willing to consider that.

**Q96 Neil Parish:** Lord Smith, you said that you need to keep those rivers and tributaries in good condition. What sort of condition would you consider them to be in at the moment?

**Lord Smith:** I was referring there to our flood defence assets. That is everything from walls, weirs, soft defences and so forth. At the moment, the quantity or the proportion of those that are in good condition is 98.1%.

**Q97 Neil Parish:** Can I just interrupt? The Parrett and the Tone at Burrowbridge are probably a third of the size they should be. They will eventually flood Taunton and Bridgwater irrespective of what they do to the farmland in the meantime, so I cannot accept for one moment that those rivers are anywhere near

98%. I would suggest to you they are about 33%, and this is what we need to tackle.

**Lord Smith:** What I was referring to was the flood defence assets, not the condition of the rivers. The Parrett and the Tone, especially in the Somerset Levels, are matters of very great concern to me. As you probably know, I went down to have a look for myself just before Christmas.

There is a very active discussion under way between us and the local community about what the best response to the flood risk in the Somerset Levels is, especially in relation to the Parrett and the Tone. My own view is that there is, I believe, scope for improving the flow of water at particular pinch points on the Parrett and the Tone. It is potentially expensive work. We need to be sure that it is going to provide real benefit, and it is not work that is going to be simply done away with by silt coming back within a month or two of it having been removed. However, I do think there are some pinch points there that are aggravating some of the flooding problems, and that need to be addressed. I very much hope that we will be able to have a plan in place to do that within a very short period of time.

**Q98 Mrs Glendon:** Given their expected economic benefits, why were projects such as those in Leeds, Sheffield, Exeter, Ipswich and Derby, which are to be funded by the additional £120 million announced in the Autumn Statement, not already priority projects for receiving central Government funding?

**Lord Smith:** The first part of the answer is that the projects such as Leeds, Exeter and Ipswich, which are labelled as projects to facilitate growth, represent £60 million of the extra £120 million that was made available in the Autumn Statement. The other £60 million is for accelerating the normal programme, which was already in place.

The schemes where a particular provision is being made to facilitate growth represent something of a new concept, and it is very much something that the Secretary of State was keen to put in place. The programme up to now has entirely been focused on protecting property and lives. That has been the thrust of where the programme has been, and it is the basis on which most of the cost-benefit analysis is done. What it has taken account of up to now is the potential for economic growth and wealth creation that could be freed up by flood defence work that is undertaken. This new factor coming into play has enabled schemes that we would dearly have liked to have been able to do in the past, like the protection for the centre of Leeds, for example. Under the old system they did not come right up at the front of the queue, and so we were not able to put them into the mix. However, now with the new funding that has become available from Government, they can.

**Q99 Sheryll Murray:** On this point, regarding new schemes that you are going to introduce, I believe I am right in saying that you actually design schemes at the moment to deal with a one-in-100-years incident occurrence. Will you be looking at increasing that to perhaps a one-in-300-years occurrence for any new

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future schemes, to deal with the unexpected weather that we have been having?

**Lord Smith:** Just before I ask David to give you the facts and figures on that, one of the important factors in all of this is that we are always very anxious to make sure that we are working with the local community in the design of schemes that we are putting together. When we are designing flood defence schemes, we do try now to factor in the likely impacts of climate change, such as increased erratic weather patterns, increased sea level rise, and so forth. We try to build those calculations into the design of the schemes that we are doing.

**David Rooke:** A more technical response: in relation to the design standard, we look at how we could maximise the benefits and costs. However, under the Government's policy in relation to partnership funding, there is a lot of community engagement, and we take into account the wishes of those who are contributing towards the scheme. So if people are making contributions—particularly local authorities, communities or private businesses—then we take that into account.

Under partnership funding, the Government's contribution towards schemes is fixed, and so communities may want a lower standard but then accept the risks that go with that, or they may want a higher standard and be willing to pay for that. One of the advantages of partnership funding is that it enables that local choice, with the money, to be brought into discussions. So whilst in the past we have had a sort of indicative standard—as you have mentioned, about one in 100—it has never been the standard. We have always looked at options, to see which would generate the best return on the investment for the taxpayer. We have now got the added dimension of local choice.

**Q100 Mrs Glindon:** Following on from your answer to my previous question, Lord Smith, do you agree that the Treasury's recognition of the contribution that flood defence schemes can make to economic growth, actually marks a fundamental shift in the Government's approach to the value of these projects?

**Lord Smith:** It is a very welcome recognition of the impact that flood protection can provide. In virtually all the schemes that we do at the moment, the benefit to cost ratio is 8:1, in terms of the value of property protected in the event of a flood happening. That is extremely good value, and compares very robustly with virtually any other bit of infrastructure development that the Government seeks to undertake. I think what they are now also realising is not just the benefit-cost ratio and the very healthy figures that that produces, but also the fact that enhanced benefit can come from development that can take place securely behind flood defences, which would not otherwise have been possible.

**Q101 Mrs Glindon:** Do you think that as a result of this enlightenment that the Government has had, we will see further increases in flood defence funding in the next spending review?

**Lord Smith:** I remain ever hopeful.

**Q102 Ms Ritchie:** Lord Smith, does the Government's forecast that it will better protect only around 145,000 households in the current spending period indicate a lack of ambition to tackle the problem on a meaningful scale, given that some 5 million properties are at flood risk?

**Lord Smith:** As I said at the outset, there is always more to be done. The 145,000 target, over a four year period, is now 165,000 as a result of the extra funding that has now become available in the Autumn Statement. We will aim to do better than that; we did last time round. In the last spending review period the target was 145,000, and I think we achieved 184,000. So we will always strive to stretch ourselves in doing better than the targets that we have committed ourselves to with Government.

**Q103 Ms Ritchie:** Do you think, in light of that, there is a better way than simply citing the number of households better protected, to demonstrate the impacts of expenditure?

**Lord Smith:** Yes, although the number of houses protected is always a handy figure for relatively easy computation. We have four primary measures that we use for our overall capital and revenue expenditure in the flood risk area: the number of houses better protected; the number of people signed up to our flood warning services; the quantity of our flood defence assets that are in good condition; and the amount of habitat that is created by the various measures we undertake. So it is not just that we focus on the number of houses better protected; there are other ambitions we have alongside that. However, that is the handy one that gets used most often in public.

**Q104 Chair:** Just under that last one about the amount of habitat protected, is that where the biodiversity comes in?

**Lord Smith:** That is in order to ensure that we are meeting the requirements of the Habitats Directive, and also, of course, taking account of the Government's ambitions on natural capital enhancement and meeting our biodiversity objectives, which were rather well set out by the Government in the biodiversity White Paper.

**Q105 Chair:** But you can give the Committee an assurance that you wouldn't *not* maintain for the purposes of biodiversity? You might maintain at certain times of year, but you would continue to maintain.

**Lord Smith:** We would always want to continue to maintain so that life and property are protected. There will be times when we need to be careful about how and exactly when we carry out that work, in order to make sure we are not damaging biodiversity, but we would not ignore the weather.

**Q106 Neil Parish:** As long as you are not actually putting people at a greater risk of flood if you do not actually do that work. I think there has got to be a balance, but that is not actually my question. In December 2012, the Secretary of State launched a review of the Environment Agency and Natural

England as a part of a rolling programme on non-departmental bodies. So my question is: how would radical reform of your organisation—for example, merging with Natural England—impact on your flood management work? That is to Lord Smith.

**Lord Smith:** We have already been undergoing pretty radical reform over the course of the last two and a half years. There has been a complete restructuring of the Agency, we have slimmed down the number of staff by some 2,000, and we have taken something like 33% of cost out of all our back office and central functions. The flood risk management directorate itself is currently coming towards the end of a pretty radical restructuring exercise, so there has been a lot of turmoil and work going on, and we are a leaner and—I like to think—more efficient organisation as a result of that.

**Chair:** “Turmoil” is rather a strong word.

**Lord Smith:** Turmoil for the staff involved, yes, because there is uncertainty, and they have to reapply for jobs. Any restructuring of an organisation of our scale is bound to involve considerable upheaval for the staff involved. They have, I have to say, come through it with flying colours, and in their response to the series of flooding events that we have had to cope with over the course of the last eight to nine months they have really risen to the task very professionally. I am very proud of them for doing that.

**Q107 Neil Parish:** Talking of a leaner, meaner organisation—

**Lord Smith:** Leaner and more efficient.

**Neil Parish:** Thank you very much for that clarification. On the matter of the Association of Drainage Authorities, they have suggested that the Environment Agency’s non-flood defence functions could be carried out by other bodies. Is there a good argument, which I believe there is, that drainage boards and local contractors—certainly on some of the maintenance projects of our rivers and tributaries—could be better carried out, and have a more cost-effective rate, by those authorities that are much more closely linked to both farming and the local population? What is your view about the Environment Agency delegating some of that work?

**Lord Smith:** I am very much up for it. We are already in discussion with individual IDBs and with some local authorities on how we can streamline what we do and what they do, and get a synergy out of doing things together or in combined form, rather than doing it separately. There will be places where IDBs are better placed to carry out work than ourselves, and vice versa.

**David Rooke:** A really good example would be in Lincolnshire, where we have got a really good working relationship with the county council, the district councils, and the internal drainage boards. We are pooling resources, agreeing priorities locally, and providing a much more efficient service as a consequence.

**Q108 Neil Parish:** So if a drainage board could come up with a scheme that you have costed as Environment Agency at X, and a drainage board could

come up with a scheme at substantially less, are you going to agree to allow the drainage board to do it?

**David Rooke:** In terms of a capital scheme, we treat internal drainage boards in exactly the same way as local authorities and indeed our own schemes, so there is no differentiation in terms of the way we allocate funds to those projects.

**Q109 Neil Parish:** I am talking more about maintenance, really.

**David Rooke:** On maintenance, I am sure that we could learn from IDBs, and I am sure some IDBs can learn from what we do. Again, by working together like we are in Lincolnshire, if we have a machine that is working on our main rivers next to an IDB watercourse that needs some maintenance, we can use the same machine, and vice versa.

**Q110 Barry Gardiner:** Can I just take up what you said about working with others to improve your efficiency? I think you said that you expected a 15% efficiency saving on capital investment in the spending review period. Are you on track to achieve that?

**Lord Smith:** Yes, we are. In fact, I think we have already achieved our target for this current year within that 15% envelope.

**David Rooke:** By quarter three.

**Lord Smith:** The end of quarter three. David, give the facts and figures.

**David Rooke:** We report to the Cabinet Office in terms of our progress on efficiency on a quarterly basis. It is a cumulative target that we have been set over the spending review period; it does equate to 15% of our capital programme, and as of quarter three of this year we are ahead. In fact, we have already met our target for this year, and we are confident that we will be able to sustain that through the next two years, to meet the overall target that was set by Government.

**Q111 Barry Gardiner:** Right. So that is quite a significant advance on your second quarter, is it not? In the second quarter your savings were £8.4 million against a target for the year of £13.4 million. So you have now achieved that.

**David Rooke:** We have now achieved the £13.4 million.

**Q112 Barry Gardiner:** Looking forward to the next spending review period, do you have any expectation that you could see protection for the flood defence budget? Will it be given similar protection in the future?

**Lord Smith:** This will, of course, be very much a matter for Ministers and their discussions with the Treasury.

**Q113 Barry Gardiner:** Let me ask it another way, then. What advice are you giving to Defra Ministers that might impress upon them the need to impress upon Her Majesty’s Treasury that you should be an area that is ring-fenced?

**Lord Smith:** Nicely put. We are pointing out the efficiency with which we are currently able to run the

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programme. We are pointing out the 200,000 properties that have been protected from flooding over the course of the last nine months during a series of flooding events. There were, sadly, about 8,000 properties that were flooded over the course of that nine month period, but 200,000 properties were protected from flooding. We are pointing out the 8:1 benefit: cost ratio, which is achieved by flood defence schemes. We are pointing out the increasing threat of erratic weather patterns and flooding being, according to the Committee on Climate Change Adaptation Sub-Committee, the biggest adaptation risk and task that the country faces. So there are a lot of arguments to be deployed. I have every confidence that the Secretary of State is indeed deploying them.

**Q114 Barry Gardiner:** I am very glad that you have got them off your chest and on to the record. We can perhaps make sure we put them in our report. Given your desire to expand your work with local authorities, is that consistent with the efficiency savings that you are going to have to make?

**Lord Smith:** Yes, although it does make the task more challenging. If you have a simply organised and administered national programme in which you are in sole charge, it is much easier to secure efficiency targets, because you do all the negotiations with the contractors, and secure the efficiencies through having control of the programme. It is much easier to do than when you have partnership funding and local authorities in the picture, and so on.

However, because we are working very closely with local authorities, and with the various other parties that are coming to the table through partnership funding, we have nonetheless been able to secure the efficiency savings that we have been seeking. David, you have been closer to this than I have.

**David Rooke:** I think one really good example is that we are in the process of letting new framework contracts for engineering advice and engineering contractors, who basically deliver our capital programmes. As a result of the Flood and Water Management Act we are able to make those frameworks available to local authorities and to internal drainage boards. We are already getting indications from local authorities that when they are in place, which they will be later this year, they will want to use them. At the moment it is a very competitive marketplace, and so we are hoping that that will generate more efficiency. That will be available to local authorities and internal drainage boards as well as our own schemes.

**Q115 George Eustice:** My question follows neatly from that. After the Flood and Water Management Act, as you say, there is now a much larger role for local authorities, particularly on surface water. A number of them have raised with us the fact that, as they put it, they are now responsible for around 46% of flood risk responsibility, but get just 6% of the budget allocated for floods. So do you think it is time, in the light of the new responsibilities they have got, to revisit how funding is allocated? In short, I think they would like a slice of your budget to do some of their responsibilities.

**David Rooke:** On the capital programme, as I said earlier, we treat local authorities in exactly the same way as our own schemes, and in exactly the same as internal drainage board schemes. What we are seeing is that, particularly for capital schemes to reduce the risk of flooding from surface water, there is a significant step increase in funding from previous historic levels, which have been quite low, over the next two years, so there is a marked increase in funding.

Local authorities also fund our committees through local levies, and across England that is about £30 million a year. That money is used to support local priorities, meet local needs as determined by our committees, and of course they can also use that money now to top up partnership funding schemes, which will lever in additional capital grant. On the revenue side, the Department has funded local authorities for the implementation of new responsibilities under the Flood and Water Management Act, and set that out in its spending review. Of course overall, government finances are a matter for the Department for Communities and Local Government, for local authorities.

**Lord Smith:** I have just been checking on the figures. In the coming year, 2013–14, within the programme there are 273 local authority schemes with £61.8 million of grant-in-aid allocated to those schemes.

**David Rooke:** Yes, and that compares with £24 million this year, and in 2014–15 we expect £104 million to be allocated to local authorities and internal drainage boards for their schemes.

**Q116 George Eustice:** You mentioned partnership funding. Something else that has been raised as a concern is that the money might actually follow projects where there is match funding perhaps locally, rather than be allocated purely on a priority need, in terms of the schemes that have the best benefit-cost ratio. Is that something you think is a problem? Is there a case for a single pot of money that perhaps people compete for based on the benefit-cost ratio of their scheme?

**Lord Smith:** I have two things to say to that. Firstly, every single project that reaches 100% within the cost-benefit analysis that we are required by Treasury to do is in the programme. In addition to that, there are projects where partnership funding has come into the picture in order to enable projects to go ahead. However, they have not removed other projects from the list; so they have not leapfrogged, and they have not nudged other worthwhile projects out of the way. It has been a genuine addition to the amount of work we are able to do.

**David Rooke:** Prior to the introduction of partnership funding, there was this national approach. Schemes were ranked according to the benefit-cost ratios basically, and therefore the public investment generally went to the greatest need. However, it also depended on lots of other factors in relation to how schemes were ready to develop in any one year, because funding is allocated on an annual basis.

What the benefit of partnership funding, of course, allows for is that the most beneficial schemes get central Government grant for all of their expenditure,



so they are fully funded. We will always seek contributions because the more contributions we get in, the more money there is for other projects, and so they are given priority within the programme, because they can go ahead without partnership funding.

Where partnership funding comes in, and is necessary to get scores up to 100%, as the Chairman has just said, that then levers in additional money from central Government. So you get this combination of central Government grant going much further, and more schemes being able to be started, because of the additional money that is coming in.

**Q117 George Eustice:** The projects that you fund totally are a priority, and there are ones where it is dependent largely on getting some funding from elsewhere. On the border of those two categories, there must be some projects that do not go ahead that might have done otherwise under the old system.

**David Rooke:** Yes, and equally there will be many projects going ahead that would not have gone ahead under the old system as well.

**Q118 George Eustice:** That is not something that worries you, then—that there are projects not going ahead that might have done under the old system. I know there are more projects overall.

**David Rooke:** There are always going to be.

**Q119 Sheryll Murray:** I would like to turn to the surface water flood risk, with a constituency that suffered quite considerably just before Christmas, and where most of the floods were from surface water. Do local authorities tell you that they are receiving adequate support from the Environment Agency to carry out their duties in managing local flood risk, including the access to sufficient information on the mapping of the surface water flood risk?

**Lord Smith:** The work on mapping surface water flood risk is well under way. We are working very closely with local authorities on that work. The two things we can most usefully provide to local authorities are, firstly, information, and, secondly, guidance, and both of those things are very much under way. We are working very closely with local authorities. The first round of draft maps, which we put together, were completed a year or so ago. That has now gone through an iterative process to make sure that the information is accurate and that it is based on the actual experience on the ground that local authorities have, and we are anticipating supplying local authorities with the second round of maps in the course of the next few months, I think.

**David Rooke:** We provided some initial maps as a result of the Pitt report recommendations. We then updated maps, and again, provided an updated version to local authorities. As the Chairman has just said, we are developing, with feedback from local authorities, a new surface water flood map, which we hope to publish later this year. It will enable local authorities to comply with the requirements of the Floods Directive, which is now embedded in flood risk regulations for England and Wales.

**Lord Smith:** Of course it is rather important that we make sure that the maps are as accurate as possible,

because, potentially, they have a very significant impact on individuals and their homes.

**Q120 Chair:** Pitt did also suggest that your maps perhaps could be shared more widely. I think it is very welcome that they are being shared with local authorities, but is it not the case that others are also doing the mapping—for instance, water companies will now be doing mapping of surface water flooding, to make sure it does not go into their drains and sewers? Also, the insurance companies will be doing mapping. I thought Pitt was quite clear that the maps should be shared more widely. Are we in a position to see that happen?

**Lord Smith:** The intention, when the mapping exercise has been fully completed, is to share them very widely to the general public, as well as to water companies, and to insurance companies and local authorities. As I said a moment or two ago, we are very keen to make sure that the maps are as accurate as they possibly can be, and based on local knowledge as well as all the other data that they are drawn up from, in order to avoid making very costly mistakes for people who might be affected.

**Q121 Chair:** When you provide the maps to the local authorities, are they provided free of charge?

**Lord Smith:** Yes.

**David Rooke:** Yes.

**Q122 Barry Gardiner:** We talked about feedback from local authorities. Some of the local authorities are not exactly too happy with partnership working, precisely because they do feel that projects with less merit but more money get prioritised. While I appreciate the point that Mr Rooke made about money going further, it may go further but less fairly. A local authority such as my own, facing £104 million of cuts in this spending period, but nonetheless with a significant urban drainage problem and a very highly deprived population, finds it much more difficult to put the partnership funding in than a leafier constituency, whose problem may not leave them 3 feet deep in sewage in their front porch. How do you justify that?

**Lord Smith:** Indices of deprivation are, of course, taken into account in the calculation of cost-benefit for fully funded schemes. So within the schemes that are in the programme, there is a natural bias towards areas that have significant social and income deprivation.

**Q123 Barry Gardiner:** In that case, how on earth was it that in Mr Rifkind's constituency in Kensington, all those people managed to get their basements that they converted into kitchens protected under a flood relief scheme, at a cost of millions of pounds? They must be about the richest constituency in the country.

**Lord Smith:** I have to confess I am not aware of the particular project.

**Barry Gardiner:** It is a humdinger; they were told not to build their bedrooms and kitchens in what used to be the coal sheds and basements, because it was known to be a flood risk. However, of course they

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wanted to increase the value of the property, so they did just that, and then Thames Water and you guys came in and bailed them all out.

**Lord Smith:** I am not aware of such a scheme. I will investigate that.

**Q124 Barry Gardiner:** Perhaps you could drop us a note on that one then—only in the context of the wider question that we were exploring. I think my point back to you here is that one of the other elements that has to be considered is the economic damage. Where you take a constituency like Mr Rifkind's and you compare it with mine, the economic damage to high-value properties in the centre of London is always going to rank rather high on the scale compared with my council houses in Belvedere Way.

**Lord Smith:** That would not necessarily be the case under the cost: benefit rules. Your question started out as a question about partnership funding.

**Barry Gardiner:** Pull me back then.

**Lord Smith:** If you look across the country at where partnership funding has come in to enable a project to go ahead, that is not Kensington and Chelsea; it is places like Morpeth, Cockermouth, York and Sandwich, where there is an undoubted need to undertake flood defence schemes, but they did not come up to the requisite cost benefit figure, to enable them to be fully funded out of grant-in-aid. What has now happened is that because of partnership funding, they are able to go ahead not to remove other schemes from the programme, but to come in in addition to those schemes that do come up to the full cost: benefit figure.

**Q125 Barry Gardiner:** That is an interesting one. How does that work? Presumably you are very efficient with your money, and you want to spend in full on the programmes that are going to have the maximum benefit, and you have a work programme prioritised to that extent.

You would not simply be leaving large chunks of money unallocated on that prioritised work programme, and so when a council comes up to you on partnership working and says, 'You know what? We didn't quite make your allocated work programme, but we could bung in a million or so quid', and you say, 'Okay, fine, let's go for it under this new partnership deal', that surely has to mean that money is being taken away from schemes that otherwise would have hit the priority threshold, or been above the priority threshold. I understand that a million or two million quid is being released elsewhere, but presumably you are putting in a larger chunk than they are, and so the amount that you release is not as large as the amount put in.

**Lord Smith:** Not necessarily.

**David Rooke:** The way that the funding works is that we have got to have a programme that is fully funded, but on a year-by-year basis, because of the money that is allocated on an annual basis to us over the spending review period. How the partnership funding scheme works is that there is partnership funding score, and it depends on how many schemes are available, and what they are going to cost, compared to the amount of money that is available each year.

For the coming year, there a partnership funding score of 100%, which means that every scheme that has come forward with money and a 100% score, is able to start or proceed this coming year. For the current year, the partnership funding score was 120%, and for this year we did have to say that you had to find extra money to enable your scheme to start in the programme this year, and for those communities, local authorities, the private sector, and our committees that came up with the money that enabled that to happen. Some did not start as a consequence of that. However, for the coming year, and indeed we think for the following year, all those that are eligible will be able to start.

**Q126 Barry Gardiner:** Mr Rooke, forgive me; I may just not understand this perfectly well, but are you saying that within the partnership funding that is the case, or are you saying that within the totality of funding that is the case?

**David Rooke:** In both. So to get a scheme to go ahead under partnership funding, under the Government's policy you need to score 100%. To get the percentage, we look at the household and other benefits. This partly addresses the point you have just made.

The Government assumes that the average damage to a property is £30,000, which was based upon insurance figures from the 2007 floods. So it does not matter whether you have a small house in a deprived area or you have a mansion. The scheme works on the basis that there is an assumption that the damage to both those properties is the same, and it is £30,000. If you are in a deprived area, the Government enhances that amount, so actually you get more Government grant for that particular property. You also get an adjustment on the frequency of the flooding, so if it floods on a very frequent basis then again, you get more money from us towards your scheme. So that is the household benefits.

We then add the other benefits. So this is where damage to industry comes in, to infrastructure, agricultural land, transport costs—all those other costs are taken into account in terms of benefit. Again, the Government applies a factor to that, in terms of how much is national benefit, and how much is considered as local benefit. For those other benefits, everyone is treated the same, so agriculture is treated exactly the same as industry, as infrastructure, and the Government assess that the national benefit is about 5.5/5.6 pence in the pound, whereas for a household it is 20 pence in the pound.

If you live in a deprived area, the most deprived areas, the Government grant you get is 45 pence in the pound. We also add on environmental outcomes, and again there are tariffs, or rates that the Government applies for environmental benefits. You add all that up, and then you divide it by the cost of the project, and then you deduct from the cost of the project any contributions that you are getting, and you come up with a score; that is where the partnership funding score comes up from. Anything below 100%, in terms of Government grant that we give, has to be topped up with either contributions or reduction in cost, and that is back to the point in terms of what standard are you going to work to.

**Chair:** I think rather than getting too bogged down, could we have a note? Could I just ask about the private sector funding? I think we do need to move on.

**Q127 Barry Gardiner:** No, indeed, but I thought it was just useful to get that. It might have been helpful to have had a note. I just wanted to ask you, therefore, does that mean that from what the Government is saying, the schemes that are tariffed and worked out in that way provide the best value for public money? I mean Government money, rather than public, because obviously local authority is different. However, that is a different thing, is it not, from saying that we do the scheme as if it were only Government money going into it? There would be a different rating and different ordering were that to be the case.

**Lord Smith:** It would be the same calculation. At the moment, anything that gets to 100% under that calculation can be fully funded by grant-in-aid. Anything that comes below 100% has to be topped up by partnership funding in order to get into the picture. It is probably true to say that there will be some things that are topped up under the partnership funding that get into the programme, and there are others that do not reach the 100% figure, and that do not have the partnership funding available, that will have to wait. Everything over 100% gets into the programme.

**Q128 Chair:** Could you just say a word about private sector investment? There was an understanding that it would be up to 10%, and we are struggling to find examples of a project that has attracted private sector investment; perhaps you could give us some examples.

**Lord Smith:** Sandwich is the most obvious example, where it is money from Pfizer that has enabled it to go ahead.

**Q129 Chair:** I think that is the only one, though, is it not?

**Lord Smith:** There are a handful of others.

**David Rooke:** We are looking for private sector contributions towards the work we are doing in Grimsby.

**Q130 Chair:** “Looking for”—have you got it?

**David Rooke:** We have secured some. There is always an issue until we have actually signed contracts, but there is a clear commitment in terms of private sector funding for the schemes in Grimsby and Sandwich.

**Q131 Chair:** Have you got any water companies stepping up to the plate in terms of natural capital and working towards flood defences?

**David Rooke:** There is a good example in Louth, in Lincolnshire, where Lincolnshire County Council, the district council, the town council, and Anglian Water are all contributing.

**Q132 Mrs Glindon:** What is your response to the criticisms of many, including the Local Government Association and the National Farmers Union, that sufficient weight is not accorded to the economic impact of floods and flood alleviation works on agricultural land?

**Lord Smith:** The values attributed to different types of property—the 5p figure that David was mentioning for other things, as opposed to the 20p on property—are set down by the Government and by the Treasury, and it would be a matter for Ministers to make decisions about whether to change those balances. We do undertake some flood defence work where the benefit is, in substantial measure, agricultural rather than property. I do not know if you have got one or two handy examples, David.

**David Rooke:** Recent schemes that we have completed have protected 74,000 hectares of agricultural land. We follow Government guidance that was updated in 2008–09, in terms of how we make those valuations.

**Q133 Mrs Glindon:** Do you think that it should be updated further?

**David Rooke:** That is up to the Government.

**Lord Smith:** That would be in the hands of Ministers, to make that decision.

**Q134 Chair:** I think it was you, Lord Smith, who said earlier that the biggest challenge that we face is climate change. However, those of us representing food-producing areas would say that the biggest challenge we face is probably food security together with climate change.

**Lord Smith:** The two are undoubtedly interlinked, and food security is going to be of increasing importance for us as a country.

**Q135 Chair:** So would you like to reconsider how you might respond to Mrs Glindon’s question?

**Lord Smith:** I have to say the rules we follow are rules established by Government. It is worth saying that it is, I think, 1.5 million hectares of agricultural land in England and Wales that is at risk of flooding from rivers or from the sea. That is something like 12%.

**David Rooke:** It is 14%.

**Lord Smith:** It is 14% of agricultural land, so it is a significant issue for agriculture.

**Q136 Chair:** But are you aware of what is happening, particularly in parts of northern England where we have had persistent rain? The ground is saturated so the sheep cannot be fed by pasture, and the farmers really are using up every little bit of their feedstuff, so we are coming to a crisis point, given the fact it is a very hard winter as well.

So the economic impact of floods—Mr Gardiner is going to pick this up in a just a moment—is really, in a way, impacting almost more on rural areas than urban areas, and yet I understand we would have to amend the outcomes, and that would have to be a political decision. So you are probably advising us to take that up with the Minister.

**Lord Smith:** It would have to be a political decision to amend the balance of value attributed to agricultural land, but I am very conscious of the fact that there are considerable places, not least the Somerset Levels, where the impact of flooding, over a sustained period of time, has diminished the economic

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prospects of the farming community very substantially.

**Chair:** I am afraid my area is in a very poor way.

**Q137 Barry Gardiner:** Not that I represent a large rural community, but can I just point out that the LGA does consider that the model is biased against large rural communities, and I think they would like to see how the partnership model could better factor in the benefits to be gained over a dispersed geographical area? Are you saying that that is not in your gift—the fine-tuning of the model?

**Lord Smith:** Fine-tuning of the model is not, I fear, in our gift. It is in the Minister's gift.

**Q138 Neil Parish:** Lord Smith, you said that there is only 12% of land that is at risk. One of the things I would say to you is that because it is alluvial land, a lot of that is some of the most fertile land that we have in the country, so I suspect it may only be 12% of land, but it could be something like 25% of production. I have not got the figures, but I imagine it is around that, so you do take that seriously, do you?

**Lord Smith:** I take that very seriously, and you are right; for example, in East Anglia, where there is a considerable amount of land that is at risk of flooding from the sea, the land is the richest, most fertile land that we have.

**Neil Parish:** We get a lot of our vegetables from there, yes.

**Q139 Ms Ritchie:** Lord Smith, some witnesses' evidence has expressed concern about the Environment Agency's withdrawal from uneconomic maintenance activities. What assessment has the Environment Agency made about the impact this has had or will have on local communities?

**Lord Smith:** Just to put this in context, if I may, our maintenance work includes a range of activities. It includes the inspection and repair of flood defence structures, maintaining flood barriers and pumping stations, clearing grills, removing obstructions from rivers, and controlling weeds that grow within rivers and builds up flood risk as a result. It also includes dredging and de-silting of rivers, and managing the grass, the trees and other flora on the flood embankments. Those are all activities that we undertake. The overall budget for our maintenance work of that kind is reducing as a result of the spending review, so we have to try to make it work as efficiently and effectively as we possibly can.

Now, there are some areas where the maintenance work that we do, and particularly the pumping work that we do, has primarily an agricultural drainage benefit rather than a flood risk protection benefit. In those instances we are embarking on discussion, with either the IDBs or groups of landowners and farmers, to see if others can take over responsibility for that work.

That is partly because we can no longer afford to do it, partly because we have to make taxpayers' money go as far as possible in countering flood risk, and partly because, in some cases, groups of landowners will be better placed to carry out the work. What we do not want to do is withdraw suddenly, and so in the

places where this is happening, we are in the process of a two or three-year period of discussion and putting new arrangements in place. However, we will not be able to carry on doing absolutely everything that we have been doing up to now in the future.

**Q140 Ms Ritchie:** Do you think reduced Environment Agency maintenance has led to flooding in places which otherwise might have been spared?

**Lord Smith:** I would certainly hope not.

**David Rooke:** I think it is a very difficult question to answer. These things are very complex, and it depends on what standard you want to protect against. We have had communities where defences unfortunately overtopped, because we had a very extreme flood, and they flooded, and they were protected to a high standard. It is the same with agricultural land. What standard do you want it protected against? It is a matter for investment decision-making. Do you maintain it to ensure that that standard is then available when you get the heavy rain, or the snow melt, or the tidal flooding?

So it is a very complex question to answer, and it is also one that is very local and very specific. I am sure there are people who can demonstrate to us that there has been additional flooding, and yet there may not have been flooding in other places as a consequence. So you need to look at it on a very local basis, or a catchment basis, because clearly the water has to go somewhere, and if it is not one place it will generally be another place.

**Q141 Neil Parish:** I have a similar question, really. On what evidence does the Environment Agency make a cost-benefit judgment as to the appropriate spend on maintaining watercourses? How can local communities be sure that these lead to sufficient levels of investment before a flooding incident? You know, this is very much about maintenance, dredging and the like. How do we get to this situation?

**Lord Smith:** At the moment, we spend about £20 million a year on channel maintenance: dredging, de-silting, cutting back weeds and growth, and so on.

**Q142 Neil Parish:** Is that over the whole country?

**Lord Smith:** Over England and Wales. When I first became Chairman of the Environment Agency, large numbers of people said to me, 'Why aren't you doing as much dredging now as you were 20 years ago?' I asked exactly the same question, and I demanded that we did some pilot investigative work to test the impact of dredging on different kinds of watercourse, to see how beneficial it might be or might not be.

The result of those tests, I suppose, was fairly predictable. It revealed that there are some instances where dredging helps, and there are other instances where dredging is absolutely no help at all. It depends entirely on the nature of the soil, the level of flow, the kind of river, and so on. There will be places where dredging will undoubtedly help to carry away water more quickly at a time of flood.

There will be other places where dredging would probably be a waste of public money, because the silting would simply come back very rapidly. What we need to do is establish where the places are where

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dredging is going to help, where it is not happening at the moment, and where, as part of the overall approach to maintenance and to improving flood risk protection, it would make sense to do it. That work, on a case-by-case basis, as for example with the Tone and the Parrett, is now under way.

**David Rooke:** Let me just add to that. In terms of the overall priority, we look to maximise the benefit-cost. We are looking to maximise the return for the taxpayer making the investment in maintenance, and that drives the maintenance programme. When the National Audit Office looked at the Environment Agency in 2007, they drew to our attention the fact that our investment in maintenance was going into our low and medium consequence systems, rather than the high consequence systems, where there is the greatest risk of damage to property and risk to life.

Since that period, we have directed funding towards those high consequence systems, so that now 79% of our asset maintenance money is directed at those areas. I think the final thing to add is that all our programmes of work, both capital and maintenance, are approved by our regional flood and coastal committees, so we have got the political input, given the membership from local authorities on those committees, plus local people who are also on those committees, to enable local decisions and local choice to have a big influence in terms of that programme. In fact, we cannot implement those programmes without the committees' support.

**Chair:** Order, order, we stand adjourned. I apologise. We will come back, and if I could ask colleagues to come back within fifteen minutes of this one vote, then we will carry on. Thank you for your forbearance.

*Sitting suspended for a Division in the House.*

*On resuming—*

**Chair:** We recommence. Thank you for your forbearance.

**Q143 Neil Parish:** One last part of this question is that I think local communities are very concerned. They do not believe over the years that there has been enough level of investment, especially in that of dredging and maintaining of watercourses, and that while it is great to have nature conservation, penning the water levels has allowed a lot of silting. Now, we should be able to pen water, and then we should be able to release it. I am just not entirely sure whether the Environment Agency is taking this on board.

**Lord Smith:** We are very much aware of the concern, and indeed it is the subject of many representations that we are receiving at the moment from the NFU, the CLA and others as well. We are taking a strenuous look at where work specifically to address building up of silt can be of real benefit. I would just add one other thing, and that is that I think we also need to get rather better at assisting farmers and landowners to carry out their own work at dredging and de-silting.

**Neil Parish:** Absolutely.

**Lord Smith:** Of course in many cases, as the riparian owners, they are responsible for that.

**Neil Parish:** But they have been stopped in previous years from doing it.

**Lord Smith:** Making it easier for them to do that, whilst of course still acting within the law and not putting bureaucratic barriers in their way, is something we are also actively looking at.

**Q144 Mrs Glendon:** What accommodation has the Environment Agency made or will it make in its budget for revenue funding to support additional capital projects in future years?

**Lord Smith:** Nowadays when we build a new capital project we do very much consider what the maintenance requirements of that are going to be. I will ask David to give you the detail in a moment. It is also worth bearing in mind that quite a lot of the capital work we undertake is improvement work on existing defences. So we are actually making defences in better condition, more able to sustain themselves over the years to come, than they were before.

**David Rooke:** Where we are improving defences, we will be looking to reduce our maintenance for a while, and then obviously we will need to do more as the defences age. When we are assessing schemes now, we also look at what we call whole life costs, so we look not just at the capital costs of building a scheme, but also what it would cost us to maintain it over the lifetime of that scheme.

We are generally looking at lifetimes of 50 years—not always, but that is a good rule of thumb. Within the partnership funding policy, the contributions we are getting from partners towards those schemes include, within the contribution, not only a contribution towards the capital cost, but also a contribution towards the ongoing maintenance.

**Q145 Mrs Glendon:** Has Defra committed to funding the ongoing maintenance of the additional assets to be built using the £120 million of new funding announced for the next two years?

**Lord Smith:** Presumably, the same rules as have just been explained would apply.

**David Rooke:** Exactly. So within the £120 million, £60 million of that is for accelerating schemes that are already in the programme, and £60 million is the growth fund that is used to provide additional funding for those growth schemes that the Government has announced.

There is no increase within the Environment Agency's revenue budget to accommodate any additional operating or revenue costs associated with those schemes, but where we are getting contributions in, which we are for most of those schemes, then within that there will be an element towards the maintenance that we will then use to maintain those schemes going forward—or local authorities will, because not all of those schemes are Environment Agency promoted schemes. If you take Leeds, for example, Leeds City Council has agreed to promote that scheme, and so they will be responsible for the maintenance going forward.

**Q146 Mrs Glendon:** Despite the fact that budgets have been reduced within the Environment Agency, you think that this programme funding that you have just described will be sufficient to keep maintenance going.

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**David Rooke:** Each year we prioritise our maintenance needs, so we look right across all our maintenance needs and prioritise them to maximise benefit-cost. Clearly for those urban areas where the growth money is going, then it is highly likely that they will be high up the priority list, and able to attract maintenance funding.

**Q147 George Eustice:** I wanted to ask a bit about the general drainage charge, which I know the Anglian region use. I wanted to press you a little bit more though, on the answer you just gave Mary Glendon. The ADA specifically raise this as a concern; they say that your maintenance budget—revenue budget—has about halved, and yet there are more and more projects coming on-stream. I understand all the mitigating arguments you have just put to deal with the risk, but is there no risk at all here? Have they got it wrong?

**David Rooke:** No, there is risk. Clearly there is risk, but we are in the risk management business, and we will need to manage those risks within the funding that we have been allocated through the spending review.

**Lord Smith:** In relation to the general drainage charge issue, we do at the moment have a drainage charge in the Anglian region, which has been in place for quite some time. The question of whether a drainage charge could be put in place elsewhere in the country would, of course, be an impost on local people. One of the questions that we would need to address before we put any such charge in place would be how the Treasury would view this, because at the moment the Treasury's approach tends to be that a drainage charge of that kind would count as a tax, and our maintenance budget would be reduced pound for pound. That would obviously leave us no better off than we are at the moment

**Q148 George Eustice:** Is that what has happened in the Anglian region? I think this comes under the Water Resources Act, which gives them the authority to levy a charge. Are you saying that when they levy that charge it is knocked off their support from the Environment Agency?

**David Rooke:** No, it is not. The scheme in the Anglian region has been there for a long time, and so there is already an allowance built in to our spending review settlement that takes all that into account from a long time ago.

**Q149 George Eustice:** So a new scheme could not draw its authority from the same Bill? It needs fresh consent from the Treasury; is that what you are saying?

**David Rooke:** Yes, it does.

**Lord Smith:** It would need fresh consent from the Treasury. I think it could be done under the existing legislation.

**David Rooke:** Yes, it can.

**Lord Smith:** However, we would need to get Treasury approval before we were able to do it.

**Q150 George Eustice:** Have you sought approval in other areas? Is it something you have explored for other areas?

**David Rooke:** No, we have not.

**Lord Smith:** We have not at this stage. First of all, we would need to discuss it in detail with Defra and with Ministers in Defra. If they were minded to encourage us to go ahead, then we would need to have the discussion with the Treasury.

**Q151 George Eustice:** Is it an idea you are attracted to, which you would like to pursue, or not? Or do you think it is actually just an old device?

**David Rooke:** No, it is something that we are seriously discussing with the NFU. The NFU have raised this with us; the NFU Council specifically raised this with us, and we are just in the process of agreeing an action plan to take things forward, working with the NFU. That is on the list: to consider the broadening of the general drainage charge scheme across the country.

**Q152 George Eustice:** On the internal drainage boards, I think you used the term that you were trying to encourage them to take on work where they might be best placed to do it, and landowners the same. How are you going to encourage them to take that on?

If you say to someone, "We think you're best placed to do this", that is probably quite alarming to that person. It sounds like you are trying to offload responsibility onto them without money. Is there something that could be done to encourage them to take it on, perhaps through allowing them to retain the precept funding that they currently give the Environment Agency, for instance, as a kind of carrot to take on more?

**Lord Smith:** David touched on this a little while back. The picture is somewhat complicated because there is a precept paid by IDBs to the Environment Agency to reflect the work that is entailed on main rivers as a result of IDB activity, in draining and pumping their watercourses. There is also a payment made by the Environment Agency to IDBs to reflect some of the work that they do that would otherwise fall to us. I think I am right in saying that the figures overall were about £7 million or £7.5 million paid in precept by IDBs to ourselves, and about £4.5 million paid by us to IDBs, so there is already a two-way flow of funds.

**Q153 George Eustice:** Should that two-way flow change, given that you are trying to offload more responsibility to the IDBs?

**Lord Smith:** One of the things that I am certainly keen to talk with the IDBs about—and we are in very regular discussion with them—is where they might be able to take on responsibilities from ourselves. If that is diminishing the amount of work we have to do as a result of their activity on their watercourses, then absolutely, let us discuss with them what happens to the precepts.

**David Rooke:** It is worth adding that these are the decisions taken by our regional flood and coastal committees, so our committees are charged with the responsibility of setting the precept, deciding how much money to give to IDBs for what is called

highland or upland water contributions. In fact, what we are finding is that IDBs are actually asking us if they can do the work, rather than us asking them to do the work, so it is the other way round. There is an appetite from some internal drainage boards to do more.

**Lord Smith:** It is also worth saying that IDBs vary one from another; some have a greater appetite and a greater keenness than others. We have to decide what is best in any individual instance.

**Q154 Chair:** There seems to have been enormous delay in the publication of the SUDS regulations, with a delay of up to 2014. Why do you think the Government is finding this so complicated?

**Lord Smith:** I know that the Government undertook quite a detailed consultation on this. They are considering the outcome of that consultation. From our point of view, we would want to encourage the implementation of the SUDS part of the Flood and Water Management Act at an early date, because sustainable drainage is one of the ways in which flood risk will be diminished over time.

**Q155 Chair:** What assessment have you made of the contribution that SUDs can make to flood defences generally?

**Lord Smith:** It would be difficult at this stage to quantify, but it would certainly have a beneficial effect. It would particularly have a beneficial effect for new developments that were being undertaken, where it is actually very easy to include SUDS within the planning of the development. Of course, making sure that new developments do not add to flood risk is one of the very important responsibilities that we have as a statutory consultee in the planning process.

**Q156 Chair:** Do you think that retrofitting SUDS to existing developments is complicated?

**Lord Smith:** It is probably more complicated than putting in new SUDS for new developments. There will be some places where it is easier to do than others. There will be some areas where it is very, very difficult to do, especially in very heavily urbanised areas. However, I think encouraging, providing guidance, and persuading developers to do the right thing is something that would be very welcome.

**Q157 Chair:** You mentioned that the Environment Agency now has the statutory consultee status. Would it not also be good for water companies to be considered as statutory consultees, so that we can avoid the situation of being automatically expected to connect to major new developments?

**Lord Smith:** In terms of water supply or in terms of sewerage services, or both?

**Q158 Chair:** I am thinking of the surface water that Sheryll Murray referred to earlier. In my own area, there is specific evidence that shows surface water running off the roads and other tarmac areas is going into drains, and coming back into people's houses as sewage. I think that if you could have water companies accepted as a statutory consultee, that will go some way to avoiding the situation with new

developments—major new developments; I am not talking about two or three houses, but 100, 200 or 300 houses.

**Lord Smith:** Of course, what you have identified is absolutely one of the major problems that is arising frequently now from the concreting over of very large portions of land, especially in urban areas, where the run-off of water has nowhere to go but into the drains, and that comes back up at any time of heavy rainfall. That is why sustainable drainage becomes very important, not just for buildings that are developed, but also for all the associated infrastructure such as roads.

**Q159 Chair:** But would you not accept that it is particularly the problem with combined sewers in recent floods and surface water run-off?

**Lord Smith:** Yes, and the problem is exacerbated, of course, by misconnections in some developments over the last 10 or 20 years, which mean that foul water goes into storm drainage systems. The decisions about when and how to implement sustainable drainage systems, when to activate that part of the Act, and whether to give water companies a statutory consultee role, would all, of course, have to be Government decisions.

**Q160 Chair:** It is helpful to have your view. Do you believe that all new developments should have SUDS fitted at the planning stage?

**Lord Smith:** I would certainly hope that that would be the aim, yes.

**Q161 Chair:** Would you accept that it should not always be local authorities that pay for the maintenance of SUDS, and that, where a water company stood prepared, and it was costed, they could take over the maintenance of SUDS?

**Lord Smith:** That would be a matter for Government, for water companies, and for local authorities to decide. Local authorities have the overall oversight responsibility under the Act, but I am sure that local authorities would welcome involvement of other players in the picture.

**Q162 Mrs Glendon:** Is guidance on planning for flood risk areas sufficient, or is there a need for legislation to tighten the planning regime and limit new development in areas known to be at risk of flooding?

**Lord Smith:** We are a statutory consultee; where there is a significant risk of flooding we will advise. It is right that our role in this process is advisory, rather than decision-making, because the decision-making has to rest in the hands of local elected representatives, but we will give the very best expert advice that we can about the degree of flood risk and how to avoid it.

**David Rooke:** If I could just add to that, the Government published its National Planning Policy Framework, which set out Government advice in relation to all planning, and flood risk was included within there. The Government also published technical advice to support the National Planning Policy Framework, and that is now being applied.

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What we are finding is that local authorities are following that advice. They are taking on board the advice we are giving on development plans and individual planning applications, so that 98% or 99% of our advice is actually being acted upon.

**Q163 Mrs Glindon:** So do you think that the Environment Agency should be given a stronger and more direct role in the approval of applications to build in flood-risk areas?

**Lord Smith:** No, I think our role has to remain that of a consultee. In the overwhelming majority of cases, as David has just said, our advice is followed by local authorities, but the decision has to rest in the hands of elected local authorities.

**Q164 Barry Gardiner:** Just on the issue of combined sewers, you spoke of the need for partnership, and you rightly spoke of the way in which the local authorities have a lead role very often in these matters. However, the Environment Agency often has a role here as well, because the reason for the surface water being put into the foul water sewer is that the previous connections into the waterway have been blocked up, and the EA will not allow those connections to be reopened. Now, the result of that is that instead of less polluting water coming into the river or the brook, it goes into the foul sewer, and the foul sewer, which is now at capacity, then comes up in exactly the way that the Chairman suggested, into people's living rooms. Then the foul sewage is what goes into the brook or the river. So there is a role here for the Environment Agency to work with others to reopen those connections and free this area up.

**Lord Smith:** We would certainly want to work with both local authorities and water companies in order to find the most sensible solution in any individual instance. The CSO process where a combined sewer outflows into rivers, or in some cases into estuaries, as a result of storm water filling up the drains and there needing to be some release out into the environment, is of course very much in place. It has happened, I fear, rather a lot over the course of the last nine months or so, but how to get the best balance in normal circumstances will depend very much on the individual circumstances, and we would certainly want to work with local authorities and water companies on that.

**Q165 Neil Parish:** I will keep it quick. In the village of Feniton near Honiton, 50 houses were turned down by the local authority, and it potentially floods the rest of the village. That goes to appeal and the appeal inspector allows it. What does the Environment

Agency have when it goes to appeal? Do you actually make your evidence known to the inspector or not?

**Chair:** If I may rephrase it, the question is: the local authority turns the planning application down, it is overruled by the planning inspectorate—

**Neil Parish:** That is exactly my question though.

**Chair:** Which pertains: the Localism Act, the National Planning Policy Framework, or the Planning Policy Guidance 25?

**Lord Smith:** In a circumstance of this kind, we would have provided our strong and clear advice to the local authority in the initial process. That advice would be there on the record, for the inspector to consider, when it came for appeal to the Secretary of State.

**Chair:** What we do not understand is how it is overruled.

**Neil Parish:** Yes, why it overruled?

**Q166 Chair:** Why is it overruled? If you have a status of statutory consultee, and the whole point was to reduce the number of new developments likely to flood, why is your advice being overruled? What local residents object to is losing control. We have all got our local examples; we could go round the table with every local example. In my case it is Muston Road in Filey with 300 houses. However, it drives people potty that they take all the precautions they can to keep their house safe, yet your advice is not worth the paper on which it is written because the planning inspector comes from out of town and overrules you and the local planning authority.

**Lord Smith:** That is the system that the Secretary of State at DCLG has put in place, and it is very much up to him to make decisions about such matters and to consider the report that the inspector makes to him. What I am not absolutely certain about is whether we provide further advice to the inspector or not.

**David Rooke:** We do, if the grounds of challenge are in relation to flood risk. If the appeal is on other planning grounds then our advice in relation to flood risk would be taken into account, but we would not normally—if there was a public hearing, for example—be called to give evidence. If the challenge on the appeal is around flood risk, then we would give evidence, and in fact, in previous jobs in my career I have given evidence to planning inspectors on appeals, and they have taken that into account.

**Chair:** Thank you to my colleagues. Lord Smith and David Rooke, thank you very much indeed for being with us, for being so frank and honest in your answers, and for your time and contribution to our inquiry on flooding. It has been a pleasure having you, and I am sure we will see each other again before long.



## Tuesday 26 February 2013

Members present:

Miss Anne McIntosh (Chair)

Richard Drax  
George Eustice  
Barry Gardiner

Mrs Mary Glendon  
Neil Parish

### Examination of Witnesses

*Witnesses:* **Otto Thoresen**, Director General, Association of British Insurers, and **Angus Milgate**, Managing Director UK and Ireland, AON Benfield, gave evidence.

**Q167 Chair:** Good afternoon and welcome. May I thank you both very much indeed for joining us? Just so you know, Marsh had been invited and at the last moment were unable to join us today. They will be joining us later. Could you introduce yourselves and give your positions for the record?

**Otto Thoresen:** I am Otto Thoresen. I am Director General at the Association of British Insurers.

**Angus Milgate:** I am Angus Milgate and I am Managing Director for AON Benfield in the UK and Ireland.

**Q168 Chair:** Thank you very much and thank you for participating in our Flood Funding Inquiry. Can I start by asking the ABI, where are we at the moment, would you say, in the progress towards replacing the Statement of Principles?

**Otto Thoresen:** That is a big question to open with. We are in what I would call constructive discussions with Government. The discussions have been going on for quite a long time, it has to be said. I first became involved in this almost two years ago when I joined the ABI in April 2011. At that point there had been discussions going on with Defra on how the Statement of Principles could be replaced. Those discussions have continued. We were just discussing this as we were travelling here from Gresham Street. We have spent quite a bit of time, from about a year ago, getting into some detail around the Flood Re model, which we have described in our submission.

**Chair:** We are going to come on and ask you about that in more detail.

**Otto Thoresen:** I am sure we will come on to that later. Those discussions seemed to get to a position where they were no longer moving forward around about October or November time last year. We can discuss later why that might have been and what caused that process to stop. From the early part of January we have re-engaged with Oliver Letwin, representing the Government, and I would say that the discussions we have had have been constructive from early January to this point, but still with some significant issues under discussion.

**Q169 Chair:** Representing the insurance industry, are you convinced that the industry is prepared to take the level of risk the public would expect it to take in this proposal?

**Otto Thoresen:** It is difficult to answer that question without going in to the model we propose, how we think it should work and why we think it is a good

model. Perhaps I could just say a few words about that. The Flood Re model we have proposed is a mechanism to deal, on a sustainable basis, with the insurance needs of the market as a whole, households as a whole, and also the 2% or so of properties that we would describe as high risk.

The Flood Re scheme creates a not-for-profit flood insurance fund, which effectively formalises the cross-subsidy that already exists within the operation of the flood insurance market under the Statement of Principles. Ninety-eight per cent. of the market would operate in a free market way, so the competitive pressures that work in a free market to get good value for households and consumers would operate freely but for those properties that would be high risk—the 2% that would fall within the fund—essentially we would provide flood cover at a set price. Clearly, all of these parameters can be moved to create different outcomes and I suspect we may discuss that a little more in detail shortly.

We believe that that process means the model can adapt and evolve, but to make the Flood Re pool have sufficient assets and money within it to cover the liabilities, we would formalise the cross-subsidy that exists at the moment through a levy on the insurance industry, which would pay additional money into that pool. I can talk a little bit more about the kind of events that the pool should be able to sustain. There is a contingent liability within the pool, though. The thing about flood insurance and flood risk is that it is a very volatile risk. You can have a number of years where the flood risk is very modest or very low and then you can have experience where you have significant spikes in that.

The model we describe can provide cover in most eventualities. There could be two causes where the flood pool would not be sufficient. One would be where you had a significant event in the early period of the setting up of the flood pool, because clearly the flow of money into the pool would be relatively low at that point. That would be a temporary issue because the expectation would be that, in future years, future flows of money would cover over that short term overdraft requirement. At the other end you would have, depending on how you structure the scheme, a point at which a very significant catastrophic event would exhaust the coverage of the pool. That would be a situation where, essentially, we would have very significant issues across the country as a whole. Within that model we believe the industry would be

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able to continue to provide affordable and accessible cover to the market in the UK.

**Q170 Chair:** We would like to explore that model through the course of the afternoon. Colleagues will open that up shortly. There are two ways to proceed. One is that the reinsurance sector, the NOAH Marsh model, would take up that slack and the gap you have identified. The other model could potentially be—and I presume you are exploring this—the possibility of the Government coming in with some Government funds. About a year ago the Prime Minister, for the first time, spoke in terms of hypothecation and talked about future roads being built using road taxes. I understand that was the first time we have ever sought to use money dedicated for one thing actually for, in this case roads, to build new roads. Would you see any merit in taking a percentage, in that early part of the scheme, to enable the scheme to get up and running in case there was a significant event in the early years, that you have just described, of taking either a percentage or indeed the whole 6% of the insurance premium tax that each and every one of us pay on our household insurance, contents insurance and buildings insurance policy. Would you believe that that form of hypothecation could plug the gap in the funding that you have identified?

**Otto Thoresen:** I will try to answer that in two steps. My first step would be to say that we have put together the Flood Re model on the assumption of the environment in which we are operating. Nobody can predict with certainty what the flood experience of the UK will be over the next 10 or 20 years but we have a view about the current environment. In the current environment we believe we can build a model that will operate in a way that is a formalisation of the existing cross subsidies in the market to deal with the issues and address the cashflows into the Flood Re insurance pool.

What we cannot cover through that on a commercially sensible basis, and that is a sensible basis for the consumer in terms of price, is to extend that level of cover—Angus might be able to help me out here when we talk about the reinsurance component—right up to cover the most extreme catastrophe that we might have to face. Where we believe there is a line you have to draw is on the contingent liability at that extreme end. As to how one chooses to raise the floors that you have to bring in to the pool, and whether you do that through a levy on the insurance industry—which is our proposal because that essentially formalises the existing set up and keeps it within the system—or you do it through some other means, is something that I do not want to dismiss as a detail but, for me, you have to get to the point where you are willing to accept the construct in the first place before you decide the most effective way of making the construct work. At this point the argument is about the construct.

**Q171 Chair:** Mr Milgate, is there anything you would like to add?

**Angus Milgate:** No, I will pick it up later on if you want to ask a specific question on that.

**Q172 Barry Gardiner:** First of all I should state my interest. I am an Associate of the Chartered Insurance Institute and a chartered insurance practitioner. I think I still am; I do not think I have renewed my subs actually.

**Chair:** They will be after you.

**Barry Gardiner:** They are going to be after me now; I should not have done that. You have set out very clearly the Flood Re model. Could you perhaps, just for the benefit of the Committee, set out with equal clarity the NOAH model? Could you draw out, for the Committee, the key distinctions that you see between the two?

**Otto Thoresen:** The first point I would make is that I have been an insurance man for 40 years but I am not a general insurance specialist and I am certainly not a reinsurance specialist. What I will talk about are the differences in the way the NOAH model is constructed. I would characterise the NOAH model as being a reinsurance solution for insurers who no longer wish to take flood risk on to their own balance sheet but want to continue to participate in the household property insurance market. The reinsurance component of NOAH is very clearly there to cover the volatility and risks in the market, but the difference with the NOAH model is that it does not give you any degree of confidence or control over affordability for the high risk properties because the NOAH model is essentially a risk based model. The second aspect of it—and this is not to suggest that this is an issue that could not be dealt with—is that it does mean that the control over the price and the negotiation around the price for flood risk in the UK sits with one organisation, who are running the NOAH pool. In that sense, you lose some of the significant benefits that come with a free market operating for as large a part of the overall market as possible.

**Q173 Barry Gardiner:** What you are saying is that it is a land grab by Marsh Mac or, more accurately, a flood grab by Marsh Mac?

**Otto Thoresen:** I would never use language like that. I think it is important for the rest of the discussion here. I talked to Marsh through most of last year. We have different opinions about how best to deal with this issue. More recently those discussions have continued and actually there is a new CEO at Marsh. We have opened up discussions again, and I am going to talk with them again later this week. I do not think we should see it as an either/or. The question we have to ask ourselves is what it is that we seek to achieve here for UK citizens in replacing the informal arrangement we have through the Statement of Principles with something that is sustainable, gives people far more confidence about where things are going to go in the future and can adapt to circumstances. Those circumstances might be negative, in the sense of increased levels of flood experience, or they might be positive because Government flood defences begin to establish an environment that is more manageable and more controlled so the risk begins to fall away. It is an adaptable model. We believe that the Flood Re model offers access to insurance solutions for the population that we are concerned about. We would argue that the

Flood Re model should be a very transparent model, a not-for-profit model and one where Government has oversight over its operation. There is an element of independence in the governance over its operation, because it is very much a not-for-profit model for the high risk properties. Through that mechanism you can manage the pricing for those higher-risk people who have big exposures.

**Q174 Barry Gardiner:** Indeed. You are touching on what, for many of our constituents, will be the critical issue, which is cost: how much it is going to cost them in their premium. Are you are suggesting that the Flood Re model is a more cost-effective, or at least a surer cost model for our constituents than the NOAH model that Marsh Mac are proposing?

**Otto Thoresen:** I made essentially two points about the NOAH model. One was that there is an issue about control, oversight, governance and losing the benefits of competition. There are ways you could try and structure it to try to bring some of that back, of course. The second point for me is one about what we call the levy or the cross subsidy. There is actually a decision for us as a society to make about our willingness for the 98%, effectively, to pay something towards the costs of the 2%. That is critical to our model. I happen to believe that it is a mechanism that provides the best outcomes for society as a whole.

**Barry Gardiner:** It socialises the costs of flooding.

**Otto Thoresen:** I believe that as long as there is very clear and strong governance around how that levy is raised, the amount of levy and the appropriateness of that levy, then it has many attributes that are very positive. Of course I would say that because it is the model we are putting forward.

**Q175 Barry Gardiner:** Marsh Mac will have their day before us as well. Can I just tie up on that? Because there is a percentage under the Flood Re model that would not be covered in the fund, and that is perhaps perceived as a role for Government as a funder of last resort, it is possible, is it not, to have certain reinsurance cut in at that point, which could deal with that excess layer of insurance that would be necessary.

**Otto Thoresen:** As I said earlier, for me there are two components of this contingent liability and exposure. There is what I would call a short term one, which is the one about timing. It is about flows into the fund, the Flood Re pool, and flows out through claims. If one takes a view that the assumptions one has made in structuring the thing in the first place are borne out in experience then those cash flows should even out over a relatively short period of time. We have already, within the Flood Re model, talked about using reinsurance to cover off some of that potential volatility as you move up into a number of big events happening in a year. Within the Flood Re model, which covers the 2% or so of properties that are high risk, we believe an appropriate cap in terms of the use of insurance would be somewhere around £2 billion of losses. The reason we do not go further is because the further up you go the more it costs. Yes you are buying more certainty then, but at a significant cost to everybody. To be honest, the kind of events that take

you through that £2 billion cap—given you are only talking about the Flood Re proportion of this, not the total cost to the UK—would be events beyond anything that we have ever seen. Would you say that?

**Angus Milgate:** It is tough to say.

**Q176 Barry Gardiner:** I am conscious that we are pressed for time. I do not want to cut you off mid-flow but I need to get on to ask my next question for you. What are the principal legislative and regulatory reforms necessary for us to be able to introduce either of these models?

**Otto Thoresen:** There are two types of decision to be made, which is a slightly different point but bear with me for a second. In terms of legislation, one of the disadvantages and weaknesses of the Statement of Principles is that it is not compulsory on the insurance market. There clearly is the opportunity for insurance participants to choose to operate within lower risk areas and not have to carry the responsibilities of the Statement of Principles in respect of existing properties that are higher risk. The one thing that we would argue would have to be legislated for is, if you wanted to write property insurance in the UK you would have to participate in this model. That would be the one thing that would ensure the levy covered the market as a whole. Then there are a series of decisions you have to make about how you want to structure the scheme. We have already discussed those decisions, they are around where you put your insurance levels and what price you set as the cap for high risk. For a property to qualify to go into the pool, the price of the flood insurance for that property has to be above the cap as you have set it. If you set the cap lower you get more properties in the pool and if you set the cap higher the price to the individual household is more. There is a discussion to be held about that. The final decision has to be made about how you then decide to allocate that across different types of property. Clearly there is scope here to target this support more towards people who need it more. There are a few decisions to be made.

**Q177 Barry Gardiner:** Got it. So there is primary legislation on the fundamental issue and secondary legislation on the rest. Which bits are holding up getting an agreement around this at the moment? Which regulation is it? Is it primary, secondary or bits of the secondary? Why are we not further forward?

**Otto Thoresen:** To get this in place there are many hurdles to overcome. I certainly do not want to get into a public discussion about where the negotiations are, because those negotiations are in train.

**Barry Gardiner:** What a shame; I had hoped to tempt you.

**Otto Thoresen:** We are sticking in there to try and get a good outcome. Actually, legitimately, the questions that are causing most energy to be expended are the questions that you would hope are being asked about the appropriateness of the pricing, what effects this can have on households, how we balance the need to make the Flood Re pool sustainably funded but at the same time not overload people with increases to their premium rates. Clearly, the consequences in terms of the effect not only on individual households but on

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things like the affordability and attractiveness of property, ability to get mortgaged on a property, etc., are very fundamental issues for people. There is a good discussion going on around those issues. The sad thing for me is that this is now getting to the point where these discussions are happening very seriously but, to be honest, it has been two and a half years since this process started.

**Chair:** Can we move on?

**Q178 Mrs Glindon:** Mr Thoresen, to what extent are insurers and reinsurers fully convinced that the Flood Re model, of a type currently under discussion with the Government, is the best model?

**Otto Thoresen:** I can certainly speak for the insurance industry and members of the ABI. I have complete support across the membership of the ABI for the model that we are putting forward. They do believe that it is the best way to continue to provide accessible and affordable insurance cover for flood risk to our customers on a sustainable basis. There is strong support. In terms of reinsurance partners, we have had discussions with many reinsurance partners and they have been actively involved in those discussions. They are enthusiastic participants in the debate. Clearly, where it lands is going to be important for them as to whether they see it as something they would participate in, but certainly at the moment that is the sense we are getting.

**Q179 Mrs Glindon:** How much extra will either the Flood Re or the NOAH model cost each household on their home insurance premiums?

**Otto Thoresen:** Let us talk about a couple of components to this. The first is the levy. This is the cross-subsidy. If we say that 98% of properties are outside the Flood Re pool and 2% are in it, then the levy on the low-risk properties would be of the order of £8 per household. That is split to about £5 for buildings and £3 for contents. How you set the pricing cap for entry into the Flood Re pool dictates what eventual price the individual high risk households will have to pay for insurance compared to what they are currently paying. If you set that cap high then the potential increase for individual households at high risk will be higher; if you set it lower then the potential increase will be lower. That has not been fixed yet, so it would be wrong for me to start predicting what we might be talking about.

There is nothing formalised within the Statement of Principles that talks about pricing. Effectively, what the Statement of Principles says is that you will continue to offer insurance to your customer, but the price at which you do that is not set down anywhere. Although getting absolutely accurate information on pricing across the market is difficult, and there are competition issues around doing that, the sense we have is that there has been some increase in pricing to reflect the risk during the period of the Statement of Principles. Whilst there would be an increase, those high risk properties are, in all likelihood, paying more now anyway.

**Q180 Mrs Glindon:** Moving on to customers and what they think, what evidence do you have of the

willingness of customers who live in low flood risk areas to take on such additional costs for those in high risk flood areas?

**Otto Thoresen:** The evidence is patchy. It is quite difficult to research this when we do not even have a stable model yet to research. It is quite a complex concept and it is quite difficult to get really clear feedback. However, we have talked to consumer groups about this and we have talked in some environments with consumers. We clearly have relationships with other stakeholder groups like the National Flood Forum and others who have been actively engaged in this. The sense we get is that most people realise that, these days, it is quite unpredictable who might be affected next by the kind of events that are happening all the time. Whereas there perhaps was a time when some people might have said, "Well, if people had bought properties in a high risk area then good luck to them, they should have to deal with the consequences of that," I get a sense now that people understand that it is not just a simple matter of how near you are to a river. There are actually a number of different factors because of the climate and because of the weather experience that are leading to an unpredictability to this, which means this socialisation of the model might make sense to everybody. At the levels we are talking about my instinct is that, if it is explained clearly and the governance around how that money is being used is clear, visible and transparent, broadly this would be supported. But until we have something more specific that we can engage in discussion with, I would not like to be too confident about that.

**Q181 Mrs Glindon:** What would the relative costs of an annual household flood risk cover in a low risk flood area compared with a high risk flood area be without Flood Re, NOAH or a similar cross-subsidy model?

**Otto Thoresen:** That is quite a complicated question. I am certainly not just going to start creating answers. If you would like me to supply information to you in writing with a considered view on that, that might be the best way of dealing with it.

**Q182 Chair:** The Pitt Review very clearly said that there should be access to the Environment Agency maps, because you are mapping, they are mapping, councils are mapping, everybody is mapping. Are you relying on the Environment Agency maps to reach your conclusions?

**Otto Thoresen:** I have support behind me so if I go off piste I am sure I will get some help. The sense I have had in overseeing the process over the last 12 months is that we are fully engaged with every source of information that we can get our hands on in order to come up with the modelling that we have done. We have also been getting independent support from people like Aon and others through this process, to try and make sure that what we have done is as solid and predictable as possible. Even there, of course, there is still some uncertainty, as you can understand.

**Q183 Chair:** Can I just be clear about what you said about this element of compulsion? Is that element of

compulsion only relating to those wanting to sell household, contents or building insurance so not car insurance or anything?

**Otto Thoresen:** No, no, it is for the domestic property insurance market.

**Q184 Chair:** The new unpredictable since 2007 is surface water flooding. To what extent have you factored in surface water flooding to your cost scenarios?

**Otto Thoresen:** I might get some help from Angus here. I have been very lucky. Most of the insurance work I have done comes from the far more predictable world of life and pensions, where you have far more reliable data and can draw trends. This is clearly an environment where that predictability is a lot more difficult. We have certainly built into the assessment as much as we can in terms of anticipating how the environment could develop.

**Angus Milgate:** The insurance product itself is a full perils policy. It does not distinguish between surface water runoff, coastal sea surge, or river flooding; it just covers flood. The neatness of Flood Re is that the risk enters the pool for being above a certain threshold in premium. If the loss were to arise from surface water flooding and the risk was in the open market, it would stay in the open market and be priced accordingly. If the flood were to occur from whatever form it would either fall to an open market or Flood Re. If we see more instances of surface water flooding in a particular area, the insurance companies in a competitive environment would change their pricing. When the price gets to the level at which it breaches a given threshold, that risk would fall into Flood Re and then a different pricing mechanism would take care of it. The different causes—the heads of damages and where they come from—are taken into account, but in terms of the response and the protection, it is absent.

**Q185 Chair:** You mentioned the £8 levy, which is replacing the cross-subsidy. Is this £5 extra on buildings and £3 extra on contents? The flood visits I have made to those houses, either in my own area or across the country, involve people who really are living from hand to mouth and feel that they cannot afford the cost of contents insurance as it is. If you are proposing to put an extra £3 on contents, I would imagine that there would be fewer people going for contents insurance, which is not what we are trying to achieve.

**Otto Thoresen:** The £8 estimate of what per household cost would be is an attempt to take what we estimate to be the current cross subsidy that is operating within the Statement of Principles market and turn it into what the levy would have to be to be equivalent to that cross subsidy.

**Q186 Chair:** So it is an uplift?

**Otto Thoresen:** No, it may be a redistribution. The thing about the Statement of Principles model is that it is not formalised; it is informal. The extent to which individual insurers are choosing to cross subsidise is because they are, effectively, in a position where they have a lot of high risk properties on their books. We

assess that to be an aggregate across the industry, equivalent to an £8 per household cost. Now, in some households the reality is that that cross subsidy may not be where they are operating currently and some may be operating at a higher level. It is not an exact science; it is an estimate. The point is that the overall cost to households—not that that would help the individual household we have just described if they happened to be one where it did increase their premium—would be kept, in aggregate, the same; that is the plan. Now, there is also the question about the extent to which you migrate your model to what would be more like a free market over time and move closer to risk-based pricing. There are arguments about what kind of behaviours you want to incentivise within the market in terms of the sustainability of that market. That, for me, is a discussion that you have later; it is not a discussion you have now. The issue for now is to give people confidence in the continued provision of insurance and give them access to that on an affordable basis.

**Q187 George Eustice:** I get the idea of having a pool, because you have those 2% of households that are at extreme risk and having some kind of levy on other households to do that. What I do not understand from anything you have said so far is why you need the Government to stand behind all that as an insurer of last resort in these so-called extreme circumstances. You are, after all, the insurance industry; your job is to cover risk and develop models to do that. It feels to me, put cynically, that you as an industry may be trying to dump risk on the taxpayer.

**Otto Thoresen:** I absolutely understand the question and I understand why it needs to be asked. Let me just comment in two or three ways. The first point is that we are talking here about the contingent liability that would incur if there was a catastrophic event. So we are talking about a very significant, one in 300 year type event.

**Chair:** That would have been covered under the current Statement of Principles.

**Angus Milgate:** I will jump in on this. In the commercial arena, every UK insurance company buys an element of reinsurance. Broadly, as an average, that takes them to about a one in 200 year purchase. All we are saying is that, with Flood Re, we are looking to replicate that same level of cover.

**George Eustice:** Can I just interrupt because this is my point—

**Chair:** Hang on. Just finish that, because that is quite important. So you are going from one in 200 to one in 300?

**Angus Milgate:** No, I think that Otto's point was that if Flood Re was to buy a commensurate level of cover with the commercial market, were there to be an event that exceeds Flood Re's protection, it is likely that the commercial market would be in the same position and we would be in a very severe situation nationally and economically.

**Q188 George Eustice:** Is there a bit of a contradiction here? The real problem, and the reason we are having to look at this, is that we have these problem properties where the risk is much more

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frequent than one in 100 years. Suddenly you are now saying that in a one in 300 case we need Government as a backstop.

**Otto Thoresen:** The way I would look at it—and I would say I am keen for Angus to agree with me or disagree—firstly, let us understand what a one in 300 year event would look like. You are talking about a conflation of events involving significant areas, built-up areas and potentially the North Sea incursion. It would be a significant event bringing the UK into a very difficult situation. It is a one in 300 year eventuality. The question is where you draw the line in terms of how far you try and push your reinsurance coverage to be able cover you up to that sort of event. My view of this is that there is a trade-off point. The further you go up that line the more expensive it becomes to provide the cover. That feeds through into the premiums you have to charge everybody to cover that risk. In my view it is a judgement call about where the appropriate balance is because it is a one in 300 year eventuality and you want to be able to continue to provide insurance cover for households in this country at an affordable price on a sustainable basis.

**Q189 Chair:** Could you just stop there? What you are saying is that at the moment there is a voluntary agreement, which you the insurance industry cover under the Statement of Principles, for a one in 200 or a one in 300 year event. For a one in 300 year catastrophic event you would cover that voluntarily under the Statement of Principles.

**Otto Thoresen:** This is Angus's territory rather than mine. I did not make any claims about where individual insurers—

**Chair:** The Committee is just trying to understand the current arrangement so we can begin to understand what is changing.

**Otto Thoresen:** Let me try to answer that question or at least try and help answer that question. We have a current environment where individual insurers make decisions about whether they take risk on or not in all sorts of circumstances. In this particular circumstance, under the Statement of Principles, they are, by sticking to the Statement of Principles, agreeing to continue to offer insurance cover to properties that otherwise—because of their business model or business strategy or whatever—they might not choose to continue to provide cover for. They, to a certain extent, are beginning to reflect more and more the actual risk-based pricing for these properties.

**Q190 Chair:** Let us not play with words here. What I want to understand is this: at the moment, under the Statement of Principles, if I had a one in 300 year event in my house, would I be covered under the flood insurance that I have purchased because it is standard?

**Otto Thoresen:** I would answer it in a slightly different way.

**Chair:** No, what we are trying to elicit from you is what the current situation is, how it is changing, who bears the risk now and who you hope will bear the risk in the future.

**Angus Milgate:** There is a slight confusion there between one in 200 across the whole portfolio of risks

and that event being defined as one in 200 that affects my house. In the commercial arena, as a broad statement, some buy less and some buy more but they will generally say they buy to one in 200. Were that cover to be exhausted from a bigger event, the insurance company might go out of business.

**Chair:** You have been saved by the bell. I apologise. If you could bear with us, we shall go and do our public duty, for which we have been elected. We will adjourn for a short period of time and try to get back within 15 minutes.

*Sitting suspended for a Division in the House.*

*On resuming—*

**Chair:** Thank you very much indeed for your forbearance. What we are going to suggest, if you are agreeable, is to ask you to write in on those points, if I may, just so that we can quite understand. That would be helpful.

**Q191 Neil Parish:** My question is about those properties—and I have several in my constituency—where individuals have taken quite a lot of effort to stop the water coming into their properties. Some might have waterproof barriers around their property or whatever. To what extent are insurers reflecting measures installed by individual householders to minimise flood risk or the impact of flood damage to their homes in the premiums charged?

**Otto Thoresen:** The simplest way to try to answer that is that, where the insurer can be provided with evidence that supports the effectiveness of the measures that have been taken, they want to do the best job they can in assessing the risk that a property brings to them as insurers and they will fully take that into account. The mechanism in order to achieve that normally will be one that involves some sort of assessment by a professional of the property, the measures that have been taken and the effectiveness of those measures against the kind of risk that that property is exposed to. So in that sense yes, but it does not lend itself easily to some of the methods of buying insurance that are more mass market or comparison website style approaches, where that level of detail cannot really be furnished in a way that is effective for the insurance underwriter to make his decision.

**Q192 Neil Parish:** To what extent can people help themselves in this instance? If they spend quite a lot of money trying to protect their homes, how can they be sure that you, the insurance companies, reflect that in the premiums? Do you just take the fact that they are drawn on a map and the Environment Agency says they are in a high flood risk area and you will charge them x, irrespective of whether they take any steps to try and protect themselves?

**Otto Thoresen:** No is the answer. Again, I would go back to the answer I gave before, which is that the insurer, when he is assessing the risk, can only assess the risk on the basis of the information he has available to him. At that point, if he has nothing more than a geographical location as his source, then that will be the basis of his risk assessment. Where there are measures that are in place to improve the risk management of that property then that will be

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reflected in the price, if it can be understood and made known to the insurer. The premium will be lower as a result. Is that right?

**Angus Milgate:** Yes, I do not have much to add. Flood is only one peril and there can be lots of other reasons why an insurer would choose to insure a client. Once you are through that first post location data assessment, other policies may have a broader relationship and then you can get down into the underwriting.

**Q193 Neil Parish:** On accredited products, kitemarks and the like, do different insurance companies recognise different products or do you have a fairly uniform approach as to what people can use?

**Otto Thoresen:** In common with the insurance industry generally, the standard of the product, the quality of the product and the kitemarking approach is a good way of ensuring that a product of the right standard is going to be used. Of course it also has to be a product that is designed to deal with the risk that a particular property is running. If you have installed something that can protect you from water coming out of a river and down through your front garden that is no good if actually the water is going to come up through the floor and cause damage that way. It is

again a question of the relevance to the risk you are running that is the most important factor. The quality of the work is clearly important too.

**Q194 Neil Parish:** Do insurance companies take a fairly uniform approach to this or do they take an individual approach?

**Otto Thoresen:** I am not close enough to the detail to answer that. I would be surprised if they took a totally individual approach but I would be very happy to cover that point in writing afterwards.

**Chair:** We are going to temporarily adjourn for the vote and we are going to ask our Special Adviser to have a word with our witnesses as to how we proceed, if we may. We stand temporarily adjourned.

*Sitting suspended for a Division in the House.*

*On resuming—*

**Chair:** I am going to suggest that, with the agreement of the witnesses, for which we are immensely grateful, we thank you for the evidence we have heard this afternoon. I understand that you are agreeable to reconvene and we are most grateful if that is the case. Thank you very much indeed. Thank you for having participated and we look forward to hearing from you again.

**Wednesday 20 March 2013**

Members present:

Miss Anne McIntosh (Chair)

George Eustice  
Mrs Mary Glendon

Neil Parish  
Ms Margaret Ritchie

**Examination of Witnesses**

*Witnesses:* **Nick Starling**, Director of General Insurance, Association of British Insurers, and **Paul Miller**, Head of International Catastrophe Management, Aon Benfield, gave evidence.

**Q195 Chair:** Good afternoon and welcome. Can I, at the outset, thank you very much indeed for re-joining us after we had to interrupt the earlier evidence session? Thank you very much for agreeing to participate in our inquiry on flood funding. Would you just like to introduce yourself, each of you in turn, and give your position for the record?

**Nick Starling:** My name is Nick Starling. I am Director of General Insurance at the Association of British Insurers

**Paul Miller:** My name is Paul Miller. I am Head of Catastrophe Management for Aon Benfield.

**Q196 Chair:** That is what makes me rather nervous, you being here this afternoon. You are both very welcome. Can I ask at the outset what the legal position would be if we reached the end of June this year and there was no replacement of the Statement of Principles?

**Nick Starling:** The legal position will be unchanged, because there is no formal legal position behind the Statement of Principles. The Statement of Principles is an agreement between the constituent Governments in the United Kingdom and the insurance industry. It is not based on any formal legal background.

**Q197 Chair:** Would any legislation be required to introduce a replacement, or not?

**Nick Starling:** If we were to introduce Flood Re it would require primary legislation, because Flood Re is based on a levy on all insurers writing domestic property insurance in the UK.

**Q198 Chair:** We are probably better able to answer this, but I imagine it would take some three months for primary legislation to go through.

**Nick Starling:** If we reached an agreement to go ahead with Flood Re now, I think we acknowledge it would take some time to come into effect, clearly, because it would have to go through a legislative process.

**Q199 Chair:** If the legislation were not in place and we reached the end of June, could you explain to us what, effectively, would happen in those circumstances?

**Nick Starling:** If there was no legislation in place and if Flood Re was not agreed, then we would have the free market, and we reckon the implications of that are that around 200,000 households would find insurance either unaffordable or unobtainable. That is the sort of scenario we are looking at. If there is an agreement

on Flood Re coming into place, no doubt part of that would be looking at what transitional arrangements there might be.

**Q200 Chair:** Just for clarity, is that not currently the situation for new properties built after 1 January 2009 anyway?

**Nick Starling:** That is correct.

**Q201 Chair:** I know that you encourage developers and customers who purchase a property in a new development to ensure that it is insurable for flooding.

**Nick Starling:** It is an extremely sensible thing to do before you buy any property, yes.

**Q202 Chair:** What comeback do they have if they purchase such a property and then cannot obtain insurance?

**Nick Starling:** I find it difficult to comment on that. If they have specifically asked professional advisers if they can get insurance, or they have tried to get insurance and thought they could do so, then there might be a case, but it would go back to the general advice that if you are buying any sort of property, checking whether it can be insured is probably a sensible thing to do.

**Q203 Chair:** I think we can both think of cases where it does happen that someone does not require a mortgage—if they are in that fortunate position on one level—and then only subsequently finds out, because the developer has not explained to them that the property is at risk of flooding, that they cannot obtain flood insurance.

**Nick Starling:** I can understand that that might be the case, but that is not something we would be formally aware of.

**Q204 Chair:** So it is caveat emptor.

**Nick Starling:** I think when you are buying a house it is probably the biggest purchase you will ever make in your life, so it is sensible to check everything from an insurance point of view, to get it surveyed properly and to check there is not anything that would affect the value of the property, or any risk to the property.

**Q205 Neil Parish:** You have talked about the Statement of Principles, and its agreement not only between the Westminster Government but also between the devolved Governments. Have you got individual agreements on the Statement of Principles with the devolved Governments as well?



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**Nick Starling:** Yes, we do.

**Neil Parish:** Interesting. That's all.

**Q206 Ms Ritchie:** This first question is to Mr Starling. Does the Government's commitment to spend some £2.17 billion over this spending period reassure the insurance industry as to the priority it places on flood protection?

**Nick Starling:** The Environment Agency has estimated that flood defence expenditure needs to increase by 80% by 2035 just to keep abreast of the problem, and we know that with the spending review we are now something like £680 million behind that trajectory, even with the £120 million extra announcement. I suppose the answer is, of course we would like to see more spending. Flood defence expenditure is extremely effective. It has got a return of around eight to one, but we obviously do recognise the constraints that are around. I would add at this point that we do not mind where the investment comes from. It could be the public purse, local authorities as part of the public purse—it could be any sort of investment. The key things are that it is put in place, it is strategically planned and it is effective.

**Q207 Ms Ritchie:** A question to both of you: does the Government's forecast that it will better protect only around 145,000 households in the current spending period indicate a lack of ambition to tackle the problem on a meaningful scale, given that some 5 million properties are at flood risk?

**Nick Starling:** I think all Governments want to tackle flood risk; I do not think anyone disagrees. It is the amount of resource that can be put into that. We do not have much granularity around that 145,000 figure. By definition it will include low-risk as well as high-risk properties. What we do know is that there are around 500,000 high-risk properties which could benefit from flood defence expenditure. That is quite a large amount and the risk is increasing.

**Paul Miller:** My only point would be that it is a relatively small number, 145,000. That is part of 500,000 properties at risk, which puts it into context. Any investment in defences can be reflected in trying to understand the exposure and would have a mitigating impact on the loss potential.

**Q208 Ms Ritchie:** A further question to Mr Starling: how far do your respective models, Flood Re and NOAH, incentivise the Government to invest in cost-effective flood defences?

**Nick Starling:** My understanding of NOAH is that it did not have any Government involvement in it, so I would assume there was no incentive. The incentive around Flood Re is that the Government would like to ensure that premiums for people in flood risk areas are kept low, that any levy is kept within reasonable bounds and that the contingent liability and the overdraft are not called upon. We think that those are important incentives; indeed, we think that if Flood Re were to go ahead there would need to be Government commitments around flood defence spending and also planning controls.

**Q209 Neil Parish:** The Government puts a lot of store by getting a partnership agreement together and money from the private sector as well, even from insurance companies, but to date we have not really generated a huge amount of money from private sources. How could we improve that for flood defences in particular?

**Nick Starling:** First of all, we do not mind where the investment comes from, or who pays for it. The key thing is that it should be properly strategically planned. You would not want a situation where, say, in one constituency a lot of investment went in and it was nicely protected, but the problem was just shoved on to your neighbour. It does not matter where the money comes from. The insurance industry takes the view that it deals with risk and it is up to people to manage that risk, so it does not pay to reduce the risk itself and, hence, invest in flood defences. We are open to any circumstances which can get people to do that investment. It could be linked with developments, for example; it could be linked with local authorities. Our overall concern is that people tend to recognise the need for flood defences when they have had a flood. The real challenge is for people to recognise that they might need to put some money in flood defences when they have not had a flood.

**Q210 Neil Parish:** What about the insurance companies themselves? If a major insurance company is taking a lot of fairly high premiums in a given area to insure houses, why should they not then make a contribution? In some ways, it would be in the insurer's interests, as well as those of the Government, local authorities or anybody else, in protecting those properties.

**Nick Starling:** I think there are two answers to that. I have to say that lots of people suggest that the insurance industry should pay for things to reduce risk, and there is a long list of that. The point I would make is that the money has to come from somewhere, and if it is not coming from the taxpayer it will be coming from the premium payer. In fact, in some circumstances, if the insurance industry were required to spend money on flood defences, say via a levy, then I think it would be regarded as a tax in those terms. That would be our concern. It does not make the money disappear. It still has to be paid for, and the taxpayer and the premium payer are essentially one and the same person.

**Q211 Neil Parish:** My argument would be that naturally insurance companies will take the risk and allocate the premiums because of the risk. Therefore when the risk is higher, you will charge a higher premium. If you use some of that higher premium to help with the defences, which then meant it was less likely that those homes would flood, surely it would be a good use of your resources. I rather think you want to take on the properties that do not flood and then make sure the Government pay for the ones that do. Is that unfair?

**Nick Starling:** It is not unfair. Insurance works on the basis of risk.

**Neil Parish:** I know how it works.

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**Nick Starling:** One of the key things here is affordability as much as availability. The insurance industry could operate perfectly happily in a free market but charge accordingly. I think the problem with the model you are talking about here is what could happen is that I, as an insurer, could pay for a bit of flood defence and then the policy holder moves to another insurer who benefits from my investments. The only way you could do that is if you mandate it across the whole industry. In those circumstances it would be treated like a tax and it would still have to be paid for.

**Paul Miller:** There is the potential for the policy holder to benefit, of course, because if you are charging them a premium for the risk and the risk is reduced, their premium could reflect that reduction in risk.

**Q212 Neil Parish:** It also reduces the risk to that insurance company. I accept that one individual company would have to have a lot of properties in any given area to make it work. I just think that we are all thinking that there is money to be made—quite rightly; I am not objecting to that—from insuring people, but it is just whether you could provide some more of that money in a partnership system. Have you considered that?

**Nick Starling:** As I said, it is often put forward as an idea in a lot of areas: road safety, for example, or funding the police. There is a general societal point, if I may make it. I do not think it is just for the insurance premium payers to pay for things which benefit society as a whole, and that is an important point to make, but the only way that you could make this work would be to have it across the industry as a whole, otherwise, as I said, I would be putting in investment that my competitor might pick up the next time round. Under those circumstances, it is just money coming from a different pocket.

**Q213 Neil Parish:** The insurance company does not charge a level fee across all properties; you are actually asking for a bigger contribution, naturally enough, because those properties are more prone to flood, and it is about affordability; it is a big issue. The policy holder is paying more to the insurance company, so why should the insurance company not pay something towards protecting them?

**Nick Starling:** The analogy I would use is if you applied for your home insurance and thought the premium was a bit high, and then asked your insurance company to buy you a burglar alarm to reduce the premium. It is really for the property owner or society at large, by and large, to reduce the risk, and then the benefits flow through from the fact that the premiums then reflect that risk and become lower.

**Neil Parish:** I think we will be asking questions about that later.

**Q214 Chair:** Do you think there is going to be scope for the private sector to part fund in the partnership approach as the Government hopes?

**Nick Starling:** There could be scope. The key issue is whether the private sector would get any sort of return.

**Q215 Chair:** There is one example with a water company putting in flood protection measures, working for the public good with local landowners. That is the only example I can think of, and that would obviously have to get past the regulator as well.

**Nick Starling:** I am aware that some water companies are very keen to get involved in flood defence expenditure. Not all of them, but some of them are. Presumably that would be paid through water bills if that were the case.

**Chair:** We are going to look in more detail at the free market model.

**Q216 George Eustice:** I wanted to come back to the specific Flood Re model that has been proposed. We had some evidence to the Committee from a firm called Richfords Fire and Flood. It is a flood damage restoration firm in my constituency, as it happens. They have proposed a modified version, effectively, that would have a mandated premium income on every insurance policy that would then go into a mutual fund. That would then effectively be a pooling system, but without the need for an insurer of last resort. Could you just explain why you think there needs to be the taxpayer as an insurer of last resort, or does their system work?

**Nick Starling:** Obviously I have not seen what their system is. It sounds a little bit like NOAH, where all the flood risk is ceded and goes into a mutual pool. The reason that we developed Flood Re is because in a free market there will be circumstances where the risk-reflective premium is too high for most people, or it is just not available. If you look at Germany, for example, it has a flood zone system, and in the highest flood zone it is effectively impossible to buy flood insurance. Our members could operate within that market, but it just means that for some people the cost would be unaffordable. That is why we have put forward Flood Re as a way of meeting that cost. It is designed to have minimal impact, with a levy that is as low as possible, but it needs a back-stop in circumstances where there is a very large event in the early years and the levy needs to increase to pay that back. It is really around these issues of affordability as much as anything else that we think this model needs to be developed. I cannot comment on the one that has been mentioned to you, but the issue around NOAH, which it sounds similar to, is that it does not guarantee that affordability.

**Q217 George Eustice:** Why is that? In previous evidence, we have been told that it is because a one-in-300-year risk might overwhelm the fund. Is that the sort of figure you are talking about?

**Nick Starling:** I will start talking about what happens individually to houses, then I will pass over to Paul. The issue with flooding is that for most people it is a rare event, but it is an extremely expensive event, on average between £20,000 and £40,000 per property. If you have got a property which is at a high risk of flooding—it is likely to flood on a frequent basis—you can see how the risk-reflective premium for that sort of situation would be extremely high and effectively unaffordable.

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**Q218 George Eustice:** We understand that, but that is why you would have a pool system, with a levy or a mandated premium, whatever you want to call it, on everyone else's insurance. Is the key to making sure that fund is not overwhelmed just getting the levy pitched at the right level, rather than having the Government basically taking on the risk for you?

**Nick Starling:** What we are saying is that the levy we suggest, which effectively matches the cross-subsidy existing in the system, would be sufficient in almost all years to cover the claims on the pool. It is just that the problem with flooding is that flooding happens with big, big spikes, so in the last 15 or so years—and Paul might correct me if I get this wrong—we think it is only 2007 that would have actually impacted on the pool and required funds to come in to make the pool up. I will pass to Mr Miller if that is alright.

**Paul Miller:** You mentioned a return period at the start. I read through, and it seemed to cause confusion last time. From a policy holder perspective, Flood Re or not, it does not impact the amount of cover, so if you insure your house for £150,000, that is your insurable value. The return period is irrelevant. Where the return period comes in is the level that the insurance industry protects itself to, typically, and that is around 200 years at the moment. That is why, probably, 300 years was used as an example over the top. To put it into context, if there is a 200-year return period flood, which this country has never seen, it would be a natural disaster. There would be governmental impact on infrastructure. The insurance industry as a whole could potentially become insolvent, so it is a very, very significant event that we are talking about.

**Q219 George Eustice:** That is what I am trying to grapple with, because it seems to me that on one level the problem is that you are getting a very frequent flood risk; that is why we are having these conversations, because you have got certain properties that are at risk of flooding once every 10 years, say. It seems a totally separate problem that you are arguing for the need for the insurer of last resort, which is a kind of one-in-300 risk. That is what I cannot understand, because an insurance industry exists for one reason only, and that is to deal with rare risks: hurricanes, tidal waves, all sorts of things. I cannot see why you can insure hurricanes in the Caribbean but you cannot insure a one-in-300 flood risk off your own backs in the UK. I am not an expert on insurance; I just wondered if somebody could explain why there is this mismatch between a problem which is about frequent flooding rather than—

**Nick Starling:** I will make a general comment then pass over here, which is that you cannot insure unlimited liability, essentially. With all these sorts of events there will be a limit to the liability which is covered. That will be reflected in the way the insurance operates.

**Paul Miller:** Going from a policy holder perspective, return periods are irrelevant, so you cannot say a policy holder would not have cover for 300 years, because they would have cover up to their insured value. In the reinsurance marketplace, reinsurance

does not stop at 200 years. You can buy more, but it has an impact, obviously, from a premium perspective, and so it impacts a levy and the premium being produced. You have to weigh up the benefits of that, but it is not the case that you cannot buy reinsurance beyond 200 years. You can.

**Q220 George Eustice:** In a nutshell, it would be possible, if you had a slightly higher levy, to buy more robust reinsurance, and then you would not need the Government to be involved, apart from maybe passing some regulations to grant the powers to issue a levy on every household's insurance, would you?

**Paul Miller:** To Nick's point, you cannot buy unlimited reinsurance. You cannot buy it for all the way out in the tail forever. If you felt, as an insurance company, that 200 years was not an adequate tail—and again, we have never seen a 200-year event; it is beyond anything this country has ever experienced by far—and you thought it was an efficient use of premium to do that, then you can, but it would have an impact on the premium required.

**Q221 George Eustice:** But you do not really need it. This is what I am trying to get at. It is the same situation you have on any property you insure in the UK: you could have a one-in-300.

**Nick Starling:** Can I just make a point about Flood Re? Flood Re essentially has two controls on it. One is the levy that goes into it and the other is the extent of the exposure through the contingent liability. Obviously you can buy much more reinsurance for the pool, but that is going to cost. That means that the risk of there being a call on the pool at the lower end is higher, so to mitigate that you would have to have a higher levy. You cannot have a low levy and a low risk of contingent liability; it is one or the other. That is how it operates, and those are the controlling mechanisms.

**Q222 George Eustice:** One final question on this, and then we will move on: if there were no insurer of last resort and the Government had no role in this, what sort of levy would you need? How much more do you think it would need to increase—rough, ballpark figures—in order for the system to stand up buying the level of reinsurance you would need?

**Nick Starling:** I am having whispered 280 to me. A £280 million levy.

**George Eustice:** An additional £280 million would be—

**Nick Starling:** Yes. At the moment it is modelled at £150 million.

**Q223 Chair:** And in your view that is what corresponds to the current cross-subsidy?

**Nick Starling:** £150 million is roughly the current cross-subsidy, yes.

**Chair:** This is what I do not understand, because you said at the beginning that the levy corresponds to the current cross-subsidy. Now you are saying it is almost twice as high.

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**Q224 George Eustice:** You are saying if you remove the Government protection, then it would go from £150 million to £280 million.

**Nick Starling:** Yes.

**Q225 George Eustice:** Roughly speaking, it would be almost doubling the size of the levy.

**Nick Starling:** Roughly.

**Q226 George Eustice:** But that is an option. You would be happy with that as an option.

**Nick Starling:** Can I just come back on the point? There are choices at all aspects of the Flood Re model, and you can choose what you want the levy to be, just as you can choose what the risk-reflective premiums going into the pool should be. What Government has asked is: could we fix the levy, could we suggest a levy that matches the unofficial cross-subsidy which is happening in the market at the moment? That is round about £150 million, and that is the levy, which lands at about £8 per property, combined contents and buildings. Clearly if it is £280 million, then you are talking about a much higher levy, which would be whatever it is, £15 or £16.

**Q227 Chair:** How have you reached that figure? Is that on a basis of so much per household or small business?

**Nick Starling:** That is just based on our analysis of the market and what we think the cross-subsidy effectively working across the market is under the Statement of Principles.

**Q228 Chair:** It does seem a big leap. Is this because you are going from 200-year risk to 300-year risk?

**Nick Starling:** No. Our calculation of what we call an effectively neutral levy, which matches what people are unofficially paying, is that it would be around £150 million. That is how we have reached that calculation. You could have whatever levy you wanted. You could decide not to have a levy at all, in which case obviously there would be much more frequent calls on the pool, or you could have a higher levy, in which case the calls on the pool would be much lower, because you would be able to reinsure to a much greater extent. The pool would fill up much more quickly with a higher levy.

**Q229 Neil Parish:** Surely insurance works on “seven fat years and seven lean years”, in as much as that you build up a reserve when you have got good years and you do not have to pay out too much, and then you pay it out in a bad year. My suspicion is that you want to take in the good years and then you want the Government or the levy payer to pay out in the bad years. This is what we have got to get to grips with, because naturally you are going to want to try and get as much money out of the pool, out of the Government or out of wherever, in order to get a deal. That is what you are in business for. We accept that, but what we cannot seem to get to grips with is what the actual figure is.

**Nick Starling:** We have a shared objective with Government, as we want flood insurance to be widely available and affordable. We could have a free market.

Our members would be perfectly happy to operate a free market, but it would mean that for 200,000 people the price would be extremely high, and in some cases it simply would not be available at all. That is the public policy objective we are trying to reach. It is not about trying to offload risk on the taxpayer and so forth. It is simply that that is the policy objective we want to reach. That is the whole purpose behind Flood Re and why we have worked on it, and why we have dealt with it. Obviously, in years where insurers have to pay out for your claims, it is a very competitive market and that tends to be reflected in premiums, just as if you have higher claims the premiums go up the following year. They are there to match the premiums with what they pay out and make a decent return. A way to make a decent return is to make sure that you capture a lot of risk, but the really high risk is very difficult unless you are charging a very high price for it.

**Q230 Ms Ritchie:** Mr Starling, other witnesses have told us of their concerns about the Environment Agency’s withdrawal from uneconomic maintenance activities. Is the insurance industry concerned about the impact that this could have on local communities’ flood risk?

**Nick Starling:** The first point to make is that we think maintenance is just as important as actual construction. That is quite clear. I think the important thing for the Environment Agency’s programme, whether it is for new build flood defences or maintenance flood defences, is that it is focused on the risk, and where the risk is highest. That is where it has the most effect.

**Q231 Ms Ritchie:** Do you have examples where reduced maintenance has already led to increased insurance claims from flooding in places which might otherwise have been spared?

**Nick Starling:** I do not have direct examples. I know for example with Cocker mouth that there were concerns that since dredging and so forth had not happened, that impacted. In that case, it would not have stopped the flooding, but it might have mitigated the impacts somewhat.

**Q232 Chair:** Are you concerned at the present planning regime? Do you think it is clear whether PPS 25 on flooding still pertains, or the National Planning Policy Framework, as regards building on functional floodplains?

**Nick Starling:** We are concerned about planning and we are concerned that we still have a situation where developments are being built unwisely and in high-risk areas. We would like more power to the Environment Agency’s elbow, and also the Scottish Environment Protection Agency’s, in Scotland, to make sure that they oversee those sorts of planning applications, that they are told about them and that they can take firm action to make sure they do not go ahead, or are amended to make sure they are appropriate.

**Q233 Chair:** Do you think water companies should be statutory consultees on the same basis as the

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Environment Agency here, or its equivalent in Scotland?

**Nick Starling:** I had not thought about that, but that would seem to be sensible. I think any agency or company which understands the risk and knows how the risk operates would have a legitimate case for being consulted.

**Q234 Chair:** Should we see the end to the automatic right to connect?

**Nick Starling:** Again, that is not something that the insurance industry has formally looked at, but I do understand that if you have an automatic right to connect it would in some circumstances increase flood risk, yes.

**Q235 Chair:** 2007 saw for about the first time surface water flooding on the grandest scale. Are you concerned at the delay to the guidance to put sustainable drainage systems in place?

**Nick Starling:** Riverine flooding is quite well understood in this country. It is a much, much bigger challenge to develop an understanding of surface water flooding. As you correctly point out, it was a major feature of 2007 and it was a major feature of last year. I am not aware of the guidance you are talking about, but I think there is now a statutory obligation on local authorities to map surface water flooding and understand it, and that is an important priority. Also, we must not do anything that makes it worse; that probably leads to the question you have just asked about automatic connection, and also what we do to the urban landscape in particular that might increase surface run-off.

**Q236 Chair:** Do you think the retro-fitting of properties with SUDS would assist flood alleviation?

**Nick Starling:** Anything that demonstratively reduces risk that can then be reflected in Environment Agency

data is welcome, because that eventually feeds through to what people pay for their insurance.

**Q237 Chair:** Where local authorities or developers have put in sustainable urban drains, or where individual households or small businesses have put in flood prevention measures, might you see fit to review and reduce their insurance premium?

**Nick Starling:** There are two answers to that. If a local authority has been able to reduce risk, and that risk feeds through to the Environment Agency's data, all our members use that data and that would then feed through to individual premiums. When people have made risk reduction on an individual basis, it is usually the difference between being able to access insurance at all. Under those circumstances—this is what our members will frequently do—insurance can be available, but there would need to be some independent assessment of the effectiveness of what they have done. Of course, you might put in some resilience measures—you might put seals on your doors, you might block up your air bricks—but that does not stop water coming up through the floorboards or through the plumbing.

**Q238 Chair:** How close are you to reaching an agreement with the Government? Are you able to say?

**Nick Starling:** There was a meeting on Monday of this week, so there are still very active discussions taking place, but there are a lot of substantive issues to deal with.

**Q239 Chair:** Mr Starling and Mr Miller, on behalf of the Committee, can I thank you both very warmly indeed for being with us this afternoon, and especially the ABI and Mr Starling for coming back a second time? We are very grateful to you.

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### Examination of Witnesses

**Witnesses:** **Mark Weil**, Chief Executive Officer, Marsh Ltd, and **Graeme Trudgill**, Head of Corporate Affairs, British Insurance Brokers Association, gave evidence.

**Q240 Chair:** Gentlemen, may I first of all welcome you both very warmly, and thank you for participating in our inquiry into flood funding? Could I ask each of you to give your name and position please, for the record?

**Mark Weil:** Mark Weil, CEO of Marsh Ltd.

**Graeme Trudgill:** Graeme Trudgill, Head of Corporate Affairs at the British Insurance Brokers Association.

**Q241 Chair:** We are very grateful to you for being with us. If no agreement is reached on replacing the Statement of Principles, how do you view the situation that would then arise, and a potential free market solution? Mr Weil, would you like to open?

**Mark Weil:** We have heard from the ABI that there is around about £150 million of subsidy, which is going on cross-subsidy at the moment, so you would have to assume that that would go. That would manifest in

higher prices to those who are in flood-prone housing, so it would result in a price increase. It is not clear to me that that would make those houses uninsurable, but it would certainly make it unaffordable for a significant number of people.

**Graeme Trudgill:** BIBA has looked at this. We believe that about 98% of the properties out there will still have flood insurance included as standard with no concern. It is that higher risk 2% or so where they would find it harder, but the open market does have insurance brokers who specialise in flood insurance risks. We have submitted in writing to this Committee various examples of where, if those people in the very highest risk areas do sign up to the Environment Agency's flood alert system, they are much more of an attractive risk. Even if they have been flooded before, it is possible to insure them. It may be that they are required to put some defences in place, and then typical premiums and terms would perhaps be up

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to 25% increased premium, and perhaps a £2,500 excess. Normally the excess would not be more than that, because then they would not be able to get a mortgage.

Certainly BIBA has 123 members who specialise in flood risks, and what we would suggest is that if it does go open market there would be some sort of signposting solution put in place, similar to the agreement that already exists for older drivers and older travellers, where if they are having difficulty accessing insurance—if they go online to a comparison site, for example, and they put in their post code and it says “No quote”—that site, seller or bank, whoever it is, signpost them to someone that they know can specialise in flood risks. BIBA is a not-for-profit trade association. We have a find-a-broker service and would be very happy to step up to that point and distribute those inquiries to our members to help the public.

**Q242 Chair:** Mr Weil, when we first invited you before us, you were looking at a model known as NOAH. At the 11th hour you have introduced Flood Mu. Is this not a rather late entry into the game?

**Mark Weil:** It may be late, but I hope it is helpful. I have led this, and my view of things is that NOAH has a role to play in helping private companies decide how to manage their risks. In Flood Re, you have in front of you a proposal which has some significant problems with it. I think some of the comments already made echo my own sentiments: it risks passing the costs to the consumer and the risks to the Government. That impasse needs breaking, so what I have attempted to do in the note, rather than say, “Here’s another model and another model”, is to start with some principles that we can hopefully all agree with, or certainly put them on the table so they can be debated. I then critique the details of the flood redesign in a way that is very open—you can agree or disagree with it—and then put forward what I hope are some constructive suggestions for how you would modify them, so you end up with a solution that puts the Government in the right role for Government, leaves the risks with the insurance industry, and gives as competitive and complete a deal to the consumers as possible.

**Q243 Chair:** I can only speak for myself. I was quite attracted by my understanding of the NOAH model. If I have understood the ABI model, Flood Re, there was going to be a shortfall between the £150 million levy and the £250 million added risk. NOAH would have seemed to fit in quite neatly with that.

**Mark Weil:** It still does.

**Chair:** Now I feel that you risk perhaps losing the advantages of that by going off on a completely different tack. Before we take this any further, could you set out to the Committee briefly what the main points are between the two schemes?

**Mark Weil:** I can do that. I promise to be no more than two minutes. Let me start with concerns with Flood Re; then I have notes on five significant differences, which I will get to very quickly. As for the concerns with the design as is, they are both pooling arrangements, so they both assume that you

need to redistribute risk to keep affordability in place for the high-risk homes, particularly those of poorer householders. The question is how you do it. I already made the comment about the passing of risk to the Government, and through a tariff mechanism it is likely to end up with the customer. It seems strange to me that essentially you have got the insurers acting as Government in making social policy, pricing off wealth rather than risk, and you have got the Government acting as the insurer, taking the back-stop on the pool, which has been observed. That is what the reinsurance industry exists for; there are about £13 billion of catastrophe excess of loss reinsurance treaties out there already, so it is well above any conceivable event. The tail is cheap to insure, by the way. It is not a problem to take it within the industry if it needs to. It does not give the Government enough skin in the game. I think the Government is taking the tail in Flood Re because insurers want the Government to feel some ownership for building flood defences. It is the wrong place to put the Government. The Government should be in at the beginning, applying social policy. It happens to be a smaller number; it is also a much more bounded number. I imagine the Government has had enough of back-stopping financial institutions. It plays the role and leaves the existing catastrophe excess of loss reinsurance to take care of the tail.

The next biggest concern is it flattens the cost of risk. You have this £300 set charge. My concern with that—look again at the banking crisis and the mispricing of risky and sub-prime mortgages—is that you are going to create some unforeseen consequences when you do that. Builders, planners, owners are going to find it attractive; above that threshold risk is no longer paid for, and that is a dangerous place to be. The final and biggest concern is that it is going to cost a lot because of exactly the point you were making: it invokes a whole new entity, Flood Re, which is effectively an insurer. It then needs to buy reinsurance in a spot where reinsurance is the wrong thing to use, because those risks are concentrated, regular, known. Reinsurers like to diversify their risks. Reinsurance is a very expensive proposition, and it is probably why a reinsurer is attached to the ABI proposal. It is good news for the reinsurance industry; it is not particularly good news for the consumer, who will end up paying for that cost through the tariff.

I come to my six points on what is different. We would argue for a percentage, not a flat rate, because that leaves risks with the creators of that risk, from the builder to the owner to the insurer, into the reinsurance market. We would argue for doing it on claims, not premium; because claims are real, it leaves premium and the pricing of premium to be set by the market, and it makes it much harder to form a tariff. As soon as you allow a tariff to be formed—a pre-set, known amount, be it £8 or £20, and we will argue about that later, I am sure—it is very tempting, that implicit or explicit charge.

Third, we would do it post-event, not up front. Do not create a new pool; simply reallocate the costs as they arise, then use the existing structures. That is what insurers exist for, to distribute these risks. That is why they have reinsurance. Fourthly, we would put the

Government in, as I have mentioned, via social intervention, not as a de facto reinsurer. That is what Governments do all the time, and how it is done is to be decided by the Government. Finally, that would leave you with a simple clearing house for the claims, rather than creating this whole new entity. Those are the differences. We think it has a number of advantages. I will not list those, because they are set out in the paper.

**Q244 Chair:** Did you say six? I thought you said six.

**Mark Weil:** I went through five, sorry. Percentage not flat; claims not premium; post-event not up front; Government is in via social policy not back-stop; and then it is a simple clearing house, not a new insurer.

**Q245 Chair:** Under your Mu, if there is no Government back-stop, is there a possibility that high claims could bankrupt the whole system?

**Mark Weil:** Apologies for the name, by the way. One of the reasons for the delay is that I wanted to get the paper written. It is Flood Mu, or Mutual. If you look at the history, the last 13 years of losses, as was pointed out by the previous witnesses, in 2007 you had the largest catastrophe in flood; I think it was about £1.2 billion. As I have mentioned, the existing catastrophe reinsurance treaties in the industry add up to £13 billion. Now, they cover wind storm as well as flood, but it is a substantially larger number. When we have looked at the reinsurance costs for that tail, it is cheap, because—as somebody else here has pointed out—that is what reinsurance does. It likes those long-distance natural catastrophe risks. We do not anticipate that being an issue.

**Q246 Chair:** Which one are you pushing? Are you pushing NOAH, Mu or both?

**Mark Weil:** I thought it would be helpful, hopefully, in following the logic, to start with Flood Re, question aspects of the design, and propose an alternative way to blend risk, which is Flood Mu. One of the objections to Flood Mu that we identify is that I as an insurer will now be receiving a smooth, averaged claims cost from other people's policies that I did not write. That gives me risks I am not comfortable with, even if they are averaged and we can apply some stats to give them some comfort. What NOAH does is allow that company to buy reinsurance, should it wish to. All it does is prove that there is a perfectly viable private sector solution for that insurer to reinsure out those risks, in this case to Munich Re, but I am sure there will be plenty of other competitors in there wishing to take it on. Think of NOAH as a component that takes away one of the objections as to why Flood Mu could not work.

**Q247 Ms Ritchie:** As a follow-on to the Chair's questions—in particular, this is directed to Mr Weil—what has been the insurance industry's reactions to the NOAH proposal? Perhaps you have already explained that, but could you give us some more detail?

**Mark Weil:** I have only been in Marsh for six months, and I have not followed the full history of the reaction over time. It looked pretty clear to me that we had got into two distinct camps, and that was not making a lot

of progress in terms of moving the debate on. As for the reactions so far to what is in the paper, Flood Mu, we have shared it with the ABI. We have had very constructive discussions with them. It is hard, because it is a very competitive industry and each insurer comes from a different stance. Bluntly, on the table is the possibility of a significant amount of Government support, so I was not expecting it to be welcomed with open arms. The question is whether on practical grounds it is workable or not, and whether there are good reasons to reject it. I have so far heard some very sensible questions around the detail, but I have not heard anything that has made me feel that it is the wrong answer.

**Q248 Ms Ritchie:** A further question, then, along that line: the Association of British Insurers noted two disadvantages of NOAH, and they were, one, it is a risk-based model that gives no control over affordability for high-risk properties, and, two, those operating the NOAH pool would control the price of insurance. Do you think these are fair criticisms?

**Mark Weil:** The first one, no, because in what I have just described, the Government sets the affordability question. You can make it as affordable as you want; if you want to fully distribute the costs, it is within the Government's power to do so. My point is that the Government should drive that, not the private sector. Tesco does not means-assess you when you go in to shop, and it is not clear to me that insurers should either. The second one was where I have used the phrase "Flood Mu", because NOAH in its socialisation costs did invoke the model. That is no longer required in what is described here, so there is no need for a central model setting technical prices. Private insurers will assess risk, assess the price and bid for it at a market price, knowing that the flood risk has been reduced by around 50%, and then come to their own conclusions. There is no central authority that is setting prices in this design.

**Q249 George Eustice:** I do not think any of us here are insurance experts, and this gets quite complicated with all these different models.

**Mark Weil:** Maybe that is to your advantage.

**George Eustice:** I think in your supplementary evidence you said there are around 200,000 households in the UK with a significant flood risk. When you say "significant flood risk", what is that? Is that one in 75 years, or what? What do you define as significant to get that figure?

**Mark Weil:** It varies. I have a table in front of me which talks about what we would call the technical price, so how much those households might expect to pay for their flood premiums. It happens to give you a social breakdown, so you can look at the impact of wealth upon it. It is those that have a material probability of flooding. I cannot quote a percentage; either my colleagues or Graeme may be able to. I pass it to you.

**Graeme Trudgill:** I think one in 75 years is certainly seen as significant, yes.

**Q250 George Eustice:** Effectively, if you are one in 75 you can get affordable. So is there then a 2% who

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cannot get insurance at all, or for whom it is totally unaffordable? What sort of risk is that? Is that one in 10, one in 20?

**Graeme Trudgill:** What our members tell us, the specialist flood brokers, is that of the rejections that are made from insurers—say about 200,000 high risks—they can, if the customer co-operates with the flood defences in signing up to the Environment Agency alert, insure about 95% of the rejections, so that will leave a very small 10,000 or so, where if they are not co-operating then they are going to find it very difficult to access cover.

**Q251 George Eustice:** So it is actually only about 10,000 where there is a real problem?

**Graeme Trudgill:** They are the ultimate, highest risk.

**Q252 George Eustice:** That is where it is unaffordable; no one will touch them with a bargepole.

**Graeme Trudgill:** That is when they would need to have defences built specifically around their property to change the risk to make it affordable.

**Q253 George Eustice:** You gave the figure of one in 75 as being judged a significant risk. That 10,000, is it a one-in-10-year risk?

**Graeme Trudgill:** From the broking side, not underwriting, it is difficult for us to get into the science of that, to be honest with you, but certainly that is the highest risk element, where you do need a specialist and you will get rejected and red lined if you just go in the general market and search on the internet. That is where our members will come in to help.

**Q254 George Eustice:** What I was trying to get to the bottom of earlier with the ABI was if you take a normal house that is not judged to be uninsurable, so maybe does have a one-in-75 flood risk—not huge—who is the lender of last resort if there is a freak one-in-300-years act of God that floods the entire country?

**Graeme Trudgill:** Currently, if a normal insurer just insured a property, they consider that we are an island, most of our cities are on rivers, and we expect to have a significant amount of flooding every year anyway, so that would be built into the pricing of the insurer when they set that risk, and when they rated the post codes they have their own mapping information, so it is all taken into account. They will then have their own reinsurance programmes to take that into account as well, so from many years of experience they build that in automatically.

**Q255 George Eustice:** Could the Government not just pass regulations to require a pool premium on every other household's insurance policies to create a fund that gets everyone to one in 75 years, which is roughly where you are with all the other houses anyway—a simple regulation that creates a legal obligation to do that, and then the insurance industry can run a fund? Would that work?

**Graeme Trudgill:** I think the Government wanted to avoid an extra tax on families.

**Q256 Chair:** Is that what the ABI are proposing: £3 on one and £5 on another, so on those not in the risk areas everybody is going to pay an extra £8?

**Mark Weil:** It takes you back into that territory. There is an argument about whether the tariff is explicit or implicit. I am not sure it matters too much, because once there is a tariff, you should expect it to be under-competed for.

**Q257 George Eustice:** I am just trying to get to the bottom of why there needs to be the Government as an insurer of last resort, because they are not an insurer of last resort on my house or 98% of people's houses. There should not be a requirement for that, should there?

**Mark Weil:** That is broadly my view. In the event of genuine national catastrophe, the Government has a role to play—civic defences, etc—so there is clearly a role for Government. Yet in terms of doing what is well within the bounds of natural catastrophe reinsurance territory, there is not, and I think the reason there may be in Flood Re is because it is working against the grain of what reinsurers want by pooling a lot of similar risks into one spot. Reinsurers do not really want that. They want to diversify it. You go to a normal insurance book, you will find some high-risk flood homes, but you will find some low-risk homes, so it is an insurable proposition. The issue is that it may be hard to insure the tail on the Flood Re pool, which is why the Government comes in. That is a question for the designers of the Flood Re scheme.

**Q258 George Eustice:** Do you think the industry has been playing a bit of a game of brinkmanship with the Government?

**Graeme Trudgill:** No, I think this is a moral hazard issue, and the Government have to have some skin in the game to ensure that the defences are still put in place, and they have to have some responsibility. They cannot lay it all off to the insurance industry. This solution has to have the right balance of sharing, where the policy holder is doing their bit, the insurance industry is doing their bit and the Government as well. It is all about the right balance and what is fair.

**Q259 Chair:** Would you accept, just after 2007, with it moving from coastal and river flooding to surface water flooding, that no Government is ever going to have funds to say that any part of the country can be saved from a particular flood? We are in a different ball game now, Mr Trudgill.

**Graeme Trudgill:** We are looking for the Government to launch their surface water map and make that fully available to the insurance industry, so we can better understand those risks. Yes, it would help if we could have that sooner rather than later.

**Q260 Chair:** Is that the one that is being done by the Environment Agency or the Met Office?

**Graeme Trudgill:** We believe the Environment Agency is launching that, hopefully by the end of this year, but the more information we have, the better we can target where the defences should go. We want the claims to not even happen in the first place; we do not



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want people's lives to be affected by flooding, so we would be quite happy for the Government to spend money on flood defences and for the insurance industry to take care of the flood models and the claims, but we do need to have the right balance.

**Q261 Chair:** Was that something that Sir Michael Pitt asked, that the map should be made available in 2007?

**Graeme Trudgill:** Yes, it was, and we agreed with him back in 2007.

**Q262 Chair:** Have you made noises to that effect since?

**Graeme Trudgill:** Obviously some of the members here have ended up creating their own mapping facilities, and they have got very technical. That is part of the NOAH idea, that it has detailed mapping—and obviously Aon as well. There is a significant amount of information available, but the Government information would be very wide and very valuable to us. If we can more accurately target where the defences should go, where the real risks are, then we can get a better solution, and spend that money more wisely.

**Q263 Chair:** But there are other maps to which you do not have access, is that not right—the District and County Council maps?

**Graeme Trudgill:** There are maps, and the insurance industry are utilising them where possible, but we do need the big one.

**Chair:** Very happy to have that on the record.

**Q264 George Eustice:** I mentioned earlier some evidence we had received from Richfords Fire and Flood, which is a flood damage restoration firm. The essential differences between theirs and Flood Re were that not only would it not have an insurer of last resort in the shape of the Government, but also rather than using the reinsurance market, they advocated setting up a mutual fund that would itself directly step in when there were pay-outs to high-risk properties. Do you think something like that would work, or would there be a danger of that fund being overrun?

**Mark Weil:** I would need to see the details, is the answer. There are a lot of pooling arrangements out there. Insurers themselves are a risk pool, and then there are lots of different designs: Indian car insurance, Florida household—you find them all over the place. It is all about the detail. As for anything that takes risk away from the originators of it, though, a flat “just pass it into a fund” was how the Indian car one worked, and if you look at it, they have just had to restructure it because risks have shot up and up. You do need to leave some pain with the creators of the risk, and that would be one axiom for me that I am not sure that proposal had in it.

**Q265 Neil Parish:** To Mr Weil in particular, what are the principal legislative and regulatory reforms necessary to introduce NOAH, if that is what we decide? Has the Government told you it is prepared to implement these?

**Mark Weil:** We have not discussed it with them yet. Flood Mu, as the Chair mentioned, is an 11th-hour proposal. My assumption is that it will require certainly no more legislation than the Flood Re solution would. If the insurance industry wished to, it could do it itself, in that essentially there is no levy required. There is an agreement among themselves to share claims and to include flood in their policies. It would require legislation if the insurance industry did not agree to do that.

**Q266 Neil Parish:** With NOAH, if that was what came in, that is basically a levy, is it not, on all payers, in order to pay a degree of the fund?

**Mark Weil:** No. What would happen here, if you follow this through—I will keep going with Flood Mu so as to avoid version control problems—is that the insurers would charge as usual. It is like a normal market for insurance, but household now includes flood. Periodically, every quarter, they would know that a proportion of the claims incurred would be shared out across the rest of the industry. I chose 50% in the paper because that happens to be what the rough level of current cross-subsidisation is, so it suggests that prices would not move much from today. If you work out 50% of the current average annual flood claims, it is about the same number you get to both ways. There would be no levies or tariffs; there would simply be a bill that comes my way each quarter, which is a result of the average occurring flood claims in the UK; I would then need a sort of clearing mechanism to settle it. I mention in the paper the brokers: any one of them does this all the time with the insurer; it is not complicated to do that netting and payment.

**Q267 Neil Parish:** How would that work to guarantee that there is genuine affordable insurance? This is what worries me. Whatever system we put in, being blunt, the insurance companies might take the money, but will they actually deliver the affordable insurance for those houses in a high-risk area?

**Mark Weil:** Understood. If it is helpful to break it down, affordability comes from two sources. One is risk and one is wealth. What the pooling of claims does is share out the risk problem. Regardless of my wealth, if I am in a high-risk home, half of my problem has just been socialised out. You can argue about whether that is an important thing to do or not. There is a free market version, which is where you say “No, it is not; we are not going to share out any claims”, but our assumption here is that there are people, regardless of their wealth, in a high-risk situation; we want to help them.

The second way to help is this. There are people who simply cannot afford it. Again, looking at my social bands, it is a very concentrated problem of the bottom quintile in the UK population by wealth. We are talking about a flood price that is below £100. There is an argument about whether that is affordable or not, but the very significant numbers you hear in the press are a very concentrated problem among poorer households. My view is that that is not a problem the private sector is well-equipped to take on, and if you ask them to take it on they will do it badly and it

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will distort competition. The Government, rather than back-stopping a pool that is not needed anyway, should take that one on and find a means to support people who need it with their flood costs.

**Q268 Neil Parish:** Are you saying to support them with their premiums?

**Mark Weil:** There are various ways you could do it. You could do it through vouchers; you could do it through premium support. In the paper, we propose to do it with claims, because it is in the spirit of how the other insurers are participating, and it keeps the Government away. Of course, the risk with a voucher is that it may inflate price again; insurers may use that, knowing that the customer brings £50 to the table.

**Q269 Neil Parish:** This would be instead of actually allowing a levy.

**Mark Weil:** That is right.

**Q270 Chair:** It would assist the Committee to know whether Mu is a variation of NOAH or an alternative.

**Mark Weil:** It is an alternative to Flood Re that allows you to socialise out the costs of flooding and factor in affordability to it. We are not saying it is the right answer; we think it deals with some of the concerns we have raised in Flood Re design. Within Flood Mu, NOAH has a role to play in allowing those insurers who feel they need it to buy extra reinsurance.

**Q271 Mrs Glendon:** Can I ask you both, have you sought the views of customers in low-flood-risk areas who would, under Flood Re, subsidise, through premiums, the 2% who live in the high-flood-risk areas?

**Mark Weil:** I absolutely agree that that should be a significant concern. The only lens Marsh as a broker brings is that we are here to help consumers and corporates get the best value from their insurance. I referenced in the paper two constituents to be concerned with. One is the poor in high-flood-risk areas, because they will have an affordability issue. The second is the 98% of people who are going to be paying for at least part of this. There is no question, if you socialise the cost, some of it is coming the way of the consumer. The question is, how do you make sure that is as little as possible? Our view is that a competitive market, with insurers competing openly for those people with no tariffs, is the best way to ensure that the cost is not fully passed on to the consumer.

**Graeme Trudgill:** I think the principle of insurance is that the premiums of the many pay for the claims of the few. That has always been the case, and it is with motor insurance in uninsured driving and other areas. It is one of the fundamentals that that would work that way.

**Q272 Mrs Glendon:** But there is no direct consultation that you are aware of with these people who would have to cover that cost of high-flood-risk-area customers.

**Mark Weil:** No. In so far as they have a voice at the table, I certainly feel very conscious that we are

concerned with that issue, but we are not in consultation with consumers.

**Q273 Mrs Glendon:** What would the relevant costs of annual household flood-risk cover in a low-flood-risk area, compared to a high-flood-risk area, be under a NOAH model?

**Mark Weil:** Right. There would be levelling, so if you went with the proposal we have made through the Flood Mu description, then it would in principle not change too much from today, in that it has roughly the same amount of cross-subsidy allowed for in the redistribution. We do not have a model that says "This is the exact increase in price", but our view going into it is that it avoids a lot of the costs that you get if you create a distinct pool which requires its own reinsurance, so whatever that increase is for the 98% of customers, it will be a lot less under what we are proposing than if you add a lot of extra cost into the system.

**Q274 Neil Parish:** To both of you, to what extent are insurers reflecting in premiums the measures by individual householders to minimise flood risk or the impact of flood damage to their homes? I have seen people go to quite a big extent to stop flooding in their home, so does this reflect in the premiums, or is it just that the map says they are in a certain area and they will be charged a certain rate?

**Graeme Trudgill:** It makes a fundamental difference between having insurance for flood or not. We have got various examples. There is one here where someone in Evesham had a £60,000 claim. The River Avon burst its banks and the defences were then put into place, and they were able to access buildings and contents insurance at £542. There are various examples like that where it does make all the difference, having those defences in. We thoroughly recommend that where possible, people do that, and they speak with specialist flood insurance brokers to see which of the kite mark defences are the right defences to put in place. Yes, it does make a difference.

**Mark Weil:** If I could add another angle to that question, earlier on I think the question raised was, should the industry be helping to pay for flood defence? Well, directly would be unusual, but indirectly one of the things that concerns me about a flat tariff if it is set at £300 is that, rationally, I will spend £299, not a penny more than £300, on flood defence, because at that point I am covered. Obviously I do not like to be flooded. That is where you put me economically. If you do it on a percentage basis, it is always worth my while improving the flood defences of my home, and if I am an insurer it is always rational to reflect that in the premium I pay. It is another reason to think hard about how you want to leave some risk with each party so that they behave rationally and invest in flood defence.

**Q275 Neil Parish:** This leads me on to a supplementary to you, Mr Weil, and that is, how far will the NOAH model allow for premiums to reflect the individual property resilient measures? Is there any mechanism?

**Mark Weil:** Yes. With Flood Mu, it is down to the capability of the individual insurer, but as far as possible, I think, the two of us are in a sort of “Let the market prevail” camp; I am just acknowledging there may be affordability issues where you therefore need to socialise the risks, and there may be some which cannot be covered without socialising the risks. The important issue here is to make sure that you do not apply tariffs that constrain that ability, and you simply say to an insurer “Price what you will, given the risks you are taking on, but know that half of those risks are going to be socialised.” It will reduce the price. It does distort the price of risk; as I comment in the paper, I think it is the least bad way to do it.

**Q276 Neil Parish:** Would you expect individual companies almost to compete on premiums due to any of these measures, or is there some sort of agreement across the industry?

**Mark Weil:** In what we are proposing it would be very hard, because if you do a pool pre-set, you can argue about what the number might be—it might be £10 or £20—but you know it is coming your way and it is pretty tempting to add that on to the bill. The history in other industries is those kinds of delivery charges, extras, do not get contested. Doing it after the event through claims means it is much harder to know what that item is, so it makes it harder to simply add it to the bill in advance. There is every reason to just assume that people would just compete as normal. There is no Government involvement in the pricing, there is no pre-set tariff; it is simply up to the insurer to decide who they want to cover and at what price.

**Graeme Trudgill:** There is still competition in the market. As an example, in Tiverton, one insurer was not prepared to offer a flood risk as the property was about 300 metres from the River Exe. The broker found someone else that could do it, normal terms, £394, so there is a level of competition.

**Neil Parish:** I am delighted that was offered in Tiverton.

**Q277 Chair:** On the forecast of properties that the Government think are going to be covered, is it reasonable that 145,000 properties deemed to be most at risk covers the bulk of them when there are 5 million of them, potentially, at risk?

**Graeme Trudgill:** I think there is potential to do a lot more. We are seeing climate change; we have heard Mr Starling refer to the concerns of the Environment Agency about the increases heading our way. We think this is a huge priority for the Government, for business, for the economy and for families, and we would encourage greater investment in flood defences, and also in the maintenance and drainage sides, which I think you will probably come to. We have been told by Carlisle action groups that we have spoken to that some of the significant floods that occurred there just would not have happened if the drainage had been up to date and drains unblocked. I think the investment needs to continue.

**Q278 Chair:** Do you think there is scope for more sustainable drains? Do you think we should speed up the audit of SUDS that already exist?

**Graeme Trudgill:** Absolutely. The more that can happen, the sooner the better.

**Q279 Chair:** To both of you, Mr Weil and Mr Trudgill: do you think that the planning regulations are completely clear to prevent inappropriate development on functional floodplains?

**Graeme Trudgill:** No, we think Policy Planning Statement 25 is not sufficient, because basically builders are able to come through the back door and still build inappropriately on floodplains. Then innocent home owners will buy these properties and find out that they are unable to access insurance very easily, so we think there needs to be more stringent controls and those laws need to be reviewed.

**Q280 Chair:** Do you think the Environment Agency currently has sufficient power?

**Graeme Trudgill:** I think there could be some room for improvement in that as well, yes.

**Q281 Chair:** Do you think water companies should have the right of statutory consultation?

**Graeme Trudgill:** Well, they are a stakeholder in all of this.

**Chair:** But they are not statutory consultees.

**Graeme Trudgill:** No. I think it would be healthy to have all parties. This affects everybody; everyone has a part to play with drainage and preventing flood. They should be involved.

**Q282 Chair:** Do you think we should end the automatic right to connect? For example, a lot of the surface water flooding, anecdotally, seems to have been caused by waste water combining with water coming off highways, causing combined sewers to spill into people's homes.

**Graeme Trudgill:** We have members that tell us they have concerns: people's properties that have never been flooded before have a new supermarket built nearby, there is a large concrete car park and the water floods off and affects those homes which were no risk in the past. I think it is something that does need to be considered, yes.

**Q283 Chair:** Do you think the Government has the balance right in terms of maintenance spending and flood capital spending?

**Graeme Trudgill:** It does seem to be reducing, unfortunately. We have seen several hundred of the activities being cancelled or delayed; therefore we think a review definitely should take place. This is a really fundamental thing for our country, and the Government needs to have it right at the top of their priority list.

**Q284 Chair:** In one of your answers, Mr Trudgill, you referred to drains being unblocked. Do you think that regular maintenance that perhaps should have been done has not been done over recent years?

**Graeme Trudgill:** Yes. We speak to the National Flood Forum, we speak to our members whose customers are making claims, and they all keep talking about drainage, which is not a very exciting

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subject in itself but it is actually critical to the future of flooding, so yes.

**Chair:** That is a very positive note on which to end. Can I thank you, Mr Weil and Mr Trudgill, very much

indeed on behalf of the Committee for being so generous with your time and contributing? Thank you very much indeed.

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**Tuesday 26 March 2013**

Members present:

Miss Anne McIntosh (Chair)

George Eustice  
Barry Gardiner  
Mrs Mary Glendon

Iain McKenzie  
Neil Parish

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**Examination of Witnesses**

*Witnesses:* **Owen Paterson**, Secretary of State for Environment, Food and Rural Affairs, **Sonia Phippard**, Director, Water and Flood Risk Management, Defra and **Andrew Rhodes**, Director of Operations, Food Standards Agency, gave evidence.

**Q285 Chair:** Good afternoon Secretary of State, and welcome. Thank you very much for participating in our Inquiry on Flood Funding. It is always a pleasure to welcome you to the Committee. Would you just like to introduce yourself and your colleague for the record?

**Mr Paterson:** Thank you very much for inviting me along. It is a great pleasure to be in front of the Committee again. May I introduce Sonia Phippard, who is our Director of Water and Flood Risk Management?

**Q286 Chair:** Thank you. You are both very welcome. Can I ask at the outset: there does not seem to be that much urgency from the Department on water and flooding issues. Are you able to give us a date for when the Water Bill will come before the House?

**Mr Paterson:** I would dispute the fact there is not any urgency. We spend a huge amount of time on this, and we have a proud record of having achieved a lot. On the specific question of the Water Bill, we are hoping to bring it to Parliament at the end of the summer, before the recess. The Committee made some very helpful proposals on how we could improve the Bill. We are studying those and I hope we will certainly introduce some of them and amalgamate them in the existing Bill.

**Q287 Chair:** Thanks for that. There are a number of issues outstanding from 2007. Obviously the Department was under different stewardship at that time, but you were good enough to write to me on 15 March on one issue: the reservoir safety guidance. You do say publicly that we need to build more reservoirs. You were quoted in *The Sunday Telegraph* as saying we need more reservoirs both to reduce water stress in the event of a drought and to prevent flooding in future, yet we have not yet had sight of the reservoir safety guidance regulations. You rather cryptically say in your letter to me that the publication by the Institution of Civil Engineers of the revised guidance will take place after the first phase of the secondary legislation to amend the Act. In plain English, when do you expect to bring forward the secondary legislation?

**Mr Paterson:** First of all on the issue of reservoirs, I am very clear that we need to build in more resilience. I think that was one of your recommendations. I am keen that we put into law a mandate for more resilience, which means water companies building

more capacity and more reservoirs. I also think there is a lot of merit in building small reservoirs, giving farmers the right, encouraged by law, to build reservoirs. It is sensible that we hold back water, as 95% of it runs away to the sea. I am keen to build into the Bill a commitment to build more large and small reservoirs to hold water back for consumption. I also think there is merit in your SUDS proposals, which we might come to in a minute.

**Chair:** Indeed, it wouldn't be a meeting otherwise.

**Mr Paterson:** On the technical issue, do you have the timing, Sonia?

**Sonia Phippard:** Yes, certainly. The Government has laid the regulations before Parliament today. They are obviously subject to the affirmative resolution procedure, and so we anticipate they will come into effect in June and the guidance will be finalised at that point.

**Q288 Chair:** So if anybody wished to pray against then affirmative procedure would be—

**Sonia Phippard:** There would have to be a debate.

**Q289 Iain McKenzie:** Could we just clarify what you mean by the dimensions of a large and a small reservoir?

**Mr Paterson:** Crudely, a large reservoir would be something built by a water company and a small reservoir would be something built by a farmer locally. We definitely need to build more resilience into the system. Too much of our water is allowed to run away into the sea without being held back for human consumption or industrial use.

**Q290 Iain McKenzie:** That is interesting. What sort of sized reservoir would you envisage a farmer building?

**Mr Paterson:** It depends on the circumstances of his own unit, but there is a lot of interest from the NFU and farming organisations to be allowed to build their own reservoirs to make themselves more self-sufficient. That builds in with the general tone of your recommendations that more water should be held back.

**Q291 Chair:** Are we scrapping the de minimis rule about the 10,000 litres reservoir?

**Mr Paterson:** We are looking at your recommendations. We have not finalised the details on that, but we will be publishing the Bill—

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**Q292 Chair:** Sonia Phippard may wish to answer this because it was in the 2010 Bill. Legislative stages were never actually reached.

**Sonia Phippard:** The proposal is to introduce the risk-based approach for the larger reservoirs first and then to consider further whether we should bring it down to smaller reservoirs or not.

**Q293 Chair:** Will the maps that we understand are going to be created by the Environment Agency this year be shared? It says that they are going to be published. Does that mean they will be widely available on the Environment Agency website? Will they be available and shared by all parties without any payment being made so that they will actually be widely available?

**Mr Paterson:** Which maps are these?

**Chair:** These are the maps in recommendation 4: the Environment Agency will publish flood hazard and risk maps by December 2013 that will contain information on water depth and velocities. That is the target date. Will these be widely available for insurance companies and householders to access?

**Sonia Phippard:** Yes, as far as I know the Environment Agency would plan to make them available as they make all other flood warning and basic data available. I will double-check with the Environment Agency and let you know if it is wrong, but I am pretty sure that they will be available.<sup>1</sup>

**Q294 Chair:** If so, you could drop us a note. In the next comprehensive spending review, what evidence is the Department putting together to make the best possible case for flood defences being a charge on the public purse, as being one of the major risks that the country faces, in view of what the outgoing chief scientist said about climate change and the extra risk of flooding?

**Mr Paterson:** You see what we have done, rather than what we say. We will be spending £2.3 billion over the course of this Parliament. We went to the Treasury and under particularly difficult circumstances we got another £120 million in the autumn statement. If you add in the nearly £148 million we are bringing in from partnership funding schemes, which also lead to much better value, we can say that over the four years of this Coalition Government we will be spending more on flood defences than on the preceding four years. We have made a very strong case for this.

Within the first week of taking over, I visited a scheme in Nottingham that really showed the advantages of this investment by the taxpayer. It was a £45 million scheme and 16,000 houses had been protected by a very well-designed defence that blended in beautifully with the city. Flood defence schemes give on average a payback of eight to one. What nobody told me until I went there was that on the other side of the Trent there were 500 acres of land that prior to the scheme being completed were blighted and could not be invested in. Suddenly you have 500 acres in the heart of one of our key cities available for development by

the private sector. There are huge advantages in delivering safety to people's property through this investigation, but also freeing up land previously wasted.

**Q295 George Eustice:** In the comprehensive spending review there was this new money of £120 million to go on flood defences, which was largely argued for through the prism of the economic advantages from doing so. Can we read anything into that? Does the Government now accept that there is a need to increase spending on flood defences in the next spending round as well? Do you think we can make that connection?

**Mr Paterson:** We have increased spending. We are spending £2.3 billion and, I will repeat, the fact that we are getting another £120 million out of the Treasury under very difficult circumstances shows the value this Government puts on flood defences. This also resolves the problem of flooding long term, which is a real worry to many people. Do not be under any doubt at all about our commitment to these schemes, but also remember the value of our partnership arrangement. On the Leeds scheme, for instance, Hilary Benn came to see me; they had been putting pressure on my predecessor to do the Leeds scheme. I think that it was originally proposed as a £150 million scheme, but with a combination of partnership and growth funding a cheaper option was agreed that cost just £50 million. That has huge advantages for Leeds. It is going to create about 18,000 jobs and again will free up land that is currently blighted.

You cauterise the problem of worry that people have about having their properties flooded, which is very traumatic for private properties—people with young children or elderly relatives—but disastrous as well for businesses. On top of that you are freeing up land that is currently wasted.

**Q296 George Eustice:** The emphasis on the economic advantages of flood defences has undoubtedly grown in the last six months or so.

**Mr Paterson:** I will answer that absolutely dead straight. My four priorities for Defra are to grow the rural economy and to improve the environment, then—it does not touch quite so much on this—to protect the country from animal disease and plant disease. Emphatically, these flood defence schemes help grow the economy. There is no doubt about that at all. I see it as like investment in broadband and investment in better mobile phone networks. It is an absolutely key part of creating the infrastructure and the environment in which the economy can grow.

**Q297 George Eustice:** Do you think the economic advantages of these flood defences were adequately represented in the funding formula that had previously been considered? The Treasury had huge problems, for instance, getting the Department for Transport to understand that building a road could of itself promote growth. The DfT had traditionally seen itself as responding to growth, rather than driving it.

**Mr Paterson:** I am not ducking the question, but previously I was responsible for Northern Ireland, so I was not involved in the economics of flood defences.

<sup>1</sup> Note by witness:

The flood risk and hazard maps will be available from December 2013. We are currently seeking views about possible phasing the release of information.

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I am absolutely emphatically convinced of the merit of these schemes as generators. I will repeat: they protect existing properties, they help protect existing businesses, but they will lead to increased business because whole tracts of our cities are currently blighted.

**Q298 George Eustice:** On the current funding model, when Defra decides where it is going to prioritise spending, is the impact on economic growth a key part of that funding model now? Does it see funding as having to go to areas where there might be—?

**Mr Paterson:** High risk is still the priority because that is where you get the biggest payback.

**Q299 Chair:** Obviously it sounds wonderful that you sound so committed to the infrastructure. In the Water White Paper there was a huge emphasis on resilience. This seemed to fall off the face of the draft Water Bill completely, and now we seem to be back to resilience and infrastructure, which is very welcome. Will it feature in the Water Bill?

**Mr Paterson:** Emphatically, yes. As I just said, Chairman, we want to see more large and small reservoirs built. We want to build more resilience into the system and we want more variety of supply.

**Q300 Chair:** Is there any reason why it was not in the draft Water Bill?

**Mr Paterson:** I was busy in Belfast.

**Q301 Barry Gardiner:** You said a moment ago in answer to the Chair, “Look at what we have done, rather than what we have said”. That is an excellent motto. You then went on to talk about the £2.3 billion and you talked about the further £120 million that you had secured; that is very welcome indeed. Of course they are outputs; they are not outcomes. The outcomes are in the projections that have been made by the Environment Agency in the number of properties that will move from high to lower risk by the end of the spending round, and they will have the additional protection.

I know you were in Northern Ireland so I do not hold you responsible, but in the previous spending round there were 182,000 households that moved from a serious risk to a less serious risk. That was against a target of 145,000 households. The Environment Agency now is projecting at the end of this year 99,000 households, and, at the end of the period, 145,000, which would be at the target previously set. That means that there are 5.5 million properties at flood risk and only 145,000 of those are going to move down the risk register. In terms of what is done, that still leaves a huge chunk of properties at risk, doesn't it?

**Mr Paterson:** Just to get the figures right, our increased expenditure is going to better protect 165,000 households against what you quite rightly said was a previous target of 145,000. This is by 2015. We are going to beat our previous goal by 20,000.

**Q302 Barry Gardiner:** Just to clarify—I want to be absolutely clear on this—my understanding is that for

the current spending review period, 2011 to 2014, there are no targets.

**Mr Paterson:** We have been saying 145,000, and with the extra money we are now saying it is going to be 165,000 households by 2015.

**Q303 Barry Gardiner:** Are they forecasts or targets, Secretary of State?

**Mr Paterson:** These are quite lengthy schemes and some of them are quite complicated. That is the number of houses that we intend to have protected by 2015. I cannot guarantee that every single construction project is going to go to time, but that is a significant number of houses. With the 93 new flood schemes starting in 2013–14, we reckon 64,000 will be better protected. They will take a bit longer though because we have only launched those in the last few weeks. The key target was 145,000; it is now 165,000. That is up to 2015.

The point you make is a valid one. That still leaves a significant number of houses still at risk. That is why I am determined, in the coming spending rounds, that we make the case very forcefully of the value of these schemes because there are other cities and areas that still need the capital investment.

**Q304 Barry Gardiner:** Good. I really was not trying to be picky on the numbers, but I think we took evidence earlier that said that the Department had not set targets for the current spending round because it considered that short-term targets do not always lead to the best long-term outcomes. That is why I was not clear when you said there were targets.

**Mr Paterson:** I might defer to Sonia on this particular case of where the two regimes overlapped.

**Barry Gardiner:** From my experience it is always a very good idea to defer to Sonia.

**Sonia Phippard:** You are absolutely right, the Government has spoken in terms of the expectations for delivery, but I think the Secretary of State was making the point that at the beginning of the spending review that figure was 145,000. With the additional spending and the progress made so far, the Environment Agency has revised that number to 165,000.

**Q305 Barry Gardiner:** Let us pick up from where you were and also from what you said to George Eustice, with which I very much agreed. In making the argument for flood funding with your Treasury colleagues, the current way to do so is to quote the numbers of households that will come under protection. Would it not be better for the Treasury to accept the effective argument that it is about the link between flood protection and economic benefit? In effect, that is the precise argument you have been making, but that is not the basis of the criteria that Treasury at the moment understands and accepts. Would you not be in a much stronger position to argue on precisely that basis of economic modelling?

I thought your 500-acre example was a brilliant case in point where you are able to show the Treasury that by bringing such land back into use by creating its economic viability from that protection, it provided a serious boost to the economy. Why is it that the

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Treasury is not taking that argument when you would have thought that to those guys it would make the most sense?

**Mr Paterson:** We made both arguments to the Treasury. We put this bid in for £120 million in the autumn, making both arguments. Some of these schemes have a payback of eight to one, because that is the risk that some of these properties currently suffer. That is a clear gain on removing the risk, but you then have the freeing up of currently fallow land for future development. That is a very strong economic argument and that is partly why we won the argument with the Treasury, and we will be repeating that. I do not think that these two arguments are mutually exclusive. There is a real gain from saving houses at risk and there is a real gain from freeing up land for development. You are talking about significant jobs—as I said, 18,000 jobs in Leeds.

**Q306 Barry Gardiner:** I am delighted you are making the argument. I have no beef with it. I just hope that your Treasury colleagues will not say, “The criterion we have is the number of properties moving down the risk register”.

**Mr Paterson:** The thing is not to confuse the two. It is for us to make the argument to the Treasury of the economic gain from saving properties from being flooded, and also to make the argument to the Treasury about the value of providing new land for development to the private sector. Obviously the risk is the criterion that decides who gets the money.

**Q307 Barry Gardiner:** Do you think it might be helpful if you were to put this as an item on the agenda of the Natural Capital Committee to get their support for this way of looking at the natural capital? Of course they now report into the Economic Sub-Committee of Cabinet, which is chaired by the Chancellor. If they were to do a review of flood risk management and to make that economic case on the basis of natural capital, it might be one that was very powerfully in your favour.

**Mr Paterson:** I would entirely agree with you and I do not think Professor Dieter Helm would disagree at all.

**Barry Gardiner:** I am sure he would not.

**Mr Paterson:** He came to the Ecosystem Markets Task Force launch the other day, and they had some very good ideas on how you could put value on flood defences—matters to do with water, SUDS and many of the things you have recommended in your Report. I think we are all actually thinking along the same lines.

**Q308 Barry Gardiner:** Will you ask the NCC to have a look at this?

**Mr Paterson:** Yes. I am particularly interested in Professor Helm’s proposals because I want to see if we can use them as a basis for developing offsetting, which is something we may get on to later. I am very keen that he and his Committee press on with their work. Obviously the use of water assets and the impact on the environment is something that has to have a value. There is no doubt about that at all.

**Q309 Barry Gardiner:** I am wholly in agreement with that, and I totally support the NCC and its work. I just wonder if in fact you could ask them to take on flood risk management as an area of specific focus that they could then escalate up the food chain, as it were, to the Cabinet Sub-Committee and just be a powerful lever in favour of what I think we are all in agreement on.

**Mr Paterson:** Yes, sure. It is not something that I have specifically discussed with Professor Helm in detail, but, as you have suggested it, the next time I see him, I will.

**Q310 Chair:** Is this whole process as transparent as it might be, as to which properties are being protected?

**Mr Paterson:** The schemes?

**Chair:** The way that discussions take place with the Treasury and the Natural Capital Committee?

**Mr Paterson:** No, that is all very opaque. That is all behind the scenes, but once the schemes have been chosen it is very transparent. It is all up on the Environment Agency website and there are very clear criteria against which they judge which scheme scores and which does not. The negotiations with the Treasury are behind closed doors, but I reassure Barry Gardiner that we very much make the arguments he is proposing.

**Q311 Neil Parish:** You are very keen on partnership funding, especially given that the Environment Agency has to be cut back on the amount of funding it can have because of the state of the economy. How can we get a lot more funding, perhaps from the private sector and even the insurance companies into flood prevention schemes? We have to find more cash from somewhere; it does not all have to be from Government.

**Mr Paterson:** You are quite right. I keep quoting the Leeds scheme, which did not get approval because it cost £150 million. However, with partnership, which is bringing in local government money and some private money, it has gone through. That is a massive gain for Leeds, and I think it is a model for the future. This has not been going on very long, but over four years we will have spent £148 million of this partnership funding, but I think it needs to get pushed right down into other areas of lower-risk priority. That is the real worry for me, particularly in rural areas like yours.

**Q312 Neil Parish:** This may be a bit beyond your brief, but I wonder whether there is any form of tax relief and the like that can be given to private companies in order to get them more involved in funding projects. As far as I can see, if we do not actually get more private capital in, we are not going to get these schemes up and running.

**Mr Paterson:** We have brought private investment in under the current arrangements, but as you know we are constrained by the amount of money we are borrowing as a nation, which is somewhat over £200,000 a minute. Much as we argue with the Treasury, these schemes cost money. No tax relief scheme is for free.



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**Q313 Neil Parish:** Would you consider any mandatory requirements on local government to help with flood protection schemes?

**Mr Paterson:** That rather depends on local circumstances, because local government is involved sometimes with the IDBs. It depends on the particular area, but I am not sure I can see ourselves mandating from the centre, imposing obligations on local government.

**Q314 Mrs Glindon:** What assurances has the Treasury sought that capital spend on flood defences will not be wasted by failure to maintain assets adequately?

**Mr Paterson:** That is a good, detailed question to do with the Treasury that perhaps Sonia will have to answer.

**Sonia Phippard:** The Treasury takes quite a keen interest in the floods budget and how it is spent because it is a large proportion of Defra's total budget. We work through with them in some detail the benefits of capital spend, and the relationship between the maintenance programme and the capital spend. We provide them with the information, which of course the Environment Agency publishes about their maintenance record, which is a good record.

**Q315 Mrs Glindon:** Has Defra committed to funding the ongoing maintenance of the additional assets that are going to be built using the £120 million new funding announced for the next two years?

**Mr Paterson:** We will be bound to carry on funding these schemes. We want to go on beyond this spending round because we see the value going ahead. We have been through this in some detail just now. There is no point in building up these schemes and then pulling out of them. They have a running value to those they are protecting and they are freeing up land that we hope will be being developed by the time we get into the next spending round. It is very much Defra's intention to carry on with these schemes.

**Mrs Glindon:** With maintaining the schemes.

**Mr Paterson:** Yes.

**Q316 Mrs Glindon:** The Environment Agency has withdrawn from uneconomic maintenance activities. What assessments has Defra made about the impact this has had, or will have, on local communities?

**Mr Paterson:** Do you mean in low-risk areas?

**Mrs Glindon:** The issue is that the budget is being cut quite substantially.

**Mr Paterson:** This is a very important issue that many MPs have raised with me, and it has been raised in my own constituency. It is clear that the Environment Agency is operating on a directive from the last Government, dated around 2006 or 2007, to concentrate its efforts on high-risk areas where not just property is at risk, but life and limb. What we have seen is a problem in rural areas where many local people have thought that it is an Environment Agency responsibility and have expected work to be done. We definitely have a problem with rural waterways where work has not been done for the last five or six years. I had a meeting yesterday with Chris Smith and Paul Leinster, the Chairman and Chief Executive of the

Environment Agency. I am not pointing fingers at anyone, but we definitely have a problem with rural waterways, which have been allowed to get blocked up, are allowing agricultural land to be flooded and actually could lead to assets like bridges and the like being washed away.

We have agreed to work out a plan deciding who is responsible for which particular river and decide who is actually going to keep brooks and rivers clear. Part of that is making it easy for farmers and landowners to do so. Sometimes it takes too long to get permission and there is all this stuff about treating the silt dug out of a brook as if it were waste, whereas for centuries it has just been dumped on the bank or spread on the field. We need to make it absolutely clear who is responsible for what and who is going to pay for it. A lot of these things have always been responsibilities of the landowner, and there may be more role for IDBs, which is another area that I think is relevant. IDBs do seem to bring about some sort of co-ordination.

**Q317 Mrs Glindon:** That is the concern, Minister. The LGA has expressed concerns about councils having to have more responsibility because of this. It is, as you said earlier, a major problem. Could I ask whether, in your opinion, the reduced Environment Agency maintenance spend, including on dredging, led to flooding in places that might otherwise have been spared?

**Mr Paterson:** Yes, that is a worry. The fact that the Environment Agency has had to concentrate on the really high-risk areas, mainly in urban areas, means that low-risk rural waterways have deteriorated. They are not getting the water away as they are designed to do and there has been unnecessary flooding. I am quite clear this is definitely a problem that needs resolving. What has happened is that the responsibility has moved further and further up the tree.

Decades ago it was always the farmers' responsibility. Then we had IDBs, then some of us had councils, then the National Rivers Authority was formed and then you had the Environment Agency. What we have to do is push a lot of responsibility back down because in law—Sonia might confirm this—the responsibility is actually with the landowners. It is no good sitting back, waiting for the Environment Agency to do it, when it is concentrating all its efforts on very high-risk properties in the middle of a town. I am not pointing fingers at anyone, but I think the current system is not working effectively and the impact is that some rural waterways are getting blocked up and that is doing damage. We want to get it resolved.

**Q318 Chair:** Secretary of State, I should declare an interest: I am Vice President of the Association of Drainage Authorities. As you can imagine, that is a non-pecuniary position, but one which I prize greatly. Cod Beck is a little beck that runs through Thirsk and it frequently floods into Thirsk because it is not properly dredged. In 2005, under the last Administration—the Labour Government—that beck was made the responsibility of the Environment Agency. At the same time the points were changed, so the Environment Agency was too grand to maintain

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little becks like Cod Beck. It is true that the landowners are the riparian owners of the land on either side of a beck, but they already pay substantial amounts of money where there are inland drainage boards. They are primarily in Yorkshire, East Anglia and Somerset Levels. Why should the landowner pay twice?

We have had lengthy discussions in the Committee with the Chairman of the Environment Agency, Chris Smith, who does not seem averse to the idea of the IDBs keeping the money. In some cases £60,000 from two or three IDBs in one year goes to the Environment Agency to maintain particular areas. It just goes into the Environment Agency's central pot. Why could that money not be used for a programme agreed in conjunction by the IDB and the Environment Agency? It could be posted on the Environment Agency website, but use the IDB's or the landowner's resources. Why should the landowner pay twice and the IDB contribute to a maintenance budget that we understand on your watch has actually been halved? Is this smoke and mirrors.

**Mr Paterson:** You make a very good point. If farmers or landowners are contributing to an IDB they are making a financial contribution to an organisation set up to keep the local waterways clear, so I think that money should be spent locally. I talked to Chris Smith and Paul Leinster yesterday; we want to clarify this whole position. I am fully aware that it is not satisfactory at the moment. There are rural waterways that are getting blocked unnecessarily that for decades have been kept clear. We want to get it sorted out. You make a perfectly fair point: if landowners contribute to an IDB they should get a service for that and we need to get it clarified.

In my earlier remarks to Mary Glendon I was referring to individual farmers and landowners who might not be part of an IDB who are also sitting back, expecting the Environment Agency to do it. Bluntly, in many areas this is not going to happen when the Environment Agency has priorities where life and limb is at risk in more high-risk areas. We need to have a look at the whole picture, clarify it and make absolutely clear who is responsible for what.

If it is going to be individual landowners and farmers doing it, as it used to be done many years ago, the one thing the central Government can do in relation to the environment is to get out of people's hair, make it easier to get a permit and to work with them. In some of these, going back to the earlier question, there might be partnership on funding. The whole thing needs a proper look at right through, so everybody in each area knows exactly who is responsible for what and does not wait for something to happen that is simply not going to happen at the moment.

**Q319 Chair:** It would be helpful if you could report back. Are you likely to report back? Could you give us a note?

**Mr Paterson:** I am very happy to. This is a big deal. I have had a lot of MPs come to me about it; I have had my own constituents come to me. I raised it at the Oxford Farming Conference, and I mentioned it at the

NFU conference. I am very happy to have it on the record at your Committee today.<sup>2</sup>

**Q320 Chair:** In response to earlier questions I think the emphasis was very much on capital projects. Would you like to comment on the maintenance budget?

**Mr Paterson:** This is maintenance. You are absolutely right.

**Chair:** Has the budget been halved?

**Mr Paterson:** No, it has not. The priority has been on higher-risk areas. What we are talking about are low-risk waterways where the damage is mainly done to agricultural land. Sadly, they are always going to be the lower priority, even on maintenance. We need to clarify it and decide who is going to do what and, once we have done that, make it as easy as possible for those who are responsible to get on with the job.

**Q321 Chair:** Could you just help the Committee by giving us the figure that was spent on maintenance in 2009 and the figure that was spent on maintenance in 2012?

**Sonia Phippard:** I can confirm that this year the Agency is spending £169 million on asset maintenance. That is far and away the largest single proportion of its revenue budget. If you would like the historical figures, we will provide those.

**Chair:** It depends how you define asset maintenance.

**Sonia Phippard:** It does.

**Q322 Chair:** Asset maintenance is maintaining flood defences as well. If you will pardon the expression, we are talking about bog-standard maintenance of going out, mucking out a stream or a beck to make sure that the water flows quickly away. This is done so that when you have conditions as at present, where the land is absolutely saturated and the water has nowhere to go, if it goes in the stream or the beck it will actually evacuate and not come into someone's house further downstream. It would be helpful if you could just identify how much of the £169 million is being spent on maintaining and dredging water courses.

**Sonia Phippard:** The difficulty is that in order to look after water courses there are a range of activities, including pumping and other forms of maintenance, as well as literally keeping them clear. We can certainly provide you with a note that will give you a greater level of detail.<sup>3</sup>

**Q323 Chair:** I think the figure is £20 million, so it is very small beer, isn't it? Secretary of State, you must accept that you have identified a problem and you spoke about it at the Oxford Farming Conference. It is not even half of the overall asset maintenance programme. Is that not quite surprising?

**Mr Paterson:** We reckon we are better protecting 74,000 hectares of agricultural land through projects that started in 2011–12 alone, which is a significant amount of land. We cannot protect absolutely

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<sup>2</sup> Note by witness:

Please see the separate briefing at Annex 1 from the Environment Agency for information on this point.

<sup>3</sup> See supplementary evidence.

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everything. I will probably repeat myself again; I am having a look right across the piece. I am acknowledging that there is clearly a problem at the moment, it is unsatisfactory and we want to resolve it. Partly that will be done by the Environment Agency; partly I suspect that will be getting the local landowners and farmers to do the work themselves, which they always used to, but making it as easy as possible for them to do it by getting permits. IDBs also have a very real role in this and perhaps we should have more IDBs as a way of co-ordinating people. It is a fat lot of use getting half a dozen landowners and then having one person who does not co-operate half the way down.

**Q324 Chair:** A number of my farmers have been told that their land is going to flood because flood defences are not going to be maintained.

**Mr Paterson:** I will just mention on IDBs that IDB expenditure is going up. In 2010–11 it was £18,032,000.

**Chair:** But that is from the farmer.

**Mr Paterson:** Yes, exactly. What I am pointing to is that this is not a black picture and people are being active.

**Q325 Chair:** It is going into a central pot of Environment Agency money, which is not in turn being spent in rural areas.

**Mr Paterson:** Not all of it.

**Chair:** I think this bears some examination.

**Mr Paterson:** I do not think there is a great disagreement between us. We are acknowledging that there is a lack of clarity as to who is doing what and who is paying for what. We want to get that sorted because it is very unsatisfactory in some rural areas.

**Q326 Neil Parish:** Secretary of State, I want to echo your words on dredging and spreading the silt. That has been considered a fertiliser for thousands of years and yet now we are making it a huge expense. Anything you can do to simplify that—

**Mr Paterson:** On that, I talked to Chris Smith about that yesterday and we both agreed that was one area where we could very much help landowners. We will make it as easy as possible to put an application to the Environment Agency, to get a response rapidly and to have the silt, which is perfectly good organic material, not classified as waste but put somewhere it is going to do something useful.

**Q327 Neil Parish:** That is good. I very much welcome that. You talked about devolving powers down. What I want to ask you about is that the Association of Drainage Authorities says in the Anglia region, for instance, that they levy a drainage rate not only on those areas that are in the drainage board areas but also on those areas outside. In simplistic terms, you can argue that the water falls on the hills and then goes down into the valleys and floods. That wider catchment would actually raise more money and then allow that to be spent locally and for dredging in particular. It does not have to be a very big charge, but are you against this idea of having a more general charge made further across? Basically, in many

drainage board areas you have the farmers who pay and in some areas you also have some of the local villages and towns that pay because they are affected by the drainage board areas. Would you be supportive of extending the charge for drainage authorities?

**Mr Paterson:** I think IDB should be allowed quite a lot of local flexibility because this is a tax on local people. I have been to areas where there is absolutely no doubt at all that there will be neighbouring farms not contiguous to the particular brook or river who gain, because all the drains back up if it is allowed to flood. It is not just those along the brook or river who gain; it would be those a little further away. You mentioned villages and it could easily be the case where you could have some winners living in a village. I do not think you can be too prescriptive. This is a tax on people and if you tax someone, they expect to get some sort of benefit or service.

**Q328 Neil Parish:** I realise where you are coming from. If you take Somerset, for instance, the towns of Bridgewater and Taunton both have to come out through the Parrett and Tone system, and both will potentially flood if that is not actually dredged properly in the future. They may not necessarily want it, but there is an argument that a small levy put on each house would actually bring in a lot of money for local use and could be spent very wisely locally rather than being sent up the line and down the line again.

**Mr Paterson:** Yes, or there may be a case for partnership funding with the local council. That is another option. We want to look at this without being too prescriptive top-down. A lot of this can be decided on the ground according to local circumstances. I have heard about your two rivers on many occasions and I am fully aware that there is a problem with them.

**Q329 Neil Parish:** That is right, and I know you are very much aware. If they can do it in the Anglia region, why can they not do it on a broader basis?

**Mr Paterson:** It is a perfectly fair comment. There are lessons to be learnt from other parts of the country. Certain IDBs work well and some do not.

**Q330 Neil Parish:** Are you sympathetic or are you not?

**Mr Paterson:** I am genuinely sympathetic, but I am not being prescriptive and I am also being very careful not to point the finger at anyone being to blame. I am completely aware the current system is unsatisfactory and needs improving. I am open to ideas; send me a postcard. Your idea is a good one.

**Neil Parish:** We will definitely send you the ideas, Secretary of State.

**Q331 George Eustice:** I am going to come back to capital spending and, in particular, the role of local authorities. There was obviously a change in legislation a few years ago that gave them a much greater role when it came to dealing with surface water flooding, in particular. Some of the evidence we have had from some councils are complaints that while they have had this additional responsibility, they have not had the corresponding funds to deal with it. Devon County Council, for instance, highlighted their

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claim that they take on 46% of the responsibility for flooding but get only about 6% of the budget. Do you think that is a fair comment, from their point of view? Do we need to rethink the way funds are allocated?

**Mr Paterson:** I cannot comment on that particular council. The picture I am getting on capital funding is that the partnership scheme has led everyone to sharpen their pencil considerably and to get value for money. It has worked very well, but if you want to write to me, I am very happy if there is a case where you think we could improve on the system. The partnership scheme has only been going for a couple of years and it has brought in £148 million, which is good. If you think we can improve on it, tell me.

**Q332 George Eustice:** Do you think the partnership scheme means that you are doing your share towards funding their own schemes?

**Mr Paterson:** Yes, we have seen that we have got more value out of these schemes. Instead of everything coming from central Government via the Environment Agency, there has been considerable local involvement, schemes have been tightened up, designs have been sharpened up and we have led to some schemes going ahead that would not have happened two or three years ago, because everyone was hanging around waiting for the Environment Agency to pay for the whole thing. If you are going to give me examples of how we can improve on this let us know, because money is going to stay tight for some years ahead.

**Q333 George Eustice:** One of the things they propose—and this is the approach the Government is taking in other areas—was the establishment of a flood risk management central, single funding pot that different schemes would compete for based on benefit-cost ratios. Some have argued that that would be a way to ensure you get very efficient schemes that are properly thought through and do not waste any money, but would also mean that you could allocate the money to schemes that were most in need.

**Mr Paterson:** That is what we have done. There were quite clear criteria analysing risk, which is how we divvied up the £120 million we got in the autumn statement. I will repeat again that we got more value out of that £120 million because we did have partnership schemes bringing in some local authority money and some private money.

**Q334 George Eustice:** Finally, in terms of evaluating how well individual local authorities are doing at delivering their side of the bargain when it comes to flood risk, what kind of assessment and monitoring has the Department put in place to judge and assess the effectiveness with which they are delivering that role?

**Mr Paterson:** According to my records here, 90% of local authorities are in the process of producing a local flood risk management strategy that they are going to publish, and 95% are working on an asset register. We actually have some concrete, hard evidence to work on. They are all competing. They know now that we at Defra are very enthusiastic about the value of the schemes and we are encouraging them to come

forward and bid. It is up to them to provide the evidence and to justify their case against a neighbour's case.

**Q335 Neil Parish:** Some local authorities recommend that the Bellwin scheme be revised, such that the capital expenditure on repairing infrastructure such as roads damaged by floods become eligible for additional central Government support. Would you support such an approach? I have had several roads in the constituency that have been washed away by flood waters, so I think there is some argument for that. I do not know whether the Treasury would be so keen. What is your view, Secretary of State?

**Mr Paterson:** Again, it is not for us to be prescriptive from the centre. The Bellwin scheme is there, and local councils can apply for 85% of the funds under it. We have not changed those arrangements from the last Government at all. How they spend that money and what they bid for is down to them. It depends on what the damage has been.

**Q336 Neil Parish:** I suppose it is whether these particular roads and other infrastructure that have been washed away are considered eligible under Bellwin at the moment.

**Mr Paterson:** It is probably more one for DCLG, but as I understand the Bellwin scheme, the beneficiaries of the scheme are down to the local council. The council has to make its case under the terms of the scheme. We can come back to you on this in detail, but as far as I understand it damage to roads would be one of the criteria.

**Q337 Neil Parish:** I would be quite interested to know what Defra's interpretation would be of how you see the Bellwin scheme working regarding flooding and how that then affects the roads and infrastructure. Do you think that is possible to have, possibly in writing?

**Sonia Phippard:** It is worth noting that our understanding is that the statute that set up the Bellwin scheme does actually restrict it to immediate action, which would appear to rule out long-term capital repairs. That is our understanding.

**Q338 Neil Parish:** Except if you have a road that has been completely washed away by floods it is immediate and also long-term.

**Mr Paterson:** Did you mean a road that had been washed away?

**Neil Parish:** Yes.

**Mr Paterson:** An immediate emergency—that is how I understand Bellwin is designed, but we can check. I thought Bellwin would cover—

**Q339 Chair:** It doesn't, and it is not administered by you. It is administered by DCLG, which is very confusing. We would be very grateful if you would check. North Yorkshire put in a substantial claim for bridges and roads being washed away in September and November 2012, and everyone was rather surprised to be told that they did not qualify. In 2007, when this was obviously a new thing, with surface water flooding, Hull, South Yorkshire and

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Gloucestershire—certainly two of those local authorities got substantial payouts. Nothing seems to have changed, but some payouts were paid. In 2007, I am reliably informed it was £23 million and in 2012 it was £17 million—2008—it has gone down even before your Administration came into effect. It just seems unfair that if certain councils are reimbursed in 2007, other councils are not reimbursed for damage to roads and bridges in 2012.

**Mr Paterson:** This is DCLG, but we can check. As I understand it, I think you are both talking about—

**Q340 Chair:** We are talking about roads and bridges. It is DCLG, but we want to know what changed between 2007 and 2012.

**Mr Paterson:** Okay. You are talking about dramatic damage like bridges being washed away and roads being washed away.

**Chair:** North Yorkshire has the second largest road network in the country.

**Mr Paterson:** As I understand it, Bellwin is designed for the emergency consequences of floods. We can check with DCLG and come back to it.<sup>4</sup>

**Neil Parish:** That would be very useful.

**Chair:** If you could that would be very helpful indeed.

**Q341 Mrs Glindon:** What is your response to criticisms from the LGA, for example, that the partnership model could lead to less beneficial projects proceeding ahead of projects with greater cost-benefits because they have obtained additional non-Government funding?

**Mr Paterson:** That is an interesting comment. I have not heard these schemes criticised. At the moment we are working our way through a list of high-risk schemes. I would say it is the opposite; what has happened is by having access to this partnership funding we are getting schemes done that would not have happened under the previous regime. That is a good thing and I thought local government representatives would welcome that.

**Q342 Mrs Glindon:** Also from what you have said, Secretary of State, would you say that there are any projects that have been allocated funding for 2013–14 that have leap-frogged over any projects due to the injection of non-Government funding?

**Mr Paterson:** It depends what your definition of “leap-frog” is, but all I can say is that I am unaware of anyone having written to me complaining about this particular issue. What I have had is general welcome that a large number of schemes have gone ahead that up to then had been blocked because they did not satisfy the criteria and because there was not enough money just from the central Government pot. Honestly, I think what we have done by bringing in local government and by bringing in local businesses and independent sources of funds is enabled more schemes to go ahead than would have happened otherwise. That is a good thing.

**Mrs Glindon:** But none that would be considered less critical.

**Mr Paterson:** No one has written to me about it. If you have a case, bung me a letter.

**Q343 Chair:** It may well be in our Report, so you can read it there. Could I just ask about the partnership funding? It can be a maximum of 10%. The National Audit Office in the work they did preparing for this Report has estimated that total external contributions are higher than anticipated, but the proportion of private sector funding is lower. There are obvious people that would probably wish to contribute to such funding and they are water companies. At the moment the regulator probably would not allow them to make that contribution. I think there is at least one in your Natural Environment White Paper that refers to such a scheme, but can you think of any other private partnership contributions other than the one you quoted earlier, Secretary of State?

**Mr Paterson:** It is early days on all this. This is only just evolving. It has only been going for a couple of years. I would not be churlish about the fact that it is—

**Q344 Chair:** Have your expectations been dampened or are you still quite enthusiastic?

**Mr Paterson:** No, I am pleased that we are bringing in extra funds from outside central Government. As I said, we are bringing in local government and private money. I am sure this could be improved and we might get more in but, to get back to the previous question, as a result of this we are delivering schemes that would not have gone ahead before. That is good.

**Q345 Chair:** Do you see opportunities during the 2014 Ofwat price review under innovation and competition for water companies to contribute more in this way than might be recognised by the regulator?

**Mr Paterson:** There could be possible circumstances depending on what is happening locally, but the broad strategy is to bring in more funds to come alongside central Government. That must be a sensible thing to do.

**Q346 Mrs Glindon:** Does the partnership model engage the owners of infrastructure, such as energy, water and transport assets, to encourage the integration of funding for flood protection for their key assets with wider community protection projects?

**Mr Paterson:** It is all part of the risk assessment. Obviously the ones you are describing are very key public assets that have a high value. That will lead to a particular scheme scoring highly.

**Q347 Mrs Glindon:** We are talking about the integration between their schemes and other community protection projects benefiting on the back of those.

**Mr Paterson:** Yes, absolutely. If there are key public assets of vital importance, such as any installations, which are at risk and have a significant impact on people’s lives and businesses, that obviously enhances the value of the bid.

**Q348 Barry Gardiner:** When do you think you are going to start paying farmers for parking water on

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<sup>4</sup> See supplementary evidence.

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their land? That is what the NFU is asking for. They have said that agriculture should not be seen as a free resource, and farmers' involvement in management of flood risk is crucial but the services they offer do not come without a cost. "Stop parking your water on our land", is what they say.

**Mr Paterson:** We touched on this briefly. I am keen to see more resilience and more suppliers of water. If that means that farmers could build their own reservoirs and hold back their own water, that has a value to them that can be sold to another supplier. Obviously, very much part of the Bill is to broaden the supply base and it gets back to your question on natural capital: there is a value in the water that lands on someone's farm and it should be regarded as an asset, not as a cost.

**Q349 Barry Gardiner:** The NFU has simply said that there is insufficient weight given to the economic impact of floods and flood alleviation work on agricultural land.

**Mr Paterson:** Picking up some of your ideas, I am keen in the Water Bill that we do encourage the building of small farm reservoirs and larger reservoirs. My expression is "holding the river back", which puts value on water, which at the moment is just a nuisance as it flows to the sea.

**Q350 Barry Gardiner:** Can I take you one step further on that journey? We have travelled very well together this afternoon, which is great. Perhaps we should consider not to build reservoirs, but to build other forms of green infrastructure that might act as flood alleviation.

**Mr Paterson:** SUDS.

**Barry Gardiner:** There are all sorts of other things, such as woodlands, that one could think of that would act as a natural retainer of flood and attenuate the watershed in the area. If we could get into that area then we really are talking about serious money for natural capital. I am sure you know the Catskill model in America, where the farmers are paid for maintaining the land that provides the watershed for the fresh water coming down into New York City. There are really good examples of green infrastructure—rather than just, 'Let's build some more concrete and steel reservoirs'—where the farmers can have a win-win, the biodiversity can have a win-win, and the flood alleviation is maximised.

**Mr Paterson:** I do not think there is a black-and-white answer to any of this. In certain parts of the country there will be use of metering to encourage better use of water. There will be parts of the country where there will be building of significant assets to hold water back. There will be parts of the country where your SUDS idea will be very relevant. What we want to do is create a regime that encourages all those activities so we have better use of water.

**Q351 Chair:** Should we be learning to work more with nature, as your Natural Environment White Paper suggests? Obviously there are projects in my own area like Slow the Flow in Pickering, where precisely what Barry Gardiner was mentioning about woody debris and planting trees has happened. I understood that is

something the Department wants to roll out in other areas and that that was something of a pilot project. Is that not the case?

**Mr Paterson:** No, I just said: I think these SUDS ideas are good. However, it all depends on the local circumstances.

**Q352 Chair:** That is not so much SUDS as an actual flood defence measure.

**Mr Paterson:** It is similar. It is using a natural asset to—

**Q353 Chair:** If I could move on to SUDS, Sir Michael Pitt is a local hero. I understand he originally came from East Yorkshire. In the Pitt Report there were a couple of matters outstanding on SUDS. One is trying to prevent impermeable surfaces from being laid on front and back gardens, and the regulations have been delayed by some four years from the 2010 Flood and Water Management Act. That is the first one. The second one is that Sir Michael Pitt set out a very clear instruction that the Government should resolve the issue of which organisation should be responsible for the ownership and maintenance of sustainable drainage systems. I am sure what I have seen locally has been replicated across the country, but in Malton, Nawton and Brawby—three areas close together—sewage is literally coming back into people's homes because we have not done this audit. Yet there has been a delay of four years before the Department will introduce the SUDS regulations. Could you tell us why that has been delayed?

**Mr Paterson:** All I can tell you is that, with me as Secretary of State, there will be a Water Bill, subject to our working closely with my other colleagues to make sure we get the slot, and we will be putting measures in that Bill to encourage water companies to use SUDS where they are appropriate.

**Q354 Chair:** That is all hunky-dory, but the legislation is actually laid out in the Flood and Water Management Act that I spent six weeks of my life identifying every possible line and every possible amendment on. All we need is secondary legislation. When might we have it and why has it not been forthcoming? One of your ministerial team told us that it was terribly complicated, so we actually asked what is so complicated about it that it is not happening, and answer came there none.

**Mr Paterson:** There is a lot of work going on at the moment on the Water Bill because we are absorbing your recommendations and others. We will be making some clear changes to the Bill revolving around SUDS. If you want us to come back with an exact timetable of when we think we will introduce any secondary legislation, I will certainly put that in writing.<sup>5</sup> At the moment, though, we are working on the detail of the Bill, which is taking quite a lot of time, and there is a lot of detail to go through. If we are going to stick to the July deadline, time is actually quite tight now. It is already the end of March.

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<sup>5</sup> See supplementary evidence.

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**Q355 Chair:** With the greatest of respect that I have for you, Secretary of State, and how knowledgeable you are in this area, the legislation is there. Your Department has given us the timetable and the regulations are not coming forward until April 2014. We just want to know why there has been a four-year delay.

**Mr Paterson:** I was doing Northern Ireland.

**Chair:** Perhaps Sonia Phippard could answer for the Department.

**Mr Paterson:** Just to repeat again, we are going to bring the Water Bill forward at the end of the summer and we will put SUDS in that. That has to be our main priority.

**Q356 Chair:** You do not need a primary Act. The primary Act is there. I can give you chapter and verse in a letter if you wish. No doubt it will be in our Report. What we would like to know is, if the primary legislation was adopted and had all-party support in April 2010, why has it taken a Department four years to come forward with the enabling secondary legislation? It is not complicated.

**Sonia Phippard:** The target of April 2014 remains for implementation. That is implementation of the duties in the regime envisaged by the Flood and Water Management Act. A lot of issues were raised when we consulted last year, and we want to tackle those and get those right. We are also very conscious that local authorities have been very clear that, given their responsibilities under the Act, they want a reasonable lead-in time from the point that we make the announcement to go ahead. That is the reasoning behind the date, as Mr Benyon has explained on a previous occasion.

**Q357 Chair:** We have already had one consultation on this. Are you telling us there is going to be another consultation?

**Sonia Phippard:** No. We had a lot of responses to that consultation when we consulted last year. We are working through the issues that were raised with local authorities, with developers and with other interested parties.

**Q358 Barry Gardiner:** I do not want to harp on on this, but it does seem rather redundant to be bringing in more primary legislation when you have not even implemented the first lot of primary legislation. What is it specifically that you need to change, tweak or do to the secondary legislation before it is fit for purpose in the light of the consultation? What we are having difficulty with is that we just do not understand what the problem is. You have said we had a big consultation—okay, understood. What was it about that consultation that has forced you to go back to the drawing board?

**Sonia Phippard:** Nothing has forced us to go back to the drawing board. The primary legislation that the Secretary of State has referred to in the Water Bill is not on the critical path for the introduction of the secondary legislation. The primary legislation is designed to remove some un-clarities about water companies. In terms of the local authority responsibility, the SUDS duties that are proposed for

them and the introduction of SUDS requirements for new build, the issues that arose were around definitions. This may sound amazing given the amount of time that was spent earlier, but this proved quite vexatious. There were issues around the national standards guidance, what happens in terms of non-performance and long-term funding, because obviously for local authorities there is a concern about the longer-term funding stream, because adoption brings with it a maintenance charge and, as we were saying earlier, they are very understandably anxious to understand that, as they take that funding on, they will be funded for it.

**Q359 Chair:** I honestly do not know the answer to this, but is it the case that Section 106 moneys have been reduced from £300,000 to a project to £30,000? That obviously could have been used for the purposes of SUDS, and I know some local authorities are using Section 106 moneys for that. It would just be helpful to know, because obviously it is DCLG. That would have been a massive contribution towards SUDS. Secretary of State, are you looking, possibly, at water companies like Yorkshire Water, of which I am a customer, who would be quite keen to adopt responsibility for maintaining SUDS going forward? They get the brunt of any spill-over if they fail.

**Mr Paterson:** Our intention is to make it a tool available to water companies in the Bill. They are the appropriate people to use this according to local circumstances. I keep banging on about this: it has to be according to local circumstances, doing it where it suits.

**Q360 Chair:** Just a technical question: what is the Department's assessment of the contribution that fitting SUDS to all new developments and retrofitting SUDS to existing developments can have to reducing flood risk? Have we done an assessment in the Department?

**Mr Paterson:** As a broad concept, it is a good idea but, again, it does depend according to local circumstances and local geology. There may be areas where there is heavy clay, or something, and the ground is not absorbent. This is very much horses for courses. I am unaware that we have done an actual study of the impact across the country.

**Sonia Phippard:** We have obviously looked at the impact of SUDS in the context of the secondary legislation, focusing in the first instance on new build rather than on retrofit. However, we are working through the issues on retrofit as well, as we speak.

**Q361 George Eustice:** We are coming on to insurance in a moment, but one of the arguments the insurance companies have made for the Government having a stake in dealing with insurance when it comes to flood risk is that it is Government that, over the years, has allowed lots of inappropriate developments through the planning system that have accentuated the problem. Obviously the Environment Agency is a statutory consultee in planning, but do you think the guidance they have been working to, in terms of assessing flood risk on individual projects,

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has been robust enough to mitigate the risk of flooding on new developments?

**Mr Paterson:** Not recently. Obviously, some properties have been built in idiotic, silly places. Our new planning guidance though is very clear. There is a very clear steer not to build in places where there is a risk of flooding. The Environment Agency has interposed in a number of planning applications, and its advice has been taken in something like 99% of the cases.

**Q362 George Eustice:** Would you argue, then, that the new national planning guidance is stronger?

**Mr Paterson:** The new guidance is really very clear. In the past few months I have been to some sadly flooded properties quite obviously built in very inappropriate places.

**Q363 George Eustice:** Were those built recently, even in the last 10 or 20 years?

**Mr Paterson:** Yes.

**Q364 George Eustice:** I am interested in whether the issue there was that the guidance itself was not sufficiently robust or whether it is because there was a kind of negotiation that began between the local authority and the Environment Agency to accommodate the local authority's wish to build something and to meet them part-way or accept flood mitigation measures.

**Mr Paterson:** I am not in a position to comment because these will have been individual schemes; they will have been projects built with the approval of the council or the local authority at the time. It is quite clear, though, that it has caused serious suffering and damage and it is not a sensible way to go ahead, so the new planning guidance is very clear. I would stress again that the Environment Agency has made its views clear. Those views have been accepted in a very, very high proportion of cases.

**Q365 George Eustice:** When you say "accepted", do you mean accepted by the local authority or are you experiencing a rise in the number of objections lodged with you?

**Mr Paterson:** Whoever the planning authority is.

**Q366 George Eustice:** Has there, though, been an increase in the number of objections lodged with the Secretary of State because a local authority would not give way? Are you aware of that?

**Mr Paterson:** I think that would be DCLG, would it not? At Defra we do not do planning. The broad drift of your question, though, is absolutely right. There have been inappropriate developments because the planning guidance was not sufficiently robust arguing against building on areas liable to flood.

**Q367 Chair:** Would you speak a little on water companies being statutory consultees to planning applications? Sir Michael Pitt said there should be an end to the automatic right to connect, but at the moment water companies are not statutory consultees. Would you make the case that they should be?

**Mr Paterson:** It has not been proposed to me before, but as local organisations of some significance, water companies can always make a submission on any planning application.

**Q368 Chair:** The difference is that now the Environment Agency is the statutory consultee, there are implications if this advice is ignored. At the moment, water companies are just obliged to connect even though it may actually have implications for their waste water for any new and existing developments.

**Mr Paterson:** I would like to come back to you on that. That has not been raised with me before, but we will come back to you.

**Q369 Chair:** On drainage boards also, as statutory consultees?

**Mr Paterson:** The same applies.

**Q370 Chair:** Could Sonia Phippard possibly do a note on the hold-up to the SUDS regulations just for our better understanding? That would be helpful.

**Mr Paterson:** Yes, sure.

**Q371 Chair:** One of the areas where there was huge disappointment that there has been no announcement yet is the replacement of the statement of principles on affordable insurance. Clearly if something is to come in place of the statement of principles we are rapidly running out of time. You are looking at three months away from now. Will we require primary legislation for that?

**Mr Paterson:** The statement of principles runs out on 30 June. The first organisation outside Defra that I had a meeting with was the ABI and we have been talking intensely with it in a most constructive way since. They are as disappointed, as we are disappointed, as are many property holders, that we have not yet come to a final agreement, but this is a difficult and complicated question. The statement of principles is not perfect. It does not deliver the comprehensive cover that we would like to see. It does not guarantee affordability, which we would like to see, and it does not protect the taxpayer, which we would like to see. The ABI has a number of ideas on how we replace the statement of principles. We have our own comments on those. I talked to the ABI on the telephone on Friday. I had a meeting with the ABI yesterday. I have another meeting with the ABI tomorrow. We really are working on this in a very intense manner, but there is no point in coming up with an agreement just for the sake of it. We have to get it right. To answer your question, though, we do have the Water Bill coming through as a vehicle at the end of the summer. It is almost certain that whatever solution we come up with, it will need some primary legislation and the ABI is perfectly well aware of that. We have a massive interest with them in getting this right for the long term and coming to a solution. We really are working very closely with them.

**Q372 Chair:** Realistically, it cannot be in the Water Bill because we are probably not going to see that before June. The chances of getting primary



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legislation through before the end of June to deliver a replacement to the statement of principles—it is quite a tall order.

**Mr Paterson:** I am suggesting that we could add clauses to the Bill, but you are right that we are getting to the end of March and time is running out. We do not have very long to consult and get new clauses into the Bill for July. What I would suggest will probably happen is that, whatever the legal solution is, if that came into legislation, came into Parliament in July, that would not have Royal Assent until spring next year. Almost certainly, whatever we do, we would have to run on with the statement of principles as a temporary measure.

We are absolutely determined to work for consumers. We are fully aware, and many MPs are fully aware, about that; there is a Backbench debate going on as we speak. We are genuinely determined to work for many people who are extremely worried about this issue and are right to worry. Flooding is very frightening if you have young family or elderly relatives, and it is disastrous for businesses, but we really want to get a solution that works for the long term.

The statement of principles is tiding us all over, but it does fail on several fronts. For the insurers themselves it is not that satisfactory because there are new entrants coming to the market who are not taking a share of the difficult high-risk properties and are riding free. All these issues have to be considered as a whole. I would love to sit here today and say we have it all sorted, but we have a meeting tomorrow and I am an optimist. I will be working closely with the ABI tomorrow.

**Q373 Chair:** In Sir Michael Pitt's recommendations there was one for the creation of insurance with rent schemes for low-income households, and particularly providers of social housing. I understand this has been looked at in the working group set up to look at the replacement of the statement of principles, but what has been looked at particularly for those in low-income households and those in social housing as regards to affordable insurance?

**Mr Paterson:** I mentioned affordability in my opening comments. We are looking for a new arrangement that delivers flood insurance to high-risk properties that is affordable, is as comprehensive as possible and is not a big burden on the taxpayer. From the insurance companies' point of view, it also needs to engage all suppliers of insurance and not let some off the hook so they can concentrate only on the low risk. We are very conscious of the cost to those who might not be that well remunerated who are living in higher-risk areas. That is very much something that is bearing on all our minds.

**Q374 Chair:** We are going to look at the various scenarios in a moment, but I have one favourite of my own that I raised with the Chief Secretary, Danny Alexander, about taking a percentage of the insurance premium tax on both building insurance and contents insurance, and either taking a percentage, or, in the worst catastrophic scenario, in one year the whole percentage. He wrote back to me before the Budget to

say that final decisions have not been reached on the funding, but he could "confirm that the possibility of gathering funds from insurance companies similar to an insurance premium tax remains one of the options being considered by the Government. At this stage we are not considering using IPT itself." That sounds like it is going to be an additional levy to that already levied as the insurance premium tax. Is my understanding correct?

**Mr Paterson:** It may be frustrating for the Committee—and I have said this on the record before—but I cannot negotiate in public. There are a number of interesting ideas being discussed between the Government and the ABI, and we are determined to arrive at a solution. Those discussions are going on on an almost daily basis. They are constructive, but I just cannot go into detail on the record.

**Q375 Mrs Glendon:** Secretary of State, you have already explained the nature of the ongoing discussions. We know that there are fewer than four months to go now until we hit the end of June. Will an announcement on the new approach be made prior to the end of June, before the expiry of the statement of principles?

**Mr Paterson:** I think so. As I just said, we have a complete coalition of interests with the ABI to get a satisfactory long-term resolution. It is very much in the interests of their members; it is in the interests of their customers and it is massively in the interests of all our constituents. There will not be a single Member of Parliament who does not have a number of constituents who are very worried about flood risk and getting insurance. As soon as we do get a satisfactory solution we will be very happy to announce it. I cannot stress enough that we are working very intensely on this and we do want a solution, but we are not quite there yet.

**Q376 George Eustice:** I understand you cannot give away your negotiating position in public. However, would it be fair to say that the Flood Re model is the starting point basically? You said just now that there is this problem at the moment in the statement of principles that new entrants to the market basically do not carry their share of the burden. It seems to me the only way around that is some kind of pool system that applies fairly and equally to all households. Would that be a fair comment?

**Mr Paterson:** There are various solutions being posed, but I would just put it to you that my ideal would be a system that delivers affordability, is a solution of a comprehensive nature, is not a burden on the taxpayer and is fair to the insurance companies so that all pay their share and all participate. That is the idea.

**Q377 George Eustice:** I think we can all agree that sounds very fair. I know you will not be drawn on that, but in the evidence we had from the insurers I pressed them specifically on this point about the idea of the Government being there as an insurer of last resort, if there were, for example, a one-in-200 or a one-in-300 catastrophic act of God. I pressed them on what it would cost to re-insure that on the open market

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so that it did not require the Government to stand as a last resort. The answer was that it would effectively move the cost from being around £150 million a year to £280 million, so almost doubling the levy you might have to place on an individual insurance policy or individual insurance company. Is your biggest concern that you want to avoid in your negotiation that the Government ends up somewhere as an insurer of the last resort, or is it concerns about the size of the levy that might end up on individual insurers?

**Mr Paterson:** We want to be fair to those who are living in properties at risk and, as the Chair mentioned, may not be that well remunerated, but we also want to be fair to the taxpayer and also fair to those who are living in low risk.

**Q378 Barry Gardiner:** I am just trying to think of how to get a question through here that you are going to be prepared to answer, Secretary of State. Any of the proposals currently before us and which the Government is considering may require legislation and regulation. Let me not ask you about the regulation itself. Let me ask you about the timescale for introducing that legislation.

**Mr Paterson:** The timescale is tight.

**Q379 Barry Gardiner:** I do not mean about establishing what needs to be done, because we know there are four months before we run out of time that way. What I am asking is: when do you have the opportunity to underpin any agreement with the legislative and regulatory framework that is going to be needed to support it? You talked earlier about the difficulty of persuading your colleagues to get a slot here. This is something that is really going to have to be done in very short order indeed. How do you propose to do it?

**Mr Paterson:** You are as aware of Parliamentary procedure as anyone. If we bring a Bill forward for Second Reading at the end of the summer and you work backwards, we really need to have our ideas in April or May, but you do not have to have everything worked out in absolutely microscopic detail. You could have clauses of a broad, enabling nature and then work out the detail as secondary legislation later. That is an option.

**Q380 Barry Gardiner:** I am not going to press you further on that. Was it a mistake for the Government—and in fairness, it was not yours—to get involved in this in the first place, above saying that no insurance company that does household can not do flood, and that there has to be a market solution to the problem of companies that seek to cherry-pick by location, so they have to cover wherever in the country? At the moment the Government is in an uncomfortable position: it seems to have a role it does not want here.

**Mr Paterson:** We have a big role. In the area where we have absolute direct responsibility, and you have kindly enough complimented me on it, look at what we have done. We are piling in £2.3 billion; we are going to protect 165,000 properties—

**Q381 Barry Gardiner:** You allowed them to be built in the first place. They should never have been built.

**Mr Paterson:** Hang on—who was in charge 13 years before?

**Barry Gardiner:** I am talking as industry would to Government.

**Mr Paterson:** I am being very polite, not making boring party political comments, but we have inherited this system from the preceding Government. It was due to end in June and we intend, if we can, to improve upon it. If you look at where we have absolute direct control we have gone full bore for these flood defence schemes because ultimately they provide the long-term solution.

**Barry Gardiner:** But you know that is not what I am talking about.

**Mr Paterson:** It is pretty important. You say, “Are we reluctant to be drawn into this?” We are absolutely in the thick of this and we are ahead of the game in the area where we have direct control and responsibility, but we do not run the insurance industry. That is very important and we are not experts.

**Q382 Barry Gardiner:** But you are now getting drawn into it. That is precisely my point. Of course what you are doing on flood defences is Government responsibility, and I understand and accept that. What I am saying is that you are getting drawn into the minutiae of the insurance industry, instead of simply saying to the industry, “You’re the industry. It’s an open market. You’ve coped for 300 years with doing this stuff. You do not need Government in there in one role or another trying to sort your problems out. Get on with it yourselves.” I would have thought that, as a free marketer, that would have been something that you might have been saying to me, not the other way around.

**Mr Paterson:** Yes, but I think we have a responsibility to our citizens as well. We have inherited a system that was due to end on 30 June where Government has been involved. I hope we can improve on the statement of principles. I will repeat again that the statement of principles does not deliver affordability to some of our most vulnerable citizens; it does not guarantee comprehensive cover; it does not protect the taxpayer; and it is unfair on some of the insurance companies. There is no doubt about it that it can be improved upon.

Where we have direct responsibility I do not think anyone can question the sincerity of the Government because, through our own efforts, by the partnership funding we have talked about and by the private funding, more will be spent over our four years than the preceding four years. We recognise there is a problem and where we have an absolute direct input we have taken action. However, the insurance industry is run by a number of large and powerful international firms who are experts at evaluating risk, and we have to work with them. That is what we intend to do.

**Q383 Chair:** You have told us you are having a lot of meetings with the ABI. Obviously there are other insurance players in the marketplace. Can you assure the Committee that you are equally having meetings with the some of the other players as well?

**Mr Paterson:** Yes, there have been meetings with other participants, but the ABI is the main

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organisation representing the preponderance of those involved in insurance and representing the main players. They are definitely the right people to negotiate with. Obviously, though, we have talked to other participants as well.

**Q384 Chair:** You will be aware of the concerns that have been raised by, among others, the Building Societies Association about the delay and the “question mark”, as they have put it, in a letter to Oliver Letwin. Lenders are increasingly concerned that a number of their block insurance policies are already up for renewal, but lenders who have mortgages on properties susceptible to flooding may experience an unanticipated drop in the value of the mortgage book. That, in turn, could constrict the mortgage market so, as you say, the clock is ticking. Even the ramifications for mortgage lending are quite serious because of the delay.

**Mr Paterson:** I will be absolutely clear. I would love to have got a resolution in that very first meeting with the ABI back in September, but we have not, so we are aware there are consequences. We have to do the right thing by the taxpayer and by those vulnerable constituents of all of us who are at risk from flooding. We have to come up with a system that works. There is no point dashing into this and coming up with something unsatisfactory just to go for an artificial deadline.

**Q385 Chair:** The evidence we took on one particular proposal, Flood Re, actually came up with an £8 levy that every household and every property would have to pay. Have you detected willingness in customers who live in low-flood-risk areas to take on these additional costs of risks for those who live in high-flood-risk areas, as will be reflected under that particular proposal?

**Mr Paterson:** Again, I will not be tempted into discussing the detail, but I would just make the broad comment that there is already significant cross-subsidy within the insurance industry in all areas of activity. This is actually happening at the moment. I think you would have to ask them directly the sums that they think are involved.

**Q386 Chair:** We did. We have it on the record.

Secretary of State, if we may crave your indulgence we wanted to discuss a couple of questions on meat—as though the Department does not have enough on one crisis to look at.

The temporary ban on desinewed meats (DSM) led to 30 job losses in my own constituency. Are you disappointed that the Commission has effectively delayed its review and any conclusion that desinewed meat would actually be harmful to health?

**Mr Paterson:** Could I just welcome Andrew Rhodes, Operations Director of the Food Standards Agency to our deliberations? Yes, you are fully aware of the background to this. This material was banned, arbitrarily we thought, a year ago. We are hoping that EFSA will report at the end of this week. 31 March is the date we have been given.

**Q387 Chair:** Why were you told, as I presume you were told, that the date was moved back from the end of October to the end of March?

**Andrew Rhodes:** They have been assessing a great deal of information. They may also have wanted to see any initial outcomes from the Food and Veterinary Office inspections of other European states. We are aware that they have completed their risk assessment. They have notified that on their website, so we are anticipating publication on schedule, as far as we are aware.

**Q388 Chair:** Secretary of State, are you mildly optimistic that the decision at the end of March might be to lift the temporary moratorium on mechanically separated meat?

**Mr Paterson:** I would not like to pre-judge. I know there has been real disappointment here that this material has been banned for a year, but I think we have to wait and see what the Report says.

**Q389 Mrs Glendon:** Do you accept that there could be a link between the ending of desinewed meat production in the UK and the substitution of beef with horsemeat?

**Mr Paterson:** Andrew might like to comment on this, but I do not think the volume is enough. We only kill about 9,000 horses a year. I do not think that is anything like enough to substitute for the volume of material that was in DSM. Andrew, do you have the figures on this?

**Andrew Rhodes:** The reality is that, although the UK slaughters fewer horses than other countries in Europe, if we take the UK as an example it is informative. Last year we slaughtered 9,000 horses in the whole year and we slaughtered 15,000 cattle a week. That is the difference in scale we are talking about. DSM and MSM are low-value products that are used in food production. Beef is a high-value product that has been substituted with a low-value product in this recent incident. Numerically or statistically it is unlikely that there is any compelling evidence to say that the moratorium on DSM has led to the use of horsemeat. In fact it looks like the use of horsemeat, from all the investigations that we have seen across Europe, stems back quite some time. It does not appear that there is any link at all, from any of the evidence that we have seen anywhere across Europe.

**Q390 Mrs Glendon:** Would that be taking into account not just the number of horses slaughtered in this country, but the possibility that the horse meat has been imported from other states? Would that not be a possibility?

**Andrew Rhodes:** It does take that into account. We know there has been a large increase in the slaughter of horses in Romania recently because of animal health controls. If we take Poland, for example, as another large slaughterer of horses, Poland on average in the last few years has slaughtered 45,000 horses, which is a lot higher than the UK but is still considerably lower than the volume of cattle and beef that we have seen trading within Europe. The substitution of horsemeat here is the substitution of an expensive, high-value product with high livestock

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price in the form of beef, with a lower livestock price value of horse. That is actually what we have been seeing.

**Q391 Chair:** Secretary of State, are you aware in our report into desinewed meat in July 2012 that we concluded at recommendation 8 that because of the ban on mechanically separated meat there was a strong possibility of mislabelling and contamination happening? In evidence we heard from the FSA more recently, it in fact now thinks that contamination took place from March last year. Are you aware of our conclusion?

**Mr Paterson:** I am fully aware of that paragraph in your Report, but, as I have said in earlier comments, I was not around at the time. I was doing matters to do with Northern Ireland. Perhaps Andrew will comment as he was around.

**Andrew Rhodes:** I will help as best I can. I believe, having looking at the Report and looked back at the transcript at the time, the discussion was around the likelihood of desinewed meat from elsewhere in Europe where controls had not been put in place coming into the UK. That was the fear at the time and that is something we have been vigilant against ever since. Having looked through the oral evidence, the written evidence and the Report, there are no mentions of horsemeat substitution anywhere throughout that and we have gone back to look. The fear at the time was that there would be incorrectly labelled desinewed meat products coming into the UK and being used by UK businesses when there was a moratorium in place that, as we know, had already affected production in the UK. The fear was that would happen while the Food and Veterinary Office was inspecting other countries in Europe and maybe the practice was continuing there. I believe that was the fear at the time. We do not have any evidence that that is happening, but we remain vigilant and of course we will see the outcomes of all the Food and Veterinary Office inspections.

**Q392 Chair:** I think we actually concluded that alternative products or filler to desinewed meat—because that was put to us by the British Meat Processers Association—would be used. No one thought in their wildest dreams it would be horsemeat, but that was what lay behind our conclusion. Catherine Brown told us in evidence that the contamination had been going on for longer than a year. Are you able to say how long you think the contamination had gone on for, now that you have conducted all these investigations?

**Andrew Rhodes:** Until the investigations are complete I do not think we can answer that question. The evidence that Catherine Brown gave at the time was in relation to Silvercrest and the contamination that we know of in Ireland. Obviously a lot more has emerged since then and we have seen contamination right across Europe—in fact, at higher levels than we have seen in the UK. Until those investigations are completed both in the UK and in a lot of other European Member States we will probably not be able to identify that. It is difficult to say whether we will ever be able to say definitively at what point that

substitution started, because that will obviously depend on the investigations that are to be carried out.

**Q393 George Eustice:** I wanted to ask a bit about where the FSA sits within the machinery of government. I know that it is an independent body. Remembering my history, after the BSE crisis, all the talk then was that you could not possibly have agriculture and food in the same Department; there was a conflict of interest; and it needed to be hived off and moved somewhere separate. Do you think there is now a case for the FSA being made accountable to Parliament through Defra rather than through the Department of Health?

**Mr Paterson:** I was involved in the debates when we were setting up the FSA. You are quite right that it emerged from the backwash at the end of BSE. It was set up very deliberately to be independent, so it is not beholden to any political influence and it works directly with the European Food Standards Agency. I am not so much worried about the institutions because you see the FSA has reacted on this very rapidly. As soon as we had the news from the Republic of Ireland it set in train a series of tests long before any other European country. The FSA was the first national agency to go to Europol and I went to Europol with it. We were the first nation to go to Europol and we had the backing of the Irish and French, because you need two nations as a minimum. I do not think anyone can criticise the speed with which the FSA has reacted.

My worry about the system is that too much is taken on trust. This looks at the moment—and we are getting more evidence every day of wider ramifications in Europe—that this is a criminal conspiracy to defraud the public. It is completely wrong that any member of the public should buy a product marked as processed beef and find that it contains something else, even if it is only trace of horse. Also we know that for some products it is a very significant percentage of horse.

My gut feeling is that we have inherited this system; we are operating under European regulation 178/2002, which makes it clear that food business operators have the ultimate responsibility to the public. It is very important to make that absolutely clear that, however good our regulator, the FSA, might be, and however vigilant our own Ministers might be, ultimately it is the food business operators who are responsible. Where we have a problem with the system is that there is not enough testing, and I think there is too much taken on trust. Whatever material is marked on the piece of paper, it is taken on trust that that is what is in the pallet. That trust follows through the system and this is where I think it has gone wrong. There will be a lessons-learned exercise. The FSA is going to have one on the actual detail of this case.

**Q394 George Eustice:** When do you expect that to conclude?

**Mr Paterson:** The FSA is going to have a separate review. Andrew might like to comment on this directly. At the appropriate time we should have our own review into how the whole system works because, as I said, this is much more than just a

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labelling issue. This is a case of criminals getting involved in an act that defrauds the public.

**Q395 George Eustice:** The point I was trying to get at is that my impression was you were the one who was sent around the TV studios to try to explain what was going on and what had happened. Yet you had the Food Standards Agency, which was probably the body that ought to have been most responsible, sitting in more of a kind of health role, and many would say it has perhaps in the last five to 10 years been pre-occupied with salt content in beef burgers, chicken nuggets and things like that, rather than the more serious problems in the food chain we have now seen. I suppose I am asking: did we go too far after BSE? Is there a role for food standards to become more anchored in Defra, rather than in Health?

**Mr Paterson:** In fairness, I think some people criticise the FSA for concentrating on matters to do with health, not on this issue of labelling. I think they are quite right. It should absolutely be their main focus to concentrate on any issues to do with the human food networks. People talk about food chains, but these are huge international networks that could end up endangering health. So far on this issue we have not found a product that endangers health. We have completely cauterised the issue of bute. Since early February we have made it impossible for any horse carcase to enter the human food chain until it has been tested negative for bute. We have not come across so far any other product or chemical that could be any risk at all to human health.

I think the FSA are right to have concentrated on health issues, but here this is something different. This is an issue of fraud. This is criminal activity substituting a cheap material and we saw in the Irish report that this stuff is €400 per tonne cheaper than the beef it was purporting to be. We do need to look at the system to see how this fraud came about, but perhaps we need more vigilant intelligence, and I am emphatically clear that we do need more testing at risk points, and also random testing, to keep all those in this incredibly complex food network on their toes.

**Andrew Rhodes:** It might help if I add to that. You have Defra's responsibility for food and agriculture and you have Health's responsibility for public health. The Food Standards Agency has both in its remit. Our prime focus is the protection of consumers on public health. We do not want people dying or falling ill when they eat food, but we are also involved in food production in terms of delivering regulation. We have both roles. Defra and Health clearly have separate roles, so in effect in practice we report through both. As you will have seen, we have answered questions to Parliament via the Secretary of State for Defra and we have also answered questions via Health and that is what tends to happen. This particular incident, as the Secretary of State has said, is related to food fraud and is not, so far, related to public health, so we have answered questions in a different way. The FSA holds both roles within the same organisation.

In relation to your earlier question on reviews, the FSA will conduct a review of the operation of the incident—how we responded, what we learnt from it and some of the technical details around that. That

will be discussed by the FSA Board in open session next month. That is where that will first be discussed and they will agree, disagree or modify the proposals from the Executive. That will be done in the public domain and, if they are content, we will then commence a review of our own performance.

**Q396 Chair:** The point we are trying to get at is that if, as David Heath told us in evidence, Defra sets the policy and the FSA are the police, then perhaps they should be more removed and be more like an economic regulator, which they are not. They should perhaps be one step completely removed, so that they would not have a foot in two Departments, and be more like Ofwat, Ofgem and other regulators. At the moment it is neither one thing nor the other.

**Mr Paterson:** I, and Jeremy Hunt as well, have been very careful to respect the independence of the FSA as originally conceived. What we saw with this particular issue was that once we had the product from Findus that showed not just contamination by a marginal trace, which would need a laboratory to detect it, but a very significant substitution of beef with horsemeat, that took the whole issue onto a completely different level of public concern. It was the leading item on the news for day after day after day. At that point it is appropriate that a government minister comes in and, in my case, working very closely with the FSA and the industry—on that first Saturday we had a meeting with the industry and organised a completely unprecedented set of tests. I think you just have to face the reality at a certain point where a politician has to come in with the power of Government behind them to get things done. That is what happened. Until then I think it is appropriate that on the routine detail, as conceived, the FSA should have its independence protected.

**Q397 Chair:** Just finally, on animal welfare we probably have the best record on animal welfare of any EU country. On battery cages, the EU Directive was chaotic in the way it was implemented and now we face a situation with the sow stall and tether ban introduced on 1 January—we still seem to be importing non-compliant meat. Are you happy with that situation? Do you accept that?

**Mr Paterson:** I was as critical as anyone of the enriched cages issue over a year ago. In my own constituency, I have significant egg producers who knew perfectly well, in the preceding years to last year's deadline, that their competitors in other EU countries were installing cages that would be redundant last January. I was pretty critical at the time of what was going on, and this year I have made a point, as Defra Secretary, to raise the issue of pig stalls where we have been the good guys. We have been miles ahead of the game, putting our own pork producers at a significant disadvantage with much higher welfare standards. All other Member States knew perfectly well that they had to conform by 1 January this year, and I raised this in the Council. I had Commissioner Borg here in Defra in January and raised it with him. I had a meeting with him about four weeks ago at the preceding Council to this one last week. I had another meeting with him face-to-face

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and I got an assurance from him that he would be writing letters and taking action against non-conforming countries. It is completely and totally unacceptable when our pig producers have gone through all this trouble—and do not forget that many have shut down because they were made uncompetitive—that other countries should carry on flagrantly breaking a rule that they could see coming down the track years ago.

**Q398 Chair:** Have you been given a date when the Commissioner expects—

**Mr Paterson:** Commissioner Borg promised me absolutely categorically he had written letters to take infraction procedures against those offending countries.

**Q399 Chair:** But they cannot take infraction proceedings before the end of March.

**Mr Paterson:** I am not talking about this month's Council. It was the preceding Council where I had a meeting with him face-to-face, and he promised he would be writing letters.

**Q400 Neil Parish:** Just going back to the battery cages, there were a lot of well-founded rumours that as we were actually doing away with out traditional battery cages and going to enriched cages, a lot of those cages were being sold, going out to Poland and actually being put in. That was long before they should actually be taken out, even. It is a case now that the Commission needs to take much more action much more quickly, and they do not seem to have any teeth.

**Mr Paterson:** I totally agree. I think you might have been out of the room; I said I have constituents who saw new cages being built. Knowing that they would be redundant last January, they were being built in parallel to the new enriched cages. It was putting my constituents at a 20% cost disadvantage; it was either 20% less space or 20% fewer birds, whichever way you want to look at it. That is why I have been very active on this pig issue, because it is years ago since we banned sow stalls. It is many years since the EU planned to bring in this regime, and it is up to the Commission to enforce it.

**Q401 Chair:** Secretary of State, you have been incredibly patient. There has just been another death announced of a girl found with dogs out of control. We understand that you are very keen for the Committee to do pre-legislative scrutiny, which we stand ready to do, on your anticipated dog control legislation. This obviously has not reached us yet. We would like an assurance from you that we will be given sufficient time to undertake a very short, but thorough pre-legislative scrutiny on the legislation. We just ask when you are expecting to publish this legislation.

**Mr Paterson:** That is absolutely shocking news that I had not heard. We all send our sympathies to the family concerned, because these cases are absolutely ghastly and completely unnecessary. We are absolutely determined to bring in legislation with the Home Office in the next available Bill, whichever that will be. It is for the Home Office to decide that. As it happened, I did raise this with the Home Secretary this morning. It will not be a Defra Bill; it will be a Home Office Bill. In its simple terms, we want to bring in the same rules that apply on private property as currently apply on public property. I hope we can get that through in a couple of fairly simple clauses attached to a Home Office Bill and you will not report such a horrendous case again.

**Q402 Chair:** You obviously will not know the time scale.

**Mr Paterson:** No, it is down to the Home Office, but literally this morning just before coming I did raise it with the Home Secretary.

**Chair:** The recommendations that we made in our Report seemed to be extremely well-received, and we did take evidence from a lady who had lost her son in these circumstances, so I am sure we would all wish to record our sympathies and condolences to the family concerned. On behalf of the whole Committee, I thank you most warmly for being so generous with your time, and the Department being with us this afternoon. We are immensely grateful. We wish you a peaceful Easter as well.

**Mr Paterson:** Happy Easter to you all. Thank you for inviting us.

# Written evidence

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## Written evidence submitted by Aon Benfield

1. Aon plc is a leading global provider of risk management, insurance and reinsurance brokerage, and human resources solutions and outsourcing services. With more than 62,000 colleagues worldwide, Aon empowers results for clients in over 120 countries via innovative and effective risk and people solutions and through industry-leading global resources and technical expertise.

2. Aon has been named repeatedly as the world's best broker, best insurance broker, reinsurance broker, captives manager and best employee benefits consulting firm.

3. Aon comprises three key divisions: Aon Risk Solutions, Aon Hewitt, and Aon Benfield.

## Aon Benfield

4. Aon Benfield is the world's largest reinsurance broker, with a global network spanning more than 80 offices in 50 countries. It is also the largest reinsurance broker for UK business.

5. The firm has more than 3,000 employees, whose primary role is to understand, manage and transfer a diverse range of risks from insurance companies to reinsurance companies. These risks may relate to the property, marine, energy and motor sectors, among many others.

6. Aon Benfield's trading partners comprise the world's prominent insurers and reinsurers.

7. Aon Benfield ensures that the protection offered by reinsurers to insurers is appropriate in regard to its price, and in regard to the terms and conditions of the coverage. The firm also provides a wide range of services around the analysis of risk.

## About Reinsurance

8. Reinsurance is insurance for insurers. While consumers generally purchase insurance for single items, such as buildings insurance for their property or motor insurance for their car, insurers also buy cover, to protect their financial position. For instance, they might purchase reinsurance for a group of properties they insure in a specific country or region. Whatever interest the insurer may be insuring—whether it be assets such as property, vehicles, or marine vessels; or financial exposures such as credit risk—the reinsurer will generally offer a similar product to enable risk (ie potential losses) to be transferred from the insurer to the reinsurer. This risk transfer process happens mainly via one or more of three key mechanisms—a reinsurance treaty, facultative reinsurance, or insurance-linked securities (ILS).

9. A reinsurance treaty transfers risk from the insurer to the reinsurer en masse. For instance, a property reinsurance treaty may comprise many thousands of insured properties. In a treaty structure, the reinsurer will either:

- (a) Take a pre-agreed share of the risk (potential loss) and reward (premium) with the insurer (called a “proportional” or “pro-rata” treaty), or;
- (b) Agree to indemnify the insurer in excess of a certain level of loss (the insurer's “retention”) for an agreed premium. This is called an “excess-of-loss” treaty (or “XoL”).

10. Facultative reinsurance is the reinsuring of a single asset, eg an insurer may wish to reinsure a single skyscraper.

11. Insurance-linked securities (ILS) transfer insurance risks to capital markets investors, such as pension funds, via customised financial vehicles.

12. An insurer's risks can be transferred to either a single reinsurer, or a group of reinsurers, whereby each reinsurer agrees to take a specific share of an insurer's risks.

13. Lloyd's of London is one of the leading markets in the global insurance and reinsurance industry, and is a significant trading partner of Aon Benfield.

## The UK Reinsurance Market for Catastrophes (including Flooding)

14. All insurance companies in the UK buy some form of reinsurance protection for their property exposures (risks). It is a robust, proven, and well regulated mechanism for transferring risk and protecting insurers' financial positions.

15. The most common form of reinsurance for these exposures is Catastrophe Excess of Loss reinsurance (see 10b above), which is designed to respond to an accumulation of losses arising out of large “catastrophic” events, such as the 1953 floods in the UK.

16. The protection is generally purchased for a 12-month period (although the timescale is flexible) and will respond to losses which exceed a predetermined level, known as the Excess, and up to a predetermined level, known as the Limit.

17. Losses which fall below the Excess, or exceed the Limit, are retained by the insurance company, and are covered by its own funds.

18. Aon Benfield maintains a database of UK reinsurance purchasing activity, which contains data pertaining to almost 70% of the UK market. Annually, the UK insurance industry purchases approximately GBP12 billion of Catastrophe Excess of Loss Limit, in excess of GBP1.1 billion.

19. Some companies also purchase Aggregate cover, which protects them against the sum of all losses (within a specified band) across the whole year, and is designed to protect insurers from attritional losses, as were seen in insurance payments relating to the 2011 UK flood and freeze conditions.

### **Flood Re Proposal**

20. Aon Benfield has been working closely with the UK's insurance trade body, the Association of British Insurers (ABI), on how reinsurance can play its part in the ABI's "Flood Re" proposal.

21. The aim of Flood Re is to ensure that flood insurance remains available and affordable to consumers, by allowing insurers to cede (transfer) the element of flood protection within the household policies they write into a not-for-profit fund at a set price.

22. The fund would be expected to break-even over time, and reinsurance has a key role to play in managing its "Survivability" (the ability to meet its obligations) and "Sustainability" (the ability to survive and trade forward after an event).

23. Reinsurance achieves this through substantially reducing both the probability of failure (thereby increasing the Survivability) and the volatility of results (thereby increasing the Sustainability).

24. Income to the pool would be represented by:

Policy Holder Premium.

Levy Premium.

Reinsurance Recoveries.

25. Outgoing from the pool would be represented by:

Retained Losses.

Reinsurance Premium.

Operating Expenses.

26. The ability of reinsurance to reduce the volatility of results, will assist the development of a stronger and more stable fund which benefits policyholders through lower premiums and/or enhanced coverage.

27. Aon Benfield's proposal for Flood Re is aligned to the advice we would provide to any insurance entity in respect of flood risk. Therefore, Flood Re is designed to protect a "standard" portfolio of properties, albeit with a non-standard level of risk, taking into account the underlying exposures, the loss potential, the protection required, and the premium available.

28. Working in partnership with major reinsurers, Aon Benfield would design and execute a comprehensive reinsurance programme. This would be built from various reinsurance products, for instance Proportional cover, Catastrophe Excess of Loss cover, and Aggregate Excess of Loss cover.

29. Based on our preliminary analysis, we estimate Flood Re's requirement for single catastrophic event cover to be in the region of GBP2 billion, in excess of GBP250 million.

30. This level of cover would ensure the fund has the ability to meet claims arising from a catastrophic event up to GBP2 billion, which is far in excess of the estimated premium income.

31. We would recommend that this level of cover is considered in conjunction with an Aggregate protection, to limit the financial impact of a series of smaller losses.

32. Any, and all, of these figures would increase or decrease dependant on variability in the fund's financial position, its risk appetite, and the interaction of the final reinsurance protections.



## Written evidence submitted by the Association of British Insurers

### The ABI

The ABI is the voice of insurance, representing the general insurance, investment and long-term savings industry. It was formed in 1985 to represent the whole of the industry and today has over 300 members, accounting for some 90% of premiums in the UK.

### Summary

- Flooding is the greatest natural threat the UK faces, and the risk is rising. In recent years this increased risk has been reflected in the number and cost of major “flood events” that property insurers cover.
- Flood risk management is the best way of mitigating flood risk and the ABI always supports investment in flood defences by central Government, local authorities, communities and individuals. The more effectively physical flood risk is managed, the more effectively insurers will be able to help consumers manage the residual financial risks, while still running their businesses in a way acceptable to their shareholders and regulators.
- Insurers understand better than most how traumatic and disruptive flooding is and react quickly to help their customers when flooding occurs as events of recent years have demonstrated. 2012 saw widespread flooding across the UK. We are currently undertaking a data collection on the total costs of flood claims in 2012.
- The current flood insurance market, which operates under the temporary Statement of Principles agreement, does not provide optimal outcomes for consumers and is not sustainable in the long term. The Statement of Principles will therefore expire on 30<sup>th</sup> June this year and will not be renewed. In the absence of any proposals from Defra, the ABI has taken the lead on developing a long-term, sustainable framework, to provide widely available and affordable flood insurance through its Flood Re model. As with the SoP the Government has a crucial role to play here.

### Flood Risk in the UK

Flooding is the biggest natural threat facing the UK and flood risk is increasing, because of climate change, development and the gradual deterioration of flood defence assets. In the 1990s, there were two “flood events” with a claim cost of over £150 million for insurers. In the first decade of this century, there were five such events, including the 2007 floods which cost insurers £3 billion.

According to the Environment Agency, in England and Wales:

- One in six homes is at flood risk.
- Over 2.4 million properties are at risk of flooding from the rivers and the sea. Of these around 500,000 are at “significant” risk. A further 2.8 million properties are at risk of surface water flooding alone.
- Over five million people live or work in flood risk areas.
- Infrastructure and essential services are also at risk: 55% of water treatment and pumping plants, 14% of electricity infrastructure and 2,358 schools are in flood risk areas.

### Flood Defence Spending

Before the latest Comprehensive Spending Review, the Environment Agency estimated that an additional £20 million per annum (in real terms) was needed for investment in building and maintaining flood defences each and every year between 2011 and 2035 to keep flood risk at current levels (an 80% increase in funding). Pressure on public finances resulted in a cut in flood defence spending in the Comprehensive Spending Review and, as a result, the projected Government funding for the period between 2011 and 2015 is around £800 million behind the trajectory set out by the EA to combat the effects of climate change.

Since then, the Government announced that an extra £120 million would be spent on flood defence investment, to be spent mostly on bringing projects forward in the EA’s plans or on projects that can stimulate growth. The ABI welcomes this additional funding, but it only partly addresses the shortfall in funding for this spending review period. In addition, we are particularly concerned that maintenance budgets are budgeted to fall at a greater rate than the overall revenue budget over the same period. This will inevitably mean that maintenance work is able to take place on fewer defence systems, with progressively higher risk defence systems unable to attract funding, resulting in a significant risk that more areas will be at a greater risk of flooding due to the condition of the defences.

The ABI supported, in principle, the Government’s proposals to introduce a “partnership funding” model for flood defence funding when the framework was consulted on in early 2011, but had some concerns about its implementation. Most importantly, we said that “partnership funding” needs to be a complement to robust Government capital and maintenance budgets, not a supplement for them. We now need to see evidence, over multiple years, of “partnership funding” working effectively, supported by appropriate capital and maintenance settlements in the 2013 spending review.

## Development

Effective flood risk management requires a rigorous planning system that prevents unwise developments in high flood risk areas. The ABI has taken a great interest in the Government's recent reform of the planning system towards the more localised model set out in the National Planning Policy Framework. While we appreciate the aims of this transition, and broadly support the policy in the NPPF as it currently stands, we were initially concerned that the safeguards needed to prevent unwise development were not included. While we are pleased that these have been reinstated we remain concerned that effective implementation of the NPPF at a local level may be a challenge. With flood risk already high, and rising, it would be unthinkable to have a planning system that made the situation more severe. To help Local Planning Authorities understand the insurance risks of making bad planning decisions in flood risk areas, the ABI, in collaboration with the National Flood Forum, published "Guidance on Insurance and Planning in Flood Risk Areas for Local Planning Authorities in England" in 2012.

To avoid incentivising inappropriate development, the current Statement of Principles does not apply to properties built after 1 January 2009. This policy position is also likely to apply to any new model such as Flood Re.

## Responding to Flooding

Insurers understand better than most how traumatic and disruptive flooding is and react quickly to help those who experience it; taking steps to deal with claims and ensure customers recover as quickly as possible. They are highly experienced in responding to similar events and will have acted to increase their capacity for handling claims and giving advice. The 2007 floods in the UK, which cost £3 billion and created a surge of over 185,000 insurance claims, taught the industry valuable lessons about handling big events. Subsequently, all insurers took steps to improve their internal practices. The insurance industry always seeks to improve its levels of customer service and will continue to do so. However, more recent flooding shows that improvements have been effective.

We are currently undertaking a data collection on the total costs of flood claims in 2012. Insurance companies responded quickly to the flooding.

In the event of flooding insurers can provide or pay for the cost of appropriate alternative accommodation and other related additional expenses, such as the removal and storage of undamaged property. They will dry, clean, repair and restore homes, business and possessions or replace them if that is not possible. It may take up to one year or more for homes to be restored and become habitable again because of the time it takes for properties to dry out after being flooded. As a guide, after the floods of summer 2007, around half of those people that had to leave their homes were back in them within six months, almost three quarters within nine months and the vast majority were home after 12 months.

Flood damage is typically expensive. Average domestic flood damage claims typically range from £20,000–£40,000. This is far higher than the average cost of claims for storm, theft etc which are other key risks covered by domestic property insurance policies.

## Flood Insurance

### *The Statement of Principles*

Flood insurance in the UK is currently provided under the Statement of Principles (SoP) which expires in June 2013. This was a temporary agreement reached in 2000 between the insurance industry and the UK Government and the Devolved Governments that set out the insurance industry's commitment to providing flood insurance as a standard feature of home insurance for properties at some risk of flooding, and to continue to offer flood insurance to properties at a significant flood risk. The Government, in return, promised to build flood defences in those areas at significant risk within five years, and made a number of other commitments on the provision of flood data, the planning system, and flood risk management more broadly. It has been renewed on several occasions, most recently 2008. The SoP ensured that unlike in most other countries, private flood insurance in the UK remained widely available as a standard feature of domestic property insurance, although it did not guarantee affordability.

The SoP was only ever meant to be a temporary "sticking plaster". It is not appropriate for the long-term, for the following key reasons:

- Customers typically tend to have no choice of insurer;
- Affordability is not safeguarded;
- New entrants to the home insurance market start from a position where they have no commitments under the agreement. This gives them a significant commercial advantage.

As a result, the UK Government, the Opposition, the insurance industry and consumer groups all agree the Statement of Principles needs to be replaced with a more sustainable, long-term framework.

## *Flood Insurance in other countries*

### Summary

Flood Insurance in the UK is provided through the private market, as a standard component of buildings and contents insurance policies. A number of other countries take “private market” approaches to flood insurance (Australia, Germany, Austria), though none manage the same levels of coverage for those at high risk as we see in the UK. In other countries the State plays a greater role, ranging from intervention in the market through the backing of flood insurance schemes (USA (partly), France, Spain), to taking full responsibility for flood damage in the absence of any flood insurance market (Netherlands, Denmark).

More detail on key countries is below.

### Germany

Insurance covering natural catastrophes, including flooding, is offered as an add-on to household insurance, and administered by private sector companies. Penetration rate is low—less than 10% in 2002. The State does not guarantee to compensate for losses, but the reality is that it *has* done so on a number of occasions in recent years. It is argued that the assumption that the State will compensate losses has dissuaded a lot of people from seeking flood insurance or taking action to protect their property.

Premiums are based on a system of risk zoning (called ZÜRS), containing four risk bands. Properties in the >1 in 10 year band are generally regarded to be uninsurable and cannot access flood insurance. Excesses are widely used, and commonly range from €500 to €5000.

### USA

A pool for high-risk cases has been run by the National Flood Insurance Program (NFIP) since 1968; the rest of the market is served by private insurance. The NFIP provides subsidised insurance to properties in defined zones called Special Flood Hazard Areas. A community must volunteer to become an SFHA, and must demonstrate that the risk is at least 1 in 100 years. An individual cannot access the NFIP without their community being a participant in the programme.

Because cover through the NFIP is subsidised, and because there has been little actuarial input into pricing beyond a vague appreciation of the risk being greater than 1 in 100 years for an entire community, the programme was pushed into a huge debt of around \$17 Billion when Hurricane Katrina struck in 2005.

The NFIP has some limited similarities with the Flood Re model (see below), in particular that it provides a subsidy to properties deemed to be at high risk, while leaving those at lower risk to the private market. The key difference is that the NFIP uses an agreed flood risk map to define the high risk areas that can receive a subsidy from the pool, whereas the Flood Re model allows private insurers to make a competitive judgement about whether to cede a risk to the pool.

The NFIP is also funded in a very different way from the Flood Re model. In particular there is no levy on low-risk properties to add to the pool to allow reserves to build up.

### France

In France there is a Government-backed but private sector-operated reinsurance pool (the “Caisse Centrale de Reassurance”) that operates on an excess of loss basis, indemnifying losses whenever a natural disaster has been declared by Ministers. This applies to all natural disasters; not just floods.

The pool is funded by a levy on all property and motor insurance policies. The surcharge is not related to the risk of the individual property, but is set at a flat rate of 12%. There is a standard excess of €380 applied to all domestic property claims under the scheme. The key aspect of the French (and the Spanish) model is that it takes flood completely out of the private market. There is little appetite for this in the UK.

### The Netherlands

Flood risk, from both rivers and the sea, is normally excluded from property insurance policies in the Netherlands. This has been the case since the 1950s, when the Dutch insurance market decided that the flood peril could not be taken on technically, due to the high potential loss. In the absence of any private flood insurance market, the 1998 Calamities Compensation Act provides that, under certain circumstances, the Dutch State will pay compensation to those suffering losses that the market does not insure. This has a maximum annual commitment of €450m. In principle, this would not cover a catastrophic loss from coastal flooding such as the 1953 event, but in these circumstances it is expected that the scope of the Act would be widened in a Royal Decree.

### *Flood Re*

Over the last three years, and in the absence of any proposals from Defra, the insurance industry has been considering options for a replacement for the Statement of Principles which would ensure that flood insurance

in the UK remained both available and affordable. Having learned from a number of international approaches, we worked with economic consultants Oxera to develop the “Flood Re” model. The industry has since invested a considerable amount of time and money on this solution and it is the only option which is supported by the industry as able to deliver availability and affordability of flood cover in a practical and dynamic way.

The proposed Flood Re scheme is a *not-for-profit* flood insurance fund. The fund would be a major improvement on the SoP as it would deliver a competitive market where consumers have real choice whilst ensuring homes at risk of flooding are able to buy affordable flood cover. The fund would provide flood insurance for the 1–2% (~200,000) properties in the UK where accessing flood insurance in an open market would be problematic. The remaining 98% of properties would continue to be covered by the industry as normal.

Flood insurance for those properties in the fund would be provided at a set price that could be varied by council tax band. The rest of the household insurance price for risks such as fire or burglary would be set by the insurer as normal, and the customer experience of buying insurance from an insurance company would be virtually unchanged. If a claim for flood damage was made from a property which was part of the fund, the fund would then reimburse insurers to meet the cost of the claim.

To make sure that the fund had sufficient money in it, insurance companies would make an annual contribution based on their level of premium income in the form of a levy raised from all insurance premiums. This would complement the income to the fund from the flood premiums from the high flood risk properties in the scheme. While the losses could be smoothed through reinsurance, in the event that not enough funds had built up in the first few years to cover a major incident like the 2007 floods, there would be a deficit needing to be met (effectively a need for an overdraft facility). Exceptionally large losses, such as a catastrophic North Sea tidal surge, may exceed this. We are currently discussing the model with the Government, and one of the key aspects of the negotiation is how we can work together to manage the liabilities of the scheme and raise the funds needed by the pool to operate, and well as the assurances insurers need about investment in flood defences to commit to the solution.

An insurance fund of this kind is a sustainable and stable system. It would mean flood insurance remains widely available with the price effectively set at an agreed threshold. It would be a more comprehensive solution to managing the risk of flooding and make sure a competitive property insurance market is available for all consumers with no significant change in the way they buy insurance.

Without a sustainable replacement for the SoP, we estimate that at least 200,000 high flood risk households could have significant difficulty getting affordable flood insurance. This in turn may make it difficult for homeowners to get mortgages or sell their homes. The Council of Mortgage Lenders has said: “*Uncertainty about the future cost and availability of insurance may affect the ability to sell or obtain a mortgage on a property, and is unhelpful to lenders and consumers*”.

No country in the world has a free market for flood insurance which successfully preserves widely available and affordable flood insurance for those at high flood risk without some form of Government involvement. We urgently need Government to agree to work with the industry to deliver Flood Re if we are to meet our shared policy goals and ensure that the UK has a long term and sustainable plan to tackle the risk of flooding and the ability of high risk households to insure their properties.

January 2013

### Supplementary written evidence submitted by the Association of British Insurers

#### Written Answers to Questions Raised in the First Session

*What would the relative costs be of annual household flood risk cover in a low risk flood area compared to a high risk flood area without a Flood Re, Noah or other cross subsidy model?*

The following figures are for an average Council Tax Band C home. These figures are for discussion, negotiation and agreement with Government based on an assessment of what is “affordable”, and would be subject to review within the agreed governance of Flood Re.

	Price for Home Insurance in a Free Market	Price for Home Insurance under Flood Re
Low Risk Home	£241	£249
High Risk Home	£1400	£750

Nb. this is the total price for home insurance (ie not just the flood part of the cover), for both buildings and contents insurance added together.

*What difference would there be from the position now under the Statement of Principles to the position under flood re in terms of the level of cover available to households, ie please could you explain the point about a 1 in 200 risk being covered as opposed to a 1 in 300 risk under Flood Re?*

It is very important to clearly differentiate between the likelihood of a flood event for the country as a whole, and the cover provided to individual customers. When a customer buys insurance they are covered for flooding, irrespective of the likelihood of the event. This is the case currently and it would be the case under Flood Re—*there is no difference in the level of cover available to households.*

The likelihood of an event is relevant when considering how to protect the fund and ensure it has enough money to pay claims. Currently, insurers tend to buy reinsurance to protect themselves from extreme events, and normal market practice is to buy this to cover a flood with a one in 200 (0.5%) chance of occurring in a given year (*in terms of its impact on the country*). If a more severe but less likely event occurred (eg a one in 300 chance event), there is always a risk that insurers could become insolvent and customers may not get their claims fully paid. Flood Re's fund would have similar considerations. It is therefore suggested that reinsurance could be purchased to cover losses for a flood with a one in 200 chance of occurring in a given year.

A 1 in 300 event would be equivalent to a major national catastrophe. To put this in context, such an event would be ten times worse than the 2007 floods, which have been estimated as a one in 35 chance event in terms of its impact on the country.

Confusion often arises because it is not always clear whether a flood is being described for a local area or for the country as a whole. A severe flood with a very low chance of happening (for example one in 200) for a particular location may happen somewhere in the country in most years. But a one in 200 event *for the whole country* is nearly six times less likely to occur than the 2007 floods.

*Who would determine the level of premiums that should be deemed affordable and how can the industry guarantee that the levy will relate directly to the benefit to customers ie the funding is not absorbed by the industry but goes transparently into maintaining affordable premiums for high risk properties?*

The Flood Re model works by transferring the policies being supported from the insurers themselves into a *not-for-profit* fund. *Once a policy is ceded into Flood Re the insurer can neither make nor lose money on that policy.* It has been explicitly designed to ensure that any support is provided to customers, and cannot be absorbed or “creamed off” by insurers.

The level of premium to be deemed “affordable” is, fundamentally, something that needs to be agreed with industry as part of the implementation of Flood Re. These premiums would then be subject to the agreed governance of Flood Re. For example, they may be reviewed every two years and signed off by the Flood Re Board which would have Government representation.

Furthermore, the outcomes, costs and actuarial operations of Flood Re would be fully transparent. Flood Re could provide annual reports to the EFRA Committee on the consumer outcomes, actuarial operations of the model and detailed cash flow analysis to allow full scrutiny that it is operating as a not-for-profit body as intended, and delivering outcomes for customers at risk of flooding.

March 2013

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### **Supplementary written evidence submitted by the Association of British Insurers**

#### **RESPONSE TO MARSH SUBMISSION OF 20TH MARCH**

##### **Part 1: ABI Views on the Marsh “Flood Mu” Proposal**

1. Flood Mu would not safeguard *affordability*. This is because, unlike Flood Re, it would not place a maximum cap on flood premiums. As Marsh explained in the EFRA hearing on 20th March, the only way to guarantee affordability would be for the Government to step in and pay premiums or claims. This is unrealistic and unnecessary.

2. Flood Mu would not safeguard *availability*. Because insurers would still hold 50% of the risk of the properties they insured, it would make little economic sense for them to cover high risk homes. With Flood Re, there is no incentive to decline cover.

3. There is no financial incentive within the Flood Mu model for the Government to invest in flood risk management, because all of the risk resides with the insurance industry.

For these reasons, the Flood Mu proposal is significantly inferior to Flood Re and would not solve the policy challenges that we are jointly trying to tackle. It is therefore completely unacceptable to UK insurers.

## Part 2: Response to Marsh Critique of Flood Re Model

The Marsh submission raises a number of concerns about the Flood Re model, four of which are misplaced.

1. Marsh suggested that Flood Re would create perverse incentives on high risk homes not to manage their flood risk and developers to build in flood risk areas.
  - High risk homes would still have an incentive to reduce their flood risk, despite their premiums being capped, because if risk was reduced enough they could come out of the pool and get a cheaper deal. Flood Re may also include conditions for managing flood risk for the properties that flood most regularly.
  - Flood Re would not encourage development in flood risk areas because it would not be available to new build homes. The Government's revised National Planning Policy Framework also contains significant safeguards against a return to flood plain development.
2. Marsh suggested that the Flood Re levy would raise prices, as "tariffs tend not to be contested".
  - The risk could equally be the other way round—the levy could be competed away by the larger insurers that can absorb the costs relatively easily, meaning it does not get passed on to policyholders at all. In reality, we have to assume the middle ground, where the levy effectively cancels out the current cross-subsidy in the market. This has been central to the design of Flood Re.
3. Marsh suggested that Flood Re involves the insurance industry doing "social policy" (ie defining "affordability"), which should be the Government's job.
  - Flood Re is about the industry working with the Government to deliver an important set of social policy objectives, in line with insurers' commitment to maximising our value to society.
  - Under Flood Re, Government could be involved in the governance and decision making of Flood Re. The extent of this is a matter for discussion.
4. Marsh suggested that the Government backstop is not the right way for Government to be involved, because it is a poor incentive to motivate Government to invest in managing flood risk.
  - Flood Re's approach to Government ownership has been for it to provide a backstop in the event of a natural catastrophe and to provide commitments including no further reductions to flood defence expenditure. Neither has been a major sticking point in discussions to date. The Marsh idea, as set out in its EFRA submission, is for Government to subsidise homes directly by paying a share of claim costs. This suggestion is risible.

*March 2013*

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### **Written evidence submitted by the Association of Drainage Authorities regarding recent decisions about funding for flood defence schemes**

#### **1. Executive Summary**

1.1 The Association of Drainage Authorities (ADA) is concerned by the reduction in investment in flood risk management for the present Spending Review (SR10) period. ADA considers that investment in maintenance delivered by the Environment Agency on Main River and associated assets has reached unsustainably low levels to an extent that a lack of maintenance has contributed to the flooding that occurred in England during 2012.

1.2 England faces a number of pressures on flood risk management delivery in the future, including:

- a growing and aging asset list,
- a broadening array of responsible authorities,
- climate change,
- the prevailing economic/investment climate, and
- increasing public expectations.

1.3 ADA sees an urgent need for increased revenue funding for the Environment Agency in order to significantly increase the Environment Agency's maintenance operations: on watercourses, for existing assets, and to facilitate the transfer of some watercourses to more local risk management authorities, such as Internal Drainage Boards.

#### **2. Background**

2.1 In 2009 the Environment Agency published its long term investment strategy for flood and coastal risk management (FCRM) in England. The report identified that investment in FCRM would need to reach £1,040 million per annum plus inflation by 2035 in order to build and maintain new and existing FCRM assets to

deliver the protection levels as they were then. In 2010–11 a total of £570 million was spent on constructing and maintaining FCRM assets, the report recommended an increase in investment of around £20 million plus inflation each and every year.

2.2 However, Government investment in Flood Defence Grant in Aid (FDGiA) has been reduced during the current Spending Review period (See Figure 1). FDGiA is made up of two aspects, capital (primarily for the construction of new assets) and revenue (for staff, offices and for on-going works including maintenance of existing assets). It is the revenue budget that most concerns ADA at present.

### 3. Revenue Funding Pressure

3.1 The FDGiA Revenue budget is steadily decreasing throughout the current Spending Review period from £275 million in 2010–11 to £226 million in 2014–15 (See Figure 1). The major concern of the Association's members has for many years been the under investment in the maintenance of England's watercourses, particularly those designated as Main River. The Environment Agency has been reducing its Main River maintenance for many years but the revenue cuts brought in during the current Spending Review Period have accelerated the process markedly. Maintenance funding for the Environment Agency is predominantly derived from the FDGiA revenue budget, with further contributions from local authorities through local levies and from IDBs via a precept which have either broadly risen with inflation or remained static.

3.2 In 2010–11, the Environment Agency's annual regional revenue maintenance budget was just over £100 million. This was widely considered to be significantly short of the investment required to keep up with even the most essential works to keep our rivers flowing. A decreasing amount of work is being conducted on medium and low priority parts of the network and whilst it is to be expected that these areas would receive less work, if they are never maintained these parts of the system may no longer function as intended. De-silting work on rivers in areas such as the Somerset Levels having all but ceased, the Rivers Tone and Parrett are considered to be between a third and two third of their capacity, exacerbating the extent and duration of the current flooding. The EA's maintenance budget for 2013–14, beginning in April, is just under £70 million and for 2014–15 it is set to be £60.7 million. In short, the Environment Agency's maintenance budget will have nearly halved since the turn of the decade (See Figure 2). Yet this budget will have to stretch ever further with new defences being built under capital investment.

3.3 An example of the pressure being felt is the maintenance funding settlement for the Environment Agency's Anglian Central Region for 2013–14. Here the Regional EA bid for a maintenance budget of £6 million but received an offer of only £2 million. The bid was focused almost solely on the most essential high priority areas to be maintained. The shortfall means that even high priority watercourses fall further and further into a state of disrepair thus requiring either: more costly maintenance works, a capital project to rebuild the asset or increased flood risk. The picture is one that typifies the situation nationwide (Appendix 1 provides a summary of other cases of reduced main river maintenance and how it is affecting the functioning of IDBs).

### 4. Increasing Costs

4.1 ADA considers that many of the difficulties in delivering main river maintenance stem in part from the inflexibility of a nationalised structure within the Environment Agency that prevents pragmatic local decision-making and increases costs.

4.2 Procurement is one such area. ADA is concerned that the Environment Agency's existing, and proposed, procurement frameworks ties the Agency's operational teams to choosing services only from a nationally approved list of contractors and suppliers. For the delivery of a whole range of operations the Environment Agency's nationalised procurement approach is proving significantly more costly and is a contributing factor to reducing the Agency's ability to deliver timely and sufficient Main River maintenance. In some instances this is proving to act as barrier to partnership working with other more local risk management authorities such as Internal Drainage Boards, which in many cases are keen to assist the Agency with maintaining sections of main river which fall within the catchment of their Internal Drainage District.

### 5. Withdrawal of Maintenance and Transferring Functions

5.1 Owing to the reducing maintenance budget and increasing costs of work the Environment Agency is pursuing a policy of withdrawing from maintenance of lower priority Main River systems under its Asset Maintenance Protocol. It is also seeking to withdraw from its responsibilities of acting as the Internal Drainage Board for 10 Internal Drainage Districts in the South East of England.

5.2 In these circumstances the Environment Agency is either seeking to pass maintenance on to other interested parties, revert to riparian owners/occupiers powers and duties or seek interested parties to form IDBs. On the Solway Plain and in the Lyth Valley in Cumbria and in the Lower Alt and Crossen Catchment in Lancashire new IDBs have been proposed to take over some main river maintenance operations from the Environment Agency. However, to progress such proposals the administrative arrangements for setting up a new IDB will need to be supported by the Environment Agency in the short term before the body can levy its own drainage charges.

5.3 ADA in principle would welcome some main river being transferred to new and existing IDBs, especially where this was previously maintained effectively by an IDB prior to becoming Main River in the mid-2000s. However, it is concerned that unless the Environment Agency and Defra are able to financially support the transition of responsibility the management of many sections of our main river network will become piecemeal and disjointed.

5.4 A number of the lower priority sections being proposed are in lowland rural areas. Flooding of these areas can, as shown in Somerset, be devastating to the communities affected and the other infrastructure that criss-crosses such areas, particularly as once water is on the land it is difficult and costly to move and can leave areas flooded for months at a time. ADA believes that where the Environment Agency seeks to withdraw maintenance in order to realise long term savings, sufficient funding should be provided in the short term to ensure assets and systems are transferred in a good operating condition and that there is sufficient funding to make a structured transition.

5.5 ADA is also aware of sections within the Water Resources Act that enables the Environment Agency to levy drainage charges themselves to support maintenance operations that benefit land drainage and thus reduce fluvial flooding. At present these powers are only used in the Anglian Region which levies a General Drainage Charge across the whole region. ADA considers that the Environment Agency should explore applying more local special drainage charges in areas in order to help fund maintenance operations.

## 6. Organisational Arrangements

6.1 The merger of the Environment Agency Wales, Forestry Commission Wales and Countryside Council for Wales to form a new single environmental body called Natural Resources Wales is of concern to ADA. Much investment and resource is being directed by the Welsh Government and the constituent bodies into forming the new single body and there appears to be a reduced focus on flood risk management within the proposed new body.

6.2 In England, Defra have commenced the Triennial Review of the Environment Agency and Natural England. Defra's consultation document offers two scenarios, one of which would result in a merger of these two bodies. ADA believes that a merger in England would be complicated and leave strategic weaknesses in environmental management, especially within the delivery of flood risk management.

6.3 ADA considers that if the functions of the Environment Agency and Natural England are to be reformed, the long term delivery of flood and coastal risk management, especially on the functioning of England's main river network must be assured.

6.4 In recognising that the Environment Agency and Natural England have distinct synergies between their environmental, waste, and pollution regulatory functions, ADA considers that these functions could be merged into a single body or transferred to other related authorities such as the Department of Energy and Climate Change or the Marine Management Organisation.

6.5 This would leave the Environment Agency's operational flood and coastal erosion risk management functions. ADA considers that these functions may be better served via catchment focused flood risk bodies based on existing Environment Agency Regions. This would ensure flood risk management in England continues to be managed on a catchment basis, whilst ensuring sufficient focus is placed on local delivery. This would support closer working with local authorities and internal drainage boards and allow them to re-focus their efforts on maintaining their present systems and defences and focus the building of new defences on local priorities and the needs of the catchments.

6.6 Those functions performed by the Environment Agency's National Office should either be transferred into a strengthened Flood Forecasting Centre or subsumed within the Department (Defra). This could produce an additional benefit, providing Defra with much needed technical and engineering skills. Such skills are presently lacking within Defra, which has increasingly become reliant upon the Environment Agency's expertise in flood risk management following the loss of Defra's Regional and National Engineers in the mid-2000s.

## 7. Recommendations for Action

7.1 Further investment is needed to increase the contribution to revenue funding of the Environment Agency in order to significantly increase main river maintenance operations.

7.2 The managed transition of lower priority sections of main river from the Environment Agency to new or existing IDBs or other organisations should be undertaken. Such transitions need to be adequately funded and supported in order to realise longer term savings to the Environment Agency.

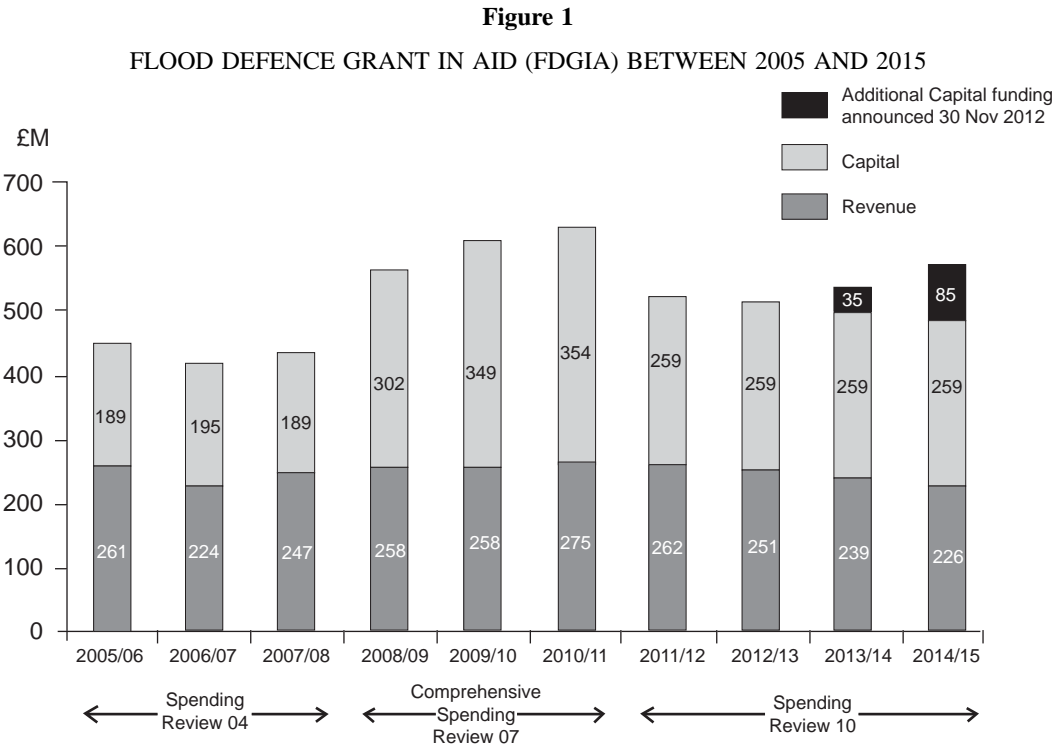
7.3 The Environment Agency should explore the use of special drainage charges as enabled by the Water Resources Act in order to help fund its own maintenance operations where revenue funding from FDGiA alone is insufficient.

7.4 Through the Triennial Review of the Environment Agency and Natural England, Defra should explore the creation of catchment focused flood risk management bodies based on existing Environment Agency Regions.



8. Figures Referred to in the text

8.1



8.2

**Figure 2**  
ENVIRONMENT AGENCY’S PROJECTED REGIONAL REVENUE MAINTENANCE PROGRAMME SPEND BETWEEN 2011 AND 2015



## APPENDIX 1

## SUMMARY OF COMMENTS RECEIVED FROM INTERNAL DRAINAGE BOARDS REGARDING REDUCED MAIN RIVER MAINTENANCE AND HOW IT IS AFFECTING THE FUNCTIONING OF INTERNAL DRAINAGE DISTRICTS

<i>Internal Drainage Board</i>	<i>Main River</i>	<i>Concerns/main issues</i>	<i>Actions desired/undertaken</i>
Swale & Ure IDB	Swale, Cod Beck, Wiske + Tributaries	—	—
		Damage to River Swale floodbanks owing to burrowing animals contributed to breaches on 6 occasions to date.	IDB wishes to take back responsibility of previously en-mained sections.
		—	—
		Gravel shoals in rivers and tree growth both contribute to higher river levels, greater pressure on floodbanks.	IDB developing relationship with EA staff locally to undertake some main river works, but feel restricted by bureaucracy at present.
		—	—
		Cod Beck, River Wiske and tributaries en-mained in 2006 after floods in Northallerton and Thirsk in 2000. Standard of protection from the river flooding has deteriorated.	
Lower Severn IDB	Severn, Leaddon, Longdon Brook, Little Avon	—	—
		Too many decisions need to be approved nationally by EA.	
		“Low risk” main rivers currently receive no scheduled maintenance and only a “best endeavours” response to blockage removal.	If the EA through the RFCC simply removed all low risk main rivers and deemed them to be ordinary watercourses then IDBs and Local Authorities could act if they choose to. At the moment they are powerless and the EA is not motivated.
		—	—
		Effectiveness of IDB operations being reduced by a lack of maintenance on Main River.	Financial cost a concern to board/ratepayers, would seek reduced precept.
		EA only act in times of flood risk.	
Rea IDB	Rea Brook	Greater water-logging of land and more prolonged flooding.	
		—	—
		A lost flap valve still not replaced after many years.	
		Maintenance is limited to weed cutting with the emphasis on the upper length of the Rea Brook.	Silt removal and dredging activity by EA.
		Works not undertaken at all in 2011.	
		Works delayed until Autumn in 2012 owing to July flooding.	
		Flooding exacerbated by siltation and weed growth.	

<i>Internal Drainage Board</i>	<i>Main River</i>	<i>Concerns/main issues</i>	<i>Actions desired/undertaken</i>
Black Sluice IDB	Horbling New Cut Swaton Eau Becks	Flooding from Horbling New Cut and Swaton Eau including high levels in village.	EA staff reluctant on IDB taking over their assets.
		If IDB maintained they would cut July & November: This year EA cut in November.	De-maining should be an option, however:
		Becks: IDB channels discharge by gravity into “low risk” main rivers, which are not maintained.	— Some IDB Members reluctant to spend IDB rates & levies on maintaining EA watercourses. Many still believe EA should be pushed into undertaking the work themselves. — Financial cost a concern to board and ratepayers, would seek reduced precept.
Upper Witham IDB	Upper Witham, Foston Neck, Shire Dyke, River Till, River Brant	Reduced maintenance on Upper Witham has caused at least one issue where a floodbank was overtopped and properties flooded.	— Had initial discussion with local EA two years ago over transferring responsibility to the Upper Witham IDB however no impetus from the EA to transfer.
		Lack of maintenance on Main River length is restricting flow rates and keeping levels higher for longer upstream.	
		Specifically, lack of regular winter maintenance has allowed seeded plants to establish themselves restricting access for the regular summer work. Establishment of bushes and trees on flood banks, compromising their stability and attracting vermin.	

<i>Internal Drainage Board</i>	<i>Main River</i>	<i>Concerns/main issues</i>	<i>Actions desired/undertaken</i>
Witham First District IDB	Lower Witham, Timberland Delph, Branston Delph, Digby Beck	—	—
		On Timberland Delph, un-even and narrow bank top to raised earth flood defence embankment resulted in prolonged overtopping during the recent high flow event (December 2012). Site of overtopping is demarcated by presence of large willow trees that have resulted in localised low spots and extensive root system.	The EA need to talk to local IDBs, along with Local Authorities to discuss the impacts a de-maining exercise would have upon the funding/budgets of the IDBs.
		Water overtopped directly into a pumped IDB system. Pumping station 2–3 km downstream was at risk of being overwhelmed. Emergency work was necessary and warnings were sent to 130 residential properties.	There should be a clear decision making process for transferring main river maintenance.
		Poor maintenance of raised earth embankment over many years has resulted in extensive seepage from Branston Delph into the adjacent agricultural land and has adversely affected local residential properties.	A programme should be agreed by all parties so that any channels being de-mained are put into an acceptable condition before being handed over, or funding provided to allow the IDB to undertake the recovery work that would no doubt be required.
		Digby Beck is poorly maintained. The overhanging branches from adjacent hedgerow have reduced the Becks ability to pass the recent high flows through and away from the village. A number of residential properties in the village suffered internal flooding in June and November 2012.	Major capital works are needed to raised earth embankments that have been poorly maintained for many years.
	—	Flooding occurred in the village after at least two high rainfall events in June and November 2012. EA/Defra scoring system for FDGiA does not recognise the importance of agriculture.	

<i>Internal Drainage Board</i>	<i>Main River</i>	<i>Concerns/main issues</i>	<i>Actions desired/undertaken</i>
Witham Third District IDB	Lower Witham, Barlings Eau, Gaultby & Minting Beck, Tilehouse Beck, Apley & Bullington Beck, Buslingthorpe Beck, Sudbrooke Beck	Watercourses that outfall into EA main river that serve predominantly agricultural areas are considered low risk and receive little maintenance to their embankments, batter or beds. This results in free flowing water passing down the IDB gravity system hitting a main river channel blocked by dense vegetation.	—
		Barlings Eau's embanked channels recently overtopped flooding large areas of agricultural land.	—
		EA/Defra justification scoring system does not recognise the importance of the agricultural industry.	—
			There should be a clear decision making process, with a consensus agreeing to the maintenance of a channel by the IDB.
			A programme should also be agreed by all parties so that the channel is put into an acceptable condition before it is handed over, or funding provided to allow the IDB to undertake the recovery work that would no doubt be required.
Ouse & Humber DB	River Foulness		Major capital works are needed to raised earth embankments that have been poorly maintained for many years.
		Recently the Board accepted the transfer of 15km of river from the EA.	—
		Increased tree and willow growth presented some issues during the heavy rains of 2012 with regards to impeding essential maintenance and reducing flow velocities.	—
		Limitations in revenue budget have, over many years eroded the capability of the EA to undertake large scale preventative desilting of estuarine outfalls. Instead too much reliance has been placed upon cheaper and more frequent "flushing".	Board will be increasing the weed cutting and introducing a prioritised and environmentally sympathetic tree management regime. Works will be funded by the Board through its rates/levies and include a significant investment in specialist equipment in order to undertake the works cost effectively.
			Board did not receive a reduction in Precept but as the watercourse drains over 40% of the drainage district (13000ha) it felt it had no other option than to accept the situation.

<i>Internal Drainage Board</i>	<i>Main River</i>	<i>Concerns/main issues</i>	<i>Actions desired/undertaken</i>
Ainsty (2008) IDB Foss (2008) IDB	Old Fleet Foss, Bielby Beck	—	—
		Previously IDB maintained ditches, both have deteriorated over time with a lack of maintenance by the EA since being en-mained.	The Board has carried out works on the Old Fleet Foss at the Agency's instruction and funding over a period of time to try to improve its condition.
		Both are the main drainage system for large portions of the Boards drainage districts.	
Beverley and North Holderness IDB	River Hull + Tributaries	—	IDB wishes to see main river de-mained.
		Both Boards receive numerous complaints about land flooding and lack of functionality of both drainage systems.	
		—	
		Reducing levels of maintenance over many years.	
		—	
		River Hull Strategy has created a high level of uncertainty on investment in existing systems which has delayed appropriate capital investment in maintenance works such as significant bank repair works in the upper catchment.	
		—	
		Three pumping stations considered economically unviable and thus could be abandoned. These stations, following increased ground water levels, are currently running to capacity.	
		—	
		—	
		No reports on how precept to EA from IDBs is being spent.	
		—	
		Barriers to de-maining relate to the board taking on additional unfunded burdens, e.g bridges, culverts, pumping stations. Also since maintenance has been low recently, costs will be high to re-establish well maintained state.	

<i>Internal Drainage Board</i>	<i>Main River</i>	<i>Concerns/main issues</i>	<i>Actions desired/undertaken</i>
South Holderness Consortium of Drainage Boards (6 Drainage Boards)	Fleet Drain, Burstwick Drain, Thorgumbald Drain, Keyingham Drain, Winestead Drain, Skeffling Drain	—	—
		EA not maintaining the watercourses to the standard that the IDB would do so. With the exception of Burstwick Drain they have not taken any silt out of the watercourses. This is leading to good agricultural land being flooded. EA doesn't accept that agricultural land drainage is a priority.	Their boards are in the process of carrying out a partnership scheme to clear out the tidal sections of Keyingham Drain and Burstwick Drain to assist the main rivers in discharging into the Humber Estuary. EA would not carry out the work but have contributed to the costs.
		De-maining appears to be the main barrier to transfer responsibility from the EA to IDBs but of course the funding of these costs must also be looked at.	Keyingham IDB has offered to take over the maintenance of Keyingham Drain provided funding can be put in place. Winestead IDB has offered to make available funds to the EA for the de-silting of Winestead Drain.
		—	South Holderness Consortium believes that to get the maintenance that protects agricultural land, IDBs need to take over. They are mindful to either extend our IDB areas to include all the catchment or to have greater finance from the EA/Central Government.

## Written evidence submitted by the British Insurance Brokers' Association

### About BIBA

1. The British Insurance Brokers' Association (BIBA) is the UK's leading general insurance organisation representing the interests of insurance brokers, intermediaries and their customers.

2. BIBA membership includes just under 2,000 regulated firms having merged with the Institute of Insurance Brokers (IIB) in November 2011.

3. General insurance brokers contribute 1% of GDP to the UK economy and BIBA brokers employ more than 100,000 staff.

4. BIBA helps more than 400,000 people a year to access insurance protection through its *Find a Broker* service, both online and via the telephone.

5. Brokers provide professional advice to businesses and individuals, playing a key role in the identification, measurement, management, control and transfer of risk. They negotiate appropriate insurance protection tailored to individual needs.

6. BIBA is the voice of the industry advising members, the regulators, consumer bodies and other stakeholders on key insurance issues. BIBA and our members are committed to helping customers access insurance for their properties. Brokers are the agent of the customer and the Insurer and are normally able to find solutions for properties at the highest risk of flood. Of our 2000 members, BIBA has 113 who specialize in flood risk properties. We have been involved in the Pitt review and the Treasury and DEFRA flood Working Groups, met with the Flood Minister Richard Benyon, spoken at the DEFRA flood summit and met with Anne McIntosh MP, Chairman of the Environment, Food and Rural Affairs Select Committee.

### Availability of Flood Insurance

7. We believe that once the Statement of Principles expires, the majority of property owners (98%) will continue to access flood insurance in the normal way with Insurers providing cover as part of the standard bundle of perils.

8. The 2% of highest risk properties is where there is most concern as these are the properties that are often red lined and rejected by an internet comparison site who are providing products for standard homogenised risks, not for non standard high risks.

9. This is where BIBA's not-for-profit *Find a Broker* "signposting" service can play an important role in helping people access suitable cover.

10. Signposting is a way of helping consumers who are refused insurance cover at the point of sale. If an insurer or insurance broker is unable to offer cover, then they will automatically refer them to a more suitable alternative provider or to BIBA's *Find a Broker* service, which matches them to a specialist flood insurance broker, who can more easily accommodate their enquiry.

11. Through effective signposting, if no solution is found, BIBA are still confident most homeowners will still have flood cover available through brokers. In research with our members we have seen our members cover 95% of the Insurer rejections.

12. We already have a formal agreement with HM Treasury that launched in April 2012 that has seen a 268% increase in enquiries to BIBA from older people who were experiencing difficulty seeking motor and travel insurance. A similar agreement could be created for flood risk properties. BIBA has already helped over 500 households this year find flood cover for their properties via our find a broker service and believe we could be helping a lot more. There would be no cost to Government, the industry or the taxpayer for creating this and it would offer direct help to those seeking flood cover.

13. If such a signposting agreement is created, it is only the very highest risk cases where the property owner refuses to co-operate (eg signing up the environment agency flood alert system) there will be difficulty in accessing cover. It is these households—a tiny minority of the overall number of policyholders—where a decision needs to be taken on whether an intervention is required—and, if so, what that intervention should be.

### Reinsurance options

14. *BIBA are not suggesting any specific option over another. All involve our Insurance broker members:*

- *Open market—specialist flood brokers.*
- *Flood Re—Aon Benfield.*
- *Noah—Marsh.*

15. However, we have put some discussion points about each in this response. Any of these three systems could be developed to put in place a suitable solution going forwards, and in fact, a combination of a number of these solutions should be discussed.

16. There are two reinsurance solutions from members:



## 1. UK Residential Flood Insurance through the Noah Solution (Marsh/Guy Carpenter/Munich Re)

17. The Marsh solution—project Noah—is a very different solution that covers the insurers' whole property portfolio, not just the high risk properties (Flood Re). Noah would transfer the residential flood risk to the reinsurance market and provides cover that was not previously under a catastrophe treaty.

*In Noah's official literature, Marsh has stated the following:*

- *It is an independent, commercial solution to the challenge of UK residential flood insurance.*
- *Noah is structured as a 90% Quota Share Reinsurance Facility for UK insurers.*
- *At the heart of Noah is a flood risk pricing model that identifies and calculates the insurance cost of every residential property in the UK.*
- *The Noah flood model provides the accuracy and transparency to enable the international reinsurance markets to take the risk away at economical terms.*

18. What does the Marsh literature say the advantage of Noah is to UK householders?

- *UK homeowners will be able to access flood cover from any insurer that is protected by the Noah reinsurance cover.*
- *UK policyholders will have full transparency over how their flood price is calculated and will be able to reduce their cost of insurance through flood resistance and resilience measures if they so choose.*

19. What does the Marsh literature say the advantage of Noah is to UK insurers?

- *The Noah model provides insurers with detailed prices for all 27 million UK properties.*
- *Insurers can safely underwrite homes in previously "no-go" areas.*
- *With flood risk removed, solvency capital requirement reduces by up to 10%.*

20. What does the Marsh literature say the advantage of Noah is to the Government?

- *Noah requires no taxation, no subsidy, no levies, no legislation, and no additional infrastructure.*
- *Under Noah, there will be no contingent liability on government to pay flood losses.*
- *The Noah reinsurance facility is available now.*

## 2. ABI Flood Re

21. BIBA appreciate the ABI has already submitted the Flood Re proposal to the select committee and therefore further explanation of their offering is not required. Our member Aon Benfield is offering to provide the reinsurance solution for this model.

22. BIBA believe Flood Re can deliver an important solution. Our observations are:

- The Flood Re proposal aims to address the issues of flood insurance availability and affordability for those most at risk of flooding, offering cover to those in high risk areas.
- It has the support of a large number of Insurers.
- Flood Re allows UK insurers to remove all UK flood risk exposure from their balance sheets.

23. The challenges for Flood Re:

- Legislation would be required.
- The infrastructure to operationalise Flood Re will need to be created—insurers would also have to make significant changes to their front end IT systems to separate "normal" business from "Flood Re" business.
- A levy could be required. This could be potentially on insurers (or possibly policyholders) to create the income to fund the reinsurance model and the claims reserves, any levy would bring a number of challenges to the table.
- During its formative years the reinsurance limits could be tested, particularly if 2013 is an exceptionally high frequency claim year, like 2012. However remote this situation may be, it would leave some contingent liability with Government as it will take time to build up the reserves.

## Other issues

24. BIBA believe that UK home owners will find it far more easy to arrange cover if they have the appropriate risk management solutions in place. This could involve resilient repair from previous flooding, signing up to the environment agency flood alert warning system, putting the necessary door shields and flood guards into place.

25. BIBA believe the way forward is to get the right balance, there are plentiful amounts of reinsurance from our members, and it is only fair for an insurer to charge a price commensurate with the risk. Resilience

and resistance measures are a factor and it should be noted that the Insurer is not there to prevent losses. In this connection Government funding of flood defences is extremely important.

26. For a market solution to work beyond the statement of principles BIBA wants to see:

- Signposting to flood risk property owners to suitable specialist brokers (similar to the existing age agreement).
- More promotion of Resilient Repair and Resilient new build.
- Improved flood Maps—specifically surface water maps should be made available to the insurance industry.
- Realisation of full flood defence spending as for every £1 spent on defences, at least £7 is saved in claims.
- Ultimately any solution will require Cooperation between Property Owners, Insurer, Brokers, DEFRA, the EA, HMT, Reinsurers and local authorities.

27. We hope you find this submission helpful and would be happy to discuss in further details with members of the select committee.

February 2013

### **Supplementary written evidence submitted by the British Insurance Brokers' Association**

#### **Access to Flood Insurance—Signposting**

BIBA believe that a system of “signposting” can help flood risk property owners more easily access insurance cover. If flood insurance goes “open market” after the expiry of the statement of principles then signposting will be even more important. It is a win for the customer, a win for the government, requires no legislation, can happen now and there is no cost to the taxpayer or policyholder.

I have included some details on the existing arrangements for older drivers. If you wish I can provide contacts at the Government Equalities Office and HM Treasury who can explain a little more about this from the government’s perspective.

#### **What is Signposting?**

Following the new Signposting agreement between the government, the British Insurance Brokers' Association and the Association of British Insurers launched in April 2012, BIBA has helped over 40,000 older people access travel and motor insurance through our find a broker service. (This is in addition to the thousands of referrals made by insurers directly to other relevant partners).

*Under the agreement, if an insurer or insurance broker is unable to offer cover to an older motorist or traveller due to the fact that their age is above any upper age limits they have, then they will automatically refer them to an alternative provider who can meet their needs or to a dedicated signposting service, such as BIBA's “Find a Broker” service or website.*

*BIBA believe that if there is no flood solution by the 30th June a similar signposting solution for flood risk properties is vital to help people access cover. In practice this would mean an insurance provider that rejects a certain property due to its flood risk will signpost to BIBA who can pass the enquiry on to a specialist flood broker member who can help them, or the declining provider should refer it to a source who they know can cover the risk.*

The final signposting agreement on age and insurance titled “*Transparency and access in motor and travel insurance for older people*” can be accessed here: <http://www.biba.org.uk/UploadedFiles/418agreement.pdf>

The Government Equalities Office Equality Act 2010 consultation document titled “Banning age discrimination in services, public functions and associations a consultation on proposed exceptions to the ban” that asked the original question about signposting can be viewed here: (you will probably be most interested in page 48) <http://sta.geo.useconnect.co.uk/pdf/110301%20Consultation%20doc.pdf>

The Question said: *Do you agree that a service level agreement signed by BIBA, ABI and the Government, agreeing that a signposting/referral system should be set up so that those refused an insurance product, because of their age, are referred to a supplier that can help them; is an effective way to achieve improved access?*

The government’s response to the consultation Equality Act 2010 “*Banning age discrimination in services, public functions and associations*” Government response to the consultation on exceptions can be found here: (you will probably be most interested in page 20) [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/84985/government-consultation-response.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/84985/government-consultation-response.pdf)

I have pasted in here the paragraph explaining the government’s decision to proceed with signposting for older people here:

## Our Assessment

*4.18 We decided to proceed, in conjunction with the Association of British Insurers and the British Insurance Brokers' Association, with the signposting proposal so that consumers have better access and also more choice in obtaining the products they want. We consider that the voluntary approach is proportionate and should be effective. 4.19 In practice, this will mean that where a motor or travel insurance provider is unable to provide cover to a person because of their age, they will be required, as a member of the signposting scheme, to refer that person either to a specific provider who can meet their needs or to a dedicated signposting service such as the service currently operated by BIBA. 4.20 An agreement between the Government and the insurance industry represented by the British Insurance Brokers' Association and the Association of British Insurers has been finalised and published<sup>17</sup>. The British Insurance Brokers Association has said it will expand its dedicated call centre and website, to meet this agreement. It covers both aspects of the voluntary scheme.*

There has been a healthy increase in enquiries to BIBA over the first year and over the last few months there have been more than double than when we started, with over 5,000 enquiries a month now.

I have taken HM Treasury and the national press to our call centre and so if you or your members wanted to attend and see how it works then I am very happy to host you for the day.

All ABI members adhere to the current agreement as a condition of membership and all BIBA brokers also undertake to comply with this agreement.

There has been a continual increase in enquiries to BIBA over the first year and over the last few months enquiries have more than doubled.

Although it is still early days in the five year agreement with time needed for awareness to filter through the whole industry we are committed to growing this service.

What else can be done to improve access to insurance.

- Government could increase profile of the find a broker service on Government websites.
- The service could be expanded to include people experiencing difficulty accessing home insurance who are at risk of *flooding*.

I have put below some real life examples of where flood risk customers have accessed cover through BIBA Brokers:

### *Broker 1*

I have can confirm we have offered terms and incepted cover on five cases recently all with differing variations of flood risk. I have set out brief details below which I hope will help.

#### *Case 1*

Evesham WR11—mapped as a significant flood area on EA.

Property had flooded in 2007 when the River Avon burst its banks cost of claim was approximately £60,000.

Property was included in the Fairhurst Flood Defence Assessment dated July 2009.

Defence measures include a concrete retaining wall, removable flood barriers, a clay bund and non-return valves which has reduced the overall risk of flood for the area and property.

The previous Insurer who indicated renewal terms this year with a premium in the region of £2,000.

We inspected the property, cost of £175.00. and have offered terms and incepted a policy for buildings and contents insurance at a premium of £542.11 inclusive of IPT and admin fee.

We applied terms of £2,500 flood excess, warrant that the owner signs up to the EA early warning system and put flood barriers in place whenever the property is a risk.

#### *Case 2*

Falmouth, Cornwall TR11—mapped as a significant flood area on EA.

Mid-Networth Holiday Home 213ft from Flushing Falmouth Ferry Landing in a small fishing village.

Property flooded in 2003 due to high sea levels and storm conditions—cost of claim was approx £30,000.

Property benefits from raised floors, there is a flood wall built around the front of the property and a flood gate at the rear.

Property was insured excluding flood cover who apparently refused to renew as they no longer cover stand alone holiday homes.

We have offered and incepted cover for buildings and contents at a premium of £962.88 including IPT excluding flood due to the occupancy.

#### *Case 3*

Tiverton EX16—Mapped as be prepared on EA.

Property is 3–400m from the River Exe.

Property and area has never flooded.

Previous insurer was excluding flood cover.

We have offered and incepted cover for buildings, contents and personal possessions including flood

at normal terms.  
 Premium charged 394.29.  
 Minimum security applies.

#### *Case 4*

Hull HU5—mapped as moderate on EA.  
 Property was flooded in 2007 due to heavy rainfall, inadequate drainage and a failed pumping station—cost of claim was approx £13,000.  
 The previous insurer were offering terms with an increased premium and excess which was not declared to us.  
 We have offered and incepted cover for buildings and contents at a premium of £660.40 including IPT and admin fee.  
 Terms are sign up to early EA warning system, increased flood excess to £2,500 and minimum security.  
 The drainage system in Hull is now checked and cleared at least twice a month.

#### *Case 5*

Willingdon, Derbyshire DE65—mapped as significant on EA.  
 Property situated 2 metres away from a brook. New purchaser had obtained cover and had declared no flooding to the property. He was then told that the previous owner had suffered a flood and claimed on his insurance for damage to furnishings he is unaware of the cost etc, on telling the insurer this new information they withdrew flood cover.  
 We visited the property in question at a cost of £175. The property is located in an area of significant flood risk and is eligible for an EA grant for flood opening barriers for which it is ideally suited having only four openings. The previous owners had fitted some intermediate barriers and are prepared to finance installation of proprietary kite marked barriers and they already subscribe to the EA early warning system.  
 The area was subject to a flood warning in 2012 and some minor ingress to the property occurred but was not subject to a claim.  
 We have offered and incepted cover for buildings and contents at a premium of £698.73 including IPT and admin fee.  
 Terms are to have appropriate flood barriers fitted, put them in place whenever the property is at risk of flooding, sign up to EA warning system and we have excluded flood cover to the garage and its contents.

#### *Broker 2*

Insurers set the rules here where their extensive flood mapping tools will decline (where flooding is a certainty) or refer by postcode. Different insurers have different modelling and attitude to risk. This means there is a fair chance for a broker to find cover for his customer's property by searching the market. Indeed, this is the advantage a broker brings over direct insurers.

As you'd expect of sophisticated mapping there are layers of acceptance. What we do is to use our experience and the broker's knowledge of their community to refine the risk to insurers.

My company earnestly tries to support brokers and their clients with an empathetic approach. We avoid "the computer says no" attitude.

The first thing is to say is we will insure properties that have flooded.

This can be at no additional terms whatsoever (property not in a flood refer/decline postcode) or where a property is in a flood referral area we will offer cover with an increased claims excess and/or premium increase. Our aim being to give property owners access to good quality cover at an affordable premium.

I cannot stress how important the broker's local knowledge and experience is; eg I've known that street for over 50 years and its never once flooded or yes, sadly the water levels rise very quickly around there.

My business also recognises local authority flood improvements, property owners' flood resilience measures and the nature of previous floods; eg was this caused by culverts not being cleared or block drains? Measures can be taken to rectify these so that flooding is less likely to occur again. The nature of flooding requires careful assessment of the need for a permanent or removable defence; eg if a drain has backed up a non-returnable valve can be installed to avoid a repeat of the incident.

It's also not like motor insurance where previous claims attach to the individual.

In summary, where some insurers will not offer cover in a specific postcode, others might. There is choice in the market where brokers are in a good position to get the best terms for their clients. Where insurers are open to proposals local knowledge can make a difference. And finally, cover is available for properties which have flooded previously. It all depends on the individual circumstances.

*Broker3*

Our experience in the market is that the composites are just not Interested in the Non standard risks.

We use mainly other Brokers products and believe you would better off talking to a specialist broker. We tend to only do properties for our commercial customers or our mid to high net worth clients and so far we have only been asked to quote by these types of clients as well.

The specialist broker policies tend to be most competitive.

On a recent case the following policy terms were applicable:

“F2—Flood Cover It is a condition of this insurance that you: Sign up to the Environment Agency Flood Warnings Direct service within 21 days of the date of this endorsement. If you fail to comply with the above condition this insurance will become invalid in respect of loss or damage resulting from flood”.

“EX5—Flood Excess You must pay the first £2,500 of every claim for loss or damage caused as a result of flood”.

AD wasn't covered for outbuildings, gates and fences.

The property was 150 yards from the local watercourse but at a gradient of 4 meters with the client also providing a current Environment Agency report which confirmed how often & whether St Asaph would flood again.

These terms do not seem over the top and we find building a picture of the risk helps us in getting the terms. Unfortunately most brokers/clients want a transactional approach with Household Insurance and these risks don't fit their bill.

*Broker 4*

Property flooded in 2007 for £5650 of damage—the client has an environmental agency report for us. Bell quoted £468.78 with a £5000 flood excess or 25% of the claim whichever is greater.

*Broker 5*

Kings Lynn has, for some years been considered as a higher than average flood risk area and this has meant that we have faced challenges over the years with various providers who, from their own research, grade the area according to their own flood criteria.

In general we have been able to negotiate with the larger providers to secure flood cover without the need for special terms. The discussions undertaken have centered around the last major flood event in the area being in 1978 and, prior to this the well known and documented East Coast floods in 1953 that affected a huge area in East Anglia (including Kings Lynn).

We have found that we need to use our market experience to locate appropriate underwriters able to provide flood cover at standard terms in circumstances where other providers are unable to assist.

In personal lines we have sourced provider(s) that do not apply special terms for flood in this area.

In commercial lines we broke business on a case by case basis and have to negotiate individually where necessary. We have very few (if any) cases on the books without flood cover as, generally we have been able to secure normal terms or, at worst, a slightly increased flood excess.

Examples:

Recently we have become aware that certain commercial Insurers have adopted new (and apparently improved) flood mapping technology. This is throwing up issues. A recent example is where a request to the holding Insurer provide terms for a building has resulted in a “no flood cover” response. This, for an established risk with long standing (and insured by the provider in question) premises (admittedly contents only) within 200 yards. Previously, for the existing premises, terms had been available through the provider subject to an increased excess.

The result was that we had to source an alternative major Insurer who provided a quote at normal terms.

In a second example the same underwriter that considered the new premises 200 yards from the existing to be uninsurable for flood quoted quite happily for a different risk in another area where in that case the existing Insurer was seeking a huge rate rise as the premises had been newly flagged in a “black” flood area.

In conclusion it would appear that the flood mapping technologies employed throw up different results for different Insurers and one must assume therefore that the accuracy of the systems has to be questionable.

Insurers are refusing flood cover in areas where in the past they have been perfectly happy to offer insurance and the new decision seems to be based purely on the technology they now employ. A classic example of “The computer says no”.

We have no particular expertise or schemes available to us for risks perceived as “high risk flood”. The issue is an ongoing one that we deal with as the need arises by selecting providers accordingly on a case by case or class of insurance basis.

Whist appreciating the need for ever more sophisticated risk assessment, and without wishing to oversimplify the issue it seems that there is a danger of Insurers becoming so selective over time that the original principles of insurance providing indemnity to the few from premiums of the many are being compromised.

### **In Summary**

BIBA want to help facilitate a solution for those at risk of flood. I hope this additional information illustrates how our members are able to help customers more easily access insurance for their properties at risk of flooding and the Select Committee call for the introduction of signposting.

BIBA also helped DEFRA produce the flood guide “Obtaining flood insurance in high risk areas”, which helps customers understand how to more easily access cover by working with the industry.

*March 2013*

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## **Written evidence submitted by the Environment Agency**

### **Flooding**

#### *1. Flooding in 2012*

##### *1.1 Summary*

1.2 The Met Office reported 2012 to be the wettest year on record for England and the second wettest for the UK as a whole. From April to December the total rainfall across England and Wales was 161% of the Long Term Average.

1.3 The Environment Agency dealt with eleven separate flood events over the nine month period from April to December.

1.4 Just under 8,000 properties were flooded during 2012 (see Appendix A for further details). Some communities were flooded from a range of sources (rivers, the sea, surface water and groundwater). Several locations experienced flooding more than once—including Hebden Bridge, Darwen, Mytholmroyd and Todmorden in the north east.

1.5 The impacts of the flooding could have been much worse. We estimate that around 200,000 properties were protected by flood risk management schemes across England and Wales. We warned almost 90,000 fully registered properties on our Floodline Warnings Direct service at least once to the risk of flooding. Overall in 2012 we issued 17 severe flood warnings, 1,932 flood warnings and 4,144 flood alerts.

1.6 In some areas the flooding has severely affected farmers and their businesses, particularly areas in Yorkshire and the south west of England. Since May, parts of the Somerset Levels and Moors have almost continually been under water.

1.7 Catchments throughout England and Wales remain saturated and groundwater levels are high, particularly in the east of Yorkshire and the south and south west of England. There is an ongoing risk of further flooding.

##### *1.8 Lessons to be learnt*

1.9 We have used lessons learned from previous flooding events to improve our response in 2012. These include:

- Using staff from across the business to respond to flood incidents;
- Improving forecasting, especially for convective weather;
- Strengthening our partnership role, notably with Local Resilience Fora and Lead Local Flood Authorities.

#### *2. Investment in Flood and Coastal Risk Management (FCRM)*

##### *2.1 Summary of investment in FCRM*

2.1.1 In England, the Environment Agency administers FCRM Grant in Aid (GiA) on behalf of Defra for works to reduce flood and coastal erosion risk. Funding for Wales is provided by the Welsh Government to Environment Agency Wales.

2.1.2 Investment in FCRM is split between Capital and Revenue. Capital investment is spent on the construction of FCRM schemes and new developments in flood forecasting and flood warning systems. Capital grant is available to all risk management authorities, including Local Authorities and Internal Drainage Boards. The Environment Agency's revenue funding is primarily spent on maintaining flood defences, flood mapping, modelling, warning and awareness, emergency planning and response and advice on spatial planning.

2.1.3 When allocating funds, we prioritise projects according to Government Policy and the outcomes they will achieve. Key outcomes include:

- Schemes that provide the greatest flood risk management benefit for every pound invested;
- Number of households with improved protection from flooding, especially those most at risk and least able to protect or insure themselves;
- Number of hectares of habitat created or improved;
- The proportion of households and businesses in highest risk areas that receive the Floodline Warnings Direct service.

2.1.4 In SR10 (as of September 2012) investment in FCRM has already reduced the risk of flooding to over 57,000 properties, created or improved over 4,400 hectares of habitat, maintained 98.1% of our flood and coastal risk management assets at their required condition, and increased the number of households and business in the highest risk areas covered by our Floodline Warnings Direct service to 60% (over one million properties).

2.1.5 Flood risk assets in England and Wales, both Environment Agency and third party, comprise approximately 40,500 structures, 11,600km of defences, 33,600km of maintained channel and 42,300km of natural main river channel. Flood risk assets have a total replacement value of around £35 billion.

## 2.2 Capital investment in FCRM

2.2.1 Around £180 million will be invested in 2012–13 on new and improved flood risk management schemes. This will contribute to the completion of schemes that will reduce flood risk for over 55,000 homes. In addition, over 25,000 more homes will be better protected by 60 new flood and coastal erosion risk schemes which started construction in this financial year.

2.2.2 Capital investment in FCRM has also protected agricultural land. Capital projects completed during 2011–12 provided an improved level of flood protection to more than 74,000 hectares of agricultural land.

## 2.3 Growth fund for FCRM schemes

2.3.1 Through the 2012 Autumn Statement, the Government announced an extra £120 million of capital funding to speed up the delivery of flood risk management schemes that could protect up to 60,000 homes and deliver up to £1 billion of economic benefits. Of the £120 million of new funding, £60 million will be targeted at areas where flood risk management schemes will help deliver regeneration and economic growth as well as flood risk management objectives.

2.3.2 Potential projects which could benefit from this additional funding include schemes in Leeds, Sheffield, Ipswich, Exeter and Derby. The rest of the funding will accelerate the delivery of up to 50 schemes which will reduce flood risk to at least 60,000 households between one and two years earlier than planned.

2.3.3 The funding will be phased—£35 million in 2013–14 and £85 million in 2014–15. Proposed schemes are being discussed at the Regional Flood and Coastal Committee (RFCC) meetings in January 2013 alongside the annual FCRM GiA funding proposals and will be recommended to Ministers in early February 2013.

## 2.4 Partnership funding for FCRM schemes

2.4.1 Defra's new "Partnership Funding" approach has been implemented to prioritise funding for capital schemes in England from 2012–13 onwards. Partnership Funding is a way of increasing the amount of money available to enable more flood and coastal risk management schemes to go ahead through securing local contributions from those who benefit.

2.4.2 £148 million in local contributions from both private and public sources have already been promised during SR10, with the potential for even more in future years.

## 2.5 Revenue funding in FCRM

2.5.1 In SR10 the Environment Agency's FCRM GiA revenue funding allocation reduces by 4% in cash terms each year from £275 million in 2010–11 to £226 million in 2014–15.

2.5.2 The Environment Agency has powers to carry out flood and coastal risk management work and to regulate the actions of others on main rivers and the coast. Local Authorities have powers to carry out work on other watercourses and coastal erosion protection assets, except for watercourses within Internal Drainage Board Districts, and public sewers. These are the responsibilities of the Internal Drainage Boards and the water companies respectively.

2.5.3 We manage 45% of flood risk management assets on main rivers and the coast. Local Authorities, Internal Drainage Boards and individual owners and businesses are responsible for the remaining 55%.

2.5.4 Each site is different so we choose the most suitable maintenance activity for each stretch of river, coastline or defence system. The maintenance of assets is carried out using a risk-based approach. This allows investment to be made where it will contribute most to reducing the potential for damage, and where it is economically and environmentally justified.

2.5.5 Our maintenance work includes maintaining flood barriers and pumping stations; clearing grills and removing obstructions from rivers; controlling aquatic weed within rivers; dredging and de-silting of rivers; managing grass, trees and bushes on flood embankments; inspection and repair of flood defence structures.

2.5.6 We routinely consider dredging and other types of watercourse channel management to reduce flood risk. We spend around £20 million per year on dredging, de-silting, removing gravel and obstructions along with weed control to clear channels.

2.5.7 Work to maintain river flows is estimated to contribute about £500 million to flood risk management benefits and £400 million to land drainage benefits.

2.5.8 Future investment in maintenance will continue to be prioritised to ensure that the greatest possible overall reduction in risk is achieved with the available funding.

### 3. *Decision making process on FCRM funding*

3.1 Each year Risk Management Authorities are invited to submit details of proposed FCRM works which need funding. These proposed schemes are prioritised using the Partnership Funding approach with available funding being allocated to projects that deliver most benefits.

3.2 The Environment Agency oversees the process of allocating funding and works with its Regional Flood and Coastal Committees (RFCCs) to agree the final details of the programme. RFCCs bring together members appointed by Lead Local Flood Authorities and independent members appointed by the Environment Agency for three purposes:

- To ensure there are coherent plans for identifying, communicating and managing flood and coastal erosion risks across catchments and shorelines;
- To promote efficient, targeted and risk-based investment in flood and coastal erosion risk management that optimises value for money and benefits for local communities;
- To provide a link between the Environment Agency, Lead Local Flood Authorities, other Risk Management Authorities, and other relevant bodies to develop shared understanding of flood and coastal erosion risks in their area.

3.3 RFCCs play an important local role in guiding FCRM activity within catchments and along the coast, advising on and approving programmes of work (capital and maintenance) for their areas, raising local levies and other local income to fund local priority projects and working in partnership with others.

### 4. *National Audit Office Actions*

4.1 The National Audit Office (NAO) Report of “Flood Risk Management in England” (October 2011), considered the progress made since the NAO last reported on the subject in 2007. It considered the progress the Environment Agency has made in identifying the risk of flooding, how well investment has been targeted at risk, and how well Defra and the Environment Agency are managing the reform of flood risk management. The report formed the basis of the hearings of the Committee of Public Accounts (PAC) which was held on 23 November 2011. The PAC published their report on 31 January 2012.

4.2 The Environment Agency has completed all NAO actions by the due dates, and is on course to complete all remaining actions by the dates specified. Examples of our progress include:

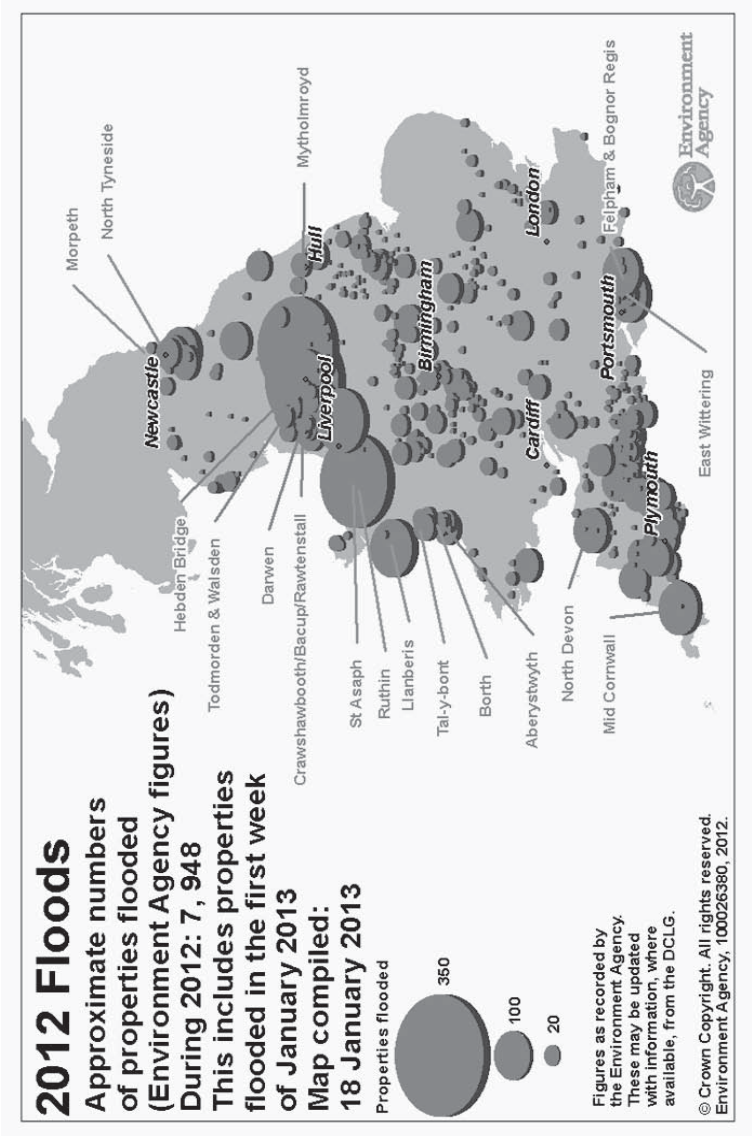
- The first annual national FCRM report for England under Section 18 Flood and Water Management Act was published in December 2012 and covers the period 1 April 2011 to 31 March 2012.
- We have established “Partnership and Strategic Overview” teams in each of our 16 (English) operational areas. Their remit is to have an overview of all sources of flooding in their area, working in partnership with others to help communities and businesses understand and manage their flood risk.
- We are on course to achieve our 15% efficiency target for the procurement of our capital FCRM schemes by the end of SR10.
- We are making good progress with partnership funding.
- We have provided the NAO with details on how our maintenance funding is prioritised on a risk based approach. In 2012–13 maintenance funding was allocated across high (79%), medium (14%) and low (7%) consequence systems.
- Our project to update the 2009 Long Term Investment Strategy is on track.



- We continue to develop and deliver capacity building materials and workshops for Local Authorities to help them take on their new roles and responsibilities under the Flood and Water Management Act 2010.

*28 January 2013*

APPENDIX A  
PROVISIONAL FIGURES FOR PROPERTIES FLOODED IN 2012



## Supplementary written evidence submitted by the Environment Agency

Following our evidence to the Committee in February, we committed to provide further details on three issues, partnership funding, the impact of maintenance on flooding, and on a flood risk management scheme in Kensington and Chelsea.

### 1. Partnership Funding

1.1 The Government's policy statement was published in May 2011, alongside an introductory guide. The approach makes flood and coastal risk management grant-in-aid (FCRM GiA) available on a tariff basis, to an amount dictated by the benefits delivered and the damages prevented to households, the environment and the wider economy. It covers flooding from rivers, the sea and surface water, as well as coastal erosion and property-level protection.

1.2 Many projects will qualify for full FCRM GiA funding, without the need for a local contribution. When this is not the case the balance of a project's cost will have to be secured locally through contributions.

1.3 The amount of FCRM GiA allocated to a project is determined by multiplying the household, environmental and other whole life benefits by the relevant fixed payment rates and dividing this sum by the whole life cost of the project.

1.4 Payment rates for qualifying household benefits vary by levels of deprivation, based on the Department for Communities and Local Government's Index of Multiple Deprivation. A detailed explanation of the payment rates is included in Defra's introductory guide.

1.5 After taking account of projects required for health and safety requirements and other statutory duties, projects are placed into a national programme on the basis of their "partnership funding score". This initial placement also reflects the availability of FCRM GiA, the need for a long-term pipeline of projects, existing asset conditions and the risk of flooding or coastal erosion. The relative priority of projects is then approved or amended by Regional Flood and Coastal Committees to reflect informed local choice.

1.6 This approach increases the overall level of funding available for flood and coastal erosion risk management schemes and approaches.

1.7 Defra and the Environment Agency have published some principles for implementing flood and coastal resilience partnerships. They outline what is expected from Risk Management Authorities and contributors when they apply for FCRM GiA in terms of their roles and responsibilities, the development of partnerships and how contributions are managed.

### 2. The Impact on Flooding of Reductions in Flood and Coastal Risk Management Asset Maintenance

2.1 The investment of Government grant in the maintenance of flood risk management assets is prioritised to deliver the greatest flood risk benefit. The Government's priority is to focus on work which reduces flood risk to people and properties.

2.2 During the 2012 floods an estimated 8,000 properties flooded. Of these 3,200 were flooded from rivers or the sea with the majority of properties flooded from other sources, including surface water and groundwater, or from a combination of sources.

2.3 Throughout 2012 flood risk management structures were extensively tested. The vast majority of assets performed as expected and protected around 200,000 homes and businesses. However, due to the scale of the rainfall and river flows certain flood risk management assets were overtopped as river levels were higher than the asset design standards or pumping rates could not deal with the flood water volumes experienced.

2.4 All flood risk management authorities exercise permissive powers when carrying out works and there is no statutory duty to carry out maintenance.

#### 2.5. Case Study—*Rivers Tone and Parrett, Somerset:*

- Since the initial summer flooding in the Lower River Tone catchment, the Environment Agency has been working with various local organisations and communities to review how flood risk can be managed in the future. This work is looking at where dredging can be of benefit.

### 3. Flood Risk Management Scheme in Kensington and Chelsea

3.1 The scheme to manage flood risk arising from Counters Creek in the Royal Borough of Kensington and Chelsea is proposed by Thames Water. The general aim of the scheme is to protect over 2,000 homes from a one in 30 year storm for an investment of £230 million–£310 million. Construction is planned to start in 2015. No flood risk management grant in aid has been allocated to this scheme by the Environment Agency.

March 2013

## Further supplementary written evidence submitted by the Environment Agency

### FLOOD RISK MANAGEMENT IN CARLISLE AND COCKERMOUTH

I was concerned to hear that in the ABI's evidence to your inquiry on Flood Funding on 20 March, they suggested that recent flooding in Cockermonth may have been made worse by a lack of watercourse maintenance. I would like to clarify the Environment Agency's position on maintenance, particularly in the Carlisle and Cockermonth area.

Flood risk in Carlisle and Cockermonth is managed by a combination of maintaining the capacity of the river channel and the construction of flood defences in some locations through the town. In Carlisle the defences have been built to provide better protection for approximately 3,500 residential and commercial properties. In Cockermonth new defences provide better protection for approximately 600 residential and commercial properties from flooding.

Keeping rivers clear from the build up of gravel, plants and debris forms an important part of our channel maintenance work. The rivers in Carlisle and Cockermonth have been maintained in the past and the Environment Agency continues to maintain them to a high standard. River channels and bank conditions are inspected at least once a year to identify any maintenance work required. Trees and other debris that could cause blockages downstream are removed and any work required is prioritised depending on the flood risk in that location. I can confirm that gravel was removed from the river Caldew last month, and further gravel removal is to be done this year in Cockermonth during the in-river working window.

As part of the delivery of the new flood defences in this area we have developed "Maintenance Management Plans" which identify specific maintenance activities, such as maintenance of floodgates and flap valves as well as the management of flora with vegetation management. Monitoring channel capacity is also part of the Management Plan, including annual surveying of gravel shoals to establish if gravel removal is needed. During the flooding in January 2005 and November 2009, the amount of rainfall was so significant and river levels so high that any additional maintenance in these areas would not have prevented flooding.

I hope this clarifies the position in Cockermonth and Carlisle.

*Rt Hon Lord Smith of Finsbury*  
Chairman

9 April 2013

## Written evidence submitted by the Local Government Association (LGA) on flooding

### Purpose

This submission provides evidence of councils' recent experiences of managing floods, flood risk and funding for flood defences. It also sets out opportunities for improvements in the provision of flood risk defences nationally.

### About the LGA

The LGA is the national voice of local government. We work with councils to support, promote and improve local government. We are a politically-led, cross-party organisation that works on behalf of councils to ensure local government has a strong, credible voice with national government. We aim to influence and set the political agenda on the issues that matter to councils so they are able to deliver local solutions to national problems.

We are a membership organisation. In total, 423 local authorities are members of the LGA for 2012–13. These include English councils, Welsh councils via the Welsh LGA, and fire, national park, passenger transport and police authorities.

### Key Points

- As Lead Local Flood Authorities, councils are working hard to manage flood risk, protect communities and businesses from floods and help them recover. In 2012 an estimated 205,000 properties were protected from flooding as a result of investment in flood defences. An estimated 7,800 properties were impacted by the 2012 floods and councils played a pivotal role in helping affected communities to recover.
- Councils recognise the importance of partnership working in all aspects of flood management—reducing flood risks, funding for flood defences and responding to flood events. They welcome the principle of Partnership Funding for flood defences. It potentially allows more schemes to go ahead than the previous system and establishes an important link between the beneficiaries and flood defence investment. However, councils feel that there are improvements to be made to the new Partnership Funding model and would like to work with Environment Agency and Defra in reviewing how communities and the nation can get the best value-for-money from limited public funds.

- A number of councils in 2012 have worked tirelessly to alleviate the exceptional hardship faced by some of their communities, such as from repeated flooding and structural damage to their roads and infrastructure. Further support is needed to allow these places to recover.
- Councils are already working with developers to introduce Sustainable Drainage Systems (SUDs) to reduce flood risk and over 40% of new build have connections to SUDs. We urge Government to produce an efficient, effective and value-for-money system for SUDs, including a sustainable and cost-effective solution for funding the long-term maintenance of SUDs.
- Councils are working locally with the Environment Agency and other partners in finding long-term sustainable solutions to the withdrawal of maintenance activity by the Environment Agency. However, the Environment Agency must ensure that its withdrawal does not place additional cost burdens on councils and local taxpayers.

*Councils are working to ensure they help reduce flood risk and support their communities and businesses to recover from flooding.*

### Helping Places and Businesses to Recover

2012 was an exceptional year in terms of the weather, the wettest on record for England, and councils were at the forefront of a multi-agency response to deal with emergencies and help communities and businesses recover. Preliminary assessments by the Environment Agency indicate that over 7,800 properties flooded in 2012.

Councils supported communities in a number of ways, for example: Tankers and pumps were deployed in *Staffordshire* and in *East Riding of Yorkshire* council to clear flood waters from the roads. *Teignbridge District Council* had given out more than 3,000 sandbags in a four day period and pulled mechanical sweepers from scheduled work to prioritise requests for street sweeping to prevent water build-up in high risk areas. *Nottinghamshire County Council* ensured alternative emergency accommodation was provided as needed and the council worked with private care providers to ensure vulnerable people received services. In *Devon*, where communities have repeated floods, the county council arranged special drop-in meetings with the Environment Agency, districts and other flood risk partners, to gather information about the flooding incidents.

Some communities have endured multiple rounds of flooding, before they had recovered from the last occurrence. In July 2012 the LGA wrote to the Secretary of State for Communities and Local Government, the Rt Hon Eric Pickles MP, to highlight the exceptional levels of hardship and greater recovery costs faced in these areas. We argued that such places should be able to access additional support from central government and proposed that in such circumstances the Government's contribution to the Bellwin scheme should be increased to 100% (from 85%).

### Councils are Effectively Managing Risks of Development in Areas of Flood Risk

Councils avoid unnecessary development in areas of risk and ensure new build developments which are in areas of risk are more resilient to flooding. Evidence from 2011–12 shows that Environment Agency advice continues to be followed in the vast majority of cases with over 99% of new residential units decided in line with Environment Agency flood risk advice.

*Southampton City Council*, working in partnership with the Environment Agency, promote safe developments within flood risk areas through incorporation of a suite of measures, such as resistance and resilience measures within buildings and completion of a Site Flood Plan detailing how users of the site can avoid being placed in danger from flood hazards. As part of its regeneration scheme along the River Aire, *Leeds City Council* has delivered a number of developments with resilient design features.

### Councils are Investing in Flood and Coastal Defence Schemes under the New Partnership Funding Model

Councils have welcomed the new Partnership Funding model for funding of flood and coastal defences, using their own funds to leverage in Environment Agency funding (Flood Defence Grant in Aid<sup>1</sup>) as well as other sources. The new model enables an important link to be made between local beneficiaries and flood risk investment and potentially enables more schemes to go ahead that meet local priorities than the previous model of funding. Whilst the policy was introduced in May 2011, the Environment Agency was only able to apply funding under the new model from 2012.

A range of successful schemes are now progressing under the Partnership Funding approach, including the £21 million scheme in Morpeth, which *Northumberland County Council* has committed to contributing up to £12 million, protecting a further 1,000 homes. In *Warrington*, the borough council provided funding alongside contributions from a statutory undertaker and a housing developer. Following substantial flooding in 2012, *West Sussex County Council* recently announced a funding package of over £8 million to help fix highway

<sup>1</sup> The Environment Agency is responsible for allocating central government funding to manage flood and coastal erosion risk in England. This funding is known as Flood Defence Grant in Aid (FDGiA). It goes to flood risk management authorities (RMAs)—that is, the Environment Agency and English local authorities and internal drainage boards (IDBs). Together, they use it to pay for a range of activities including flood defence schemes that help reduce the risk of flooding and coastal erosion.

drainage hotspots, and improve the drainage systems. In Louth, Lincolnshire, a new scheme to create flood storage reservoirs has recently been given the go ahead with funding from a range of partners including *Lincolnshire County Council*, *East Lindsey District Council*, the Environment Agency and two drainage boards.

Councils experience of Partnership Funding to date has highlighted a number of improvements that could be made to maximise the value-for-money of different sources of funding to support flood defences:

- *The Partnership Funding process should be simplified to maximise local investment.* The current Partnership Funding process makes it difficult to secure other sources of funding. The current approval process for new flood defence works (which can help unlock development) is too long and complex, involving up to one year before final funding approval is given. Councils are pursuing schemes but are finding that the low level of confidence to lever-in funding from either the authority or its potential funding partners, make long term planning difficult.
- There should be faster allocation of funding. Councils are concerned about the time taken to access what are relatively small amounts of funding from the local levy.<sup>2</sup> One council had its Regional Flood and Coastal Committee approve its local levy allocation in June and is still trying to access the funding. They have spent most of the allocation in good faith yet still await the cash. Another council has been waiting for over a year since their local levy funding having been approved and allocated more than a year ago.
- *The Partnership Funding model should support a more diverse set of local priorities.* The Environment Agency Grant funding is allocated on a prioritised basis nationally to secure the maximum outcomes as represented by the Partnership Funding Score. This tends to mean smaller, more rural and dispersed areas are unable to compete for funding. Other places, such as *Calderdale* have catchment areas that are characterised by narrow valleys with industry, commerce and critical infrastructure in the flood risk area and little residential accommodation. Consequently Environment Agency funding contributions to most schemes in *Calderdale* will be very low. Most businesses in the worst affected areas are very small and many have survived because of temporary subsidy of business rates by the Council.
- *The Lincolnshire and Norfolk coastal defences protect some of the most productive agricultural land in the world. The topography of reclaimed fen land is low lying and extends well beyond the immediate coastal hinterland. The fens of Cambridgeshire are drained successfully because of the coastal defences many miles away. In these circumstances, the mechanism of partnership funding will not lead to strategic protection of land required for food security. It is not feasible for local communities to fund the necessary protection measures. There is an additional problem in that agricultural land is not valued for its long term strategic purpose. Such projects would not meet the criteria for Partnership Funding.*

The funding model should also support a more diverse range of priorities in order to:

- Reflect the needs of small and dispersed communities.
- Release wider benefits beyond direct local beneficiaries.
- Support growth—the recent £60 million additional Growth Fund announced in the Autumn Statement demonstrates that there is a funding gap for schemes that can also deliver regeneration and growth objectives.

*Other public funds outside Environment Agency funding should be able to support “shovel-ready” schemes with funding gaps.* According to the Environment Agency, it is expected that only £38 million of the total pot of £968 million for flood defences will be raised from private sources by 2014–15. Securing private sector contributions in the current economic climate is particularly challenging. In 2011–12 councils contributed £26 million through the local levy to their Regional Flood and Coastal Committees. The Environment Agency are expecting local levies to total £84 million by 2015. In addition to local levies, many councils have and will continue to make their own individual contributions to local schemes. Some councils have schemes that are “shovel-ready” and have multiple benefits such as helping to meet economic growth outcomes, but are unable to press ahead owing to funding gaps. Authorities who have attempted to use the European Regional Development Fund have found that it is not possible to use this source of funding to provide partnership funding to flood defence schemes. The LGA would like the criteria to be reviewed so that it can be used to match other funding streams.

Councils are taking the initiative to find alternative sources of funding, such as Community Infrastructure Levy (CIL). The Portsea Island Coastal Strategy (led by *Portsmouth City Council*<sup>3</sup>) has been developed in partnership with the Environment Agency, and is expected to be part funded by CIL funds and similar schemes

<sup>2</sup> Local authorities raise a levy from households (included in Council Tax calculation and passed to the RFCC). It can be used to help fund local flood risk and coastal protection projects which do not qualify for full central government funding. Local Levy can also contribute to flood and coastal defence schemes which are part funded by Flood Defence Grant in Aid. This levy funding is allocated by the Regional Flood and Coastal Committees (RFCC) to local priority projects. Under the new Flood and Coastal Resilience Partnership Funding process, Local Levy can be used to contribute to flood and coastal defence schemes which are part funded by Flood Defence Grant in Aid. Levy funds can be saved and carried forward from one year to the next and used to fund high cost schemes. This is different to FdGiA which must be spent within the financial year that it is allocated.

<sup>3</sup> Partnership Pays—An introduction to the future funding and management of flood and coastal erosion management projects for developers and private investors

are being developed in *Warrington* and *Southampton*. It is therefore important that the Environment Agency should work with councils developing the CIL charging schedule to ensure that the need and associated costs of flood defence projects are considered.

### **Councils are Working to Ensure the Integrity of their Roads Infrastructure to Support their Local Economies**

This summer's rainfall and flooding has caused substantial damage to local highways and transport infrastructure in a number of areas. This situation is compounding the hardship being felt by affected local businesses and communities, hampering their ability to recover. Council staff inspect damage and make infrastructure safe for road users. Councils' estimates (in October 2012) of damage occurred ran into several millions of pounds:

South Tyneside	£2.4 million
Newcastle	£7–8 million
Blackburn with Darwen	£490000
Northumberland	£1.6 million
Devon	£5 million
Calderdale	over £1 million

Following the 2007 floods the Department for Transport set up the Emergency Capital Highways Maintenance Fund, that provided funding for such exceptional roads and highways infrastructure damage. In the absence of a similar fund councils have had to divert funding from planned improvements to support their local economies as at present capital expenditure is not eligible under the Bellwin scheme. The Bellwin scheme should be reviewed so that it takes into account the exceptional roads damage that places can suffer from extreme weather, such as heavy rainfalls and subsequent flooding.

### **Councils and their Taxpayers should not be Adversely Burdened as a Result of Environment Agency's Withdrawal from Maintenance Activities**

The Environment Agency's withdrawal from uneconomic maintenance activities means that affected land owners and places will have to seek alternative arrangements. The impact of this change varies greatly across the affected areas and in some places Internal Drainage Boards have been proposed as a possible solution. It is crucial that Environment Agency's withdrawal from maintenance activities does not result in additional burdens on councils and that replacement arrangements are agreed with communities and councils before the Environment Agency withdraws.

### **Councils are already Reducing Flood Risk through Implementation of Sustainable Drainage Systems (SUDs)**

Sustainable Drainage Systems have an important role to play in reducing flood risk and reducing the amount of water that enters the drainage infrastructure. Councils are already working with developers to introduce SUDs to reduce flood risk, with over 40% of new build having connections to SUDs. For example:

- *Cambridgeshire County Council* has worked with developers at Lamb Drove, in Cambourne, to introduce a SUDs solutions to a small development of 35 affordable houses. The site has avoided a new storm sewer connection, which will save residents money (approximately £30 a year per household) as it will avoid the annual payment of storm water disposal charges to the sewerage undertaker. *Gloucestershire County Council* has worked with a local school to introduce a SUD system to prevent flooding of the school and to control water from a nearby spring.
- Councils are frustrated by the delays in the publication of the SUDs national standards and implementation of SUDs Approval Bodies (SABs) which would provide certainty for developers and councils in the design and approval of suitable schemes. Government has now clarified that the new regulations will not commence until April 2014 at the earliest.

We urge Government to continue to work with the local authority expert SUDs panel to:

- produce a set of national standards that provides the certainty that developers need, and;
- provides a sustainable and cost-effective solution for funding the long-term maintenance of SUDs beyond 2018.

### **Long Term Investment in Water Infrastructure is needed to Reduce Flood Risk**

The LGA's priority for water industry reform is to secure investment in water infrastructure that supports growth and increases resilience to extreme weather including drought and flash flooding events, both of which we have seen in the past year. If we are to deliver the number of new homes we need, we will need investment in new reservoirs, drains and pipes to support planned growth. And existing infrastructure needs upgrading if it is to cope with increasingly volatile weather.

## Conclusion

Councils have a strong record in working with partnership with the government's agencies and others to protect its places and residents and want to be able to do more. There is already a very good working relationship at the national level between the LGA, Defra and Environment Agency, and we are therefore keen to continue discussing improvements in how the sectors can work together, including funding issues, to improve the country's resilience to flood risk.

25 January 2013

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### Supplementary written evidence submitted by LGA

During my recent evidence session with your Committee I undertook to both find further examples of projects where private funding has been leveraged under the new partnership approach for flood defence and to supply figures on the possible costs of extending the Bellwin scheme to cover infrastructure repairs.

In attempting to answer the first question I had anticipated receiving a more comprehensive list of examples from the Environment Agency, but this has not been possible as they are currently working with Defra to compile this data. Nevertheless we have been able to compile the following list with assistance from the Environment Agency:

- Sandwich Tidal Defences in Kent is a £23 million project of which Pfizer contributed £6.5 million.
- Lower Dove Flood Alleviation Scheme in Staffordshire and Derbyshire cost a total £8 million. The private sector contributed £1.65 million, including commitments from Nestle, local landowners and local industry.
- Leeds (Rive Aire) Flood Alleviation Scheme was a £50.5 million project through which Leeds City Council are contributing £10 million with a further £5 million proposed to be raised from private sources.
- Skipton Flood Alleviation Scheme, North Yorkshire, will cost £9.7 million of which local businesses are contributing £2 million.

The Committee has also asked for further information with regards to the expected costs of extending the Bellwin Scheme to cover capital works, such as roads damage. To help with this, the LGA has been in contact with the Department for Transport who created the Emergency Capital Highways Maintenance Fund which provided funding for exceptional roads and highways infrastructure damage. According to the Department for Transport figures, the following exceptional funds were provided to nine local authorities for highway repairs following the floods of 2007:

- March 2008: £23 million.
- July 2008: £17 million.

This means that the total claimed cost for repairing this infrastructure was £40 million.

As the LGA's written evidence also highlights, there are also a number of examples of local authorities currently covering the cost of these infrastructure repairs. Councils' estimated that the damage to roads and infrastructure from flooding in 2012 ran into several millions. Some indicative examples are:

South Tyneside	£2.4 million
Newcastle	£7–8 million
Blackburn with Darwen	£490,000
Northumberland	£1.6 million
Devon	£5 million

Moreover, whilst work is continuing in Calderdale to produce a detailed financial impact of 2012 flooding, initial estimates in respect of damage to the highway and associated drainage works are in the region of £10 million. This is in addition to the cost of work that needs to be carried out by Yorkshire Water, the Environment Agency and the Canal and River Trust. Less than £80 thousand of the Council's costs in responding to the summer floods has been recouped from the Bellwin Scheme.

I hope this information is useful to the Committee's inquiry.

*Cllr Andrew Cooper*

Deputy Chair, LGA Environment and Housing Board

February 2013

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## Written evidence submitted by Marsh Ltd

### Context

There are approximately 200,000 households in UK with significant flood risk, and within this a core for whom home insurance may be unaffordable without help. With the imminent end of the Statement of Principles between government and insurers, a workable solution is urgently needed. Previous discussion has centred on two competing solutions—Flood Re and Noah. To try and move things along, we take Flood Re as a starting solution and use it to raise design questions that lead to a modified solution drawing on elements of both.

The problem of flood risk is dealt with in different ways in different countries, but all involve some form of risk-pooling of insurance costs by the insurers or by government. This is in effect a subsidy of the few most exposed households by the many less exposed. Given this, any solution naturally leads from narrow micro-economic considerations to wider social issues including the fair distribution of cost by wealth of the insured, and the distribution of cost between consumers, insurers and government. Equally, there are policy tensions which need to be dealt with—reducing the cost of flood insurance to those affected will encourage others to plan and build in flood areas.

Marsh helps consumers and companies manage their risks by getting the best coverage and terms from insurers. That consumer lens is the one we bring to this issue. Where trade-offs are required within this (such as whether one type of consumer is more or less deserving than another) or beyond it (such as the division of risk between the industry and government), those choices are made explicit and left to others better placed to arbitrate.

### Principles

Before moving to solutions, it is worth setting out some principles that any workable insurance solution is likely to have to respect:

- *Redistribute the burden across households.* It is socially unacceptable to have many thousands of households being unable to afford home insurance and hence facing the loss of their home. That requires a subsidy which will come from those not so exposed, whether through the cost of their own insurance or through general taxation.
- *Ensure that government has a financial stake in the outcome.* Without this, government may privatise the cost of climate change to the insurance industry and not play its role in flood issues, whether flood defence-building, planning control or risk redistribution. There needs to be strong incentives for government to make this investment given competing priorities.
- *Avoid creating perverse incentives.* Builders, owners and insurers all need to be held to account for their decisions. The mis-pricing of risk was a significant input to the banking crisis. Here, it might lead to reckless building on flood plains, to under-investment in flood defence or to people paying too much for their insurance. Pooling will by design distort the price of risk, so it is a matter of doing so in the least bad way.
- *Be equitable to consumers.* There is no easy definition of fairness, but the outcome for two particular constituents is worth noting—the increase in cost from pooling to the 98% of households not exposed to significant flood risk, and the price demanded of poor households who live in high flood-risk homes and are less able to absorb that cost or simply move.
- *Create a level competitive playing field.* The current arrangement obliges insurers to under-charge for flood risk, but allows others to cherry-pick low-risk households. While pooling by design distorts the market, it should do so such that free-riding by individual insurers on others is not possible and that competitive pricing and individual assessment of risk still apply.
- *Avoid making the insurance industry responsible for social policy.* Many essential goods (like food and fuel) require explicit government support to make them affordable. Asking the private sector to do this for the government is likely to lead to a poorly functioning market and inadequate social policy. Better to find a market solution which the government then intervenes in as it sees fit.
- *Keep it simple.* Complexity will breed confusion and costs and lead to unexpected outcomes.

### Starting Design—Flood Re

The easiest starting design is Flood Re, which is built on these principles and has the endorsement of the insurance industry, which means that it can be delivered. In summary, Flood Re collects a tariff from insurers across all household policies that is used, along with the insurance premiums from high flood-risk homes, to create a pool, Flood Re. Flood Re sets a flood risk price for policies presented by insurers of high flood-risk homes that is capped at, say, £300 per policy. The pool then pays out flood claims on its policies. It buys reinsurance to cope with the early years when the pool is still building up to an adequate level. The government acts as back-stop to the pool.

While the design meets many of the principles set out previously, we have a few areas of concern in the detail of the design:

- 
- A flat cut-off for flood premiums keeps prices down for poorer households, but also creates perverse incentives, most obviously in removing any distinction in risk from the cut-off upwards. Planning authorities and house builders can then treat flood areas much like any other, knowing that the bulk of risk is going to be passed on to the general population. This effect is encouraging coastal property in the United States and a commensurate increase in flood and storm costs.
  - The application of a pre-set tariff across the majority of customers to fund the flood-risk subsidy will act to raise price excessively, as tariffs tend not to be contested. Even if the tariff is levied on the insurers rather than designed as a surcharge, because pre-set and standard, it will be tempting to make it a tacit item on the bill.
  - It has the insurance industry taking on the role of government, setting a rate modified more by ability to pay than by risk. This is not what insurers (or other firms) are there to do, and, as noted above, creates poor incentives for those creating the risk via planning and building.
  - It passes tail risk from insurers to the government as back-stop to the pool. This is only of concern to consumers in that it is a poor way to motivate the government to deal with flood prevention, because it would be a distant concern relative to more immediate spending priorities.
  - Creating a new pool adds a substantial cost in the catastrophe reinsurance it then needs to buy, and which insurers already hold. There is unlikely to be a commensurate reduction in individually held catastrophe reinsurance because it is largely there for windstorm cover, rather than flood.

The last of these is the most substantial concern. The appeal of creating a new pool is understandable, and has been used successfully in related cases such as Pool Re for terrorism. The difference with flooding is that it is a recurring, concentrated risk. At an average annual real-terms flood cost in the UK of £290 million<sup>4</sup> over the last 12 years, and with an annual bill for reinsurance of £150 million at inception of the pool, there would be an expected annual outflow of around £400 million to cover before any pool begins to build up, and excluding administration costs. We also expect reinsurance costs to rise sharply with either a large event in an early year, or with multiple events in a given year. These costs might be transitional as the pool builds up, but this calculation suggests they could be larger and more long-lasting than anticipated, and passed on to consumers via an implicit or explicit tariff.

### Responding to these Issues—Flood Mu

These concerns can be dealt with individually. Taking them together for illustration, a variant of Flood Re would be to mutualise rather than to reinsure flood losses. “Flood Mu” could simply take a pre-set amount of flood claims in a given period and redistribute them across all household insurers in proportion to their household insurance book size.

This could be done using the Flood Re capped model and its council tax band modifier. A better risk incentive is to redistribute a set percentage of flood claims from all households so that some risk stays with the originator of it. For example, Flood Mu might redistribute 50% of flood claims each quarter. Setting this percentage is a matter of policy on how far the many should support the few (0% is a free market with no support for flood risk; 100% is full subsidisation with no consequence for flood risk).

The main advantages of this modification from Flood Re to Flood Mu are that:

- It is simple. It avoids creating a new fund, which requires new reinsurance, infrastructure and management. Instead it relies on the insurance capital of the insurers for known losses, and on the catastrophe reinsurance which they already hold and which, if desired, they can increase. That saves them and likely their customers (depending on various assumptions) an indicative £50–£150 million per year in reinsurance over the years in which a large pool is built up.
- It allows insurers to do what they do well, which is to assess and price for risk individually. They do face exposure to the aggregate residential flood costs in UK, but not to the individual underwriting decisions of other underwriters.
- It passes social policy to the government. The government may well choose to limit the cost to poorer households, for example by paying for some or all of their flood claims. That exposes government to a more frequent but lower level of flood risk than back-stopping the Flood Re pool, and so has the added advantage of motivating the government more strongly on flood defence.
- Government intervention notwithstanding, it leaves a share of risk with all participants, so discouraging planning permission, building and home ownership in flood-prone areas.
- By charging an uncertain level of claims post hoc, it is much harder to turn flood subsidies into a tariff, and as a result normal pricing and competitive forces will apply.

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<sup>4</sup> ABI figures for Gross Incurred Claims—Domestic Flood (adjusted for inflation)

- It will be good for competition for the flood-prone end of the market, in that by dampening the effect of individual flood loss, it makes high risk homes more attractive for less specialised insurers to underwrite. It removes the option of free-riding by targeting only low risk homes.

The main challenges we see are:

- It would, like Flood Re, require primary legislation to make all household insurers participate in sharing flood risk and to make pooling a binding condition.
- It might deter less confident insurers from providing household cover at all, although our work on Noah demonstrates that flood modelling and reinsurance are available to them. Distributing quarterly also avoids large exposures building up that might deter writing household cover.
- It assumes that flood losses can be isolated and verified objectively to prevent excessive or extraneous claims being loaded in for redistribution. There is an industry approach to loss adjustment as well as a strong incentive to self-policing by the industry which should provide comfort on this point.
- It requires a clearing house for settlement between insurers with some level of audit (the loss adjustment industry provides an existing rigour to this) and modelling to support Solvency Internal Capital Assessment. Any of the main brokers are set up to settle regularly with insurers and this service provision ought not to be costly compared to establishing a whole new entity.

There are of course many details to work through in any design before it can be delivered. For Flood Mu, these include what percentage to redistribute and how, the way in which government participates, how to provide the central clearing house and the mandate and services it provides. Equally, there are unresolved policy tensions that will require specific solutions. For example, the combination of subsidising the flood insurance costs for cheaper homes with localisation of planning creates a real risk that more such homes are built—rules such as exclusion of properties built after a given date should mitigate this.

## Conclusion

A risk pooling arrangement is needed as part of the way to deal with flood insurance. Within that, it is important to ensure the correct role for government and insurers, and to find an efficient, competitive solution that delivers best value to consumers. While Flood Re tackles the right design issues, we have concerns about the role of government (too distant from the risk), the role of insurers (acting as government in delivering social policy), the incentive for property developers to avoid risk (largely removed) and the price to the majority of unaffected consumers (likely to go up to cover higher than anticipated costs). While Flood Mu raises questions of its own, we hope it provides a useful challenge to the thinking on this topic. We will continue to provide input to the insurance industry and government to encourage a solution that delivers good value to consumers and sensible incentives for risk-taking and risk management by consumers, insurers, property developers and government.

*March 2013*

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## Further information on oral evidence given to the Environment, Food and Rural Affairs Committee on Tuesday 26 March 2013

### Q319—IDB Maintenance Work

The Committee raised a concern about landowners in Internal Drainage Board (IDB) areas having to pay twice for maintenance work—both to their local IDB and to the Environment Agency—and about how those funds were then used by the Agency.

The Environment Agency makes a precept on IDBs for a contribution to the work it carries out in the river catchment for the benefit of the IDB and its charge-payers. This programme of works is managed by the Regional Flood and Coastal Committees, with the funds being protected for spend within that catchment. The programmes of work are published on the Environment Agency website.

I can assure the Committee that funding raised locally is retained by the Regional Flood and Coastal Committee—it does not get surrendered to a national or central pot. Farmers paying a drainage rate to an IDB do not make a separate payment to the Environment Agency; the IDB contributes to the Environment Agency work programme on their behalf.

The Environment Agency has been working with Internal Drainage Boards to improve the reporting of the work it undertakes for the benefit of IDBs, and in 2012 worked with IDBs to pilot a new joined-up approach to setting the proposed local programmes of work. This partnership resulted in a discussion paper jointly authored by representatives of the IDB and the Environment Agency, which enabled the IDB Board to put forward comments for the Regional Flood and Coastal Committee to consider when setting the level of the precept for 2013–14. The Agency intends to roll out this approach more widely to improve partnership working and transparency.

### Q340—Bellwin Scheme

Under the Department of Communities and local Government's Bellwin scheme 85% of costs is the normal rate of reimbursement under the Bellwin Scheme. This rate has been set to give Local Authorities an incentive to control their spending. The Department has allowed funding above this threshold in exceptional cases, such as for the 2007 summer floods where 55,000 properties were flooded. Funding at the 100% rate was applied for the June and July 2012 schemes when 4,000 properties were flooded by particularly intense and concentrated rainfall or unusual cloudbursts.

An extra £120 million will be spent by Defra over the next two years (April 2013—March 2015) to accelerate around fifty flood defence projects. This combined with increasing levels of external co-funding means that over the current spending period, more will be spent on flood and coastal risk management than ever before. £4 million has been made available to 13 communities through a Flood Resilience Community Pathfinder Scheme up to March 2015. The scheme is designed to enable and stimulate communities at significant risk of flooding to develop local solutions.

Recovery grants for infrastructure are not covered by the Bellwin scheme. However, Government Departments do operate emergency funds to deal with specific impacts on infrastructure from any emergency. In the case of the flooding incidents of 2012 no single incident had such a significant impact on infrastructure to release such emergency funds.

### Q354, Q367 and Q368—Sustainable Urban Drainage (SuDS), Water Companies and Planning

Turning to the discussion on Sustainable Urban Drainage Systems (SuDS), I can assure the Committee that we are making progress on enacting Schedule 3 of the Flood and Water Management Act 2010. This will establish an Approving Body in county or unitary authorities. The Approving Body has a duty to adopt and maintain SuDS that serve more than one property where they have granted approval to drainage systems built to national standards.

(Q368 obliged to connect) Section 106 of the Water Industry Act 1991 details the circumstances under which a sewerage undertaker can refuse to permit, or set conditions for, a proposed communication with the sewerage system.

(Q367) The Flood and Water Management Act will amend the Water Industry Act, making the right to connect surface water to the public sewer conditional on the drainage system being approved by the SuDS Approving Body. Sewerage Undertakers, the Environment Agency, Internal Drainage Boards, British Waterways and Highway Authorities are to be statutory consultees to the Approving Body.

When enacted, these provisions will increase the uptake of SuDS in new developments. With regard to existing developments, the Water White Paper Water for Life sets out how the Government intends to encourage the retrofitting of SuDS. The Committee will also be pleased to know that their concerns over the proliferation of impermeable surfaces in gardens has been acted upon, as of 1 Oct 2008 planning approval is required to install in front gardens an impermeable surface exceeding 5m<sup>2</sup>.

With regards to timing of implementation, in the consultation document of December 2011 we suggested an implementation date of 1 October 2012. Responses to the consultation highlighted a number of issues that required further work before implementation could take place. The Committee will be pleased to hear that we listened to responses from all sectors who called for these issues to be fully worked through to ensure implementation is effective, while avoiding additional burdens which might impact on the drive for growth. Defra officials are engaging with all industry representatives, via three cross-sector task and finish groups, in order to resolve the main issues raised in consultation. This will ensure that the SuDS approval and adoption regime we are introducing works and is supported by local government and the developers which will have to operate within it. Consultation responses from all sectors called for adequate lead-in time to prepare for implementation, our revised timetable for April 2014 implementation allows for this and gives sufficient time for the usual Whitehall and Parliamentary clearances. In addition to the above provisions, it is my intention, as I mentioned in my evidence to the Committee, to use the Water Bill to further encourage the uptake of SuDS by making it clear that, where it is cost-effective to use SuDS to effectually drain an area, sewerage undertakers may fund SuDS through customer bills.

Defra analysts have utilised the available evidence on the cost effectiveness of SuDS measures as part of developing the economic assessment of SuDS policy. We have also commissioned further research to strengthen our evidence base. While we do not have studies that demonstrate the role SuDS can play in flood risk mitigation at a regional level, case studies at a more local level are available and can be viewed on the Defra-funded Susdrain website ([www.susdrain.org](http://www.susdrain.org))

I trust you find this information helpful.

22 April 2013

## ENVIRONMENT AGENCY MAINTENANCE SPENDING

The Environment Agency's overall spending on maintaining and replacing assets has reduced over the Spending Review period from £446m (see note 1) in 2010–11 to £386m in 2012–13. Over 95% of our flood risk management assets are still being maintained in target condition and these performed well during last year's extreme wet weather, protecting over 200,000 properties.

The proportion of flood defences in 'high consequence systems' (ie those offering the greatest protection to people, property and much of the best quality agricultural land) in target condition improved slightly over the past two years from 97.5% in March 2010 to over 98% at March 2012. We are now seeing a small fall in asset condition as a result of the extreme wet weather and the reductions in overall expenditure on maintaining and replacing assets.

Dredging and watercourse maintenance is just a small part of the Environment Agency's asset management programme. It is not always the most effective way of reducing flood risk. The Environment Agency prioritises its work to maximise the benefits in terms of reducing potential risk flood damages. The table below shows the breakdown of the maintenance spend in the last four years and forecast for future years.

## ENVIRONMENT AGENCY MAINTENANCE SPEND (£ MILLION)

<i>Maintenance Activity</i>	<i>2009–10</i>	<i>2010–11</i>	<i>2011–12</i>	<i>2012–13</i>	<i>2013–14</i>	<i>2014–15</i>
Operation of our assets— including water level management, asset inspection and utility costs	43	43	43	43	44	46
Conveyance management— includes blockage removal, dredging, de-silting and weed clearance	39	44	39 (see note 2)	45	30	25
Preventative maintenance on large operational assets such as pumping stations, tidal barriers and sluices	22	22	22	22	21	20
Preventative maintenance on structures and defences	51	59	52	59	51	46
Total EA revenue spend on asset maintenance	155	168	156	169	147	136

Overall spend on asset management, which includes maintenance and capital investment to replace, repair and refurbish existing defences to ensure that they continue to offer the same level of flood protection, was £446m in 2010–11, £367m in 2011–12 and £386m in 2012–13.

The priority for allocation of funding to those areas where the flooding consequences are higher is in line with the recommendations of the 2007 National Audit Office report. In 2006 the percentage of the regional maintenance budget spent in high consequence systems varied between 24% and 67%. In 2012–13, a national average 79% of funding for asset maintenance was allocated to high consequence systems, 14% to medium, and 7% to low consequence systems.

## Notes

1. This table shows our overall spend on asset management, which includes maintenance and capital investment to replace, repair and refurbish existing defences to ensure that they continue to offer the same level of flood protection.

	<i>Capital Replacement</i>	<i>Revenue Asset maintenance</i>	<i>Total</i>
2009–10	273	155	428
2010–11	278	168	446
2011–12	211	156	367
2012–13	217	169	386
2013–14	275	147	422
2014–15	322	136	458

2. Dredging is one activity within the more general heading of conveyance management. We do not collect specific data on the amount of dredging we do because it is difficult to separate dredging from other related activities such as blockage removal and weed control. We provided an estimate in 2012/13 that our dredging investment was between £10m and £20m per year.

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3. These figures represent our latest and most accurate overall estimates, which take staff and support costs into account, and cover all maintenance activities. They may differ from some previously published figures, in cases where only 'direct' costs were counted.
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