

Public services

Summary

December 2007

Staying afloat

Financing emergencies

Total costs of the flooding

- 1 This report is based on interviews with and data from local authorities particularly affected by flooding in the summer of 2007. The floods cost the 18 local authorities in this study almost a quarter of a billion pounds^I. Seventy per cent of these costs have been incurred by just four local authorities.
- 2 These costs cover the emergency response and clean up, and repairing the damage done by the flooding, particularly to local authority housing, roads and schools.
- 3 Not all of this cost has to be borne by the affected local authorities. There are sources of external funding, mainly government assistance and insurance claims.

Government assistance

- 4 The authorities in the study expect government assistance of over £100 million, almost half of the total costs. This support has clearly helped local areas to deal with the flooding and has been welcomed.
- 5 The assistance was paid out (or is expected to be paid out) in four main schemes:
 - the statutory Bellwin^{II} emergency funding scheme designed to cover the costs of the emergency response;
 - a scheme to provide support for the repair of roads damaged in the floods provided by the Department for Transport (DfT);
 - Flood Recovery Grant (FRG) that was mainly used by local authorities to ease the plight of those affected by the floods; and
 - a grant, to help schools and services for children, young people and families, paid by the Department for Children, Schools and Families (DCSF).
- 6 Payments under the statutory Bellwin scheme are expected to meet 9 per cent of the total cost of the flooding. The additional three schemes listed above are expected to cover a further 39 per cent of the costs.

^I Costs included are those identified by the local authorities as being related to the flooding, and are estimates of the final total cost. This total does not include redirected time and effort of local authority staff, nor the considerable unpaid overtime and free volunteer contributions made by many.

^{II} Bellwin is the statutory scheme for emergency assistance. Once it is activated, local authorities can claim back some of the costs 'of, or in connection with, the taking of immediate action to safeguard life or property, or to prevent suffering or severe inconvenience, in their area or among its inhabitants' once the totals of these costs rises above a pre set threshold of 0.2 per cent of their budgets.

- 7 Two of these schemes (FRG and the DCSF grant) were created in the days following the June floods and had never been available before. The government has been keen to stress that they should not be seen as setting a precedent and that they should not be relied on in the future. The Department for Environment, Food and Rural Affairs (DEFRA), which is responsible for public rights of way, has not provided any funding to repair damage to footpaths.
- 8 Each of these schemes has an internal logic, but there is no consistency between the approaches adopted. The differences in how they operate have led to a confused picture for local authorities. For example, some authorities where the cost of flooding to the council was low have received government assistance, while other authorities have suffered considerable losses which they will have to bear themselves.
- 9 The amount of support each authority received depended on the type of assets that were damaged, and the decision taken by the responsible government department. As a result, if the damage was mainly to roads, most of the costs will be funded. There was some help for damaged schools. But no specific government help was provided for repairing, for example, flooded residential care homes or public rights of way.
- 10 There is no clarity about what government assistance will be available for the next major emergency, other than the likelihood that the Bellwin scheme would be activated. Even that is, strictly speaking, at the discretion of Ministers.

Insurance

- 11 The levels of insurance were variable, from very little to almost comprehensive cover. Around a third of the insurable¹ cost of the floods was covered by insurance (including self insurance funds) but the proportion of costs covered by insurance varied between authorities from 0 to 91 per cent. Levels of excess on external insurance policies were generally high, reducing the amount insurance companies will pay to affected authorities by about a third.
- 12 Early evidence from authorities that have renewed their policies, and comments from Zurich Municipal Insurance, suggest that insurance premiums will increase, in some instances very significantly, following the 2007 floods.

¹ The figure for insurable damage is a broad estimate using the total cost of the flooding excluding the cost of the emergency response and road damage which are not normally insurable. There may also be small elements within other categories that are not insurable. The insurable total largely comprises the cost of repairs to housing, schools, social care establishments and leisure centres, and some loss of income.

The cost to local authorities

- 13 After government help and insurance claims, the rest of the cost has to be funded by the local authorities. The proportion of the total cost that each local authority included in this study will have to find from its own resources varies from 3 to 73 per cent. This¹ represents an average of £21 per household.
- 14 How easily this net cost can be met depends on the size and general financial resilience of an individual body, including how much the costs represent as a proportion of its expenditure, the size of its reserves and its overall financial health.

Impact on budgets

- 15 All authorities will be able to manage the costs of the flooding on this occasion, although this is more difficult for some than others. For some, reserves are adequate and the main issue is the time needed to build them back to appropriate levels. For others, meeting the costs could require increases in council tax, cuts in planned expenditure in other areas, not repairing all of the damage or rescheduling other work.

Impact on services

- 16 The effects of the flooding on local public bodies are not confined to the difficulties of repairing damaged buildings and how that can be funded. There are significant consequential effects on the ability to deliver some services, and on the people who need those services. There are wider impacts, for example on:
- service delivery and the performance of affected public bodies;
 - the image of an area and potentially its future economic performance;
 - people's physical and mental health; and
 - the environment.
- 17 People who were already vulnerable, for example, the elderly or those living in deprived communities, have been particularly badly affected.
- 18 The indirect or intangible impacts of a major event such as the flooding are rarely taken into account when weighing up the risks of an event versus the costs of prevention or insurance.

A tale of two floods

- 19 Each authority has its own unique story of how the flood has affected its area, but collectively they tell a tale of two floods. There are some local authorities which, although badly hit by the flooding, will bounce back quickly. There are others which will be dealing with the effects of the flooding for some time to come.

¹ This excludes one outlier where the cost is £317 per household.

20 This study considered the impact of the flooding on the finances and services to residents in the local authorities affected. In doing so we have identified a number of the features that, particularly when compounded, can indicate whether an area is likely to suffer significant longer-term financial and service impacts should it be flooded. These features are linked to: knowledge and experience of flooding; the financial position of an authority; the vulnerability of its assets to flooding; and the level of deprivation in its area.

Risk assessments and financial resilience

21 The scale of the flooding was unprecedented. Nevertheless, some areas were prepared both practically and financially. Usually these were the areas that had had experience of flooding in the past. Others were not so well prepared. Whether in each individual case this was due to bad luck or poor risk assessment was beyond the scope of this study. The purpose of this work is not to audit each local authority's risk assessment, but to highlight learning that could benefit others.

22 The key findings on the approach to risk assessment are that:

- the total cost of the flooding was reduced where authorities had specifically considered the impact of a wide scale, serious event affecting many assets, and had taken appropriate action, for example, negotiating insurance policies that capped the total excesses linked to one event;
- local authorities in areas with experience of flooding had a better understanding of the risks, terminology and consequences of flooding;
- among those with little recent history of flooding, there was some confusion about what constituted a low risk. Two authorities quoted a 1 in 50 year risk as 'low' in their risk assessment. The Environment Agency defines significant risk as more frequent than 1 in 75 years;
- consideration of the risk of flooding was weak in a number of our study sites;
- in one authority the risk of flash flooding was highlighted as a high risk, above the risk tolerance set by the authority, but no mitigating action was taken; and
- there were some examples where the cost of damage was reduced because risk assessments had focused on the risks to specific council buildings.

23 The experience of councils affected by the summer 2007 flooding has highlighted the inherent difficulty of predicting, and trying to mitigate, the risks of catastrophic events at a local authority level. The difficulties include:

- how to assess the likelihood of a catastrophic event in a local area;
- the fact that the mitigating actions, such as flood defences, are not entirely within a local authority's control;

- the fact that the cost of bringing the risk down to an acceptable level, for example, through insurance or prevention measures, may be prohibitive; and
- the lack of clarity about what government support would be available.

Key messages

- 24 The cost to local authorities was high but manageable on this occasion because of generous government assistance, local authority insurance arrangements and the level of reserves.
- 25 The Bellwin scheme alone is insufficient to deal with catastrophic events. This was demonstrated by the government's decision to announce the provision of £80 million¹ of additional funding to local authorities for the summer 2007 flooding through other schemes.
- 26 The government assistance has helped and has been welcomed by local authorities. However the overall package of government assistance was hastily put together, unpredictable and inconsistent between different government departments.
- 27 The government has said that the additional help should not be relied on in the future. However, for catastrophic events local authorities now have a realistic expectation that additional government funding would be made available.
- 28 It is therefore not clear what government assistance will be available for the next catastrophic event. Or, taking a wider view, it is currently unclear how the risks of future catastrophic events will be shared between government and local authorities, and between local authorities and their insurers. This clarity is needed to enable local authorities to make informed decisions on risk planning.
- 29 The emotional aftermath of a serious event such as flooding can create a situation where decisions on providing assistance are made quickly, perhaps for political reasons. It has the potential to encourage political brinkmanship, for example with authorities delaying the start of repairs in the hope of more government funding. This could be avoided if a scheme was, as far as practicable, developed in advance.
- 30 The approach of local authorities to their risk assessments was very variable and there is much that can be learnt from the experiences of those affected this time that could improve risk assessments in the future. Generally we found that local authorities are

¹ This is what has been pledged by government, including £50 million so far set aside by Department for Transport (DfT) for highways damage. Our research indicates that £73 million is expected to be claimed from DfT by the authorities in this study. It is not known whether these claims will be paid in full.

finding it difficult to predict and to mitigate the risks of catastrophic events as opposed to the usual risks they have to face.

- 31 Assessing the risks for the whole country, however, is a more straightforward task. While a small number of disasters can be expected and predicted nationally every year, in any particular locality the probability is very low. In other words, we know someone will be affected, but we don't know who it will be.
- 32 Also the cost of this small number of events each year is likely to be significant for the areas affected, but affordable nationally.
- 33 Local authorities are responsible for assessing the risks in their areas, and need to take appropriate mitigating action. However:
 - without clarity on how risks are shared, and what government funding would be available, there is a danger that local authorities would make judgements about the risks they have to cover, based on incorrect assumptions about the availability of government assistance;
 - some of the responsibility for mitigating the risks of catastrophic events such as flooding lies with central government, for example decisions on the level of spending on flood defences.
- 34 The risks associated with catastrophic events are currently shared between local government, central government and insurers. However, the current arrangements are neither transparent nor optimal in terms of minimising the overall costs to the taxpayer or ensuring that appropriate measures are taken to reduce risks. Any shift in responsibility for risk would suggest a redistribution of funding, but the overall cost to the taxpayer should be lower.

Recommendations

Overall

- 35 Central government and local authorities, perhaps through the Local Government Association, should work together to determine the clearest and most cost effective way to share the risks of catastrophic events. This should include a consideration of how to finance any changes in responsibility for risk.

Central government

- 36 The government needs to develop, as far as possible, a clear approach to the support it will provide to local public bodies in the event of a catastrophic event. This should build on an enhanced Bellwin scheme, which may be all that is needed except in the most serious circumstances.

37 Such a scheme should:

- be clear about:
 - the circumstances in which extra funding would be made available;
 - the principles of the scheme, for example whether it would be a grant or a claim;
 - the level of support that would be available; and
 - what, if any, restrictions would be placed on its use;
- retain incentives for local preventative action;
- be simple and responsive, so that it did not prevent immediate action to protect life and limb in an emergency; and
- include an incentive to minimise the costs of immediate and remedial action, for example by incorporating the principle that a percentage of the costs should be borne by affected local authorities.

Local government

38 Risk assessments should consider the risks of an unlikely, but catastrophic emergency of any kind, not just flooding, separately from the more localised risks that are easier to understand, predict and mitigate. For example, local authorities should differentiate between the risks of river and coastal flooding in known high risk areas, and flooding due to excessive rainfall (pluvial), which is more difficult to predict.

39 Risk assessments should consider:

- the specific risks to a local authority's assets;
- when looking at risk by area, the vulnerability of each area's population; and
- the risks of a widespread event rather than a local one, particularly:
 - the implications of this in determining the excesses on insurance; and
 - whether levels of self insurance and reserves are adequate in the event of a serious emergency.

40 Local authorities with little previous experience of flooding should take steps to learn from others that have been living with the risk for some time, and have a good understanding of the issues.

i Copies of the full report are available at: www.audit-commission.gov.uk or to order a printed copy telephone: **0800 502030** quoting stock code: **GNR3421**

For further information on the work of the Commission please contact:
Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ
 Tel: 0844 798 1212 Fax 0844 798 2945 Textphone (minicom): 0844 798 2946
www.audit-commission.gov.uk

Stock code: GSY3422