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Environment, Food and Rural Affairs Committee

Managing Flood Risk

Third Report of Session 2013–14

Volume II

Additional written evidence

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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.

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Thomas Docherty (*Labour, Dunfermline and West Fife*) was a member of the Committee during this inquiry.

Powers

The committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the internet via www.parliament.uk.

Publication

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

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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List of additional written evidence

(published in Volume II on the Committee's website www.parliament.uk/efracom)

Written evidence

Written evidence submitted by CL Beaumont-Rydings

Subject: Postponement of Flood water and management. Sustainable Systems.

Question: I agree with section 61 whereby there is dismay that the water companies are extremely slow to attend to water service equipment and piping.

There is another dimension which I feel has been disastrous for the public and its purse. On the mad rush to build, build, build I refer to Saddleworth Parish Council and OMBC. Developers were allowed to build on flood plains and tap into Victorian pipework, scarifying copse of trees that stabilised ground for over 150 years. The pipework on Uppermill was placed cicrca 1820–40 to provide in 9 inch iron a sewerage system for up to 100 people. The developers, despite public warning and distress were allowed to build into the system which in that are, over 6ooo people were using.

Consequently this failure was the reason for flooding and sewerage into rivers and residential and village pond facilities I believe from records over public concern circa 2006–05 when I was Chair of the Uppermill Residents Community group, called upon by residents to represent them. At council the developers, one item after a buffet were given undue time whilst the public were give 3 minutes. Block voting cancelled out our concerns which sadly came to pass.

I mention this history for two counts:

1. The leakage of water and sewerage and clean up monies, unnecessary if the developers were contracted to install appropriately the correct piping for current and extended build needs.
2. The cartels it seems that Water companies have since no one to compete with, have passed the burden onto the public.

If the water companies were made to take from profits, planned preventative maintenance it may make their minds up very soon that leaking, outdated, corroded and health hazards produced would have on THEIR profits, would this not lead to better water management?

A little bit here and a little bit there of these problems, over time, are costly.

I object and those that asked me to represent the more creaming off monies from the public for a defective unfit for purpose "service".

February 2013

Further written evidence submitted by Christine Beaumont-Rydings

Since it isn't possible for me to travel to you would you be kind enough to consider points I have suggested before as being environmentally friendly, increase of visitors in safety, jobs and business savvy?

The floods that have happened may be unusual but there have been indicators that have been ignored.

DON'T build on a flood plain. Fine those that do to put towards drainage which will effect others.

Update drainage and service pipes as installation of new buildings to take account not only of the known hazard but twice as much. Why? Because long term planning is financially sensible. If cheap plug the hole jobs fail, how much then? Never lower is it?

Use the facilities already in place. Eh? The rivers of this country are many and fast flowing. Dredging them used to be a planned preventative measure. I advocate the training of apprentices in farming under which rivers were a part. Dredge out the bottoms of the river. Save boulders so environmentally they can go back but healthier surrounding. Widen where trees and shrubs have overtaken the banks and not so severe to alter the outlook.

Build stone wall up to higher level than before. Yes I know some people won't like it but are flooded houses an option? Fill inside the two skins of rock with drainable material and bond if necessary. Place dredged mud, et cetera, over the back of these walls. Alongside them build in a drainage path to link into a hydroelectic housing. Use solar panels on the roof of the housing to supply entry automatic lighting to deter crime and keep visitors safe.

On the top of this put perhaps 2 metre wide anti-slip concrete slabs at a slight incline towards the river, encouraging visitors and improving safety for those that live there as well.

Where there has been erosion of land plant bushes native to this country. As a fence-off use hawthorn in both pink and white. Plant then at 25 degrees approx so that they will grow vertically to keep sheep and cattle in but allow smaller animals safe passage.

Every 15 bushes, plant another upright. This will grow into a tree acting as firming the land, preventing erosion and as a windbreak. Shrubs and trees love water. Advise not to plant with buildings as the mature tree height will grow at least that base roots. Which has caused so much damage with broken pipes and services and undermining houses as well as commercial buildings.

Encourage Councils to use specialised tree cutting firms instead of lobbing them off and causing root movement and possible site for infection. Trees should be trimmed in the shape they would naturally mature to.

It softens hard sight neighbourhoods; encourages involvement; provides jobs and nurtures a respect for the environment.

Some new friends don't know about caring for where they live, especially in winter. However I've found if one person does it (clearing snow and ice, for example) the neighbours also do. Nice to see and bonds neighbours together. I remember a neighbour coming with his two small boys to dig me out. What a relief after three weeks of being housebound and a nice introduction as I ran with Mums and Grandmothers a gardening club in the holidays.

Over years respect for farming and our countryside has been very lacking in support. Nothing is impossible if we try. Print out an advertisement as they do in Saddleworth in Yorkshire to pull out balsom and other pesty interlopers!

So please use not just looking at a part of the problem but other facets too. Instead of concentrating in IT, Medical and Law degrees we don't need, can we at least begin to balance as a society what we need and respect that labour. It can be done.

February 2013

Written evidence submitted by Jeff Charlton

I believe the parliamentary groups are missing the biggest issue and part of the insurance regarding floodplain and insurance.

I believe you are assessing the following:

1. Flood defences and general protection.
2. Insurance industry and their costs and proposals.

This appears to be ignoring the single most important cost element which is the cost of damage repair and why this is so expensive and disrupts communities for such long periods.

You might be surprised to know:

- Insurers operate a virtual cartel and have stifled the UK restoration industry with their "Nominated Contractor" networks.
- Loss adjusters even chartered have no training in flood damage but manage claims.
- There is no UK recognised training or certification in flood or water damage repair.
- Insurers have squeezed contractors' costs so much that rip out and gutting of properties is more profitable than drying them.
- Despite squeezing contractors costs claim costs have escalated.
- New technology in restoration and building is ignored.
- Building and restoration (drying and salvage) are mistakenly considered two separate operations often leading to duplicated costs.
- The UK currently does not have a competitive flood or disaster recovery industry.

Independent audits of state owned insurance companies have shown cost savings of 40% and time lines to completion reduced by 70% but the ABI member insurers have ignored these facts and you have to wonder WHY?

The issue of insurance of flood plain is not about increased premium but affordability and value for money.

Currently there are no recognised procedures for repairing flooded homes other than install a nominated contractor who depending on their opinion and ability will gut, rip out or salvage and repair/replace the property and contents.

The insured is expected to stand aside until such time as someone from the insurance company arrives and watch damage escalate to levels where disposal is the only option.

The incompetence of contractors and claim management has been apparent in every claim audited since the Lewes floods of 1999 and examples can be seen on www.claimtech.co.uk—see Cockermouth and Carlisle audits.

The issue of flood plain insurance is not cost, but scope of cover and we have discussed an insurance policy with brokers who will provide home owners and mortgagees with a basic policy which will return the property to pre loss condition at normal insurance premium.

There are caveats which places emphasis on self-help such as moving valuable items out of harm's way (when warning is given) and limitations on contents. The basis of cover is clean up, sanitation and drying with localised repair. The contractor network can if required provide addition al services too but these will be over and above policy cover.

Contractors utilised in this project will follow moral ethical and transparent protocols and will be wherever possible be recruited or supported by local business as they are recognised as stakeholders in their own local communities.

The details of cover and premium can be discussed and agreed by relevant stakeholders to form a national agreement.

With my colleagues within the industry and including the AIBC I believe we can provide a nationwide competitive contractor network capable of undertaking not only flood issues but general disaster recovery, building and restoration issues.

I am an expert in this field and currently the person writing the new UK industry guidelines and standards for flood restoration (BDMA) (AIBC) and committee member of the new British Standards PAS 64 on flood restoration.

February 2013

Written evidence submitted by the Council of Mortgage Lenders

Introduction

1. The Committee is currently considering the issue of flood insurance, and government-ABI progress towards providing insurance to properties at flood risk once the current Statement of Principles expires at the end of June this year. Although the committee has not issued a formal call for evidence, we understand that oral evidence sessions will soon be held to look at this issue in more detail.

2. Ahead of those sessions, we are providing this submission to set out the mortgage lenders' perspective of the possible effects of a failure by government and the insurance industry to reach agreement on the successor arrangements to the Statement of Principles.

3. The CML is the representative trade body for the UK residential mortgage lending industry. Its 108 members currently hold around 95% of the assets of the UK mortgage market. In addition to lending for home ownership, the CML's members also offer buy-to-let mortgages to support a private rental market.

The Issues

4. Having buildings insurance covering normal insured perils (including flood) is a requirement of all mortgages. This is to protect both the borrower and the lender in the event that an insured event happens to a mortgaged property. If insurance is completely unavailable for a property then a consumer would not be able to buy that property with a mortgage. There would be implications for mortgageability if insurance is available but it is either expensive or has a large excess. This paper sets out some of those considerations in respect of:

— The extent of the problem: how many homes with mortgages are affected.
— The existing protections for lenders—Terms & Conditions; contingency insurance.
— What lenders might do, faced with uninsured borrowers, or more costly insurance.
— Wider mortgage market impacts, and possible regulatory implications.

The Extent of the Problem

5. In estimating the possible number of mortgaged properties which could be at high risk of flooding (and therefore likely to have difficulty obtaining affordable insurance), we have regard to publicly available figures from various sources:

6. The Department for Environment, Food and Rural Affairs estimates (2010 figures):

— 2.7 million properties are at risk from flooding from rivers and the sea.
— Around 550,000 properties are at significant risk.
— A further 2.8 million properties at risk of surface water flooding alone.

7. The Association of British Insurers estimates that 200,000 policyholders have properties which face difficulty obtaining insurance, either because the cost is too high, or because of uninsurable risk.

8. Figures previously provided by HM Treasury suggest up to 50,000 households might experience significant or very significant difficulty in affording insurance.

9. If we assume that the distribution of flood risk for mortgaged properties mirrors that for the housing stock as a whole, then we can deduce how many mortgaged properties may be at risk. To do this, we combine the

latest CLG estimate of 27.4 million UK dwellings with CML estimates (Table AP7) indicating 10.0 million owner-occupied mortgages and 1.4 million buy to let mortgages.

10. The respective grossing factors are:

- 36.5%—(10.0/27.4)x100% for properties with a residential mortgage, and
- 41.6%—((10.0+1.4)/27.4)x100% for properties with a buy to let mortgage.

11. Applying these grossing factors gives:

- On DEFRA figures for properties at significant risk (rivers and coastal): around 201,000 properties with a residential mortgage (36.5% x 550,000), 229,000 if buy to let cases are also included.
- On ABI figures: 73,000 properties with a residential mortgage at high risk of being unable to obtain affordable insurance (36.5% x 200,000), 83,000 if buy to let cases are also included.
- On HMT figures: 18,000 properties with a residential mortgage, 21,000 including buy to let cases.

12. This should be set against the total number of mortgaged properties of around 11.5 million.

13. This may understate the problem as residential properties that are currently owned outright may over time be sold on the open market, when prospective buyers may require a mortgage. We must emphasise that we have extrapolated these figures from the available evidence and that, whilst we are happy with the methodology, we cannot vouch for their accuracy. DEFRA is expected to provide updated figures in January 2013 although to date these have not been released. Our estimate does not consider the number of properties at risk of surface water flooding.

Existing Lender Protections; would Lenders know a Borrower is Uninsured? What would Lenders do?

14. There are a number of safeguards already in place to protect lenders' and borrowers' interests. When a mortgage is taken out, the solicitor will check and confirm to the lender that the required insurance is in place.

15. Once the mortgage is in place, lenders are protected by their mortgage terms and conditions (Ts & Cs). These will vary, but typically they will require borrowers:

- to insure the property (including for flood) at all times;
- to keep the insurance in force; and
- to provide lenders with details of the insurance if they ask, and prove it is still in force.

16. Some conditions allow the lender to arrange insurance if the borrower does not. Borrowers are usually obliged to inform lenders:

- if the property is damaged, and a claim needs to be made; and
- if the insurance becomes invalid or ends and the borrower does not take out a suitable replacement.

17. It is not unusual for Ts & Cs to give lenders the ability to require the mortgage debt to be repaid immediately if the obligation to insure is breached. Immediate repayment might also be triggered if borrowers are found to have given false or misleading information. However, in practice we believe this is a right that would only be exercised in extreme or exceptional cases.

18. Provided that the borrower continues to pay their mortgage, a lender might not be aware that a particular borrower does not have insurance. Lenders do not routinely ask for proof of ongoing insurance, not least because of the current widespread availability of affordable buildings insurance. Customers also switch insurance providers more often as a result of increased competition in the marketplace. Further, an earlier agreement about notification of insurance changes between ABI and BBA has lapsed and not been renewed, mainly because of the frequency of insurance switches.

19. The cost of more frequent or routine checks because of concerns about potential non-renewal of insurance would be disproportionate, given the relatively small numbers of properties estimated to be affected.

20. If a property is flooded and the borrower pays for the repairs themselves, the lender would not know if there was not mortgage insurance in place. If, however, flood damage has occurred and the borrower struggles financially to repair the damage themselves and/or to afford flood mitigation measures or changes to make their property more resilient in the face of future flood, then the lender might become aware that there is no insurance—for example, if the borrower falls into mortgage arrears.

21. In terms of what lenders might do if a mortgaged property is flooded and insurance is not in place, we expect lenders would take a practical and pragmatic approach, and seek to work with and support their customers. We envisage this would be an extension of the good work and practices of many lenders in supporting customers through arrears and forbearance arrangements. We expect lenders would consider requests for financial assistance to make good the property by way of additional mortgage borrowing, or unsecured borrowing, depending on the customer's individual financial circumstances. It is highly unlikely that lenders

would move to strict enforcement of mortgage terms and conditions from the outset. We expect lenders would work with customers who are found not to have insurance to obtain a minimum level of cover as soon as possible.

22. Some lenders have also taken contingency insurance against a range of risks, such as re-possession, and some contingency policies might cover the lender for loss through flood events. Notwithstanding this, all lenders are required under FSA rules to have sufficient cover in place to meet capital adequacy requirements.

Other Mortgage-Related Impacts; Regulatory Implications

23. We believe there would be other potential mortgage and regulatory implications if affordable insurance is no longer available or less available than now.

24. It is possible that a rise in premiums would have to be taken into account by lenders as part of their routine mortgage affordability calculations under FSA rules and would therefore have an impact on the amount that someone could borrow. A significant rise in the excess that a borrower has to pay might impact the loan-to-value (LTV) a lender was prepared to offer on an affected property.

25. The two key variables of premium and excess will interact to impact mortgage affordability and LTV: high premiums could impact the amount that someone could borrow; high excesses could result in lower LTVs. Together, the effect could be to undermine recent policy initiatives to tackle consumer access to mortgages/ affordability and increase lending with a view to stimulating the property market, housebuilding and the wider economy. Taken to extreme, if properties can no longer be insured, there would almost certainly be a knock-on impact on saleability with some properties becoming unsellable other than to cash buyers looking to pay a reduced price.

26. Lenders might also have to hold additional capital against properties at high risk of flooding to mitigate against the possibility that they are uninsured.

25 January 2013

Written evidence submitted by the Country Land and Business Association

CONCERNS OVER FUNDING OF FLOOD AND COASTAL EROSION RISK MANAGEMENT AND PROBLEMS EXPERIENCED BECAUSE OF NO NEW INSURANCE AGREEMENT

The Country Land and Business Association's (CLA) 34,000 members are involved in all aspects of rural land management and business. They manage approximately five million hectares of rural England (and Wales), including: landscapes designated as National Parks and Areas of Outstanding Natural Beauty; land in Countryside Stewardship and Environmentally Sensitive Area agreements and Sites of Special Scientific Interest. Many rural businesses are totally dependent on the land drainage/flood defence infrastructure to protect their economic and environmental interest in land. Many inland floodplains are very significant in terms of UK agricultural land use and support a whole range of enterprises from arable and extensive grazing to horticulture and recreation and tourism including flood alleviation.

The rural economy makes a major contribution to the national economy. Land-based businesses, within the rural economy, provide the environmental and recreational benefits in the countryside that are valued by the population as a whole. The best security for rural areas is a successful and sustainable rural economy allied with flexible, integrated and sustainable policies. The ability to defend and protect rural businesses and property is a key part of long term business security.

The Funding Issue

In general the CLA is supportive of the funding process because it will hopefully allow more private money to contribute to schemes. We have, however, always had doubts that this will make much difference to rural areas with low population density. The Government thinking set out in the "Making Space for Water Policy" is of concern. There are high levels of uncertainty around climate change impacts and the predicted population growth and food security needs are not addressed by the policy or through the funding mechanism.

The case for a change from the old system was quite clear. Only with an increase in funding and a complete overhaul of prioritisation techniques, cost/benefit valuations and discounting assumptions could it remain in place but unfortunately these important issues still have not been addressed by the new funding process.

The methodology continues to be based on assumptions that discriminate against rural and coastal situations. Namely, continuing to place limited value on agricultural land and buildings compared to residential properties. This limits the scope for rural projects to achieve favourable cost benefit outcomes.

The new system should have been introduced in tandem with a review and rewriting of Treasury Green Book guidance to help readdress the imbalance. In the absence of changing the Treasury rules the new system is discriminating against rural areas.

The new funding scheme that has been developed still does not rely on the most current data/valuations and economic assessments. For example the agricultural land value estimate has not been updated since 2007 and so does not reflect growing food and environmental security needs.

The CLA feels only able to support the new funding so long as Government's own commitment to coastal defence funding is not reduced. Although payment for outcomes may provide a better funding solution than the previous method it should be stressed that private capital is unlikely to be attracted successfully if the Government is seen to apply different financial evaluation techniques to the private sector and the danger would be that any proposed partnerships would then collapse.

To help secure the necessary widespread private capital investment the following points need to be addressed:

Despite a very elaborate set of algorithms for calculating cost/benefits, the single largest determinant of where the calculations will come out is deciding the minimum acceptable cost benefit ratio. This has been set as 5:1 for households and 18:1 the rest. There is insufficient justification by Defra on how the 5:1 ratio is set, and therefore how the 18:1 ratio is reached. As stated above it places insufficient value on agricultural and rural assets.

The reality is that setting the benefit cost ratio for households as high as 5:1 will prejudice longer-term schemes designed to resist sea-level rise. Setting the benefit cost ratio for non-household economic assets at 18:1 considerably overestimates the capacity of small businesses to pay.

Heritage assets need to be considered with environmental benefits. In particular, private capital is unlikely to be attracted if the Government uses significantly different valuation techniques from the private sector, which then make it appear that Government is unwilling to "pay its share". So if, as in the past, Government benefit-cost analysis and prioritisation techniques arbitrarily limit the "score" for heritage buildings, or value agricultural land at only 50% of market value, this will simply discourage the raising of private contributions and undermine Government's perceived credibility as a partner.

Similarly, a discount rate of 3.5% is far too high to attract capital for schemes with built-in resilience to climate change, because the benefits are likely to be too far ahead to be recognised by the discount rate. Indeed, a "no regrets" approach implies the need for a safety margin in design here, because potential sea-level rise due to climate change can only be calculated within a range of likely outcomes: UKCIP expects relative sea-level rise of between 37.3 cm and 53.1 cm on the south-east coast of England by 2100.

The basis of the outcome measure calculations also appears to discriminate against coastal defences in rural areas. For households the outcome measures have been split between flood risk outcomes and coastal erosion outcomes. However non-residential economic benefits are considered all as one regardless of whether it is a flood risk outcome or a coastal erosion outcome. These two should potentially be split as for households, especially if the 18 to 1 cost/benefit ratio is revisited as we believe it should be.

The funding method suggests that decisions on capital costs should take account of who will pay for future maintenance. That is wrong; the presumption is that future policy is determined on an ongoing evolving basis, not least through the much-troubled SMP and CFMP process.

If Government are unable to demonstrate fairness and equity by addressing the issues that have been highlighted in relation to the funding process, then it is extremely important that landowners and rural businesses are able to more easily carry out flood defence works themselves and protect their assets and livelihoods.

The Insurance Problem

CLA members are experiencing difficulties obtaining flood insurance and many are facing higher premiums and excesses.

This issue clearly continues to be of increasing importance to members in areas of higher flood risk, not least because in June 2013 the current "Statement of Principles on the Provision of Flood Insurance" is due to expire. This agreement between HM Government and the insurance industry has hitherto ensured that flood cover is available to almost all properties, even those at significant risk, in return for agreed levels of investment by Government in flood risk management.

However, against a backdrop of declining Environment Agency (EA) budgets for flood risk management both capital and maintenance it is not surprising that the Association of British Insurers (ABI) are currently unwilling to renew the national agreement. As a result we have reports of householders being quoted extremely high renewal premia (additional sums of up to £15K have so far been reported to CLA in the South West).

The current "Statement of Principles" was agreed in July 2008. The current agreement clearly predates the financial upheaval seen in recent years. The insurance industry finds itself in very different circumstances in 2012 than it did in July 2008. There are obviously also pressures on public funding for flood risk management which affects the future flood risk and potential liabilities that insurers will be exposed to. Add into the equation the new funding approach for managing flood risk which was introduced by Government last year and focuses on payment for outcomes which requires financial contributions from individuals, businesses and communities.

It could mean some rural areas will be left with a big funding gap to fill as well as the possibility that the people with properties in this situation will then find it difficult to get insurance cover too.

The House of Commons Public Accounts Committee report "Flood risk management in England" (published 31 January 2012) described the funding shortfall that the EA is experiencing and made recommendations, two of which are particularly relevant:

> "*Funding Shortfall*. …In 2009 the EA projected that its flood risk management budget needed to rise by 9% during the spending review period (2011–12 to 2014–15) to sustain current levels of protection, particularly because risks are growing due to climate change. However, the significant changes to funding arrangements being implemented by the Government will see the EA's flood risk management budget reduced by over 10% in the same period. The Committee recommended the EA publish a new long term investment strategy reflecting current funding realities in which the assumptions underlying its plans are transparent."
>
> "*Flood Insurance*. The Committee was aware that the existing Statement of Principles between Defra and the insurance industry which guarantees the availability of flood insurance ends in 2013. The Committee felt that, in light of speculation about the levels of funding available to provide effective flood protection, there is uncertainty over the future availability and affordability of insurance cover for properties in risk areas. The Committee recommended the Government work more closely with the industry to ensure insurance cover is both available and affordable. The Government needs to reach an agreement with the insurance industry urgently to prevent uncertainty and worry for affected households and communities."

With the ABI likely to maintain its position of not favouring cross-subsidisation of higher risk flood areas by other policy holders, only appropriate government support will give confidence to the insurance business and allow it to provide affordable cover for those in high risk areas.

This support might be in the form of government underwriting some of the risk in the early years so an insurance funding pot can be established for high risk areas.

In view of these circumstances and the uncertainty being created we would urge that some form of agreement beyond 2013 between Government and the insurance industry is reached as a matter of urgency.

February 2013

Written evidence submitted by Paul Hinton

I have just returned from a lengthy trip, but I write to express dismay about something I read in the Sunday Times three weeks ago, just as I left. It was reported that your Environment Committee had received a proposal for consideration, from the Association of British Insurers, for a levy on all home insurance policy holders, to benefit insurers and thereby encourage them to continue insuring homes at high risk of flooding. I regard that as totally unacceptable and earnestly hope you will encourage government to refuse the proposal, because it will create a dangerous moral hazard.

The current situation, where insurers are granting cover (presumably at unduly low rates that do not adequately reflect the risk) is already unacceptable. Insurers' shareholders will be requiring a certain level of dividend to compensate them for shouldering their companies' risks, so unless they have historically been over-rewarded, which seems unlikely, the existing arrangement must already involve an unacceptable cross-subsidy between policy holders. Nor should the insurance be subsidised by government. I agree that insurers should be required to give cover (unless damage is inevitable), but only on a proper risk-assessed underwriting basis, even if that means premiums become unaffordable for some.

I am sure you know that for many years now it has been possible, before purchasing a property, to check the degree of flood risk on the relevant government websites or other paper-based sources of information. Those purchasing property in disregard of the risks indicated by the published data must bear the consequences.

One effect of the availability of data has been an increase in the prices of lower risk property. Furthermore, some owners of such property, even in situations of high elevation, have invested further, by installing improved drainage to protect themselves against flash floods. So contrary to the observations of those who promote subsidy, it is not the case that we all face significant risk. It must be unacceptable for those taking care in their property purchases and making such additional improvements to be called upon to subsidise those who fail to do so, or who disregard the risks. Otherwise irresponsibility is being encouraged.

It is the case that some owners, because of depressed prices resulting from blight by a flood history, have invested in property they would normally be unable to afford. Those purchasers must be required to accept the resulting trade-offs. It is unacceptable for their insurance to be subsidised by those who prefer not to be an undue burden on others.

There may very well be a political difficulty to which government sees some sort of subsidy as a solution. If going even a little way down that road, however, government must take great care to avoid creating a significant moral hazard of discouraging the public from feeling responsible for their own protection: for example by limiting beneficiaries to those who purchased their properties before flood risk data was being promulgated. Also developers must not thereby be encouraged to build in higher risk areas (and if they do, they must be required first to pay for flood defences). Too much of moral hazard already exists in our society and it is one important reason for the financial crisis.

If government chooses to disregard the moral hazards and permits the subsidy to continue, it must, in exchange, oblige ALL the insurers to offer policies that give an option to exclude natural flooding risks, so that those who protect themselves properly can be rewarded; also so that those who have purchased property in high risk areas can insure affordably against other risks.

If that is not regarded as possible, then a lesser encouragement for the responsible would be for insurers to be obliged to relate the cross-subsidy to each policy holder's premium and not permit any flat rate levy. The reason I said at the outset that a fixed levy would be particularly unacceptable is because it would have the highly undesirable result of penalising those who elect routinely to reduce the risk they present to fellow policy holders and the companies' shareholders by selecting large deductibles and thereby reducing their premiums. Risk retention is an important incentive to acting responsibly and must not be discouraged.

I hope you can reassure me that you will be urging government to adopt measures that do not penalise the responsible, as at present, or that will at least encourage them.

March 2013

Written evidence submitted by Bill Hollis

May I have a moment of your time to put forward a constructive idea?

You know better than most the problems of flooding, and the question of financing same.

I have a possible contribution to resolving the problem at no government cost.

There are a huge number of ditches, which are left by land owners in a state of poor repair, thus they don't have the capacity to hold water. The main job is one of digging them out.

Ninety-nine per cent of farmers are in receipt of subsidies, which are based on points awarded, ie hedges cut, 10 points; two metres left fallow for the birds, five points; and so on.

Simply introduce a system of points for dug ditches. The points should have a life of ten years, as ditches almost certainly don't need digging out that often. Thus ditches are dug, they hold water, help reduce flooding, and encourage draining of fields, and the farmers get their subsidy.

Good farmers will do it anyway, bad ones will be so encouraged and there is no cost to the public purse, and one could argue, a slight but beneficial cost to the farmers.

I am not suggesting the subsidy could be any larger, simply more points needed to get the same subsidy and ditch digging is one of the criteria. There are already spot checks by Defra for fields and they could take into account the ditches on the same visit.

I hope my idea is of use, and perhaps you can have a word with Defra/minister/similar.

February 2013

Written evidence submitted by Ewan Larcombe

My name is Ewan Larcombe and I live in Datchet—on the Thames just downstream of Windsor—and am very interested in flooding.

I am the leader of the National Flood Prevention Party and operate the Jubilee river web site.

I notice that Lord Smith and David Rooke are giving evidence at next weeks Select Committee hearing and wondered whether they could be questioned in detail about river dredging for the purposes of *both conveyance capacity maintenance and conveyance capacity improvement.*

The Thames is not a natural river. Over the years the highly engineered River Thames has suffered neglect. Flood arches have been lost and both bed levels and water levels have risen over time. The EA has a *duty to maintain main rivers for navigational purposes, but no corresponding duty to maintain the channels for water conveyance* purposes.

Even for navigational purposes—only the central third of the main channel is kept clear while the backwaters have been abandoned altogether.

The fleet of Thames dredgers (and the operators) that were used by the National Rivers Authority *were disposed of WITHOUT CONSULTATION after the EA took over in 1995–96.*

Furthermore, local CoWs (Critical Ordinary Watercourses) taken over since 1996 and re-designated as main rivers *have been totally abandoned!*

I have attached my recent submission to the EA/NE Triennial Review (including images) you may find enlightening.

My point is that the EA now lacks in-house expertise. Outside contractors are predictably jostling to design and construct new flood alleviation schemes while any possibility of improving existing drainage capacity is not even considered. *We should be looking at the feasibility of improved conveyance capacity in existing watercourses BEFORE raising embankments and building upstream storage and bypass channels etc, etc.*

Hereabouts the £250 million Lower Thames Flood Risk Management Strategy project is on the drawing board but stalled and awaiting funding. Also known as the Lower Thames Flood Alleviation Scheme, I have no confidence that the proposed bypass channels will perform any better than the flawed and sub-standard Jubilee River that is still unable to carry its design capacity of 215 cumecs some ten years after construction. Even the Inspector at the 1992 MWEFAS Public Inquiry reported that the hydraulic models were optimistic and that it would be *embarrassing to all concerned* if the new channel failed to convey its design capacity.

Finally—in my opinion Lord Smith (and in particular David Rooke) need to be *rigorously cross-examined as to why it appears that the dredging and/or re-profiling of existing main rivers is not even a considered option when looking at reducing the probability of flooding.*

February 2013

Written evidence submitted by the National Audit Office

FLOOD RISK MANAGEMENT IN ENGLAND—AN UPDATE OF PROGRESS

Our vision is to help the nation spend wisely.

We apply the unique perspective of public audit to help Parliament and government drive lasting improvement in public services.

The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Amyas Morse, is an Officer of the House of Commons and leads the NAO, which employs some 860 staff. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of more than £1 billion in 2011.

Background

1. This memorandum has been prepared for the House of Commons Environment, Food and Rural Affairs Select Committee to inform their 2013 session on Flood Risk Management.

2. It summarises the key issues identified in the National Audit Office's October 2011 report on flood risk management and the subsequent report of the Committee of Public Accounts in December 2011 and examines developments since then.

3. The memorandum is tabular. The first column summarises the issues identified in the 2011 reports and the second column identifies any relevant subsequent developments.

4. We have collected the evidence contained in the second column from officials within the Department of the Environment, Food and Rural Affairs (the Department) and the Environment Agency (the Agency).

How much is the country investing in Flood Risk Management?

DETERMINING LEVELS OF INVESTMENT REQUIRED

Previously reported	*Current Position*
In 2009 the Agency published a Long Term Investment Strategy which set out scenarios describing different future levels of flood risk with a number of possible levels of investment. The Agency estimated that investment in flood defences needed to increase annually by around £20 million between 2010 and 2035 to sustain then existing levels of protection as risk increases due to climate change. This is the equivalent of an overall 9% increase.	In the Department and Agency's response[1] to PAC in 2011, the Agency noted that it had started a new exercise to update the strategy and expected to present this to Ministers in late 2013. The Agency is currently peer reviewing[2] its work so far on the strategy and its underlying assumptions. The new strategy will be the evidence base for the next spending review on flood risk management and decisions about future levels of investment that can be afforded.

LEVELS OF CENTRAL GOVERNMENT FUNDS CURRENTLY PROVIDED

Previously reported	*Current Position*
Under the 2010 Comprehensive Spending Review (2011–12 to 2014–15), a total of £2.17 billion has been provided for flood and coastal defence works which represents a six% fall in central government funding for between 2007–08 and 2010–11. Of this, 93% (£2.01 billion) is provided to the Agency as Flood Defence Grant in Aid[3] and a further £129 million of new money is provided to Lead Local Flood authorities (LLFAs)[4] in the form of retained business rates, revenue support grant and direct grants from the Department.	In November 2012, the Treasury announced the provision of an additional £120 million for flood risk management projects over the spending review period. £35 million released in 2013–14 and £85 million in 2014–15. Half of this funding will be awarded to the strongest bids from growth-enabling schemes and the remainder to accelerate planned schemes within the wider Environment Agency programme. The Government intends this funding to be targeted to both areas where flood risk management can unlock opportunities for growth (such as protecting jobs in areas prone to flooding and encouraging investment in areas where flooding has previously occurred) as well as speeding up around 50 high priority defence schemes. The additional funding represents an increase of 28% of the expected capital budget for these two years.

[1] HM Treasury, Minutes on the 64th report from the HC Committee of Public Accounts, Cm 8335, March 2012.

[2] Peer review undertaken by the Chief Scientific Advisor to the Government, Chief Scientific Adviser to the Department, Executive Director of the European Environment Agency and Professor from Oxford University

[3] Grant in aid is a payment by a public sector funder (normally referred to as the "sponsor department") to finance all or part of the costs of the body in receipt of the grant-in-aid. Grant-in-aid is paid where the government has decided, subject to parliamentary controls, that the recipient body should operate at arm's length.

[4] LLFAs are a new role for local authorities designated under the Flood and Water Management Act 2010. The role of the LLFA is to bring together all relevant bodies to help manage flood risk in their local area.

INCREASING FUNDS AVAILABLE FOR INVESTMENT BY IMPROVING EFFICIENCY

Previously reported	*Current position*
As part of the Spending Review settlement, the Agency expected to be able to make efficiency savings from capital investment of 15% (£54.1 million) over the current Spending Review period (2011–12 to 2014–15). In order to deliver its planned efficiency savings the Agency set up the Flood and Coastal Risk Management Efficiency Programme, which is developing initiatives to deliver improved ways of working.	The Agency reported to the Cabinet Office that in 2011–12 it had delivered its target for the year of £6.1 million of savings (3.8% savings against a 3.75% target). The target for 2012–13 is 7.5%, increasing to 15% by the end of the current spending period. The Agency provides an update on progress against savings to the Department and the Cabinet Office on a quarterly basis. At end of Quarter Two of this financial year the Agency had recorded £8.4 million savings (63%) of the £13.4 million target planned for 2012–13. Savings have been delivered through a combination of planning, operational and procurement initiatives such as avoiding unnecessary works, reduced contract periods and design changes.

MAINTENANCE

Previously reported	*Current position*
In addition to the creation of new defences, our report notes that the Agency must continue to invest in its existing flood defences to maintain current levels of protection.	Maintenance is prioritised based on flood risk, with 79% of the Agency's £81 million revenue maintenance budget being allocated to high consequence[5] systems for 2012–13. At present performance is at over 98% against the target of maintaining 97% of assets in high consequence areas at above target condition. Local authorities allocate funds to the maintenance of ordinary water courses[6] and coastal defences in their area based on their local needs and priorities. In 2009–10 a total of £91.5 million was spent on all types of flood risk activity. By 2011–12, local authorities spent £156.3 million[7] on flood defences, land drainage and coastal protection. Of this £88.6 million (57%) of all funding was spent on flood defence and land drainage.

[5] Where thousands of people and properties are at risk and the consequences of flooding are high the system is categorised as "high consequence"

[6] Ordinary watercourses include every river, stream, ditch, drain, cut, dyke, sluice, sewer (other than a public sewer) and passage through which water flows and which does not form part of a main river.

[7] Revenue and Capital outturn expenditure, 2011–12—published by Department for Communities and Local Government.

RAISING INVESTMENT THROUGH GREATER LOCAL FUNDING AND ENGAGEMENT

Previously reported	*Current position*
We noted that if central government funding does not increase in the longer term, improving current levels of flood defence will depend on significant additional funding being secured locally. We reported that during the previous spending review period the contribution to flood risk management made by funding sources other than central government was relatively small. These contributions had risen from just over £2 million in 2008–09 to nearly £13 million in 2010–11. The private sector contributed 20% of this external funding. It compares with overall investment of £1.02 billion from central government. We reported that from April 2012 the Department was introducing a new funding model designed to encourage greater local fund raising and thereby increase overall investment in flood risk management. Flood defence projects which were previously ineligible for government funding , now have a chance to receive some government funding according to the benefits they are expected to deliver. How much a project gets will be calculated using defined payment rates scaled to prioritise households at significant risk, especially in deprived areas, and to deliver statutory environmental obligations. Local funding contributions are encouraged for all potential projects but, where benefits significantly outweigh the costs, projects can be fully funded by government. In all other cases, local stakeholders will have to contribute funds if they wish the scheme to proceed. Over time this may lead to the Agency part-funding projects with lower benefit-cost ratios than on average it would have previously supported. The Department expects these projects may deliver better value for money in the longer-term, for example, by protecting fewer households against more severe levels of risk. It wants the new system to incentivise greater local financial contributions, and create competition for the available government funding each year. The PAC questioned the how much the Department could rely on funding from local sources for flood risk management considering that local authorities were also facing their own funding challenges	In 2012, the Department and the Agency jointly published a document[8] to support the introduction of the new flood and coastal erosion resilience partnership funding policy. The document provides guidance and direction for new funding partnerships outlining roles and responsibilities, how partnerships should work and how the level of partnership contributions will be calculated. This document is intended to be revised in light of experiences and findings of the first partnerships. At the time of our report the Agency anticipated that, in 2011–12, it would secure £9.5 million and, in 2012–13, it would secure £16.9 million of external contributions. It expected that 70% of the total contributions over the two years would come from the private sector. In 2011–12, a total of £5.3 million of partnership funding (public and private contributions) and £37.5 million of local levy[9] contributions towards the investment programme was achieved for the financial year. Between 2012–13 and 2014–15, the Agency estimated that partnership funding (public and private contributions) will total £70.6 million and when including local levy contributions a total of £160 million will be achieved. The expected profile of partnership funding and local levy funding is outlined in Figure 1. Although the total of external contributions is much higher than estimated at the time of our report, the proportion of private sector funding is lower. The Appendix gives examples of projects where local funding has supported delivery.

[8] Principles for implementing flood and coastal resilience funding partnerships—a joint publication by Department for the Environment, Food and Rural Affairs and the Environment Agency (2012).

[9] Local levy is an additional, locally-raised, source of income for Regional Flood Defence Committees. Income is raised by way of a levy on the county councils and unitary authorities. The local levy is used to support flood risk management projects that are not considered to be national priorities and therefore do not attract national funding through flood defence grant in aid. The local levy allows locally important projects to go ahead to reduce the risk of flooding within the committee area.

SPLIT OF FUNDING BETWEEN RIVER AND SURFACE WATER FLOODING

Previously reported	*Current position*
In our report we noted that the reform of the way in which the flood defence programme is funded was intended to allow greater local input and flexibility. We said that under the new approach all flood risk management schemes including surface water, which were previously ineligible, could potentially be offered central investment according to the benefits they expect to deliver.	The Agency tell us that surface water schemes are considered for funding alongside other schemes that reduce flood risk or coastal erosion. Local authorities are currently developing surface water management plans and funding has been provided to support a number of schemes to address surface water issues across the country. These surface water schemes are now being considered as part of the regional flood and coastal committee programmes. Currently, there are a total of 77 surface water schemes with 21 in the North West and 24 in the South West. Figure 2 outlines the split of funding.

Figure 1

SPENDING REVIEW 2010 CONTRIBUTIONS FORECAST (£M)

£160 million of external contributions expected by end of 2014–15

	Local Levy	*Local Levy contributions*	*Public*	*Private*	*Total*
2012–13	15.0	15.0	14.4	5.3	**49.7**
2013–14	18.6	11.4	19.8	6.4	**56.2**
2014–15	24.4	5.6	19.7	5.0	**54.7**
Total	**58.0**	**32.0**	**53.9**	**16.7**	**160.6**

Source: The Environment Agency allocations for 2012–13 and indicative allocations for 2013–14 and 2014–15

Figure 2

SPLIT OF FUNDING BETWEEN SURFACE WATER AND OTHER FLOOD COASTAL EROSION SCHEMES (£ MILLION)

	2012–13	*2013–14*	*2014–15*
Surface water schemes	0.2	11	20
Total spend on flood and coastal risk management schemes	176	195	195

Source: The Environment Agency

How many more households are being protected from risk?

HOMES PROTECTED

Previously reported	*Current position*
Over two million properties are at risk of flooding from rivers or the sea and nearly three million are susceptible to surface water flooding alone. One million properties are threatened by both. In our 2011 report, we note that in the last spending review period (2008–11) a total of 182,000 households were given improved flood protection against a target of 145,000. There have been no targets set for the current spending review period (2011–14) as the Department considers that short term targets do not always lead to the best long term outcomes. However, it has forecast that 145,000 households will be protected over the period. The Department publishes six outcome measures for flood and coastal risk management for 2010–14. They cover delivery by the Environment Agency, Local Authorities and Internal Drainage Boards. Three indicators cover the number of households where the risk of damage from flooding or coastal erosion has been markedly reduced as a result of spending on capital projects. The term "markedly reduced" relates to where the probability of flooding has been reduced from significant to moderate risk or moderate to low risk. The Agency uses data from completed flood defence projects to measure its performance against the targets. The national estimate of properties at risk is calculated from the national flood risk assessment. There is therefore no single consistent set of data to demonstrate how the Agency's investment is reducing national flood risk. The Agency told us that reconciling the two systems would not be cost-effective. However broad estimates suggest that during the previous three years work on flood defences had reduced the risk for about 10% of the current number of households at risk of flooding from rivers and the sea.	The latest data available on the outcome of the flood risk management programme is for the first quarter of 2011–12, shown in Figure 3. It shows that by summer of last year the Agency had provided additional protection to almost 48,000 households. The Agency forecast this to rise to nearly 99,000 by the end of 2012–13 and that by the end of the spending review period, it would exceed its original forecast to provide protection to 145,000 households.

INSURANCE

Previously reported	*Current position*
In 2008, the insurance industry came to an agreement with Government to provide standard flood cover to as many customers as possible. Known as the Statement of Principles, the agreement provided standard flood cover to domestic properties and small businesses at a risk of flooding of less than one in 75 years and to provide cover for those at greater risk, providing the Environment Agency had plans to reduce their risk over five years. The Statement of Principles ends in June 2013. In 2010, the Department hosted a flood summit to discuss flood risk management and the challenges involved in flood insurance. From this summit, three working groups continued work on flood insurance and risk reduction and reported back in July 2011. At that time the Government aimed to have reached a decision on the role of private insurance after 2013 by spring 2012. The PAC took the view in 2011 that the Department was leaving it too late to reach a new agreement and that this would lead to uncertainty and worry for affected households and communities. The PAC recommended that the Government needed to reach an agreement with the insurance industry urgently and that it should work more closely with the industry to ensure insurance cover is both available and affordable.	In July 2012, the Secretary of State announced that discussions with the insurance industry had made significant progress and that the Government was considering a way of formalising existing pricing arrangements and maintaining the current cross-subsidy in place between policy holders. This would be by an internal industry levy, which would avoid increasing costs to those not at risk of flooding whilst helping those in flood risk areas to continue to afford insurance. As of December 2012 negotiations between Government and the insurance industry are on-going, but there are no details on the new agreement or when it will be finally completed.

Figure 3

HOUSEHOLD OUTCOME FORECASTS

Quarter one data for 2012–13 suggests over 145,000 households will be protected over the year

Outcome number	*Description*	*Current Status*	*Forecast for 2012–13*	*Forecast for SR10*
2	Number of households moved out of any flood probability category to a lower probability category	47,983	98,654	148,808
2b	Of the above, households moved out of the very significant and significant categories to moderate or low	19,765	60,728	92,776
2c	Of the above, households in the 20% most deprived areas moved out of the very significant or significant categories	1,775	8,840	23,240
3	Households with reduced risk of coastal erosion	1,267	3,450	5,296
3b	Of the above, those protected from loss within 20 years	554	996	1,836
3c	Of the above, those in the 20% most deprived areas protected from loss within 20 years	0	0	712
5	The proportion of households and businesses in the highest risk areas that receive the Flood line Warnings Direct service	59.7%	58%	66%
6	Proportion of residential units within planning decisions where the application has been refused or has been amended in line with Environment Agency advice.	99.6%	95%	-

NOTES

Data presented is for Quarter One of 2012–13

Source: The Environment Agency

More local engagement in delivery

SUPPORTING LOCAL PARTNERS

Previously reported	*Current position*
Local authorities we consulted were generally supportive of the rationale behind the new funding arrangements and the invitation for more local influence. We also found concern that joint-funding approach would become complex. Projects with more than one funder and partners with varying skill sets take time to set up and organisations many not engage with the approach if it becomes an overly bureaucratic exercise. The Committee of Public Accounts recommended that the Department needed to support local authorities and local partnerships to develop partnership arrangements that were clear, transparent and not overly bureaucratic.	The Department has published several guides to help local bodies with the implementation of partnerships and attracting funding. They are also co-funding with the Local Government Association a dedicated online presence known as the flood portal which provides all the advice and guidance to local partnerships in one place. The portal, which was launched in June 2012, includes: — Twenty E-learning modules — A document library — An online discussion forum — Details of recent research The Department and the Agency have also run a series of workshops as part of their capacity building programme, to help local authorities to deliver their new roles and responsibilities. Since 2010 there have been 81 workshops held across England in eight different locations. The Department has told us these workshops have had good attendance. The most recent workshops held in November 2012 on mapping surface water flood risk and the Water Framework Directive were attended by 144 organisations at eight regional locations.

PARTNERSHIP WORKING TO PRODUCE LOCAL FLOOD RISK STRATEGIES

Previously reported	*Current position*
Our report noted that whilst the Flood and Water Management Act 2010 had clarified the responsibilities of different bodies for local flood risk management, effective partnership working would be challenging in practice. Local authorities are now required to take the lead in local flood risk management. Each lead local flood authority is required to produce a local flood risk management strategy. The Department also required them to produce a flood risk assessment as a preliminary to the strategy. At the time of our report it was not clear how the Department would provide national assurance that lead local flood authorities have appropriate flood risk management arrangements in place. The Department was considering how to monitor performance of lead local flood authorities at an appropriate level. At the same time, it wanted to maintain an emphasis on local accountability for local decisions and minimise the burden of national reporting on local authorities. We also reported that other bodies with an interest such as district councils, internal drainage boards, water and sewerage companies and the Agency are under a statutory duty to cooperate. Whilst most local bodies are required to act consistently with local flood risk strategies, water companies must only have regard to them. We noted that the Department had not yet made it clear how they would influence and monitor the water and sewerage companies' response to their new responsibilities.	All 152 lead local flood authorities in England completed a preliminary flood risk assessment by the deadline of December 2011. By March 2012, full strategies were starting to be developed. Seven areas had their strategies completed and were consulting on them, 142 had strategies in development, and three areas had not yet started work on their strategies. The Agency report on local progress as part of the new requirement on them to report annually on flood risk management. The Department told us that accountability for the quality and outcome of the strategies remains at the local level. Local flood authorities are accountable locally and are required to make sure that their strategies are consistent with the national flood and coastal erosion risk management strategy. The Department plans to evaluate a representative sample of local strategies to indicate the effectiveness of the legislation by the end of 2015 (within five years of the requirements coming into force). The Agency will be reviewing local strategies as they are developed to ensure they are consistent with the principles set out in the national strategy. In October 2012, the Department published a Statement of Obligations (SOO) that was directed to all water and sewerage companies. The SOO outlines all of the obligations that water and sewerage companies need to legally comply with and also outlines their responsibilities under the Flood and Water Management Act. In addition the Department is at present consulting on its Social and Environmental Guidance to Ofwat. This document sets out the priorities for regulation of the water industry which the Government expects Ofwat to reflect in their decision making. The Local Government Association undertook a flood risk management survey in early 2012 and found that 64% of local authorities found support to fulfil their role from water companies was very or fairly productive. Twelve% found water companies not very or not at all productive. There was a generally positive response to how water companies engaged with the new partnership arrangements and in providing water company data. However, respondents were less positive about water companies' ability to co-fund or work collaboratively with lead local flood authorities.

REGIONAL FLOOD AND COASTAL COMMITTEES

Previously reported	*Current position*
Regional flood and coastal committees bring representatives from the Environment Agency and local authorities together to make decisions about national investment in their area. Committee members told us that they required more robust, objective and consistent information to exercise their role more effectively. We recommended that the Environment Agency should review the quality of information it provides so that decisions taken by the regional flood and coastal committees are robust.	Since our report, the Agency has developed tailored handbooks to meet each individual Committee's needs. The handbooks provide guidance for members on how the committee should operate (voting, sub groups, papers, approving programmes of work and wider responsibilities). It also includes case studies and explanations of funding. The Department is also currently working with the Agency to develop performance appraisal guidance for the Chairs of the Regional Flood and Coastal Committees. It is expected that this guidance will help committees develop clear work objectives. In September 2012 the Environment Agency discussed the quality of management information with their Committee Support managers and as a result an improvement plan is to be developed for each region. The Agency is also working to support more cross boundary working between committees, so that more information is shared on common issues. An example of where work is progressing on supporting neighbouring committees to work more closely together is in the Anglian region where one induction day was held for three committees—which was the first time the committees had met together.

MAKING INFORMATION ON FLOOD RISK CLEARER

Previously reported	*Current position*
We identified that the Agency's national flood risk assessment and its flood map did not present consistent information. The purpose of the flood map is to raise the awareness of flood risk particularly amongst those who live or work in those areas. It is used by property owners and local authorities for development planning purposes. Unlike the national flood risk assessment, the map does not take into account any flood defences and does not show the distribution of the level of risk within the areas potentially affected. The national flood risk assessment is not intended to provide assessment of flood risk at a local level. However, by 2015, the Agency intends to use the national flood risk assessment as its primary method of showing flood risk. We also reported that flood risk management authorities have developed risk information over the years on a piecemeal basis, with the result that users can find it inaccessible and difficult to understand. The Agency recognised that flood risk information needs to be brought together and made clearer and simpler. In particular, local authority mapping and modelling of surface and ground water flood risk is far less advanced than the Agency's approach for rivers and the sea. We recommended that the Agency introduce procedures by 2015 to systematically test the separate components of the national risk model and define clear performance targets against which their effectiveness can be tested. We also recommended that the Agency should develop an approach to communicating the uncertainty to those who use the national risk model.	The Agency told us it is changing the flood likelihood categories so that they are the same in both its national flood risk assessment tool and its flood maps for surface water. The Agency is developing two systems to store and access data on flood risk from a variety of sources which they expect to be available in 2013–14. External parties such as local flood risk management authorities will be given access to the system. The Agency has been working on assessing the confidence limits of the national flood risk assessment. The first completed phase has established a method for developing confidence levels which has been peer reviewed by academics and users. Phase two began in July 2012 to develop confidence levels for the whole of England. The Agency is also developing a tool that local staff can use to validate and amend information to improve confidence levels. The Agency aim to publish the national flood risk assessment in late 2013. The Agency told us it is continuing to develop its "Mapping All Sources Tool" (MAST) with the aim of generating a flood map showing the probability of flooding from all sources. Steps towards this include work to update the Flood Map for Surface Water, and better understanding the confidence in the data from different individual sources. It is planned that MAST will be in use in the Agency from 2014–15. Until a map combining all sources of flood risk is available, the Agency plans, from the end of 2013, to provide members of the public seeking flood risk information via its website with information that summarises the risk from all sources. The Agency has been working with the Department's capacity building programme to engage local authorities in the process. It is also planning to run a series of focus groups in 2013 to best understand how it can communicate the information from the national flood risk assessment tool to the public.

APPENDIX

SANDWICH FLOOD SCHEME, KENT

Issue

Sandwich Town and the Pfizer Global research site have a low level of flood protection with a one in 20 chance of tidal flooding in any given year. The deteriorating condition of the current defences means that a flood event could cause a breach in the defence which would flood 488 homes and 94 businesses.

Recent Flood Events

1953—North Sea surge overtopped the banks of the River Stour—flooding mainly in the urban area.

1976–16 properties flooded at Sandwich Quay.

1983–16 properties flooded at Sandwich Quay.

Tidal surges common since 1983 but no direct flooding. Temporary demountable defences used by the Agency at Sandwich Quay when tidal flood warning is issued.

Proposed work

Construction of tidal relief area outside of Sandwich Town. Flood walls and embankments on River Stour and new floodwall at Sandwich Quay. Will reduce risk of flooding to 488 homes and businesses located on Discovery Park. All works estimated to be completed by winter 2015.

Partnership

Kent County Council, Dover District Council, Pfizer, Environment Agency.

Cost and Funding Sources

Total estimated cost of scheme: £21.7 million.

Grant in Aid (from EA): £11.93 million.

Partnership contributions £11 million.

Source: Environment Agency

MORPETH FLOOD ALLEVIATION SCHEME

Issue

Morpeth has a long history of flooding and some parts of the town benefit from defences built in the 1960s. Planning began in 2007 to reduce the risk of flooding in the town following a review of flood risk from the River Wansbeck. In September 2008 over 1,000 homes and businesses were flooded in the town. In September 2012 flooding occurred again in the town. There are around 1,000 properties at risk of flooding in the town of which 484 considered at significant risk.

Recent Flood Events

September 2008–1,000 businesses and homes flooded.

September 2012–45 properties flooded.

Proposed Work

New defences built in the town where none currently exist. Flood storage created upstream of Morpeth. Will remove the 484 properties out of significant risk of flooding in the future. Work due to start 2013 and be completed by end of 2014.

Partnership

Northumberland County Council, Northumbrian Water Limited, Environment Agency, Private developer.

Cost and Funding Sources

Total estimated cost of scheme: £21.1 million.

Grant in Aid (from EA): £9.3 million.

Partnership contributions £12 million (Northumberland County Council and local developer).

Source: Environment Agency

RIVER MERSEY FLOOD RISK MANAGEMENT SCHEME, WARRINGTON

Issue

Warrington has the 10th highest number of properties at significant risk of flooding in the country. A total of 3,171 homes and businesses have a significant chance of being flooded from tidal and river flooding from the River Mersey.

Recent Flood Events

1990—River Mersey overtopped its banks flooding properties.

2002—high tide, close to flooding large number of homes.

2006—high tide, close to flooding large number of homes.

Proposed Work

Building of walls and embankments along the River Mersey. Will reduce the risk of flooding to 2,129 homes, 123 businesses and an electricity substation—protecting against a one in 100 year flood event. Work due to start October 2012 and completed by October 2015.

Partnership

Warrington Borough Council, Environment Agency, utility company and private developer.

Cost and Funding Sources

Total estimated cost of scheme: £23.7 million.

Grant in Aid (from EA): £18.6 million.

Partnership contributions £6.6 million (£3.4 million from Warrington Borough Council, £2 million from utility company and £1.2 million in kind from private developer.

Source: Environment Agency

Written evidence submitted by the NFU

Introduction

1. The NFU represents more than 55,000 farming members in England and Wales. In addition we have 41,000 countryside members with an interest in farming and the country. The NFU welcomes the opportunity to make a submission to the Environment, Food and Rural Affairs Committee on its inquiry into flood defences.

2. Despite the exceptionally dry start to last year, record rainfall from April brought the drought to a rapid conclusion, and 2012 was officially one of the wettest on record.

3. The unprecedented rainfall brought flooding to many parts of the country, with tens of thousands of hectares of farmland being affected, some for extended periods of time.

4. Flood management issues are a priority issue for the NFU; we held a water management summit with members in December 2012 and Paul Leinster and David Rooke, Environment Agency's Chief Executive and Director of Flood Risk Management, attended NFU Council in January 2013 to talk about the Agency's roles and responsibilities on flood issues.

5. The Environment Agency has offered to work in partnership with the NFU on flood management issues. We have accepted this offer but we need a long-term commitment and honest and constructive dialogue.

6. Critical issues for the farming sector include:

- The Environment Agency and Defra must invest more funding into maintenance budgets;
- Farmers who are willing to maintain their own watercourses must be enabled via the appropriate regimes;
- Defra policy must re-balance the weighting for flood defence spending to give greater consideration to high value farmland; and
- Productive agricultural land must be properly valued to reflect its long-term value to society.

7. We give further thought to each of these points in our submission below.

Risk of Flooding to Agricultural Land

8. A recent Defra and Environment Agency study identified that some of our highest quality agricultural land is vulnerable to flooding: 13% of the best and most versatile agricultural land is in the floodplain, but some 58% of grade 1 land, our most productive farmland, in England is within the floodplain.[i]

Impact of the 2012 Floods

9. The extent of the impact of the 2012 floods on agricultural land is hard to quantity, but we can say with some certainty that tens of thousands of hectares of farmland have been affected, some for extended periods of time. The Somerset Levels and Moors, areas around the Hampshire Avon, parts of the Thames Valley, areas in West Lancashire and, more recently, the North East of the country have been badly affected.

10. At NFU's Council meeting in January 2013, the Environment Agency reported that over a two day period of 28–30 November 2012 an estimated 43,000 ha of agricultural land were affected by flooding. (The estimated extent of the summer floods in 2007 was 42,000 ha, with the agricultural damage amounting to some £50 million.[ii])

11. The costs of the 2012 floods to agriculture are even harder to estimate, but the wet weather last year caused delays to the harvesting of crops and to autumn cultivations. It is also impacting on the availability of feed this winter and it is also anticipated to have knock on effects going into 2013's new cropping year.

12. One study estimated that the agricultural and agri-environment costs of the spring flooding on the Somerset Levels and Moors (5,000 ha) was at least £2 million pounds.[iii] However, this figure does not take the more recent floods on the Levels and Moors into account.

13. Although we do not have any comprehensive costs of the 2012 floods to agriculture in England, we know that many farmers have lost thousands of pounds worth of crops and some others have lost tens of thousands of pounds.

14. With fields already at field capacity, any additional rainfall is likely to lead to more waterlogging and additional flooding. The impacts may be felt, we believe, well into 2013.

Environment Agency Funding for Channel Maintenance

15. Whilst the Autumn Statement brought an additional £120 million for capital spend projects in flood defence,[iv] we noted that the majority of this funding will be allocated to urban flood defence, which can only increase the risk and severity of flooding in adjacent rural areas and that no additional funding was made available to address chronic underfunding of maintenance work (via revenue funds). Further, we noted from the Environment Agency's presentation to NFU Council that it anticipated that that would have some £49 million less to spend over the next few years on essential activities, such as maintenance. Finally, it became very clear to us that only £20 million a year (of an approximate £250 million revenue budget) is actually spent on river channel maintenance in England—a tiny proportion of the Agency's overall maintenance budget (for comparison £11 million is allocated to annual operation of the Thames Barrier).

16. There is no doubt in our members' minds that the extent of the problem with flooding on agricultural land that we are currently experiencing is as a result of, not just of the recent cuts to funding for maintenance activities, but reductions over a number of years.

17. If there was to be a significant increase in maintenance of watercourses then our existing network of drains, pumps and ditches would work more effectively to convey water rather than "slow the flow" and therefore cause widespread and prolonged flooding. *There is an urgent need to reverse the decline in spending for essential river maintenance.*

Farmer Maintenance of Watercourses

18. In some cases, and as reported strongly at the NFU Council meeting in January 2013, farmers can be willing to maintain their own watercourses but are often prevented from doing so by the Environment Agency—in order to protect habitats or biodiversity—or they find the Environment Agency's licensing regime difficult to navigate.

19. We believe that there is a clear need to re-look at the Environment Agency consenting regime to reduce to reduce the administrative burden and streamline the process for those who would like to maintain their own watercourses. *Guidelines must make it easier, not more difficult, for farmers to undertake their own maintenance.*

Government Priorities

20. Government announced its plans for funding arrangements for new flood defence schemes in February 2012. The new arrangements result in funding to be allocated towards those areas offering the highest unit area return—meaning that rural areas, especially those without statutory designation, have low weighting for additional protection. The consequences are that England's most fertile farmland, best and most versatile land grades 1, 2 and 3a, is at increasing risk of flooding.

21. At the Oxford Farming Conference in January 2013, the Secretary of State reported that in 2011–12 some 60 capital projects improved protection to some 74,000 ha of agricultural land, but these were largely approved to protect people, property and habitats—the benefits to agriculture are small and are incidental.

22. The current approaches mean that the sector responsible for managing three quarters of the land area will receive little national funding to help defend it against flooding. This goes against a number of current policy signals to governments, globally and domestically, to protect our capacity to produce food.

23. *We believe that Defra must take full consideration of high value agricultural land as an outcome measure in any flood risk management strategy*, as well as considering people, property and habitats. However, what is unclear is whether Defra is able or willing to adopt a target for protecting the UK's best and most versatile agricultural land from repeated flooding—at present rural areas are not protected to the same extent as other areas.

Valuation of Agricultural Land

24. In addition to our concerns about the lack of an outcome measure for high value farmland, the NFU has also long made the case to Defra and the Environment Agency that the approach currently used to value farm land means that the benefits of its protection are not fairly reflected in any assessment to allocate flood defence funding. This is because of the narrow application of the Treasury's "multi-coloured manual", which the Environment Agency uses for Flood Risk Management valuation purposes. This results in a valuation related solely to its land classification value. This is a very complex area of economics but suffice it to say, the result in our view is a significant undervaluation of farmed land and of domestic food production to society.

25. *The NFU therefore believe there is an urgent need to review the multi-coloured manual to ensure that farmland is properly valued in terms of its long term value to society rather the present situation where a discounted market value is applied* (based on the core assumption that the Single Payment Scheme will go on indefinitely). Critically, consideration must be given to the future value of production.

January 2013

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Written evidence submitted by Richfords Fire and Flood

Executive Summary

- Flood damage events in the UK are becoming more prevalent and more widespread.
- The idea of a levy on UK property insurance to cover the cost of major flood events is a sound one, but the need for substantial underwriting in the first few years has to be overcome.
- It is clear that there would be sufficient interest in backing the fund if its premium income was seen to be stable.
- The solution that is therefore being proposed is; "Flood Re Mutual".
- Flood Re Mutual will hold a central fund of premium income mandated as part of every property insurance policy sold in the UK.
- This model is unique in that rather than purchasing reinsurance cover on the open market for the majority of flood risk, Flood Re Mutual will use its' own assets to cover a greater proportion of the claims spend.
- If the insurer of last resort was a mutual fund then the assets of that fund belong to its members, the UK public, and are invested for their benefit and not for the benefit of corporate shareholders.

1. Introduction

1.1 Evidence from Michael Cooper, Business Development Director of Richfords Fire and Flood.

1.2 Richfords is a damage restoration firm who specialise in helping property owners recover from fire and flood damage, by providing building drying and contents restoration services. Richfords has worked with the UK insurance industry for over 30 years and as such have a wealth of experience in understanding the property claims sector.

1.3 As Business Development Director Mr Cooper has spent many years in the insurance industry developing strategic relationships with insurers and working with them to control the cost of flood claims and other sources of damage.

2. Summary

2.1 Flood damage events in the UK are becoming more prevalent and more wide spread. Currently the Statement of Principles, SOP, offers only limited assurance to policy holders that flood risk insurance will remain affordable and available. In addition the SOP distorts the UK insurance market and offers new entrants an unfair competitive advantage.

2.2 The idea of an insurer of last resort for flood damage has been put forward from several groups as there is a need to identify a pool of funds to provide greater protection to the UK public from the growing risk of flood.

2.3 The "Flood Re" and "Project Noah" propositions which have been put forward suggest a levy on all property insurance policies, and these premiums paid into a central fund or "insurer of last resort"—effectively reinsuring the UK property market against major flood losses during surge events such those seen in winter 2012 or in summer 2007.

2.4 The advantage of this model is that as the levy is applied to all polices the risk is pooled and no one insurer is exposed to excessive risk.

2.5 The idea of a levy on UK property insurance is a sound one, but the need for substantial underwriting in the first few years has to be overcome. If the premium income to the "insurer of last resort" was determined by a mandated levy it would be a very secure source of income and would be sufficient to attract private equity to underwrite the fund, rather than central government having to act as underwriter.

2.6 Having discussed this issue with colleagues within Indefinita, a multi-industry investment group, it is clear that there would be sufficient interest in backing the fund if its premium income was seen to be stable. However there are understandable concerns regarding a privately-financed company receiving its income from this levy. What the "insurer of last resort" should really be doing is pooling individuals' money to protect their own communities, and ensure that families and business can recover following flooding as it becomes more prevalent.

2.7 The solution that is therefore being proposed is; "Flood Re Mutual".

2.8 Flood Re Mutual will hold a central fund of premium income mandated as part of every property insurance policy sold in the UK, as per the Flood Re and Noah proposals. Flood Re Mutual will then become the insurer of last resort, reinsuring UK insurers against flood risk of properties at greater than 1.3% (1:75 years) flood risk. This level is considered to be moderate to high risk. This model is unique in that rather than purchasing reinsurance cover on the open market for the majority of flood risk, Flood Re Mutual will use its' own assets to cover a greater proportion of the claims spend. This will reduce operating overheads and reduce the susceptibility of the Flood Re model to cost inflation on the reinsurance market.

2.9 This reinsurance will be a proportional reinsurance of claims spend. Thus insurers will be able to reclaim from Flood Re Mutual a set percentage of their claims spend on flood damage. The reinsurance percentage will increase with flood risk so that insurers are incentivised to continue to offer flood cover. Therefore it can be seen that Flood Re Mutual will progressively reduce flood risk and provide incentive to insurers to offer policy holders affordable flood cover in future

2.10 The premium income to Flood Re Mutual will be set annually, by a board of representatives, as a percentage of the sum assured on the buildings and contents element of each policy sold. Therefore the levy will be progressive and not penalise those policyholders in less expensive properties.

3. Why Mutual?

3.1 Mutual organisations are owned by their members and not by private shareholders. Over the past 10–20 years many mutual insurers have disappeared or "de-mutualised" and this overall has been seen as a negative step as it has taken an element of power away from the consumer. If the insurer of last resort was a mutual fund then the assets of that fund belong to its members, the UK public, and are invested for their benefit and not for the benefit of corporate shareholders.

3.2 The difficulty with starting a new mutual insurer is the requirement for significant capital to ensure that the organisation is stable and can withstand claims surges such as major flood events. However as stated above with a stable premium income there would be sufficient interest from the private sector investment to establish the company.

3.3 Therefore our proposal would be to initially establish Flood Re Mutual as a private organisation, with a clearly defined timetable to progressively "mutualise" the company as it is capitalised by the incoming premiums. This will give the best of both worlds—the company is firstly underwritten by private finance and therefore able to get "up and running", and fully mutualised by the end of the process with sufficient assets to protect itself and its members, the UK public.

3.4 The further benefit is that because the income to Flood Re Mutual will be mandated, as part of all property policies, all UK insurers would have to pay into the fund, whether they insured houses in flood risk areas or not. Therefore there would not be a need for the statement of principles to be renewed. As all insurers pay-in they are incentivized to insure flood risk and if they don't they will not be able to claim money back from Flood Re Mutual, thus balancing the market. This will also remove the imbalance regarding new entrants having an unfair advantage.

3.5 Finally once Flood Re Mutual is fully mutualised they would have significant assets which can be invested for the benefit of the members. This could include investment for fund growth; investment in flood defense to reduce overall risk to the fund and investment in corporate social responsibility where by the fund could provide assistance to those families affected by flooding who are genuinely unable to afford home insurance. Any surpluses the fund generates can also be used to reduce the levy on polices in future.

3.6 To establish Flood Re Mutual is relatively simple and this is one of the further advantages of the model. To get this scheme up and running a letter of intent from the committee would be required to demonstrate to the private finance investors that the government is in support of the model. This will then enable Indefinita to incorporate Flood Re Mutual. Once this step has been completed, legislation would be required to mandate the levy on property insurance and then Flood Re Mutual can begin to collect premiums. Therefore it can be seen due to the simplicity of the model and flexibility and adaptability of Indefinita that Flood Re Mutual could be established before the June 30th deadline.

4. Conclusion

4.1 The Flood Re Mutual proposal outlines a strategy for establishing an insurer of last resort which will be both stable and independent. The income to Flood Re Mutual will be fair and progressive and annually reviewed by a board of representatives.

4.2 All UK property insurers will have to pay into the Flood Re Mutual fund and therefore be incentivised to continue to offer flood risk cover. In addition insurers will have their overall flood risk reduce via proportional reinsurance from Flood Re Mutual, thus enabling insurers to reclaim expenditure on the most at risk properties.

5. Recommendations for Consideration

5.1 That a letter of intent to support the model be written to enable Indefinita to confirm private funding for Flood Re Mutual.

5.2 That a reinsurer, known as Flood Re Mutual be established to provide reinsurance based on a proportional scale against flood risk. Insurers will then be able to claim back expenditure on flood damage from Flood Re Mutual.

5.3 That Indefinita be considered as investment partner of Flood Re Mutual.

5.4 That legislation be put in place to apply a levy on all buildings insurance policies for properties in the UK of 0.03% of the rebuilding cost/sum assured and a levy of 0.06% of sum assured on contents polices.

5.5 That the income from this levy be paid into a central fund, known as Flood Re Mutual.

5.6 That Flood Re Mutual be initially supported by private investment with a clearly defined timeline for “mutualisation”.

5.7 That a board of representatives be established who will annually set the levy received by Flood Re Mutual. This board should include representation from the government, investors, insurance industry, and management of Flood Re Mutual. Once Flood Re Mutual is fully capitalised and therefore fully mutual the investors would step down from this board.

5.8 That Richfords Fire and Flood be considered for a position on the board of representatives as a non insurer representation of the claims industry.

5.9 That the ABI be considered for a place on the board of representatives as representation for insurers.

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