

SURREY COUNTY COUNCIL**CABINET****DATE: 18 OCTOBER 2016****REPORT OF: JOHN FUREY, CABINET MEMBER FOR HIGHWAYS, TRANSPORT AND FLOODING****LEAD OFFICER: TREVOR PUGH, STRATEGIC DIRECTOR, ENVIRONMENT AND INFRASTRUCTURE****SUBJECT: RIVER THAMES SCHEME FUNDING CONTRIBUTION****SUMMARY OF ISSUE:**

Serious flooding from the River Thames causes severe hardship and suffering to many Surrey residents and damage to the County's economy. Many are yet to fully recover from the last major flood event in 2013/14 and the risk of future flooding is significant.

The Environment Agency (EA) is responsible for flood risk management of the Thames and is developing a major flood alleviation scheme that would benefit the Surrey stretch of the Thames. It is called the River Thames Scheme (RTS) and is estimated to cost a total of £461m. The Government and other national bodies do not fully fund such flood alleviation schemes and therefore large contributions from other sources are required if schemes are to be successfully developed and built. There is currently a £213.6m funding gap for the RTS and the County Council is supporting work to secure further contributions.

Although there is a risk, at this stage, that the scheme may not receive the necessary funding, consents and Government approval to facilitate completion, it is proposed that the County Council contribute a total of £2.5m towards its development costs because of the importance of Thames flood protection to Surrey residents and businesses. The total cost of the development phase of the RTS is estimated at £55.7m and in the absence of further financial support from the Government at this stage, this "pump priming" investment by the County Council will help to get the scheme fully developed to a "shovel ready" state and this will increase its prospect of achieving full funding.

Further flood events of the scale of 2013/14 or greater would incur significant costs for the County Council in fulfilling its statutory duties and this risk would be reduced if the scheme is built.

RECOMMENDATIONS:

It is recommended that Cabinet approves a total funding contribution of £2.5m from 2016-20 towards capital activities in the development phase of the River Thames Scheme.

REASON FOR RECOMMENDATIONS:

Cabinet has previously indicated its support for the scheme by approving provision of £2.5m in the Medium Term Financial Plan in March 2016. A decision is now required

for the contributions to be enacted.

Although there is no specific statutory responsibility for the County Council to contribute to flood alleviation schemes, in its capacity as Lead Local Flood Authority SCC has a duty to develop a strategy for flood risk management and to adopt a co-ordinated and co-operative approach with other Risk Management Authorities under sections 9 and 13 of the Flood and Water Management Act 2010 respectively. Delivery of the RTS is both part of SCC's strategy for flood risk management and a key element of its co-ordinated approach with partners; therefore a contribution towards delivery of the RTS will enable the Council to fulfil these particular statutory responsibilities.

Flooding is a significant concern to the residents of Surrey. The River Thames Scheme would significantly reduce the risk and impact of flooding to a number of communities in the County and provision of this funding would assist with the development of the scheme and will show a strong commitment to supporting the EA and other partners in successfully delivering the scheme.

<u>DETAILS:</u>

Background

1. The River Thames between Datchet and Teddington has the largest area of developed floodplain in England without flood defences. Over 15,000 homes and businesses within the area are at risk from flooding (35,000 after predicted climate change).
2. Major flooding in this area would cause severe disruption to the local and regional road network. It would suspend several major drinking water abstractions supplying the South East and threaten up to 20 local electricity sub-stations.
3. The EA has calculated that damages from a major flood could exceed £850 million (£2 billion by 2055 taking into account the predicted effects of climate change).
4. Many of the communities in this area have already been affected by flooding with major floods in 1947, 1968, 2003 and recently in 2014 when over 1,500 homes were flooded internally in Surrey alone.
5. In total approximately 15,000 homes across the scheme area along with businesses and significant local infrastructure (roads, sewerage network, power supplies) will be better protected from flooding by the RTS. The scheme will also provide economic, social and environmental benefits.
6. All communities between Datchet and Teddington will benefit from the RTS. This includes the locations downstream of the flood channel, as weir modifications will also reduce water levels between Walton Bridge and Teddington. The amount of benefit will vary along this 40 kilometre length of the river and these benefits will be optimised during the design of the scheme.
7. Communities in Surrey stand to benefit significantly from the scheme. Locations in Spelthorne, Runnymede and Elmbridge are situated on the banks of the Thames and a large number of homes and businesses will be better protected from flooding.

8. Some households will also be offered further flood protection for their homes. These are called “property level products” which are fitted to individual homes to make them more resistant to flooding.
9. SCC has been asked to contribute funding towards development of the full business case for the RTS.

Purpose of Contribution

10. The funding contribution will be used for capital activities in the development of the full business case for the scheme. This part of the project is estimated to cost a total of £55.7m. Any activities not associated with the development phase of the RTS (i.e. specific construction projects beyond the full business case stage), and any activities not classified as capital, will not be covered by this contribution.

Total Contributions to the River Thames Scheme from Central Government and partners

11. The whole life present value cost of the RTS (i.e. the overall cost including construction and 100 years maintenance, expressed at current prices) is estimated at **£461m**. The following table provides an overview of how much of this cost will be covered by Central Government, Flood and Coastal Risk Management Grant in Aid (FCRMGiA) funding and additional contributions:

Funding source	Amount
FCRM Grant in Aid Funding	£151m
Government 2014 budget statement	£60m
Thames RFCC	£28.9m
Local Councils	£5m
Local Enterprise Partnerships	£2.5m
Total	£247.4m

Funding Gap

12. When the total secured funding sources (£247.4m) are deducted from the estimated total cost of the RTS (£461m), a funding gap of £213.6m remains.
13. Work is being progressed jointly by the EA and SCC to find opportunities for further bridging the gap. The Leader of SCC has established and is Chairing a Funding Group which includes senior Members from partner Local Authorities. Negotiations have begun with key beneficiaries including local enterprise partnerships, Thames Water, Highways England and Network Rail. The Funding Group has already secured initial up-front funding from the Local Enterprise Partnerships for the development phase of the scheme.
14. The Funding Group has developed a clear funding strategy and action plan. Over 40 potential funding sources have been shortlisted for investigation to fill the funding gap; these are primarily direct and indirect beneficiaries of the RTS and engagement has already commenced with them.
15. £110m of the funding shortfall is for Landfill Tax from the disposal of spoil from the construction. Ways of reducing or eliminating this are being considered, such

as through the construction design and method and through discussions with HM Treasury.

CONSULTATION:

16. The Council's Investment Panel has reviewed the funding proposal and expressed its support.
17. The Economic Prosperity, Environment and Highways Board has previously received reports and briefings on the RTS and informally expressed its support for the scheme. The Board also convened a Flooding Task Group in 2014 and one of its recommendations was to encourage construction and development of the RTS as quickly as possible.

RISK MANAGEMENT AND IMPLICATIONS:

18. The RTS is subject to the major project approval process as set by HM Treasury, meaning that robust planning and business cases following this stringent guidance have been developed/are in development to support the scheme and greatly enhance its viability. This reduces a number of risks associated with the project.

Financial risks:

- SCC commits funding but shortfall for delivery of the scheme remains.
Mitigation: RTS funding sub-group chaired by the Leader established to actively seek further contributions from beneficiaries.

Reputational risks:

- Scheme is not taken forward due to lack of funding or political reasons.
Mitigation: SCC works with partners to find required funding and lobbies Central Government to proceed with construction of the scheme.
- Scheme is taken forward but does not provide the benefits residents expect.
Mitigation: SCC to work with partners to engage with communities and keep them apprised of progress and changes to the scheme in order to manage expectations.
- Scheme is not completed within proposed timescales and/or costs significantly increase.
Mitigation: SCC to work with partners to engage with communities and provide regular updates as to when each phase of the scheme is due to be completed. Original costings updated in 2016 in light of more detailed design. Appropriate optimism bias has been included in costings.

Service risks:

The scheme is being delivered by the EA and is therefore unlikely to pose service-level risks beyond those detailed above. However, ongoing SCC resource may be required to support certain activities and this will be accommodated around existing commitments.

Financial and Value for Money Implications

19. The total cost of the financial contribution will be £2.5m between 2016-2020 with the payment schedule as follows:

Year	16/17	17/18	18/19	19/20	Total
SCC Contribution (£m)	1*	0.5	0.5	0.5	2.5

*16/17 payment £1m as contribution not made in 15/16

20. Funding has been agreed as part of the Council's Medium Term Financial Plan.

Section 151 Officer Commentary

The Section 151 Officer supports the proposed £2.5m contribution to the development phase of the RTS which is provided for in the Council's Medium Term Financial Plan. The estimated cost of the scheme has been developed by the EA and, in accordance with Government guidance, includes appropriate risk adjustments; however costs may still change as the development of the scheme proceeds. As explained in the report, all of the necessary funding has not yet been secured and work is ongoing to identify further funding opportunities to allow the scheme to proceed.

Legal Implications – Monitoring Officer

Under the Flood and Water Management Act 2010 the Council has a duty to develop a strategy for flood risk management (section 9) and to adopt a co-ordinated and co-operative approach with other Risk Management Authorities (section 13).

In coming to a decision on this issue the Cabinet needs to take account of all relevant matters. The weight to be given to each of the relevant matters is for the Cabinet to decide. Relevant matters in this context will include the statutory requirements, the Medium Term Financial Plan, the Council's fiduciary duty and any relevant risks.

Equalities and Diversity

An Equalities Impact Assessment is not required for this item as the recommendation regards a funding contribution towards a project managed by a Government agency rather than a policy change or Council-led activity.

WHAT HAPPENS NEXT:

The funding contribution will commence as soon as practicable following approval of the recommendation.

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Consulted:

Internal:

- Investment Panel
- Director of Finance

External:

- Environment Agency

Annexes:

None.

Sources/background papers:

EA Strategic Outline Business Case for the River Thames Scheme
