

CABINET

Lancaster Caton Road (Phase 3) Flood Risk Management Scheme

15 January 2019

Report of Assistant Chief Executive

PURPOSE OF REPORT				
To update Members on the design phase of the proposed River Lune flood defence scheme and to consider the current scheme costs and status of all secured and potential match funding contributions from external sources. The report considers the council's funding position on the basis that there are currently insufficient external resources available to fund the estimated construction cost. On the information presented on scheme costs and funding, Members are asked whether to fund the projected balance of scheme costs and whether to proceed towards a construction contract and project implementation.				
Key Decision	X	Non-Key Decision		Referral from Cabinet Member
Date of notice of forthcoming key decision		17 December 2019		
This report is partially exempt from publication by virtue of paragraph 3, of Schedule 12a of the Local Government Act 1972.				

RECOMMENDATIONS OF COUNCILLOR JANICE HANSON

- (1) Members note that spend to date on Stage 1 is £550K (comprising £200K FDGiA and £350K North West Regional Flood and Coastal Committee funds) and that a further £133K FDGiA funds will be expended to develop the detail required for the Stage 2 construction contract.
- (2) Cabinet agree a contribution of £847K towards the capital costs of the scheme, and growth of £17K per annum revenue costs of this capital investment should the scheme proceed to contract;
- (3) On receipt of a formal letter the council accepts an offer of up to £3.85M ERDF funds for the scheme, formal acceptance of the offer being delegated to the Section 151 Officer.
- (4) Officers move to formally secure the anticipated business contributions via contract deed;
- (5) Officers complete the design/target cost package and a contract is agreed for Stage 2 capital works with VBA Joint Venture Limited (subject to securing the funding to meet scheme costs as set out in the

table in paragraph 2.17 of this report and acceptance of this by Section 151 Officer)

- (6) That delegated authority be given to the Section 151 Officer to update the General Fund Revenue Budget and Capital Programme to reflect the decisions as set out in the above recommendations.**

1.0 Introduction

- 1.1 Members considered an update report on the Lancaster Caton Road Flood Defence Scheme at the Cabinet meeting of 7 August 2018. The following key resolutions were agreed in order to progress the project design development (minute ref: 26).

- On approval of the Phase 3 business case / financial appraisal, Members agree to accept an offer of approximately £2.3M Flood Defence Grant in Aid (FDGiA) and use up to £532K to undertake further design development work in support of funding, planning and delivery of the Phase 3 Flood Defence Scheme.
- Officers continue to work with the major Caton Road businesses to negotiate / secure private funding contributions and investigate any further public funding avenues to meet the scheme construction costs.
- Agreement of the above continues to be on the basis that the scheme is wholly externally funded and that there is no commitment to allocate City Council capital or revenue funding;
- Members encourage those major businesses who have not yet committed an “in-principle” financial contribution to consider the major benefits of investing in the scheme, as otherwise there may be insufficient funding to enable the project to proceed.
- A further report is made to Cabinet before contractually committing to implementing the construction phase (Stage 2).

- 1.2 The preferred build option is a flood defence wall between Skerton Bridge (downstream) and Junction 34 of the M6 motorway (upstream). The defences will consist of 2.7km of wall on the left bank and 0.12km on the right bank (60m of walls and 60m of embankment) on the River Lune adjacent to Caton Road and Aldrens Lane and Halton Road (Appendix 1). It assumes a reinforced concrete defence located predominantly on the boundary between the private business / third party land on the industrial estates and the council's land.

2.0 Scheme Progress

Design Development and Planning

- 2.1 The scheme aims to address the unacceptably high level of flood risk immediately upstream of Lancaster city centre between Halton Weir and Skerton Bridge. The most vulnerable parts of this area have a 1 in 5 (20%) chance of flooding from the River Lune in any given year.

- 2.2 Designer/contractor VBA Joint Venture Limited was appointed, through the EA's OJEU compliant Water and Environmental Management Framework, to undertake the initial stage 1 design and survey work, which they continue to refine to secure more cost certainty and develop the Stage 2 construction contract details.
- 2.3 Without intervention the Standard of Protection will decline further due to climate change. The Environment Agency and Lancaster City Council agree that doing nothing in this location is not considered viable as it leaves an unacceptably high level of flood risk leading to the likelihood of businesses closing or moving away. The intervention should lead to the following outcomes:
- Improve flood defences to homes and businesses from a 1 in 5 year to a 1 in 100 year level of protection.
 - Benefit 102 businesses and 34 residential properties with a current 1% or greater chance of flooding each year.
 - Improvement in business insurance cover / flood-risk premiums.
 - Increase property values generating more income for public services.
 - Bring employment land and property back into productive use.
 - Safeguard over 2000 FTE jobs provided across the employment sites with £37.3M benefit per year in Gross Value Added (GVA) over a 100 year appraisal period.
 - Delivers 28.2 ha of river / bank habitat improvement and deliver for Special Areas of Conservation, Water Quality and Bathing Water directives as well as for fish, bats, birds and otters.
- 2.4 A planning application was considered by city council Planning Committee on 12 November and was approved subject to conditions. The full details of the approved scheme are available through the council's planning portal (refer to link in Background Papers). It has taken a major effort on the part of the council's officers and contractor team to progress this major infrastructure project to this stage in a relatively short time.

Scheme Costs

- 2.5 Members need assurance that there is a prudent balance between cost, funding and scheme risk in order to make decisions. On current scheme information and the view of the remaining implementation and delivery risk, a total of £9.278M (inclusive of all design development fees) must be secured for the project to be placed on a sure delivery footing at this stage.
- 2.6 The cost has a provision of £1.623M to cover known risks identified to date. This allowance is required to account for the implementation risk associated with the presence of several underground and high level services and other local physical and environmental considerations which there has been insufficient time to investigate in detail.
- 2.7 Alongside the Caton Road industrial estates Lancaster city centre was also badly flooded in the December 2015 events. Lancashire County Council, as lead flood authority, and Environment Agency have identified a separation

between this - predominantly “pluvial” (run-off) flooding - and the inundation/overtopping from the Lune - or “fluvial” event - which affected the Caton Road industrial estates. Lancashire County Council and the EA are investigating separate mitigation measures for Lancaster city centre and its catchment - known as “Phase 4” - and the Lune defence measures under Phase 3 can proceed as a stand-alone initiative.

- 2.8 Following a further flooding event in November 2016 the Caton Road industrial estates suffered localised flooding via pluvial routes. These specific water courses have been clearly identified through County Council modelling. As part of the Phase 3 scheme the project team has therefore included a “Phase 3a” element to address pluvial issues and provide mitigation of catchment run-off in the area of Caton Road golf course. Additional ERDF resources have been applied for to cover these costs (around £750K), being enabled through an increase in the ERDF grant overall % intervention rate for the project. However, this does not reduce the “gap” on the match-funding package (refer to paragraph 2.9).

Funding

- 2.9 Under the current 2014 - 2020 European funding programme a full application for £3.1M (from Priority 5 Promoting climate change adaptation) was submitted at the end of May 2018. The bid has been accepted by the Government and an offer letter is awaited, which will be conditional on match-funding approval. An additional £750K ERDF has been applied for to implement Phase 3a (as noted in paragraph 2.8) taking the total ERDF request to £3.85M
- 2.10 Members will recall the ERDF money has a critical deadline imposed by the decision to leave the EU. The Government has advised that this ERDF scheme must be contracted (that is, have a signed construction contract in place) by 31 March 2019.
- 2.11 The scheme is not fully fundable with EA FDGiA as it is designed to protect mainly business rather than residential properties. The funding formula gives an FDGiA allocation of £2.587M (inclusive of current approved design fees). A formal funding offer will be made following consideration of the detailed Outline Business Case by the EA’s Large Project Review Group which is currently in progress. There are no anticipated issues with securing an offer for the full FDGiA amount, and accepting it, in time to meet ERDF deadlines.
- 2.12 A further £2M (inclusive of current approved design fees) has been approved by the North West Regional Flood and Coastal Committee (RFCC) finance sub group at its meeting on 4 April 2017. For the purposes of EA budgeting both FDGiA and RFCC funds are both considered to be EA funds. Authority to accept these funds was secured through resolutions in previous reports
- 2.13 As noted in previous reports officers have been in contact with the largest businesses and freehold interests on the Caton Road industrial estates – considered to be those with property asset interests of over £100K Rateable Value - to secure private sector contributions for the scheme. A target of £1M was set based on an apportionment mechanism related to the Rateable Value of the individual business’s property interests. The businesses’ response fell

into 3 main categories: (i) Making an “in-principle” written commitment; (ii) Were “tentative”, but agreeable if design and other matters could be satisfactorily resolved; (iii) Declined a contribution citing a range of reasons.

- 2.14 Officers developed a relatively simple contract deed for the business contributions, with a reimbursement mechanism should the final contract outturn cost be lower than the initial contract sum (Refer to Legal Implications). The contract was presented to those in-principle/tentative contributors for their review and approval. Officers also required a final indication on whether the individual businesses still intended to participate in funding the project in order to inform Members decision. The opportunity was also taken to revisit those businesses that declined to contribute.
- 2.15 The negotiations are current and will continue up until the January Cabinet meeting. At the time of writing the business funding position is summarised in Appendix 2 (**exempt from publication**). Officers have secured in-principle commitments of £465K with another £279K likely to confirm. A total of around £744K is the current sum available from the private sector - this funding is also “at risk” until formal contracts are signed.
- 2.16 The business response has therefore been mixed. Since the original general meeting with businesses in September 2016 the council has been: open about the requirement for private contributions; clear on the funding request basis; and given businesses ample time to consider and plan to accommodate the funding. However, some of the individual business decision makers have proved increasingly hard to contact as the scheme progressed. It is clear, in some instances, that key people are actively avoiding contact – refusing to respond to, or acknowledge, multiple telephone messages, emails and letters.
- 2.17 Given the impact on both physical assets, business continuity and the resulting costs of a potential future flood event it is hard to understand some of the positions taken when set against the sums requested. The overall funding position is summarised in the table below:

Funder	Amount
FDGiA (Environment Agency)	£2.587M*
RFCC Local Levy (Environment Agency)	£2.000M*
ERDF Priority 5	£3.850M**
Business contribution approved “in-principle”	£0.465M
Business contribution expected (to be confirmed)	£0.279M
Total (A)	£9.181M
Total funding Required (B)	£10.028M
Shortfall on current cost estimate (B – A)	£0.847M

* Includes all funding approved, spent and committed to design / target cost development activities.

** Includes £750K for Phase 3a pluvial mitigation for Caton Road

3.0 Meeting the Funding Shortfall

Securing cost reductions / savings

- 3.1 The £1.6M resource allocated to the risk register has been noted in paragraph 2.6. The council could proceed on the basis that certain risks will not materialise to the extent allowed for in the costed risk register, reducing the up-front cost – however, officers cannot recommend this approach.
- 3.2 Innovation and value engineering will continue up to development of the construction contract target costs and could lead to reductions in scheme costs, but this is not guaranteed. For example, the project team is negotiating with United Utilities (UU) on the design of the scheme in an area where they have physical assets. If the design in this area is acceptable to UU it could lead to savings in the order of £200K. However, the design places some operational responsibilities on UU to maintain the integrity of the defences - to which UU have not yet agreed.
- 3.3 During construction itself EA expects its funded capital projects to achieve 10% efficiencies on the overall cost, but these might not emerge as real savings and these are normally reinvested to secure a better scheme. However, if true savings are made, these will be allocated in proportion to match funding contributions. That is, not all the capital contributions made by funders may be required by scheme outturn.
- 3.4 There are options to remove areas of coverage. For example, a section of coverage predominantly protecting a single business interest could be removed. However, given the business interest affected is a significant potential contributor the net saving to the scheme, and impact on the “gap” funding required would not be significant. Omitting sections of the scheme would also be contentious.

Delay delivery to secure and/or wait for alternative public funding routes to emerge.

- 3.5 As noted previously the scheme must be contracted by the end of March 2019 to meet the ERDF commitment deadline. It is unlikely substantive match funding of this amount will be available from other sources in the short to medium term and the project team have exhausted all other clear public funding routes. The future status, priorities and eligibility of any UK government replacement funding stream for ERDF (for example, the government’s proposed UK shared Prosperity Fund) is unclear.
- 3.6 While the ERDF deadline is paramount there is another practical deadline which has been imposed by planning conditions. In order to commence construction works in spring 2019, and for the protection of nesting birds, all the extensive tree felling work agreed for construction needs to be complete by the end of February 2019. The next opportunity to deliver significant construction work will be after the summer nesting season in September 2019.
- 3.7 If a construction contract is not signed by mid-February to allow for timely tree felling, the programmed construction period will need to be extended by 5 months and costs (construction and contractor staff stand-down/re-deployment) will increase in the range of £100K.

Secure more private sector contributions through negotiation

- 3.8 In the absence of a decision on whether the council can provide capital resources and/or at what amount it is difficult to make any further progress on formally securing contributions from the private sector – there is no certainty on either side of the negotiation and no “bottom line” defined by the council.
- 3.9 Although time constraints are critical it would be useful to clarify if the council can afford to contribute towards the scheme in the light of its current budget position and other capital/revenue priorities. This would provide a more certain position on whether the council would proceed on the current private sector funding basis. It would also provide businesses with a more certain funding target and/or an incentive for contributors to complete the required funding contracts at the earliest opportunity.

A city council contribution

- 3.10 The scheme has been considered for addition to the council’s Capital Programme by the Asset Management Group under the agreed internal process. If the council were to increase the capital financing requirement to cover the estimated shortfall of £847K there would be an additional annual charge to the revenue budget of £17K for 50 years.
- 3.11 In terms of a financial “return” against this investment the main benefits are indirect and difficult to assess with certainty. Towards the eastern end of the industrial estates there are significant areas of vacant land. Towards the west of the Caton Road estates are old, low value and redundant property that have received no investment for many years. It is reasonable to assume that, following flood defence implementation, there will be increased confidence to invest in new commercial property and, over time, the Rateable Value (RV) of the area should increase. Available industrial land in the district is constrained and there are few options for new commercial industrial development close to Lancaster.
- 3.12 Officers have estimated that within a decade commercial RV in the area will increase by £1.6M with an additional rate take of around £800K per annum attributable to new development. Under the current business rates retention scheme 40% of the increase would accrue to the council’s budget.
- 3.13 Within the construction cost there is an allowance for 1.5 FTE internal engineering staff time costs for working on the project. This will enable these staff costs to be funded from an external source for the first two years of the project based on the premise that it is delivered within existing capacity.

4.0 Details of Consultation

- 4.1 The idea of a flood defence scheme along the Lune has been raised with the businesses along Caton Road who are in support of a scheme being developed and delivered. Several business events and community/stakeholder consultation events have been undertaken and the scheme has been positively received.
- 4.2 In strategic terms the scheme has been identified by Lancashire Enterprise Partnership as the highest priority Flood Risk Management Scheme. The

scheme has also been identified within the Environment Agency's 6 year investment programme for funding, by the NW RFCC as a priority for funding for Sustainable Economic Growth as well as identified within the statutory North West Flood Risk Management Plan measures.

5.0 Options and Options Analysis (including risk assessment)

5.1 The following options can be considered:

	Option 1: Members accept there is insufficient funding to enable the project to proceed.	Option 2: Members agree: <ul style="list-style-type: none"> a) a contribution of £847K towards the capital costs of the scheme; b) to accept an offer of ERDF funding and for officers to formally secure the anticipated business contributions; c) Officers complete the design/target cost package and agree a contract for Stage 2 capital works with VBA Joint Venture Limited (subject to the approval of enough funding to meet scheme costs). 	Option 3: Members agree: <ul style="list-style-type: none"> a) A lower council contribution and ask officers to secure additional private contributions and/or cost savings to meet the balance of scheme costs. b) Officers report to February Cabinet on the cost / funding position.
Advantages	<p>No further direct capital cost / project delivery risk to the council.</p> <p>Gives certainty on the council's position.</p> <p>Scheme design completed to take advantage of any future funding opportunities.</p>	<p>Provides a comprehensive solution to fluvial / pluvial flood risk on the Caton Road industrial estates.</p> <p>Provides a range of economic, investment and environmental benefits.</p> <p>Sets out a clear council commitment to businesses/asset holders in the area and incentive for private contributions to be secured.</p> <p>Demonstrates delivery to Government and EA boosting chances for future scheme funding.</p> <p>Potential indirect future benefit to Council's "bottom line" budget in increased rate retention.</p>	<p>Potential to deliver same advantages as Option 2.</p> <p>Sets out a level of financial commitment the council is willing to make to businesses / asset holders in the area.</p> <p>Ensures a focussed negotiation.</p> <p>Lower additional growth to be absorbed by the council's budget.</p>
Disadvantages	<p>Business, investment, economic and environmental benefits may not be realised for some time, if at all.</p>	<p>Involves the council taking the delivery/funding risks on a major project.</p> <p>Additional cost to the General Fund revenue budget of £17K per annum</p>	<p>Disadvantages are as Option 2 and:</p> <p>Makes securing a funding package to meet ERDF / Government deadlines</p>

	<p>Area continues to be vulnerable to severe flooding impacts with implications for commercial interests and the public.</p> <p>Loss of current funding opportunities.</p>	<p>for 50 years.</p> <p>Completion of construction contract details and funding package must be undertaken to meet ERDF and Government deadlines as well as meeting practical “tree felling” window. (refer to para 3.7)</p> <p>Maintenance of the proposed flood defence will be with the council as Risk Management Authority (Refer to Financial Implications)</p> <p>Disruption in the area during construction – particularly to amenity of Lune cycle path.</p>	<p>more difficult.</p> <p>While at a lower amount a certain level of growth will still need to be absorbed in the budget.</p> <p>The project will not be contracted in time to meet the “tree-felling” window delaying a practical start to construction and increasing costs (refer to para 3.7)</p>
Risks	<p>Reputational risks of being unable to proceed with a scheme.</p> <p>Construction cost increases over time.</p> <p>Leaves an unacceptably high level of flood risk leading to the likelihood of businesses closing or moving away and impacts on the city in terms of accessibility during flood events.</p>	<p>In terms of delivering a construction contract all additional resource requirements have been costed into the scheme and the council is experienced in managing major flood defence scheme with complex funding packages.</p> <p>Construction risks minimised through costed risk register.</p> <p>Private sector funding needs to be formally secured via contract.</p>	<p>Risks are as Option 2 and:</p> <p>On current information the private sector contributions outlined in the report represent the maximum officers believe can be secured.</p>

6.0 Officer Preferred Option (and comments)

- 6.1 In **Option 1 Members accept there is insufficient funding to enable the project to proceed**, it should be noted that major businesses have for some time been encouraged to consider the major benefits of investing in the scheme and Members have previously noted that there may be insufficient funding to enable the project to proceed. However, the private sector response means the funding gap cannot be bridged. Even with additional business contributions there would still be a shortfall, and, if the scheme is to proceed the only realistic option is for the city council to provide funding.
- 6.2 If Members wish to proceed the critical question is the affordability and scale of the council's contribution. The preferred option is **Option 2: Members agree: a contribution of £847K towards the capital costs of the scheme; to accept an offer of ERDF funding and for officers to formally secure the anticipated business contributions; officers complete the design/target cost package and agree a contract for Stage 2 capital works with VBA Joint Venture Limited (subject to the approval of enough funding to meet scheme costs).**
- 6.3 Option 2 will result in an additional cost of £17K per annum to the council's challenging budget profile but allows officers to progress the construction contract details, bring more certainty to funders/deliverability and ensures the

challenging contracting deadlines have the best prospect of being achieved. It provides an incentive to secure private sector contributions – which are still “at risk” and challenging to secure - and savings can be driven through the construction period. There is also a “back-stop” of February Cabinet should any issues arise prior to contract that require Member input.

- 6.4 Should Members consider a contribution of this scale unaffordable **Option 3 Members agree: a lower council contribution and ask officers to secure additional private contributions and/or cost savings to meet the balance of scheme costs** can be considered. However, this imposes additional pressure on timescales and would also mean that the “tree-felling” window was missed increasing costs as no substantive work could be done over summer. Officers would report back to February Cabinet.

- 6.5 Under Stage 1 officers, with EA approval, have to date spent £550K (comprising £200K FDGiA and £350K North West Regional Flood and Coastal Committee (RFCC)) on design development. A further £133K FDGiA funds will be required to take the scheme to the full details for Stage 2 construction contract. These funds have been approved (refer to Financial Implications).

7.0 Conclusion

- 7.1 There remains an acute need to promote this scheme to help secure its delivery and the proposed course of action represents the most appropriate route towards achieving a positive outcome, both meeting the council's regeneration objectives and having wider social, economic and environmental impacts.

RELATIONSHIP TO POLICY FRAMEWORK

The impact on the Council's Corporate Priorities are as follows:

A Thriving & Prosperous Economy: Economic Growth is a high level Corporate Priority for the City Council. The flooding risk for this important industrial area undermines business and investment confidence. The emerging Local Plan cannot identify extensive new areas for employment development to replace this area therefore the priority approach should be to increase the level of protection to restore business confidence.

Clean Green & Safe Neighbourhoods: Walking and cycle paths, will be improved, and the river banks will be planted and managed to encourage greater habitat and biodiversity, increasing its amenity value for locals and visitors. The scheme will also deliver water quality including bathing water improvements as there will be reduced likelihood of potentially polluted flood waters from the location running off the industrial areas and into the River Lune and Morecambe Bay.

Healthy & Happy Communities: A range of leisure and recreational benefits should accrue from the implementation.

A Smart & Forward Thinking Council: In terms of climate change, the scheme works will be climate change resilient, applying the agreed national climate change allowances to the raised defences to ensure that the scheme is ‘future proofed’. There is potential to use the infrastructure to secure an early benefit under the council's approach to implementing a project under the Government's Local Full Fibre Network funding stream.

The 2015-2021 North West river basin district flood risk management plan is the statutory

plan produced under the Flood Risk Regulations 2009 which transposes Flood Directive in UK law. For the Lune Catchment, the Flood Risk Management Plan concludes that, "Economic growth and development in Lancaster (north and south) could present funding opportunities if complimentary options can be identified to reduce flood risk and allow development. The Environment Agency will continue to work with the Local Enterprise Partnership to identify locations and solutions (Environment Agency, 2016).

CONCLUSION OF IMPACT ASSESSMENT

(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, HR, Sustainability and Rural Proofing)

Severe impact from flooding on health and safety of employees and customers to commercial premises. Wider community impact where electricity supply threatened due to flooding. Evidenced as severe from Storm Desmond events.

LEGAL IMPLICATIONS

Legal Services have been consulted and comments inserted within the body of the report where appropriate. However, specifically in relation to the Options would make the following further observations:

The Proposed Construction Contract - EA WEM Procurement Framework/Agreement

If Members proceed with Option 2 it is intended to continue to use the project contractor secured through Environment Agency Water and Environment Management framework to undertake the Stage 2 works. The original staged appointment was undertaken in line with the city council's contract procedures rules.

The EA through their Next Generation Supplier Arrangements project established a Water and Environment Management (WEM) Framework. Formalised in 2013, the Water and Environment Management Framework provides access to the best suppliers in Flood and Coastal Risk Management. The WEM Framework is a commercial agreement between the EA, consultants and contractors ('suppliers') with an agreed suite of terms for the award of individual contracts to deliver projects for Flood and Coastal Risk Management (FCRM). The framework is available for use by Local Authorities and lead Local Flood Authorities (LLFAs), as well as other Risk Management Authorities in the Defra family. This framework was extended in June 2017 for two years, under Contract Regulations 2015 frameworks can only be for a period of four years except in exceptional circumstances, therefore the validity of the extension (although stated as OJEU and European funding compliant by EA and MCHLCG officers) is to date unproven through independent audit.

There is therefore a possibility, even if remote, that the WEM framework could fail the most stringent ERDF audit procedure and the council could be at risk of clawback.

The NEC 3 suite of contract management documents will be used throughout project delivery with various tools to monitor and manage contractor delivery, performance and costs, including Change Tracker, Early Warning Notices, Compensation Events, Project Management Instructions and combined with monthly formal progress meetings will ensure robust project management throughout and reduce the chances of client/contractor litigation.

Public Grant Contributions

Grant contributions are expected to be secured via a contract in the form of an offer letter

which will need to be signed and returned. The council has robust procedures in place to manage the stringent legal requirements of public funds, particularly ERDF requirements.

Private Sector Contributions

In the negotiations with the major Caton Road businesses the private sector contributions highlighted have no formal contractual basis, being currently offered in-principle only. The formal contractual mechanism by which the contributions can be formally secured / contracted and paid when required has been developed in association with Legal Services team (using additional specialist input) who continue to be fully engaged in developing this mechanism.

The form of agreement takes the form of a legal deed with clauses drafted to give protection to the council's interests in the event of default by the contributor. Although officers expect the individual deeds to be signed by end of January 2019, businesses are not expected to pay the contribution unless and until the flood risk management works have commenced (that is, a contract for the construction works has been signed). Further, while the deed provides that the contribution will be paid 'on demand', businesses can suggest their own staged payment timing to suit their own financial planning.

Other matters

Planning approval conditions need to be discharged and a range of other statutory approvals will be required for the scheme to be implemented.

In terms of State Aid the council is in receipt of a detailed opinion from the Environment Agency State Aid Unit that the flood defence works should be classed as General Infrastructure and, as there is no aspect of the infrastructure deemed to offer a selective advantage, is outside the scope of State Aid regulations.

Access to Third Party land will be by agreement and any issues will be handled by the project team in association with the council's legal and property services

FINANCIAL IMPLICATIONS

Design Development Funding

To date £550K (comprising £200K FDGiA and £350K North West Regional Flood and Coastal Committee (RFCC)) has been spent on design development. A further £133K FDGiA funds will be required to take the scheme to the full details for Stage 2 construction contract. EA advised that this could be taken from the funds approved following submission of the FDGiA business case / benefits financial appraisal (as agreed at December 2017 Cabinet). EA have confirmed there will be no clawback risk arising from spend against this funding should it not prove possible to secure enough funding for full scheme implementation as the work undertaken will still provide for a fully developed scheme to be available for implementation should funds become available in the future.

External Public / Private Sector Funding

In agreeing the preferred Option 2 it will involve the council entering into formal contractual arrangements with external funding bodies. However, the city council will not be contractually bound to undertake delivery of the full proposed capital scheme until all funding is in place and a construction contract is signed.

Council officers have experience of handling the demands of external public funders, particularly ERDF and EA funding. The scheme development has been undertaken in a far shorter timescale than would ordinarily be considered appropriate for a major infrastructure project and, therefore, there are a greater number of construction risks. However, these have been mitigated through a significant "Risk Register" sum. However, it should be noted that risk of construction overspend does fall to the city council as the accountable body for the scheme.

The route to securing enough funding to meet the target construction costs is still dependent on the response of the private major businesses, to provide and formally commit to substantial contributions. To ensure sound stewardship and value for money in using public funds, should Cabinet support the proposal, it should have reasonable confidence that private sector contributions can be formally secured in due course to enable the scheme to go ahead. Officers have secured in-principle commitments of £465K with another £279K likely to confirm. A total of around £744K is the current sum available from the private sector - this funding must be considered "at risk" until formal contracts are signed.

All funding agreements assume payment in arrears where the council will be required to "front-fund" activity and reclaim funding against expenditure. Depending on where the expenditure falls funding may not be reimbursed for up to 6 months. There will be a "loss of interest" opportunity cost on this funding.

Cost of a Council Contribution

Under the preferred Option 2, an increase in the council's capital financing requirement in order to fund the estimated shortfall of £847K would result in an annual cost of borrowing charge against the revenue budget of £17K for 50 years. If council agrees Option 3 then a lower annual charge will be incurred over the same period

The General Fund Revenue Budget will need to be updated accordingly in 2018/19 to reflect Members decisions

The potential financial benefits to the council are indirect and difficult to assess with certainty. Regeneration and Planning Officers have indicated that, following flood defence implementation, there will be increased confidence to invest in new commercial property and, over time, the Rateable Value (RV) of the area should increase. Available industrial land in the district is constrained and there are few options for new commercial industrial development close to Lancaster. The following scale has been used in previous funding applications:

	Multiplier
Low (limited income effects)	1.05 – 1.30
Medium (average linkages)	1.10 – 1.50
High (strong income effects)	1.15 – 1.70

As the estimate is "high" a reasonable assumption that within a decade RV will increase by $1.40 \times £4M = £5.6M$ an increase of £1.6M in RV with an eventual additional rate take of around £800K per annum. Under the current business rates retention scheme 40% of the increase would accrue to the council's budget council's budget.

Staffing and other council costs

The project allows for £299k going forward for Lancaster City Council's project management, supervision, cost consultant, discharge of planning condition costs. Within

this cost is support for 1.5 FTE equivalent costs of the internal engineering staff (£52.5K income in the years 2019/20 and 2020/21.

Maintenance of the proposed flood defence will remain the responsibility of the Risk Management Authority, Lancaster City Council with expected cost of approximately £6,000 per annum for monthly inspection visits and inspection, testing and greasing of flood gates, additional inspection visits will be carried out after substantial storm events to inspect for effectiveness and potential damage. The city council already has in place R&M revenue budgets for Sea and River, Land Drainage and Public Realm which will fund the maintenance requirements of the completed scheme.

OTHER RESOURCE IMPLICATIONS

Human Resources: From existing staff resource and consultants funded through the project.

Information Services: None

Property: Property staff have been involved in the project team. The land upon which flood defences could be constructed is predominantly in city council ownership. Some negotiations on access and infrastructure siting will be necessary but these are not anticipated to be onerous or staff time intensive.

Open Spaces: The Millennium Cycleway would be impacted during construction.

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has been consulted and has no further comments

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS

Lancaster Caton Road Flood Defence Scheme Planning Application and Decision Notice:
<https://planning.lancaster.gov.uk/online-applications/applicationDetails.do?activeTab=summary&keyVal=PA9TF4IZLAV00>

Contact Officer:

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