

Funding Strategy Interim Update Summary

1. Purpose

This note summarises the strategy for funding the Bristol Avon Flood Strategy at Outline Business Case (OBC) stage, setting out:

- a) Wider context of the Bristol Avon Flood Strategy
- b) Current cost position
- c) Current funding position
- d) Overall approach to the funding strategy
- e) Principles which guide the identification of funding sources
- f) Priorities for developing the funding strategy

2. Bristol Avon Flood Strategy

Bristol City Council (BCC), supported by the Environment Agency (EA), is working to deliver the Bristol Avon Flood Strategy. This is a long-term plan to better protect homes and businesses from flooding from the River Avon and enhance the river for all. The ambition is for flood defences that work for Bristol year-round, not just when the river floods. By designing defences that improve public spaces, we will provide new green spaces, better access to the river, enhanced heritage features, and improved transport connections. By using this approach, we can protect Bristol and create a more active, sustainable and resilient city. We can also secure benefits for the wider region by protecting the regional transport network from severance and enhancing economic opportunities.

The Strategic Outline Case (SOC), adopted in March 2021, sets out a case for change and long-term plan for managing flood risk from the River Avon to Bristol and its neighbouring communities. Construction of the first phase is expected to begin from around 2025 and designed to be extended in Phase 2 in the 2060s.

3. Cost Position

The estimated total cost for Phase 1 capital delivery (in the 2020s) at SOC stage was **£216 million**.¹

The funding gap varies depending on the design solutions agreed and the cost of delivery, which is currently volatile given construction cost inflation.

The ongoing Outline Business Case (OBC) stage will identify all indicative funding required for delivery of the works justified by the OBC with allowance for whole-life cost, contingency, risk and inflation, systematically updating the SOC budget estimates.

Following this from 2024 onwards, Full Business Case (FBC) for each build stage will confirm the funding position before the decision is taken to enter into construction contract(s). Surveys, engagement, design, consenting and procurement will be carried out before FBC costs are finalised.

The SOC indicatively split the Phase 1 works during 2020s into two build stages to be delivered discretely. Phase 1 Build Stage 1 (construction between 2026-2029, £89 million) and Phase 1 Build Stage 2 (commencing post 2030, £127 million).

¹ All costs based on 2024 inflation allowance; 2019 price base; includes costs, fees and 60% optimism bias (except Cumberland Road reach using 46% as based on adjacent tendered works); undiscounted.

Build Stage	Components	Benefits (£m)	Capital works (£m)	Estimated Grant in Aid funding (£m)	Funding required (£m)
1	Entrance & Netham Lock flood gates. Detriment mitigation works	228	89	14	75 (84% of build)
2	The remainder of Phase 1.	753	127	55.3	72 (57% of build)

Costs, benefits and grant in aid estimate for build stages 1 and 2. Source: BAFS Strategic Outline Case, March 2021

Profiling of costs and funding between build stages will be detailed in the Funding and Investment Viability Assessment (FIVA) dashboard (see Section 5.3) and then reflected at OBC stage. This will consider timescales for delivery of each funding source and how this aligns to the build programme and development in the wider area. It will take account of potential mechanisms for obtaining funding for each stage and constraints such as land ownership that could impact on delivery.

4. Funding Position

Identified funding sources for Phase 1 capital works at SOC were as follows:

- Estimated Flood Defence Grant in Aid (FDGiA) eligibility (from the Environment Agency) of £69 million. Further work is planned to strengthen the case at OBC stage.
- An Economic Development Fund programme allocation (from the West of England Combined Authority, WECA) of £10 million.

This left a total funding gap of **£137 million** (63%).

The SOC also noted BCC has funded the Cumberland Road Stabilisation Works, whose design reduces future flood defence works from the Capital programme. This can be claimed as partnership funding contributing towards BAFS but excluded from the BAFS costs.

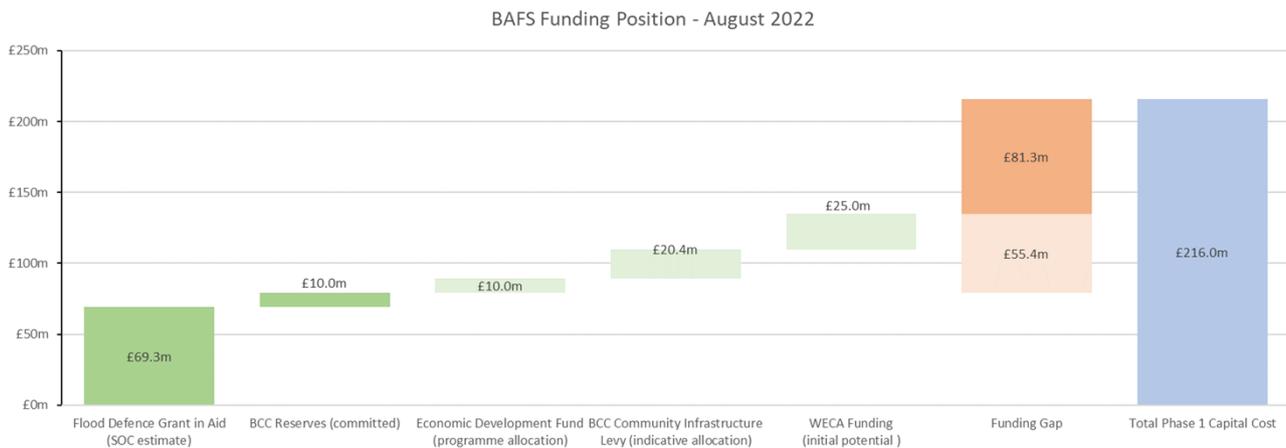
Since SOC stage, significant work has been undertaken to identify additional funding sources.

The following have been identified:

- BCC committed reserves of £10 million.
- An indicative allocation of BCC Community Infrastructure Levy² of £20.395 million, subject to approval by Council as part of the budget process.
- Potential additional WECA Funding of £25 million as identified at its Capital and Investments Board, subject to further discussions and potential business case.

When these funding sources are included, this leaves a funding gap of **£81 million** (38%).

² It will be important for the planning system to deliver appropriate developer contributions to the Strategy. The Community Infrastructure Levy provides the most appropriate current mechanism for securing such contributions. If the current law and mechanisms relating to infrastructure funding through the planning process is amended or reformed (such as the Government's proposed Infrastructure Levy as set out in the Levelling Up and Regeneration Bill, 2022) it will be essential to ensure that a funding avenue for developer contributions to the delivery of the Strategy is identified in any new arrangements.



5. Emerging Funding Strategy

5.1 Approach

The funding and financing landscape continues to evolve at pace in the flood risk management sector, so an adaptive and flexible approach is required. However, some critical foundations are common across other effective funding strategies for major infrastructure programmes:

- **Vision and Objectives:** Alignment through a shared funding vision, objectives and narrative (at regional, city and local level) that links into national priorities such as Levelling Up and regional structural funding priorities for the West of England.
- **Timeframes:** Understanding of the timeframes involved and long-term commitment. Recognise the priority to deliver each build stage at the earliest opportunity as committed funding allows.
- **Monitoring:** Effective tracking of target fund sources as well as continual horizon scanning and positioning for new funding opportunities.
- **Resourcing:** Dedicated resource by the project sponsor to continually monitor and horizon scan, identify funding opportunities and coordinate bidding resource and manage the governance requirements associated with the funding strategy.
- **Governance:** Establishing clear owners of the strategy that meet regularly to review progress, alongside a funding delivery group who are those responsible for developing bids and implementing the strategy.

5.2 Principles for Funding Sources

The work to identify additional sources of funding is being guided by the following principles:

- **Beneficiary Pays:** This is the principle that infrastructure schemes should, as far as practicable, be funded by those who benefit from them. There is a strong rationale for flood defence schemes being supported by taxpayer funding given that flood defences are of general public benefit. However, some parties such as nearby landowners will benefit more than others. It is reasonable that these beneficiaries should contribute more to funding the scheme if practicable.
- **Certainty:** Less certain, irregular funding sources are inherently more difficult (and hence more expensive) to borrow against, particularly by private actors without recourse to alternative funding sources. For example, a small, regular charge which has a high degree of enforceability (e.g., by the UK Government or sub-national authorities) is likely to be preferable than a larger funding source with a higher degree of uncertainty, e.g. from a voluntary or development dependent contribution.

- **Scale:** The amount of funding that is likely to be raised by a measure is an important consideration. Measures that can feasibly raise only limited funding are likely to be less suitable for inclusion in the funding package
- **Deliverability:** The extent to which identified funding options can be delivered effectively and efficiently will vary significantly. Deliverability is largely independent of the ‘beneficiary pays’ concept. Relevant considerations include: control, administrative cost and flexibility, and risk of market distortion, as well as scale of financing risk.

The eventual funding mix will include contributions secured by BCC, WECA and other sources. Other sources being explored include further central government funding, developer contributions, regional funding and land value capture.

5.3 Delivery

BCC will lead the development and delivery of the Funding Strategy, proactively supported by WECA and the Environment Agency. Officers of the organisations are engaged via a Funding Strategy Working Group which reports into the Project Board. This is overseeing ongoing technical work which is a) exploring and engaging with scheme beneficiaries in further detail, b) assessing scheme phasing to identify opportunities to smooth the funding profile and c) reviewing the funding options longlist with a focus on key areas such as land value capture mechanisms and green finance.

BCC will monitor the funding strategy document with a supplementary Funding and Investment Viability Assessment (FIVA) dashboard, where the progress on each funding source is reviewed and re-evaluated. This tool aligns with BCC’s intention to monitor the status, timing and amount of each funding/finance source; how likely it is that each will deliver the required amount; if there are any constraints, dependencies or timescales qualifications attached to funding drawdown; and which organisation is delivering the funding stream.

BCC’s BAFS Project Director is accountable for the Funding Strategy and the FIVA. Both are effectively live documents that will be regularly reviewed and updated throughout the project lifecycle as the Outline Business Case progresses.