



Office of the
Deputy Prime Minister

Creating sustainable communities

The Financial Management of Local Disasters



Office of the
Deputy Prime Minister

Creating sustainable communities

The Financial Management of Local Disasters

Local Authority Use of the Bellwin Scheme
of Emergency Financial Assistance to Local
Authorities

The Office of the Deputy Prime Minister
Eland House
Bressenden Place
London SW1E 5DU
Telephone: 020 7944 4400
Web site: www.odpm.gov.uk

© Crown copyright 2004.

Copyright in the typographical arrangement rests with the Crown.

This publication, excluding logos, may be reproduced free of charge in any format or medium for research, private study or for internal circulation within an organisation. This is subject to it being reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the publication specified.

For any other use of this material, please write to HMSO Licensing, St Clements House, 2-16 Colegate, Norwich NR3 1BQ. Fax: 01603 723000 or e-mail: licensing@hmsso.gov.uk.

September 2004

Reference no. 04 LRG 02569

Contents

TABLE OF CONTENTS	1
1. EXECUTIVE SUMMARY	3
2. INTRODUCTION	9
3. THE CONTEXT FOR THE RESEARCH	11
What the Scheme is	11
How it has evolved	13
The Administrative Context	14
The Evolving Policy Context	15
4. OUR TERMS OF REFERENCE AND METHODOLOGY	16
Phase 1: Desk-based Research	19
Phase 2: Quantitative Research	19
Phase 3: Qualitative Research	20
5. RESULTS OF THE DESK-BASED RESEARCH	21
6. RESPONSE TO OUR APPLIED RESEARCH	23
Overall response rate	23
Participation in the Programme of Fieldwork	24
7. FINDINGS OF OUR RESEARCH	26
The Organisational Architecture of Emergency Planning	26
The Financial Architecture of Emergency Planning	28
Operational Practice	34
Financial Practice	36
Operational Outcomes	38
Financial Out-turns	39
The Role of the Bellwin Scheme	40
Issues for Consideration	43
8. CONCLUSIONS	46
Awareness of the Scheme	46
Integration with Emergency Planning and Risk Management	46
Integration with other internal funding streams for meeting emergencies	46
Integration of external funding streams	47
Scheme Administration	48
General Views of the Scheme	48
Overall Conclusion	49

1 *Executive Summary*

Introduction

- 1.1 From time to time local authorities may be faced with emergencies which are unforeseen and generate large and exceptional costs. The Bellwin Scheme plays a key role in providing financial support to local authorities faced with such circumstances. The scheme has been used almost every year since its introduction in 1983 but only in 2 years (1987/88 and 2000/01) has expenditure exceeded £20 million and for 14 of the 19 years the number of cases has been less than 10 per annum with expenditure of less than £1 million.
- 1.2 The scheme takes the form of a specific grant payable against revenue expenditure incurred by local authorities above a defined threshold in meeting the costs of safeguarding life and property following an emergency. These include the cost of immediate preventative work to clear up and repair damage, the provision of temporary rest and shelter to affected residents and the temporary closure of affected roads, paths and the provision of signage. The scheme has usually been operated in respect of weather related disasters, but the potential category of disasters is very wide, and includes certain costs arising out of civil aviation accidents, and off farm disruptions such as Foot and Mouth Disease. Incidents must be reported to the department within a defined period (normally one month) and all expenditure must be completed within a limited defined period of the disaster (usually 2 months) and at a defined rate (85% of costs above the threshold level). For the 2000-01 flooding and foot and mouth emergencies, additional flexibility was granted through increasing the claim period to 6 months and, for the flooding scheme only, increasing grant payment to 100% above threshold.
- 1.3 As a result of the 2000-01 claims, ODPM (then DTLR) commissioned a review of the Bellwin scheme. This proposed a number of amendments to the scheme to improve clarity but left the scheme unchanged in its essentials. The ODPM, in the light of that review, wished to understand how the Scheme worked at authority level in more detail. It therefore commissioned Bannock Consulting to undertake research into it.
- 1.4 This research addressed two major questions:
 - 1) How well has the scheme operated in practice, in terms of:
 - general awareness and authorities' forward preparations
 - type of eligible expenditure claimed and paid and consistency of treatment across authorities and incidents
 - the operation of the threshold level
 - obtaining value for money

- the overall efficiency of claims handling, and provision of timely support?
- 2) How well does the Bellwin scheme support forward planning for emergencies and emergency expenditure – both on a strategic and operational basis?

How well has the Scheme operated in practice?

GENERAL AWARENESS AND PRE-PLANNING

- 1.5 The scheme is well understood by authorities that have made multiple claims but unsurprisingly knowledge and awareness is significantly less in those authorities who have not made claims or who made claims only in 2000-01. In terms of detailed financial guidance, few authorities, including those that have made Bellwin claims, have detailed written guidance on spending during an emergency. The guidance contained in emergency plans is in general limited to the need for finance officers to be attached to emergency centres in the course of an incident and having delegated plans to spend. In general senior finance managers believe that the powers of delegation to the Chief Executive, Director of Resources and/or Leader, contained in standing financial regulations is sufficient to cover emergency spending.
- 1.6 Every authority recognised the need to open separate accounts for emergencies with the capacity to code the main subjective expense headings, although no authorities had standing codes for this basis. Few authorities who had made Bellwin claims attempted to split out and code Bellwin eligible expenditure at source. The general feeling in an emergency was to spend the money that had to be spent and worry about the precise eligibility and coding at a later date. Most authorities accepted that it was likely that some initial expenditure, particularly on overtime, was not captured and therefore the claim was not maximised.

TYPES OF EXPENDITURE

- 1.7 According to our survey of authorities who had submitted claims in 2000-01, the major categories of eligible expenditure were agency payments, staff overtime costs and supplies and services (signage, sandbags, rest centre costs). It was not possible to conclude anything concerning the efficiency and effectiveness of the expenditure on incidents because all the incidents were by their nature different and involved different types of inputs, and partly because in most cases detailed supporting records were no longer available. However anecdotal evidence from the fieldwork suggested that some limited pre-planning and stockholding, e.g. of sandbags could help to reduce the cost of emergency provision later. However in general, because of the lack of predictability, authorities spent what they had to and paid appropriate costs.

- 1.8 The most problematic areas of expenditure relate to expenditures on repairs and reinstatement of a potentially capital nature and salary related expenditure, particularly of permanent council staff. In the authorities with experience of Bellwin, there was a strong element of self-regulation. To quote one officer *we know what the rules are and we saw no point in pushing it*. Generally there was considerable praise for the timely and constructive advice offered by ODPM in the most recent 2000-01 emergencies and authorities which liaised closely with ODPM minimised reimbursement problems.

THE SIZE AND TREATMENT OF THE THRESHOLD

- 1.9 A common concern among authorities which was discussed widely when the scheme was reviewed in 2001 was the size of the threshold. The threshold, of course, represents a significant call on reserves and there was a general acceptance among Directors of Finance (or their representatives) that meeting the cost of emergency expenditure was a legitimate and necessary factor in maintaining adequate reserve cover. Nevertheless a number of authorities surveyed potentially lack adequate reserves to meet the costs of emergency incidents, because political considerations require that current service targets and pressures are ranked as a higher priority than the remote possibility of dealing with a major emergency. In some authorities the fact that both the budget and reserves are in effect protected has also significantly reduced the financial headroom for meeting the costs of emergencies.
- 1.10 The size of the threshold differential also offers incentives for upper tier authorities or single tier authorities whose boundaries overlap those of the area affected by the emergency to re-route expenditure through district councils who have small absolute thresholds. Local Authorities are empowered under section 136 of the Local Government Act 1972 to make arrangements for defraying any expenditure incurred by one of them in exercising any functions exercisable by all or both of them. However in some cases the mutually related functions of district and county councils¹ and the difficulties of pinpointing the precise geographical area of the incident has allowed such re-routing for significant advantage to one or two authorities.
- 1.11 Although we feel that the current ambiguity on the use of the threshold probably has had value in helping a few authorities in the 2000-01 emergencies and its overall financial costs are negligible, it is nevertheless desirable to provide additional clarification for both authorities and auditors on responsibility and the treatment of the threshold.

¹ (for example when a problem affecting roads may be deemed the responsibility of a drainage authority (district council) and or the highway authority (county council))

VALUE FOR MONEY

1.12 The widely differing nature of the incidents we surveyed and the absence of easily accessible transaction data made it impossible to conduct any meaningful evaluation. There are a number of implicit conclusions that can be drawn. First, that in tackling emergencies value for money was not a particularly important consideration. For all authorities the first and foremost priority was and is to resolve the immediate problems. Second, one-off emergencies do not by their very nature allow for VFM planning. They are not for example like situations which are known will occur but whose precise incidence is unknown, which allow for consideration of stand-by arrangements, service retainers etc. Third the Bellwin scheme by only refunding actual marginal costs incurred does not particularly encourage VFM, although given the sums involved this is at the present time an insignificant issue.

PROCESSING OF CLAIMS

1.13 With the normal scheme in operation, authorities in general made only one interim claim, and a final audited claim. However, because of the size and scale of the 2000-01 emergency in some authorities, a number made two or more interim claims. There was general praise among authorities for the speed with which interim payments were made and the final claim settled. While there was usually a delay of 2 or 3 months in the auditing of the final claim by the district auditor, the system of interim payments minimised cash flow problems for authorities.

HOW WELL DOES THE BELLWIN SCHEME SUPPORT FORWARD EMERGENCY PLANNING?

1.14 There is no comprehensive local authority financial planning regime for handling emergencies, and therefore the Bellwin scheme as one of the pillars of a potential financial planning system is not integrated in the architecture of emergency planning. There are two reasons for this absence of a financial planning regime. The first is the comparatively rare occurrence of large scale emergencies, which means that even for those authorities with direct experience of incidents, emergency planning does not feature in the mainstream issues of everyday local government planning and management.

1.15 The second reason is the narrowness of most local authorities' risk management strategies which could have addressed this marginalisation of emergency planning. Potentially a comprehensive risk management strategy should incorporate a financial strategy to minimise risks. If the potential cost of reducing a risk is too large compared to the possibility of it actually occurring, a financial strategy should also identify how the authority's financial exposure may be minimised in the event of one or more risks actually being realised. The Bellwin scheme would then feature explicitly as one of the financial instruments to manage the cost of such eventualities.

- 1.16 However the development of risk management strategies (usually led by chief financial officers or their senior representatives) has tended to focus narrowly on issues of service delivery, reputation risk, public liability and business continuity. Environmental risks have tended to be downplayed and left to emergency planning officers, who in many cases have not been part of the development of risk management. As a result emergency planning officers have tended to be isolated in their planning role and the opportunity for developing integrated financial plans has largely been (to date) missed.
- 1.17 There are other issues which have compounded this situation. With several notable exceptions, the Bellwin scheme has been rarely used and therefore is poorly understood outside a few authorities. The circumstances when it could be invoked are not automatic, but rather subject to Departmental decision on generally a case by case basis and therefore most authorities feel they can place little reliance on it. The threshold rules, and the lack of aggregation of claims for emergencies across financial years mean that authorities have little access to it on a year-by-year basis.
- 1.18 Furthermore while its is clearly intended to be a financial scheme of last resort, it is not clear to authorities how the scheme fits into the other possible pillars of financial support. While most local authorities surveyed do and have placed some reliance on the scheme to meet emergency expenditure above the threshold, a number consider and have used other sources. In the case of the police authorities surveyed in particular, they have looked primarily to the Home Office for additional help for special incidents, while other authorities had received help from DEFRA to handle the on-site costs of the Foot and Mouth outbreak. Overall we found that there was no guidance and poor co-ordination between these funding streams.

CONCLUSION

- 1.19 This is to a certain extent the conundrum which the Bellwin scheme presents. The scheme has generally operated well for those authorities who are familiar with it. The changes made in the light of 2000-01 have generally been welcomed. It is in this sense 'fit for purpose'. However the fact that the Department wishes to promote the scheme as a scheme of last resort has tended in fact to obscure the circumstances when it is accessible and therefore its perceived usefulness as a potential funding instrument. This is unfortunate given that the nature of climate change may increase the potential need for the scheme in the future.
- 1.20 Several measures could be taken to address this situation. First, despite the review of 2001, there still appears to be some concerns about the detail of the scheme particularly the size and treatment of the threshold. The possibility of more widespread incidents in the future may also require some scheme amendments such as opening an 'advance funding stream' or keeping the scheme open for longer.

- 1.21 Second unified guidance on the various sources of funding available to meet the costs of emergencies in the future, including expectations on proper role of reserves and insurance may help to both clarify and effectively publicise the role of the scheme.
- 1.22 Third it would be appropriate to provide additional guidance to local authorities on the incorporation of emergency planning in their risk management strategies. None of these conclusions vitiate the basic principle, encapsulated by the scheme, that self-reliance is the first priority.

2 *Introduction*

- 2.1 The Bellwin Scheme is a financial support mechanism provided by ODPM to local authorities (including Fire and Police authorities) to assist with expenditure incurred in dealing with natural and other disasters. It provides for the re-imbusement of qualifying expenditure in the event of specified occurrences. It therefore in effect provides one of the key resource bases when local Emergency Planning arrangements are brought into operation and prevents undue and unpredictable burdens falling on local taxpayers as a result of incidents which they, through the bodies that represent them, could neither control nor foresee.
- 2.2 The scheme was introduced in 1983 and given statutory footing by the 1989 Local Government and Housing Act. It is brought into operation when events occur on a regional or greater scale (such as floods, storms or FMD) that affect large numbers of authorities or on a more localised scale that may affect only individual authorities but disproportionately so (rail crashes, dealing with unexploded bombs, etc.). It enables authorities to recoup immediate expenditure incurred beyond given levels in protecting the life or property of their inhabitants and in dealing with the immediate effects of such events. In the 20 years since it was introduced it has been activated almost every year to one degree or another, although in only two years has this resulted in additional support exceeding £20m, the average in most other years being less than £1m. It therefore represents a modest but continuing source of support to local authorities as a whole, though for individual authorities the extent of this support can be significant in any given year.
- 2.3 Although the Scheme has been in operation for some considerable time and notwithstanding the significant publicity and subsequent investigation to which many of the events triggering it have been subject, little has been known about its utilisation on the ground. Understandably given the urgent nature of circumstances when events occur, little attention has been paid to the administrative and financial processes that come into play when it is utilised or to the financial out-turns of those processes. To remedy this information deficit ODPM therefore commissioned research into how funding under the Bellwin Scheme is used.
- 2.4 The objectives of this research were two-fold. Firstly, it was to provide an in-depth analysis of issues around the use of the Bellwin Scheme funding within a local authority setting. Secondly, it was to provide a wider analysis of expenditure in local government in response to natural disasters, in particular the contribution of Bellwin Scheme funding. Bannock Consulting was commissioned to undertake this research and this Report sets out our findings. It comprises five sections. These are:
 - an analysis of the context for the research,
 - a resume of the terms of reference for the research and the methodology adopted to meet these,

- the results of the desk-based research we undertook,
- the response to the survey of local authorities we undertook and the programme of fieldwork we carried out,
- the results from the above, and
- the conclusions we draw from this.

3 *The Context for the Research*

- 3.1 The Bellwin Scheme is, within the broader context of local government, an obscure but important provision – obscure in that it impinges little on the mainstream of local authority services, important in that when it does it can make a significant financial difference to an authority's ability to carry on those services. It is therefore important at the outset that the Scheme itself is understood and that the broader administrative and policy frameworks within which it operates now or may do so in the future are appreciated. This Section therefore sets out:
- a) what the Scheme is,
 - b) how it has evolved,
 - c) its administrative context, and
 - d) its evolving policy context.

WHAT THE SCHEME IS

- 3.2 The Bellwin Scheme of emergency financial assistance was introduced in 1983 and given a statutory basis in Section 155 of the Local Government and Housing Act 1989. It provides for the re-imburement of expenditure incurred in taking immediate action to safeguard life and property following natural disasters and other incidents. However, it does not do so as of right nor is re-imburement made for all expenditures.
- 3.3 To qualify for assistance under the scheme principal and single purpose authorities must:
- report the incident within one month of it occurring,
 - secure the agreement of Ministers that the incident qualifies for assistance under the scheme,
 - demonstrate that the incident resulted in qualifying expenditure on, or in connection with, action to safeguard life or property or to avoid severe inconvenience,
 - show that such expenditure was incurred within two months of the incident,
 - show that such expenditure amounted to more than 0.2% of net revenue budget in the relevant financial year, and
 - secure an auditor's endorsement of claims in excess of £10,000 subsequently increased to £50,000.
- 3.4 Qualifying expenditure is itself limited to 85% of the costs of a limited range of expenditure. The range of qualifying items varies from incident to incident but the guidance gives the following, non exhaustive, list of items that are likely to qualify:
- relevant payments under S 138 of the Local Government Act 1972,

- the non-administrative cost of temporary premises,
- the hire of vehicles, plant and machinery,
- the removal of trees in public places,
- initial repairs to highways, pavements and footpaths,
- initial land drainage works,
- clearing debris in public places,
- additional employee and contractors' costs,
- overtime costs,
- emergency works to secure structures,
- evacuation costs and temporary housing,
- temporary mortuaries,
- provision of food and emergency supplies,
- maintenance of key communications,
- that incurred under the Military Assistance to the Civil Community Scheme,
- removal of irreparable structures presenting a public danger,
- legal, clerical and other charges incurred in the above, and
- capital works where these are more cost-effective than temporary measures.

3.5 Non-qualifying expenditure therefore includes:

- 15% of otherwise qualifying expenditure,
- insurable costs,
- Environment Agency levies and other reportable flood defence costs,
- loss of trading income,
- normal recurrent costs of regular employees and plant and equipment,
- long-term remediation once danger has been removed,
- betterment,
- otherwise reclaimable expenditure, and
- capital expenditure where it provides less value for money than repair costs.

- 3.6 Since its inception the Scheme has been activated in almost every year. On three occasions there were emergencies of a wide-ranging nature resulting in claims (falling within two financial years) in excess of £20 million, in respect of one of which (the floods of 2000/01) the level of re-imburement was raised to 100%. In three other years claims exceeded £4 million but in other years the number of cases arising has totalled less than ten in any one year and the amounts of grant claimed less than £1million. Therefore in the twenty years for which it has operated the Scheme has resulted in payments totalling in excess of £50 million. This is not a substantial amount in relation to the aggregate expenditure of local government over the period but nevertheless represents a significant sum of public money. However, no analysis of it has been undertaken to ascertain the nature of the expenditure or its scale in relation to total expenditure on natural disasters and other emergencies.

HOW IT HAS EVOLVED

- 3.7 Although the Scheme has always operated broadly as set out above it was reviewed following the onset of wide-scale flooding in the Autumn of 2000. This review, undertaken by the then DTLR, H M Treasury, the LGA and the ALG. This examined:
- a) what interim amendments to the scheme would be needed for 2001/02 pending the outcome of the review,
 - b) whether the Bellwin Scheme (or one similar in nature) was needed,
 - c) whether existing terms and guidance were satisfactory, including thresholds and the rate of grant, the treatment of capital expenditure and insurable costs and insurance excesses,
 - d) the position of Combined Fire Authorities,
 - e) improved administrative arrangements,
 - f) funding; and
 - g) whether there was a need for change to primary legislation.
- 3.8 The review concluded that:
- the Scheme should be continued as provided for by S155 of the Local Government and Housing Act 1989,
 - existing thresholds and grant rates should be maintained,
 - minimum insurance excesses should cease to be eligible,
 - administrative changes introduced in response to the 2000 floods should be maintained,
 - guidance relating to the Scheme should be re-written to bring out its principles more clearly, and that
 - new funding arrangements, subject to local authorities consultation, should be put in place.

3.9 The review made two further recommendations that have now been adopted, namely that:

- where capital represented better value than revenue expenditure it should be considered eligible,
- Combined Fire Authorities should be brought within the remit of the Scheme.

THE ADMINISTRATIVE CONTEXT

3.10 The Bellwin Scheme does not cover preventative expenditure by local authorities, long-term remediation of the adverse consequences of natural disasters or other emergencies or expenditure re-imbursible by other means. It does not, therefore, set out to be a form of comprehensive cover to local authorities in planning for or dealing with natural disasters or other emergencies. This does not, however, mean that local authorities do not have recourse to other arrangements for contributing to such cover. In particular:

- preventive works in relation to flooding can be funded through the Environment Agency, Formula Funding Grant or Credit Approvals, providing a clear framework for national, regional and local flood prevention programmes,
- other preventive works can qualify for Supplementary Credit Approvals or support from ODPM or other government departments under the Prudential Capital Funding system from 2004-05,
- planning for emergencies is funded through the Home Office Civil Defence Grant,
- revenue expenditure and loss of income by local authorities can be compensated for by means of special grant under s88 of the Local Government Finance Act 1988 or Section 31 of the Local Government Act 2003 where the circumstance of type of expenditure / loss falls outside the coverage of the Bellwin Scheme.
- revenue expenditure by Police Authorities can be compensated for by means of Home Office Police Grant, and
- revenue expenditure by local and other authorities can be compensated for by other government departments in relevant circumstances, for instance through DEFRA in the case of certain FMD expenditures.

3.11 Therefore the restricted scope of the Bellwin Scheme should not be viewed in isolation from the much broader package of instruments available to local authorities, nor should it be seen as a necessary constraint on the ability of local authorities to prevent, plan for, or deal with the consequences of natural and other disasters.

THE EVOLVING POLICY CONTEXT

- 3.12 Although the Bellwin Scheme operates only in relation to natural and other defined disasters the latter do not encompass all the emergencies which may arise and have to be dealt with by local authorities (or indeed other public bodies). It is therefore but a part of a broader panoply of civil contingencies arrangements. This broader panoply is currently subject to considerable policy debate, which is likely, to lead to changed operational arrangements for local authorities, with potential consequences for what authorities actually do in the event of an emergency, including those covered by the Bellwin Scheme.
- 3.13 At the UK level overall responsibility has been shifted from the Home Office to the Civil Contingencies Unit at the Cabinet Office. An extensive review of all arrangements has been undertaken and a Draft Civil Contingencies Bill promulgated. This would have the effect of changing significantly the role played by local authorities in dealing with civil contingencies, including natural disasters and other relevant emergencies currently covered by the Bellwin Scheme. This potentially changed role is already being anticipated by local authorities, in particular through regionalisation and clarification of roles and responsibilities. When this changed role is given legislative effect there may be significant consequences for the Bellwin Scheme and how it operates. In particular, as financial frameworks are evolved to meet new statutory requirements the broader panoply of arrangements making up the administrative context for its operation, and the way in which it itself operates, may be subject to significant amendment.
- 3.14 At the EU level, following the floods of 2002, arrangements for provision of financial assistance have been reviewed and an EU Solidarity Fund established. This provides at EU level a financial instrument similar in nature to the Bellwin Scheme, but one the regulations for which differ widely from those currently in force for it. Although current constitutional arrangements in the UK may make it unlikely that assistance from the EU Solidarity Fund would be triggered in the event of a natural disaster of an appropriate scale, it nevertheless remains the case that were this to occur the operation of the Bellwin Scheme may have to be altered to ensure the complementarity of the two schemes.

4 *Our Terms of Reference and Methodology*

4.1 The Bellwin Scheme has been in operation for some twenty years and there is clear evidence regarding the incidents to which it has been applied and the aggregate expenditure incurred centrally as a result of so doing. However, although fully audited, detailed information on the claims made under the Scheme has not been collated centrally on any systematic basis. Therefore there was no body of evidence relating to how claims arose administratively, how the money had been spent or what the money had been spent on or what contribution this re-imbursed expenditure represented to overall expenditure in response to natural disasters by local authorities more generally. Therefore two broad objectives were set for the research. These were to provide:

- an in-depth analysis of issues around the use of Bellwin Scheme funding within a local authority setting, and
- a wider analysis of expenditure in local government in response to natural disasters, in particular the contribution of Bellwin Scheme funding.

4.2 The objectives were therefore broad and, to a degree, open-ended. However, it was important to ensure that the research did not merely become a review of the Bellwin Scheme and therefore simply re-produce the review undertaken two years previously, the results of which were in any case not yet fully embedded. To facilitate this a more constrained list of questions were posed to provide a clear focus for the objectives. These were

- what general conclusions can be drawn about the way local authorities (or particular local authority types – District Councils, Counties, Unitary, single purpose, etc.) use funding under the Scheme?
- what range of eligible expenditure is covered by local authorities' spending of Scheme funding?
- what are common expenditures for particular incidents, particularly within the period of a general Scheme?
- where does the funding under the Scheme fit in relation to other sources of funding – contingency funds or reserves, other grants?
- where does the funding under the Scheme fit in relation to overall expenditure on emergencies and disasters covered by the Bellwin Scheme?
- what mechanisms are in place within authorities for gauging the financial implications of a disaster and prioritising and organising expenditures?

- what implications do the timings associated with claiming funding have for the nature of spending by local authorities? Are procurement exercises, for example, operated on a different basis to reflect the urgency of the matter?
- what general conclusions can be drawn about expenditures on local disasters that do not reach above the Bellwin Scheme threshold (but which are initially reported)?, and
- what can be said about the potential benefits of changes recommended by the Review?

4.3 In considering what methodology to adopt in response to the issues raised in the terms of reference for the research a number of options were considered. These fell into three main groupings. These were:

- a desk-based approach that would be secondary in nature and would involve the systematisation and analysis of data held by ODPM and, where readily available, individual authorities,
- a quantitative approach that would be primary in nature and would involve generating through survey work data from the Department and from individual authorities relating to arrangements for dealing with and past expenditure on local disasters, including those falling within the scope of the Bellwin Scheme, and
- a qualitative approach that would also be primary in nature and would involve visits to relevant authorities to examining financial procedures in situ and to conduct discussions with relevant officers of those authorities and other relevant stakeholders.

Our consideration evaluated the strengths and weaknesses of each approach. The results of this evaluation are as set out below.

4.4 A desk-based approach would have had the advantages of:

- being easily to implement and cost-effective,
- taking as its starting point the existing body of evidence available and therefore providing a high degree of continuity to the understanding of issues arising as a result of the research, and
- imposing a minimal burden on ODPM and local authorities involved in the research.

However it would have had the disadvantages of:

- being reliant on the existing quantum of data available, which we understand to be extremely limited,
- not revealing what actually happens at authority level (as opposed to what is subsequently reported or presented as having happened),
- excluding issues of structure and process that are at least as relevant as quantifiable financial expenditure flows, and
- marginalizing the views and involvement of other stakeholders.

- 4.5 A quantitative approach would have had the advantages of:
- not being as resource intensive,
 - facilitating comprehensive capture of data relating to past expenditure,
 - enabling classification of data within comparable classifications, and
 - allowing of the sizing of data both in relation to authorities' budgets and across budgets.
- 4.6 However, it would have had significant disadvantages. In particular:
- purely statistical returns to a financial questionnaire would be unlikely to capture important process issues,
 - differences in accounting methodology between authorities may render meaningful aggregation difficult,
 - response rates may be low as a result of the relative lack of importance attached to the matter in many authorities and the recent review of the Scheme having already taken up officer time, and
 - purely quantitative approaches are unlikely to reveal much about expenditure undertaken across a range of authorities in relation to a common disaster rather than one confined to a single authority.
- 4.7 A qualitative approach would have had the advantages of:
- allowing a thorough examination of process issues,
 - revealing a greater degree of detail than would be possible by purely quantitative approaches,
 - enabling more robustly comparable data classifications, and
 - allowing inter-authority issues to be examined.
- 4.8 However it would have had the disadvantages of:
- being resource intensive for both researchers and those local authorities involved,
 - necessarily being limited in applicability to only a sample of local authorities,
 - therefore being potentially unrepresentative,
 - skewed by the subjective responses of participants, and
 - potentially producing anecdotal rather than empirical and analytically rigorous results.
- 4.9 We therefore adopted a preferred methodology combining aspects of all three possibilities as set out above. This enabled us to use a desk-based approach to establish a starting point, a quantitative approach to address the breadth of relevant issues and a qualitative approach to address their depth. The detail of this three-phase methodology adopted is as set out below.

PHASE I: DESK-BASED RESEARCH

4.10 It was already known that there was a considerable quantum of material relating to the handling of and expenditure on dealing with disasters at local authority level, including those natural disasters of the type covered by Bellwin Scheme support. There was also known to be a more limited quantum of financial data relating to expenditure on past disasters both centrally held and as published by authorities themselves. In addition there was known to be a limited amount of secondary data from other studies of particular Schemes and from the broader reviews of emergency planning and civil contingencies in general. We therefore comprehensively and systematically examined what evidence was currently available to determine its relevance and utility. This provided us with a clear understanding of the gaps that existed in the then currently-available evidence needed for the purpose of the research that we could address through the further phases of the methodology. The results of this phase are reported in the following Section of this report.

PHASE 2: QUANTITATIVE RESEARCH

4.11 Phase 1 revealed a considerable number of gaps in the evidence required to answer the question set out in the remit for this research. We therefore addressed the breadth of these by means of a survey of local authorities. We had initially planned this to take the form of a postal survey of 250 local authorities with a target response rate of 50%. Sampling would have been random within each of three groups of authorities, these being:

- a) those authorities which have received assistance under the Bellwin Scheme,
- b) those authorities which have not received assistance under the Bellwin Scheme but might reasonably be expected to have done so, and
- c) those authorities falling into neither of the above,
- d) with a gearing towards the first of these to ensure relevance. A further sample adjustment would then have been applied to ensure representation by tier, function, size and location of authority. This would therefore have secured the twin research requirements of objective sample selection and maintenance of sample relevance.

4.12 However, in seeking to put together the randomised but adjusted sample of 250 authorities it soon became clear that objectivity of selection and relevance of sample were mutually inconsistent objectives within the sample size. The infrequency of claims amongst authorities as a group, but the predominance of Shire Districts in particular localities within the group of Bellwin Scheme claimants rendered this so. Therefore we extended the sample size to include all authorities within scope. This survey was piloted with a selected group of eight authorities to ensure that the questionnaire was both appropriate and answerable and then initiated following the making of adjustments. The final questionnaire is contained within the appendices to this report. The results of the questionnaire are incorporated in Section 5 and a detailed resume is to be found in the appendices to this report.

PHASE 3: QUALITATIVE RESEARCH

4.13 The quantitative phase of our research was then followed by a qualitative phase. This took the form of semi-structured face-to-face interviews with relevant representatives of sixteen authorities and relevant associated stakeholders. Sampling of the former was random within each of five tiers, adjusted for distribution as in the quantitative phase of our methodology, to achieve a representative distribution. Sampling of the latter was determined in consultation with those authorities subject to it being representative within the context of the research. The precise subjects to be addressed were determined by phases 1 and 2 of our methodology and were intended to address the 'depth' gaps identified at phase 1. The results of the fieldwork are incorporated in Section 5. The Lines of Questioning adopted are to be found in the appendices to this report, as are detailed case study reports.

5 *Results of the Desk-Based Research*

5.1 The primary objective of our research was to address the lack of information at authority level regarding what expenditure was undertaken and what processes led to it. Although it was clear from our terms of reference that this information gap existed, and that it was considerable, we nevertheless felt that it would be of value to establish a precise information baseline. We therefore undertook a desk-based review of the available documentary sources that we felt may have direct or indirect bearing on the issues involved. These included:

- the working files held by ODPM relating to all claims submitted under the Bellwin Scheme,
- the files held by ODPM and the LGA relating to the previous review of the Bellwin Scheme,
- the public papers issued by various government departments relating to the future of emergency planning and the Draft Civil Contingencies Bill, and
- such public papers issued by other bodies with direct relevance to our research.

The results of this are reported in brief below.

5.2 The audit of baseline information revealed the following. ODPM holds files on all claims submitted under the Bellwin Scheme over the last five years. We examined each in situ both to determine the extent of information held and to indicate which particular cases might be appropriate for further investigation during the field-work stage of our research. In the significant majority of cases the information held on file related only to the audited total of the particular claims and to the amount accordingly paid to claimant authorities. This therefore confirmed that there was no centrally-held body of information relating to what expenditure had been incurred on or how it had arisen. In the cases of some 20 claims, however, additional information was found to be held on file. This related to what constituted qualifying incidents and what expenditure was eligible. This indicated that there were instances where confusion had arisen about what incidents qualified, suggesting that further research might be appropriate, and that there was doubt at authority level as to what expenditure was eligible, suggesting that we should examine in detail the financial guidance issued at authority level by way of exemplification of the general guidance issued by ODPM. Both matters were therefore incorporated into the set of issues we considered for inclusion in the fieldwork stage of our research.

- 5.3 The files held by ODPM and the LGA relating to the previous review consist of the working papers of the review group and the responses of individual authorities to particular questions raised during the course of the review. Because of the confidential nature of many of these files it would clearly be inappropriate for us to report their contents in detail. However, three principal issues stand out. These were that:
- the Scheme was confusing both in its general coverage and in its application in detail,
 - the application of the threshold was felt to be unfair on larger authorities by larger authorities, and
 - it was felt inappropriate by local authorities to fund of the scheme from within AEF.
- 5.4 The first of these was already intended to be incorporated in our research whilst the second and third had already been thoroughly examined by the review. We therefore felt it inappropriate and in any case outside of our terms of reference to examine them further.
- 5.5 A large body of papers have been issued by various government departments, principally the Cabinet Office, relating to emergency planning and the Draft Civil Contingencies Bill. They have been the result of two influences. In the aftermath of the floods of 2000/01 it was felt appropriate to consider arrangements for and programmes in relation to flood defence on the assumption that global warming might make such episodes more frequent. In the wake of September 11th 2001 it was felt appropriate to consider arrangements for civil contingencies in general on the assumption that terrorism-related incidents might become more frequent. Neither stream of consideration is yet complete and it was therefore felt that to include any of the issues they have this far raised would be premature. They have therefore been excluded from our research.
- 5.6 There are few public papers issued by other bodies of direct relevance to our research. However, the exception to this is the 2001 report of the Flood Hazard Research Centre commissioned by DEFRA into the 2000/01 floods. This quantified the economic costs of the episode, including those falling on local authorities. This was a useful quantification but had two (unintended) weaknesses. Firstly, identified costs were limited to those that were subsequently reclaimed (either through the Bellwin Scheme or through other relevant schemes) and therefore may have represented an underestimate. Secondly, the manner in which these costs arose was not considered. Therefore we have included the need for comprehensive measurement of costs and the examination of financial processes leading to these costs in our research.

6 *Response to Our Applied Research*

6.1 This section reports the response to the programme of applied research we undertook with authorities in May – October 2003. It is divided into consideration of:

- a) the overall response rate to the questionnaire, and
- b) the participation in the programme of fieldwork.

6.2 The results of each are then incorporated in the findings we report in Section 6. Detailed outputs can be found in the appendices to this report.

OVERALL RESPONSE RATE

6.3 The questionnaire was sent out to all authorities in England (i.e. local, police and fire authorities), a total of 433. Following general and targeted follow-up 180 usable responses were received (in addition to a number of un-usable responses), a usable response rate of 42%. The detailed response rate by tier and locality is set out in the tables below.

Tier	Total	% of respondents
County Council	17	9%
District	91	51%
London Borough	13	7%
Metropolitan	24	13%
PF	10	6%
Unitary	25	14%
Grand Total	180	100%

Region	Total	% of respondents
East	21	12%
East Midlands	22	12%
London	14	8%
North East	10	6%
North West	18	10%
South East	38	21%
South West	20	11%
West Midlands	17	9%
Yorkshire and the Humber	20	11%
Grand Total	180	100%

Claimed	Total	% of respondents
No	133	74%
Yes	47	26%
Grand Total	180	100%

6.4 This response rate falls well within the average response rate for local authority surveys conducted by other than the LGA and is therefore regarded as acceptable. Of these respondents 47 had received assistance under the Bellwin Scheme, some 26% of respondents. This is in line with the proportion of authorities as a whole receiving assistance under the Scheme and is therefore representative within the respondent group.

PARTICIPATION IN THE PROGRAMME OF FIELDWORK

6.5 16 authorities agreed to participate in the fieldwork consisting of a mixture of different tiers of local authorities, several police authorities and South Yorkshire Joint Secretariat covering both fire and police.

6.6 The full list of authorities was as follows:

- (i) London Boroughs (1): Croydon
- (ii) County Councils (5): Cambridgeshire, Cumbria, Devon, West Sussex, North Yorkshire,
- (iii) Unitary Councils (3): Brighton, Stockton, Worcester
- (iv) Metropolitan Boroughs (2): Barnsley, Salford
- (v) District Councils (3): Tynedale, Exeter, Shrewsbury
- (vi) Police Authorities (1): Devon and Cornwall
- (vii) South Yorkshire Joint Secretariat (Police and Fire)

6.7 Of these 8 had made at least one Bellwin claim. However the authorities selected also included those who had co-ordinated claims on behalf of other authorities (eg Croydon and North Yorkshire) but who had not actually submitted a claim in their own right. The actual list of authorities covered is therefore wider than the lead authorities visited above. The list of authorities constituted a representative sample both of tier and of likely 'Bellwin' awareness.

6.8 Our approach to the fieldwork was based on examining two key issues. The first more general issue was exploring how authorities had organised themselves to handle emergencies in an efficient and economic manner. This involved looking at the emergency planning function, the relationships to other bodies and the development of a Risk Management Strategy encompassing emergencies within each Authority. Clearly the presence of effective emergency planning arrangements should help to reduce costs of actual emergencies and possible draw-downs on the scheme.

- 6.9 The second was exploring the capacity of authorities to handle emergency expenditures, both in terms of financial procedures and actual financing, and investigating to what extent Bellwin had been used in the past or might be in the future. The views of finance officers and EP officers were sought on the issues the scheme had thrown up in its practical application and, in particular, on the keeping of records and the treatment of eligible and non-eligible costs.
- 6.10 The fieldwork proved invaluable in highlighting issues that would not have come to light purely in the desk-based research. These include in particular the use of alternative funding sources (such as Home Office specific grant for the fuel protests and firefighters strikes and DEFRA monies to contain the FMD outbreak), policy on the cross-charging between different public bodies and the possible eligibility of those costs (for example paying for the costs of Military Assistance to Civil Authorities (MACA), and the exploitation of different threshold limits between different tiers of authorities to maximise reclaimable expenditure.
- 6.11 Each of the case studies can be found in the appendices to this report and the general implications and conclusions are discussed in Section 6

7 Findings of our Research

7.1 Our quantitative and qualitative research has revealed much information relating to Emergency Planning and handling and the role of the Bellwin Scheme within this not previously collated centrally or systematically analysed. In reporting the findings of this research we have been aware of the need to contextualise it so as to maintain its relevance to authorities and to the broader civil contingencies framework but to focus on the issues directly relating to the Bellwin Scheme to enhance understanding of how this particular instrument fits within that context and operates in practice. We have therefore grouped our findings into a number of thematic categories. These are:

- the organisational architecture of Emergency Planning,
- the financial architecture that supports these arrangements,
- operational practice,
- financial practice,
- process outcomes,
- financial out-turns,
- the role of the Bellwin Scheme within these, and
- salient issues for consideration.

This section reports these findings.

THE ORGANISATIONAL ARCHITECTURE OF EMERGENCY PLANNING

7.2 The Civil Defence Act 1948, as amended by subsequent Regulations, provides the foundations for emergency planning in England. It was originally intended to provide for the organisation and protection of the civilian population in the event of an attack by a hostile power. However, since its inception emergency planning has evolved to encompass additional contingencies, in particular natural disasters such as flooding and storms, major national events such as the Foot and Mouth Disease epidemic and one-off localised incidents such as rail and aircraft crashes and dealing with unexploded bombs. Its scope is therefore potentially wide.

- 7.3 The lead responsibility is held by principal authorities (ie. County, Metropolitan, Unitary and London Borough Councils) which, by exercising relevant powers, are able to plan for dealing with emergencies and to co-ordinate the setting and utilisation of those plans on a multi-agency basis. A range of other agencies, including District Councils, Police Authorities and Fire Authorities have a subsidiary responsibility in terms of assisting the principal authorities in the exercise of their functions. It would therefore be expected that authorities of all types, whether holding lead or subsidiary responsibility, would have an involvement in emergency planning and would therefore have an Emergency Plan. Our survey found that 96% of authorities had an officer designated as responsible for emergency planning and that 97% did have such a plan, thereby bearing out this expectation.
- 7.4 The organisational arrangements for this emergency planning are not, however, uniform, as would be expected given the diversity of organisational arrangements within authorities in general. The 'typical' arrangement is one of County Councils taking lead responsibility and incorporating constituent districts and other authorities within a formal emergency planning structure, the District Councils being omitted in single-tier areas. However, this 'typical' arrangement is subject to wide variation in terms of:
- the range of other agencies incorporated (utilities, voluntary and faith organisations, other public bodies etc.),
 - the geographical footprint of arrangements (ie. cross-boundary provision of one degree of formality or another),
 - the intra-organisational priority attached to the arrangements (ie. the degree to which responsibility for them is delegated down within an authority),
 - the role of Members within the arrangements, and
 - specific lead responsibilities in relation to particular types or locations of incidents covered by the Emergency Plan
- 7.5 Therefore it would be inappropriate to assume that organisational arrangements in one type of authority, or in authorities in different parts of the country, are similar at any level of detail. In examining operational and financial instruments such as the Bellwin Scheme, it would therefore be similarly inappropriate to assume that their role would be uniform across particular types of authority or across all localities.
- 7.6 Moreover, there are two areas of change within the broader context of emergency planning and local authorities that must be taken into account. These are:
- the provisions of the Civil Contingencies Bill which, if enacted, will translate existing powers into duties, extend the range of authorities with lead roles, specify required functions in more detail, provide for a formalised regional super-structure and introduce new categorisations of 'emergency' and attendant centrally-held powers, and

- the introduction of formalised risk management in local authorities which will impact upon their organisation and management in general and, where it extends beyond simple business continuity planning, also upon the arrangements for emergency planning.
- 7.7 Therefore it would be inappropriate to assume that organisational arrangements are of such stability that a static examination of operational and financial instruments such as the Bellwin Scheme would be of continuing relevance. We have found evidence that as a result of these two areas of change organisational arrangements for emergency planning are already starting to change and that therefore our findings need to be interpreted in a dynamic as well as a static fashion.

THE FINANCIAL ARCHITECTURE OF EMERGENCY PLANNING

- 7.8 Because local authorities have powers, not duties, to carry out emergency planning functions the financial arrangements that support them are ultimately a matter for the authorities themselves. However, since 1953 principal local authorities have received specific grant from the Home Office under the Civil Defence (Grant) Regulations SI number 1777, as amended, to support their emergency planning functions. Therefore those with lead responsibility receive central support, those without do not (although Police Authorities receive other funding streams from the Home Office which may assume an element for participation in emergency planning arrangements). Research by the LGA² suggests that this support amounted to £19m out of total expenditure of £36m in 2002/03, the latest year for which figures are available. Both the level of support and total expenditure have fallen considerably over the last decade as a result of a lessened perceived threat of external aggression and continuing downward pressure on local authority expenditure, falls which our fieldwork revealed to be as high as 75%.
- 7.9 Therefore the financial architecture supporting the organisational architecture has shrunk, although the latter itself has not. The majority of this (66%) covers salaries and staff costs, the remainder being operational costs including the holding of strategic reserves of materials for use in the event of an emergency. It must therefore be assumed that both have diminished, implying fewer dedicated staff available to manage responses to emergencies and fewer stockpiled means for them to do so.
- 7.10 This, however, relates to underlying preparedness, not the task of dealing with emergencies themselves. This is the subject of entirely different financial arrangements of which there are four key funding streams:
- (i) insurance,
 - (ii) self-insurance,
 - (iii) the use of reserves, and
 - (iv) external funding

² *Emergency Planning: A Survey of Top Tier Local Authorities* LGA (July 2003)

7.11 Each has been revealed by our research to be of some importance to the thinking of some or all authorities, although each has itself been subject to change in recent years. We report on these below.

i) Insurance

7.12 Local authorities, as indeed is the case for any organisation, have the option of insuring against risk, including that represented by there being an emergency. However, the term 'emergency' covers a number of specific risks including damage to operational buildings, sites and materials, business continuity costs, damage to physical infrastructure, preventing danger to the public and providing assistance to those displaced or inconvenienced by disasters. It is assumed for the purposes of the Bellwin Scheme that authorities are insured to the extent that it is possible for them to be, the benchmark of cover being taken to be the 'Select' cover provided by Zurich Municipal. However, not all authorities are insured against them, not all of them are insurable, not all authorities are insured against those that are insurable and the terms of the insurance that is held against those that are insurable do not constitute blanket cover. Therefore we sought to determine to what degree this pillar contributed to the overall financial architecture and to what degree, therefore, the assumption that authorities would have cover was valid.

7.13 Fewer than a fifth of authorities (16.6%) reported being fully insured, three quarters (71.4%) as partly insured and only one eighth (12%) as being un-insured. For the majority, therefore, insurance has a role to play, but only one amongst others in most cases. This is true across most authorities in most regions, the exception being Fire and Police Authorities, where the prevalence of non-insurance was much higher (40%). With this exception, we may therefore conclude that local authorities themselves consider insurance as an integral part of the arrangements for dealing with the costs of emergencies and to that degree the assumption underlying the Bellwin Scheme is valid.

7.14 Beneath these broad figures, however, lies important detail. Where not fully insured, this was either because cover could not be obtained for specific risks, because excesses applied or because the premiums themselves were too high. Therefore there appear to be exogenous constraints on the extent of the role that insurance can play and the degree to which it can be a part of how local authorities plan. This we tested out in our fieldwork and found that there were three salient points in explaining this. These were that:

- for larger authorities it was felt that comprehensive insurance cover was inappropriate since actuarially a degree of risk could be internalised through self-insurance,
- over the previous years there had been a steady uplift to premiums and excesses, thereby limiting the affordability and extent of cover, and
- over the same period certain types of risk had become uninsurable.

7.15 Therefore it would be inappropriate to assume that for all sizes of authority, to an equal degree and for all risks insurance can play an equal role in the financial architecture of planning. However, there appears to be little in the way of guidance that can be followed by or best practice that can be applied to authorities to indicate what the optimal position ought to be for any given authority. Indeed to expect this not to be so might in any case be being too simplistic. It is therefore difficult to distinguish between the objectively optimal and the subjectively chosen role that insurance does or should play, and hence the role insurance ought to have in a given authority or in relation to the other pillars of the financial architecture.

ii) Self-Insurance

7.16 As alluded to above, there is a variety of circumstances where self-insurance may of choice or necessity play a role equal to that of insurance. This can be because:

- the size of an authority is such that it is more efficient for an authority to balance the various risks it faces internally,
- the risks faced by particular types and locations of authority are 'low' in relation to those of others and hence inappropriately expensive to externally insure as part of a 'pool',
- the particular types of risk faced by authorities are uninsurable and therefore have to be self-insured against, and
- the level of premiums and excesses has become such that insurance alone is unaffordable.

Therefore we sought to examine what role was played by self-insurance and how far it could be regarded as a pillar of the financial architecture of authorities' planning.

7.17 Authorities were equally divided between those with self-insurance and those without. This suggests that self-insurance does have a role to play but that in broad terms it is of lesser importance than insurance. However, this broad conclusion masks significant differences between types of authority. For upwards of four-fifths of principal authorities there is an element of self-insurance, whilst for Districts the reverse is true, only Fire and Police Authorities reflecting the statistical average. Therefore the role played by self-insurance, both of itself and in relation to that played by insurance, is largely determined by the size and functions of an authority. For the larger, more complex authorities it plays an important role, whilst for the smaller, less complex authorities it does not. There again appeared to be some exogenous constraints on the extent of the role that self-insurance can play and the degree to which it can be part of how authorities plan. This we tested out in our fieldwork and found that there were four salient points. These were that:

- size did indeed matter and that smaller authorities simply lacked the operational capacity or spread of risks to operate on a self-insured basis,

- the greater financial capacity and risk spread of larger authorities enabled them to operate relatively sophisticated arrangements,
- notwithstanding this, there was a high (80%) level of external re-insurance,
- self-insurers divided fairly evenly between those that did and those that did not obtain external appraisal of the solvency of the self-insurance fund.

7.18 Therefore it would be appropriate to assume that only for certain sizes of authority can self-insurance play an important role in the financial architecture of planning. Furthermore the limitations of self-insurance must be recognised. As with insurance overall, there appears to be little in the way of guidance or best practice available to indicate what the optimal position ought to be for any given size of authority. It is therefore difficult to reach any evidence based conclusions on the role that self insurance should play, or its robustness as a stand-alone pillar as part of the financial architecture.

iii) The Use of Reserves

7.19 It is axiomatic that local authorities, as with all public bodies, need reserves as a tool of prudent financial management either to cover unforeseen contingencies or to smooth cash flow. This is as true in relation to emergency planning as it is in relation to any other functions of authorities. However, the level at which reserves should be set, the purposes for which they should be earmarked and the extent to which they are pro-actively set or simply a residual of the budget setting process vary from authority to authority. None is subject to specific guidance either generally or in relation to emergency planning, although we noted that in several authorities, the District Auditor was recommending a reserve level of 5% of non-schools net expenditure.

7.20 Nevertheless, underlying the Bellwin Scheme there is an assumption that authorities will have a prudent level of reserves and that some element of those reserves will be notionally to provide against there being an emergency (0.2% of net revenue budget). To the extent that this assumption is valid then the use of reserves should be a pillar of the financial architecture of emergency planning. We therefore sought to find out whether, and if so to what extent, this was the case, whether de jure and de facto arrangements were the same and what the relationship was or ought to be to other potential funding streams.

- 7.21 Our survey therefore questioned authorities as to the level of relevant reserves. Only a small number of respondents had such earmarked reserves (26 out of our sample). The average for these respondents was £1,070,538, representing an average of 0.7% of the average net revenue budget of all authorities. This compares with the assumed level for the purposes of the Bellwin Scheme of 0.2%. However, these reserves were not held by the majority of authorities and, where they were, their level varied considerably by tier and locality and by whether the respondent had received funding under the Bellwin Scheme or not. We therefore asked authorities whether, irrespective of there being earmarked reserves, there was nevertheless some connection between potential expenditure and the level at which reserves should be set. A majority (71%) said there was. It is therefore clear that although the number of authorities with earmarked reserves is low, the number having a general awareness of potential calls upon reserves is much higher.
- 7.22 We were nevertheless generally aware that this response was problematic because:
- (i) the level of reserves held by authorities varies considerably,
 - (ii) the purpose for which reserves were held could be based on a careful appraisal of risks or equally, on generalised assumptions,
 - (iii) access to reserves varied, because of the degree to which they were held for (other) specific purposes, and
 - (iv) the possibility of replenishing reserves in the event of multiple emergencies also varied.
- 7.23 Therefore we sought through our fieldwork to explore in more depth the issues relating to reserves. The picture was still variable. In half the cases, reserves were adequate (which we would determine as being coverage of at least three times the threshold, because of the need to meet other non-eligible contingencies as well as the 15% above threshold) but only in one case had they been carefully determined to meet the requirements of Bellwin. In others, however, reserves were simply inadequate whether robustly determined or not and indeed fell below the levels deemed prudent by those authorities' external auditors. In some instances this was partly a reflection, in response to potential emergencies, that authorities would ultimately receive such assistance as they needed, but there were clear cases where it was fully acknowledged that the low level of reserves was unsustainable (even to the extent that cash flow could become problematic) but that other spending pressures and a political unwillingness to increase Council Tax to build up reserves left authorities with no option but to maintain reserves at these low levels.

7.24 It is therefore debatable as to whether in the recent past the use of reserves can be assumed to have formed part of the financial architecture of responding to emergencies. However Sections 25 to 27 of the Local Government Act 2003 have provided stronger central direction in the maintenance of reserves. Section 25 requires chief financial officers to report on the maintenance of adequate reserves as part of the budget estimates process; Section 26 to maintain actual reserves consistent with his or her calculations of the minimum requirement: and section 27 to report to council if actual reserves fall below the minimum level. These statutory provisions may lead to a general rebuilding of reserves in authorities where they are low, although there is as yet however no statutory direction on the level of reserves or what factors should be involved in their calculation.

iv) External Funding

7.25 That the previous three potential pillars of the financial architecture of emergency planning are unlikely, of themselves, to be robust is acknowledged by the existence of the Bellwin Scheme. It is predicated on the assumption that from time to time events will occur which are outside the financial capacity of authorities to deal with and that therefore, in the interests of equity, it will be necessary for outside financial assistance to be provided. There is, however, no single source of such outside assistance. It is dependent on the type of authority, the nature of the event and whether expenditure is revenue or capital. Authorities are therefore faced with a complex set of potential arrangements in respect of this part of the financial architecture of emergency planning.

7.26 These include assistance:

- a) under the Bellwin Scheme for revenue expenditure,
- b) through Police Grant from the Home Office for Police Authority expenditure,
- c) from DEFRA for expenditure on incidents affecting the rural economy (such as FMD),
- d) through the Solidarity Fund from the EU where incidents exceeded thresholds of scale and economic impact,
- e) in the form of SCAs (now supported prudential borrowing) from ODPM for remediative capital expenditure, and
- f) in the form of one-off grants from one or more government departments should it be considered politically expedient that they be made.

7.27 Most of these lie outside the scope of our research and our approach has therefore necessarily been incomplete. However, we did examine in detail through our survey the extent to which the Bellwin Scheme constituted a part of this pillar and through our fieldwork the extent to which other potential arrangements did so in general.

- 7.28 Although all local authorities are aware of the existence of the Bellwin Scheme, even if only through annual circulars from ODPM, it does not follow that its existence, provisions and scope are an integral part of the financial planning for emergencies. We therefore questioned authorities as to the degree to which it was so incorporated. A minority (11%) responded that it had been incorporated into their emergency plans in such a way as to make its provisions integral to those plans. A much larger proportion (62%) had incorporated it only at a level of generality whilst a significant minority (27%) had not incorporated it at all. Therefore although awareness of the Bellwin Scheme is high, its utility as part of the financial architecture for emergency planning is low. We did not question authorities in our survey about the incorporation of other sources of assistance and hence could form no understanding of their role either absolutely or in relation to the Bellwin Scheme.
- 7.29 During the course of our fieldwork it became apparent that some but not all authorities were aware of these other potential sources of assistance. However, this awareness was neither systematic nor comprehensive, and where it existed, was usually the product of direct previous experience of one or two individuals. It would therefore be wrong to assume that financial planning for emergencies is informed and predicated on a range of sources of funds which local authorities can call to meet specific types of emergency situations. Therefore we can only conclude the financial architecture is deficient in this most important respect.

OPERATIONAL PRACTICE

- 7.30 The organisational architecture for emergency planning represents only the organisational capacity of authorities on paper to respond to emergencies. It does not explain what does or would happen in practice in the event of an emergency. We therefore examined what happens in practice to enable us to understand how organisations operationally respond to emergencies. This understanding then informed our subsequent investigation of financial processes. We concentrated on eight key issues. These were:
- (i) what sort of emergencies were or would be dealt with,
 - (ii) who would instigate the action,
 - (iii) who would partake in it,
 - (iv) who would take decisions,
 - (v) how these decisions would be implemented,
 - (vi) how actions would subsequently be reported,
 - (vii) whether this had been tested, and
 - (viii) whether this had been subject to Best Value review.

- 7.31 The scope of emergency planning is broad. It encompasses natural disasters, major accidents, emergency situations, terrorist actions, CBRN attacks and other potential risks. In our survey a majority of authorities indicated that they included Bellwin type incidents within the scope of their plans, but also a range of other incidents as well. Indeed the subsequent fieldwork revealed that it is this latter group that is considered by far the more important for the majority of authorities. At a strategic level the response to an emergency, is usually instigated by the Chief Executive of the authority, although in practice this is often through a *on-call* Chief Officer advised by the authority's Emergency Planning Officer (varied appropriately in the case of Police Authorities and the Fire Service).
- 7.32 After an incident has started, the participation of different agencies depends on its nature, scale and locality. Where there is an 'emergency' the emergency services, usually the police, take control in the first instance, other organisations being involved once the emergency has passed and remediation can begin. Where an event occurs across the boundaries of several authorities, the principal authority, (the County, Metropolitan, London Borough or Unitary Council), takes control in the first instance, other organisations being involved as the response is scaled up. Where an event occurs that impacts on only one locality (in two-tier areas) then the District Council takes control in the first instance, other organisations being involved as the need arises.
- 7.33 Therefore the *de jure* primacy of principal authorities is not always reflected in *de facto* practice and only a small minority (16%) of authorities assumed they would take the leading role under any circumstances. Consequently, decisions on the ground will be taken by a variety of officials as the circumstances of particular incidents dictate. This means that a variety of organisational practices and procedures will be followed. The implication of this is that the marshalling of a response will itself vary and consequently so too will the way in which expenditure is incurred. This is further complicated by contractual arrangements within and between authorities. Where a service has been commercialised or contracted out (as is the case to one degree or another for 86% of authorities) the response will be determined in part by the specific contractual arrangements that apply. Similarly, where mutual aid agreements have been put in place (as is the case for 84% of authorities) the response will be determined in part by the specific provisions of those agreements. There is therefore little uniformity to organisational practice, it relating to the most effective way to deal with types and locations of emergencies rather than to the need to conform to some pre-determined national blue-print.
- 7.34 The robustness rather than the form of this diverse practice is therefore of importance. In the majority of authorities reporting will be to either Members (27%) or a Chief Officer (57%), giving a high degree of internal accountability to a senior level. The majority of authorities (80%) had invoked their Emergency Plan in the eighteen months prior to our research, suggesting that both the Plans themselves and the accountability to which those who implemented them were held had been tested.

7.35 However, in only a very few instances (9%) had operational practice been subject to a formal Best Value review to test the appropriateness of plans and the way in which they were implemented. This suggests that even though operational practice, albeit diverse, may indeed be robust, it may not be subject to the level of scrutiny given to 'mainstream' local authority operations. We therefore considered this during the course of our fieldwork. The evidence we gathered was varied. In some authorities the development of risk management strategies incorporating emergency planning was having the effect of mainstreaming the latter within the broader practices of the authority, in others its non-incorporation was having the opposite effect. Therefore there may be bi-polarities emerging, with important consequences for the financial practice reported upon below. It is clearly the case, however, that there is currently no uniform best practice template which can be used as a model for the organisation and management of emergency planning.

FINANCIAL PRACTICE

7.36 The financial architecture for emergency planning represents only the potential capacity for authorities to deal with expenditure arising from responses to emergencies. It does not explain what actually happens in any given authority. We therefore examined what actually happens in an authority to finance and account for relevant expenditure. We concentrated on six key issues in our survey. These were:

- whether or not the authority had financial guidance for dealing with emergencies,
- whether this guidance was an integral part of organisational planning for emergencies,
- who had the authority to allow the use of funds in the event of an emergency,
- whether the guidance recognised the need for flexibility,
- whether it provided for separate accounting for expenditure on emergencies, and
- whether staff knew how to use it.

7.37 These lines of enquiry were then followed up in our fieldwork to establish in detail what processes were followed in triggering and accounting for expenditure. Our findings informed our understanding of whether the rubric of the Bellwin Scheme was consonant with financial processes at authority level.

- 7.38 A majority (62%) of authorities provide guidance about the financial processes to be followed in the event of an emergency, although a greater majority (80%) had guidance for some specific financial pillars for emergency planning such as insurance and recharges (80%) and a lesser one for others such as drawing on reserves (53%). However, for only a bare majority of authorities (52%) was this guidance an integral part of the Emergency Plan. There is therefore a significant minority of authorities, which have no guidance to use in the event of an emergency. Within this guidance the responsibility for triggering the use of funds for expenditure on emergencies rested at a senior level, either Members, the Chief Executive or the Chief Financial Officer being in control in the majority (80%) of authorities. However, the guidance allows for flexibility in most (85%) authorities, so whether this control operates in practice may be open to doubt.
- 7.39 In accounting terms, processes do not always allow this expenditure to be easily identified. 70% of authorities operate separate codes for spending on emergencies. The implication is that the remainder account for it at departmental, not corporate, level or that it is dispersed amongst mainstream expenditure accounting, with likely possible consequences for ex post aggregation of expenditure. Notwithstanding this, whether accounted for expenditure will equate to actual expenditure may be open to doubt. Only 21% of authorities provide training for operational staff in using the guidelines and whilst more (58%) have a nominated financial officer to work alongside them there would appear to be significant scope for an ad hoc approach to accounting to be adopted. This potentially weak financial process framework was examined in more detail in the course of our fieldwork. Our findings were that there were a number of different approaches adopted by authorities including:
- centralised control with nominated financial officers working with operational officers within clear guidelines providing detailed instruction,
 - de-centralised control with nominated financial officers working with operational officers within much looser guidelines providing flexibility,
 - minimal control with operational officers taking expenditure decisions that are accounted for ex post, and
 - externalised control with joint operations incurring expenditure which could only subsequently (and arbitrarily) be attributed to authorities.
- Additionally, other relevant issues came to the fore during the course of our fieldwork. These included:
- whether expenditure had to be contained within existing resources (corporately or departmentally) or was permitted to be genuinely additional,
 - whether expenditure was re-charged to another authority within mutual aid arrangements or joint action taken under Section 136 of the Local Government Act 1972, whether expenditure could be monitored, and whether it could be accurately attributed at all.

7.40 This diversity of practice and the issues that arise from it, whilst not unusual in the sector, may lead one to conclude that there is insufficient uniformity of financial practice for a national-level scheme of assistance to be bolted on to arrangements at authority level in such manner as to produce equality of impact of such a scheme, a matter we further considered in examining the role of the Bellwin Scheme in operational and financial processes.

OPERATIONAL OUTCOMES

7.41 Our research indicated that on the whole authorities have on an operational level proved capable of responding to single emergency incidents, and that emergency planning procedures and mutual aid arrangements have proved effective in meeting the common 'Bellwin' problems of flood and Foot and Mouth. All authorities have operational arrangements in place to mobilise Direct Service Organisations or their private contractors (particularly for highways)

7.42 However there are a number of concerns which may affect local authorities' future performance in handling emergencies. Firstly, the principal types of emergencies faced to date have either been single incidents or slow-building situations such as the 2000 floods where in most cases adequate notice has been available to coordinate preventative action. To take an example from Chichester for example, there is a standing committee on coastal protection and flood defences which meets on a regular basis during the autumn / winter period and which in November 2000 was able to transform itself rapidly into an Emergency response Committee. However future incidents may demand very rapid and wide-ranging action. This might include multiple coordinated terrorist incidents, or a major maritime oil spill such as happened to the Prestige off the Galician coast in November 2002 and which would affect a very large stretch of coastline, and involve a large number of coastal local authorities.

7.43 Secondly, there is concern that the fragmentation and outsourcing of service delivery and in particular the creation of trusts for old people's homes and leisure centres (which traditionally provide rest and recuperation centres in emergencies) may affect the ability of local authorities to respond in the event of large scale incidents.

7.44 Thirdly, most of the authorities in the fieldwork study commented that the funding arrangements for emergency planning and the way the Bellwin scheme operated actually discouraged significant stock-holding of emergency items. There was no specific funding for creation of emergency buffer stocks and because Bellwin restricted cost recovery to marginal costs incurred within 2 months of an emergency, it discouraged the replacement of buffer stocks. Again on the whole the cost and operational consequences of acquiring most emergency items (eg camp beds, blankets) on a just-in-time basis may not be significant. However for certain types of stocks such as sandbags for flood-prone authorities, this may be significant, even if the authorities seek to promote private responsibility and resilience.

FINANCIAL OUT-TURNS

- 7.45 Our desk-top survey of 40 authorities shows an expected pattern of the Bellwin Scheme funding a residual pot of emergency expenditure after a significant amount had been filtered out (and effectively absorbed by other funding sources usually central or departmental contingency reserves). There are 4 stages in this filtering process
- (i) Identification of total pool of relevant expenditure related to meeting the costs of emergencies
 - (ii) Identification of gross eligible expenditure (ie less for example internal recharges), on which to base a Bellwin claim
 - (iii) Additional disallowances made by the District Auditor or ODPM leaving a total eligible gross sum
 - (iv) The net payment by ODPM, after deducting relevant threshold expenditure and the 15% excess.
- 7.46 Our funding analysis shows that the following disallowances operated at each stage of the process.

Stage	Total Amount	Amount Disallowed or ruled not eligible at each stage	% of total gross expenditure	% disallowed at each stage
Gross Emergency Expenditure	28,196,241			
Claimed Expenditure	22,351,149	5,845,092	79.3	20.7
Eligible Gross Expenditure after District Auditor	20,365,310	1,985,839	72.2	7.1
Eligible Gross Expenditure agreed with ODPM	20,085,466	279,845	71.2	1.0
Paid	15,894,719	4,190,747	56.4	14.8

- 7.47 We can also look at the process from the point of view of what types of expenditures were allowed or disallowed. This is made more complicated by the fact that the threshold and excess can only be attributed on a notional basis against different types of expenditure. We have pro-rated thresholds and excesses over different categories of expenditure to reveal a truer picture of eligibility of expenditure, as in most of the survey returns the disallowances were charged against one item.

Item	Total Expenditure	Claimed Expenditure	Expenditure Agreed by ODPM	Expenditure Paid by ODPM ³	% of claimed paid
Employees	5,908,088	4,635,127	4,465,939	3,534,140	76.2
Employee Related	422,532	218,221	201,606	159,542	73.1
Premises	4,987,753	4,588,282	4,182,767	3,310,051	72.1
Transport	5,839,697	5,765,083	5,764,680	4,561,904	79.1
Supplies & Services	4,741,391	3,761,387	2,463,411	1,949,431	51.8
Agency & Contracted	4,207,296	1,956,473	1,638,217	1,296,410	66.3
Transfer Payments	49,210	49,210	49,030	38,800	78.8
Central & Technical	245,542	149,323	96,273	76,186	81.0
Other Payments	1,794,732	1,228,043	1,223,543	968,256	78.8
TOTAL	28,196,241	22,351,149	20,085,466	15,894,719	79.1

7.48 From the above it can therefore be seen what are the more significant expenditure categories and what variation has occurred with regard to re-imburement. However, a note of caution must be sounded. Whilst the table is reliable in giving orders of magnitude and relative proportions, exactness should not be expected. There are two reasons for this. First, local authorities are not particularly able to distinguish clearly the amount of gross expenditure on emergency type incidents. This is probably because of a lack of standing financial codes to which to code emergency codes and also a lack of clarity on what constitutes an emergency and therefore when to begin the appropriate coding. Second, local authorities themselves do a substantial amount of filtering, both in the compilation of the initial Bellwin claim and in checking eligibility of expenditures with ODPM and the District Auditor. As a result the extent of disallowance is comparatively small. Therefore the figures shown above will tend to reflect coding differences and, with respect to the left hand column, be an under-estimate.

THE ROLE OF THE BELLWIN SCHEME

Efficacy in Supporting Operations

7.49 The universal view from our fieldwork was that Bellwin, as an after the event instrument, has made negligible contribution to the design of emergency planning procedures or how they would be implemented in practice. Every authority commented that the priority would be to deal with the emergency first and then to consider how best to meet the financial consequences.

³ The paid sum as a percentage of the agreed amount reflects of course not only the 15% excess payable by the authorities concerned in some cases but also the threshold to be discounted against eligible expenditure

- 7.50 None of the Emergency Plans we consulted from our fieldwork made reference to Bellwin or the procedures necessary to ensure that emergency funding could be accurately and quickly identified. Very few authorities actually had specific financial regulations to deal with emergencies even in those authorities which had faced a number of emergency incidents and made previous Bellwin claims. The view was that the authorities had the previous experience and would know what to do (which in the South Coast authorities with much less staff turnover may be the case but may not be generally applicable to all bodies)
- 7.51 Furthermore as noted above, the present funding of emergency planning including Bellwin has not encouraged significant investment in resources. The operation of Bellwin on a clear incremental cost basis discourages both significant stock-holding of plant and equipment and replacement of items consumed in emergencies

Effectiveness as a Financial Instrument

- 7.52 The view of Bellwin sharply differs between those who have some experience of using it and those who have little or no experience. Those who have used it and know in some cases how to maximise the amount of eligible expenditure, are supportive of the scheme. They share the Department's view that maintaining some reserves to meet contingency costs (implicit in the threshold and the 15% excess) is part of the 'normal' duties of local authorities. They are also experienced in self-monitoring involving regular contact with the Department.
- 7.53 Other authorities perceive it as 'bureaucratic' and open to political pressure and influence as to the circumstances in which an emergency is declared and a scheme opened. The police authorities in particular look to Home Office Grant to pay for the cost of special incidents as both offering wider scope for what is eligible expenditure (particularly in terms of full cost). In the treatment of Foot and Mouth a number of authorities received substantially higher funding from DEFRA than under Bellwin.
- 7.54 All authorities, including the experienced Bellwin authorities thought the paperwork underpinning a claim was time-consuming, although given its nature as a reimbursable grant, no-one could suggest ways in which it could be simplified. Those who had operated the scheme were supportive of the changes made, although general awareness of scheme changes (and in particular the option to incur capital expenditure instead of pure reinstatement if it offered better value for money) was not appreciated

Promoting value for money

- 7.55 It was not possible to make an objective study of value for money of Bellwin supported expenditure. This was for two main reasons. The first was the widely differing nature of the incidents we surveyed. The incidents were in different parts of the country, often at different times often involving different technical responses. The second reason was the absence of easily accessible transaction data.

- 7.56 However there are a number of implicit conclusions that can be drawn. First that in tackling emergencies value for money was not a particularly important consideration. For all authorities the first and foremost priority was and is to resolve the immediate problems. A further conclusion is that one-off emergencies do not by their very nature allow for VFM planning. They are not for example like situations which are known will occur but whose precise incidence is unknown, which allow for consideration of stand-by arrangements, service retainers etc.
- 7.57 However it would be fair to conclude that the Bellwin scheme by only refunding actual marginal costs incurred does not particularly encourage VFM. One authority speculated that it might be to their financial advantage to actually disband a specialist emergency response team and buy in the service from other authorities, a practice which if implemented widely would of course be detrimental to overall service planning. This may be more of a speculation than a reality but nevertheless by disallowing most internal costs unless clearly additional, Bellwin does not promote efficiency.

Relative Importance in mainstream planning

- 7.58 Bellwin is perceived as a potentially useful, backstop by some authorities, but in the context of local authority financial planning is of negligible importance. This probably reflects the limited importance of emergency planning, despite the events of September 11, both in the context of local authority overall planning and service delivery, and in the deliberations of financial officers. For example the Civil Contingencies Bill does not seem to have occurred as an item in discussions at the Director of Resource level or at the technical level in most of the authorities we visited, even though there are potentially significant extra duties in terms of promoting contingency planning

Administrative Performance

- 7.59 Overall the administration of Bellwin by the DTLR and ODPM has been found to be satisfactory. A number of chief accountants from the Bellwin experienced authorities found that ODPM staff were very helpful in maintaining communications both over the declaration of scheme opening and in clarifying eligible expenditure. In the words of one officer responsible for compiling a Bellwin claim 'It did all it could to make the process as slick and efficient as it could be'. By contrast other authorities with less experience of the guidelines and who tended to get in contact only after problems with their submission found the scheme (unsurprisingly) a lot less user friendly.
- 7.60 The evidence of the questionnaire is that claims and payments were processed reasonably promptly. The survey (Q24) reported that 76% of final claims were certified within 2 months and 5 months was the maximum time. ODPM/DTLR processed around 90% of interim payments within three months (Q23). It was not possible from the questionnaire to clarify the time period between receipt and settlement of final payments but 29% reported this being done within 15 working days and our investigations from the fieldwork suggest that around 4-6 weeks was a common settlement period, from the date of receipt of the District Auditors certificate.

ISSUES FOR CONSIDERATION

Creative Use of Threshold Differentials

- 7.61 One of the constant complaints made about the Bellwin scheme is the level of threshold required before expenditure is eligible for reclaim. This currently stands at 0.2% of the net revenue budget and for many larger metropolitan or County councils ranges from around £500,000 to £1.5 million. The complaints about this are primarily concentrated on the fact that almost half of most large authorities budgets are effectively 'passported' to schools and that similarly a large amount of local authority reserves are similarly earmarked as school reserves. Therefore the real amount of free reserves is far less than the figure on the balance sheet.
- 7.62 To get around this, several authorities in 2000-01 have sought to channel expenditure through district authorities (with very small thresholds) where incidents have occurred that are either within or are contiguous to the boundaries of affected primary tier authorities. This is also helped by fact that in incidents such as flooding of highways there may be no clear division of responsibility between County and District Council, Environment Agency, and Water and Sewerage company, and that the source of origin and the primary impact may be geographically separated. In this situation the scope for potential recovery may change dramatically, enabling in one case we visited the authorities concerned to recover over 90% of expenditure incurred whereas if each authority had borne its own expenditure only 5% of expenditure could have been recovered.
- 7.63 While the flexibility of DTLR/ ODPM in this respect was to be welcomed, its use subverts the rules of the scheme, and in particular creates issues about objectivity for those authorities that for reason of capacity or geography cannot benefit from this flexibility in rule application. It also opens the scheme up to claims that scheme flexibility could be politically motivated.
- 7.64 It would therefore seem more obvious that the threshold be applied more rigorously so that each authority would bear the eligible cost in respect of damage to its own functions in its own geographical area, and that where an incident involved both district and County authorities a view would be taken by District Audit as to the apportionment of costs between authorities. In the case of a flooding incident on a highway in a County area, the County would incur the costs of reopening the highway, and the District Council would incur the costs of damage/flood prevention to nearby council houses or public open space including the restitution of areas that may be used to temporarily drain water from the highway.

Recording of Expenditures and Aggregation of Expenditures

- 7.65 Despite encouragement from ODPM in their guidance to identify and code expenditures at the earliest possible moment and to notify the possibility of a claim to the Department, local authorities have been relatively poor at identifying the costs of meeting emergency incidents presumably because of the small possibility of recovering any expenditure. It would be helpful if CIPFA could issue stronger guidance in this area possibly through the annual SORP revision.

- 7.66 A common complaint about the threshold in addition to its size is that with the exception of the Foot and Mouth incidents in 2001, no aggregation of separate incidents is permissible to breach the Bellwin threshold. Allowance of aggregation would probably not materially affect the drawdown under the scheme but would provide a sharper incentive(s) to carefully record the costs incidents.

Cross-Charging of Expenditures

- 7.67 Several authorities have raised the issue of cross-charging as an issue which is both ambiguous and which may potentially operate as a perverse incentive (although there is no evidence to date this is the case). This arises from the fact that Bellwin funds marginal rather than full costs. In these circumstances, there is every incentive to hire services from other authorities and agencies, rather than making in-house provision, which may compromise the effectiveness of emergency response. Taken to its logical conclusion, it could involve significant use of authorities sub-contracting from each other rather than directly use its own staff.
- 7.68 A new emerging area concerns joint arrangements for handling emergencies such as those that have been developed at Shrewsbury between the District, and County Councils, the Environment Agency and Severn Trent PLC, to handle flooding on the River Severn. In these circumstances where a single cost centre is used, this could be used to maximise grant (if the cost centre is situated in the district council) or potentially could lead to the loss of grant if the centre is situated in the other agencies.
- 7.69 A further area concerns Military Assistance to Civil Authorities (MACA). The experience of the 2000-01 flooding and Foot and Mouth crises was that the Armed Forces were prepared to contribute significant resources 'free of charge' to assist in the clearance of emergencies. However the likelihood is that as the MOD budget comes under additional pressures and the occurrence of emergency events (such as flooding) becomes more frequent, the Armed Forces may themselves seek to recover incremental costs from those bodies it has supported. Some of these costs such as those for helicopters and temporary mortuaries are very large.
- 7.70 These circumstances suggest that there is a need for more detailed guidance on the eligibility of costs incurred through cross-charging from other public bodies and agencies and as a result of standing emergency joint arrangements. Operational efficiency requirements may also involve some relaxation of the eligibility on the charging of internal staff costs (which in several cases has been allowed).

Charging of Capital Expenditure

- 7.71 The most important expenditure ineligible for reimbursement under Bellwin is capital reinstatement. The reasons for this are twofold. Significant capital reinstatement is likely to involve significantly longer time periods than those covered by the scheme and they are also likely to involve more than simple reinstatement. For example in the case of flooding problems, this has meant creating permanent small coffer dams to allow for more run-off/diversions from rivers. In order to keep the scheme simple, the Government has supported the view that additional capital resources should be made available through supplementary credit approvals. However the experience is that additional SCAs have not necessarily been made available to authorities either facing the need for reinstatement, or needing to undertake investment to prevent future problems. Moreover in the light of the new changes to the capital control system and the abolition of credit approvals, a new approach is required.
- 7.72 From the 2002-03 financial year, ODPM introduced a change in the scheme rules to allow capital expenditure where:
- it is connected with an immediate safeguard to life and property,
 - it prevents severe inconvenience,
 - it cannot be met out of capital budgets, and
 - it represents value for money.
- 7.73 Most authorities were ignorant of this change and no claims seem to have been submitted for this category of expenditure. One factor is that it is hard to think of all these circumstances when such expenditure may be triggered. Clearly better value for money may be engendered by highways repairs which involve the complete resurfacing of a stretch of road rather than the mere filling of potholes, or the health and safety by the construction of a new retaining wall rather than the repair of an existing wall. But meeting all four circumstances within the timescales seems unlikely.
- 7.74 However in any case this detailed and restrictive control seems out of step with the new prudential capital approach, where authorities have flexibility to determine the balance between capital and recurrent expenditure. There are 2 specific approaches One is that authorities who have undergone a Bellwin type emergency may have the right within a specific time period to apply for additional capital funding against a dedicated capital reserve. If the ODPM decides to top-slice aggregate external finance to meet Bellwin claims, unspent reserves could form this Fund. The second is to provide revenue grant support on a basis which recognises the fact that a number of authorities are more prone to incur capital and emergency type costs from weather related problems (eg landslips). For example it may be appropriate to use weighted road mileage in flood plain areas as a possible indicator for Highways FSS.

8 *Conclusions*

AWARENESS OF THE SCHEME

- 8.1 There is in general limited awareness of the scheme. Those authorities who made claims under the scheme in 2000-01 and in earlier years have significant awareness even if it is not formally recognised in financial regulations or emergency plans. Other authorities have very limited awareness and in particular have not taken on board recent changes to the scheme.
- 8.2 In general there is awareness among financial officers and to a certain extent staff from emergency planning and legal services. Operational officers have very little awareness of the scheme. This is less important if finance officers are (as in the case in most authorities) attached to emergency centres, and can help ensure adequate expenditure recording from the outset of any incident

INTEGRATION WITH EMERGENCY PLANNING AND RISK MANAGEMENT

- 8.3 Most authorities do not refer to Bellwin in either their emergency plans or in financial regulations. This is principally because:
- Bellwin is seen as being a technical finance matter
 - It is primarily an after the event scheme, unlike Civil Defence Grant which is deployed to finance emergency planning regulations
 - It has rarely been used especially in urban authorities
- 8.4 Most authorities do not have standing emergency codes in which to code expenditure, although understand the importance of setting up such emergency codes in the event of a possible scheme declaration
- 8.5 There is relatively poor integration of emergency planning in local authorities' own risk management strategies which on the whole are concerned with internal events rather than environmental factors. Since Bellwin is used in connection with natural or environmental disasters, it therefore is not considered as a factor in the financial appraisal of and planning for meeting these risks. There is therefore as a consequence no financial planning regime for emergencies.

INTEGRATION WITH OTHER INTERNAL FUNDING STREAMS FOR MEETING EMERGENCIES

- 8.6 The primary source of funding for meeting the costs of emergencies is insurance, either in the form of external policies or in the form of insurance funds.

- 8.7 In recent years the cost of external insurance cover has rapidly escalated, and the scope of cover (particularly to do with acts of terrorism) has been reduced. Furthermore the amount of excesses – both in terms of individual losses – and in terms of aggregate limit – have also risen. The aggregate limit generally exceeds the Bellwin threshold for most authorities. At the same time the removal of insurance excesses as an eligible expenditure has made Bellwin less relevant as a support to this financial pillar.
- 8.8 As a result of the changes in the insurance market, most larger authorities are opting to use insurance funds (essentially an earmarked reserve) as their principal insurance tool, funded by regular contributions from departmental accounts. The nature of the insurance market has inevitably required local authorities to increase the size of their insurance fund. Inevitably this has had some consequences for some authorities trying to increase the level of general reserves.
- 8.9 In addition to the rising cost of insurance and self-insurance, service pressures both in terms of increasing standards and expectations and the requirement to passport a large proportion of upper tier council budgets to education has put downward pressure on general reserves. Our information showed that reserves for upper tier authorities ranged from around £1-3 million, a coverage of around 2 to 3 times the threshold. However, in one case in our fieldwork, the amount of reserves actually was lower than the Bellwin threshold.
- 8.10 Overall therefore, there is growing pressure on local authorities' capacity to internally fund the costs of emergencies, at a time when the incidence of emergencies may rise due to climactic change. The provisions of the Local Government Act 2003 may have strengthened the requirement to maintain higher levels of reserves, but more integrated guidance (along the lines of the Prudential code on capital expenditure and borrowing) may be appropriate.

INTEGRATION OF EXTERNAL FUNDING STREAMS

- 8.11 Bellwin is one of a number of possible external funding streams and our research indicates there is poor integration between these in terms of:
- (i) When other funding streams may be available
 - (ii) What type of expenditure is eligible for funding
 - (iii) What priority each funding source may have
- 8.12 During the 2000-01 emergencies, a number of authorities received funding from other external sources, notably the police service from the Home Office, and county council authorities from DEFRA for on-farm clearance work and the Regional Development Agencies for economic regeneration work.

- 8.13 The impression from those authorities with access to other sources of funding was that these were both more accessible and covered a broader range of costs than under Bellwin. However Bellwin is intended to represent a scheme of last resort and it may therefore be concluded that in this respect Bellwin has operated as intended.
- 8.14 It is worth ODPM liaising with other government departments likely to be involved in recovery work and the Cabinet Office responsible for civil contingencies, in producing detailed guidance to how and in what circumstances local authorities may seek emergency assistance, and how other funding assistance may be sought for costs not eligible for recovery under Bellwin.

SCHEME ADMINISTRATION

- 8.15 The Scheme appears to have functioned efficiently, with general praise from a number of authorities on the cooperation of DTLR staff in the most recent 2000–01 emergency.
- 8.16 Overall the submission of claims, their certification by the District Auditor and the processing of interim and final payments has been efficient and timely.
- 8.17 The views of scheme administration are heavily conditioned by general experience and by the extent to which contact was made with the Department. Several authorities who experienced flooding problems in 2000 learnt extensively from previous Bellwin claims made in 1994.

GENERAL VIEWS OF THE SCHEME

- 8.18 Despite the ODPM/LGA review, there are still strong misconceptions about the purpose of the Bellwin and what expenditure it is meant to support. In particular there is a strong sense that Bellwin should meet most of the aggregate costs of emergency incidents and should, in particular, meet the capital as well as the revenue reinstatement costs.
- 8.19 The increasing costs of insurance cover and the absence of linked capital funding to recovery from emergencies has heightened this perception among authorities of Bellwin as an inadequate stop-gap. On the other hand most authorities do not want to see additional ad-hoc support for Bellwin expenditures. The three most common changes sought were therefore:
- (i) a reduced threshold to 0.1 % of net revenue budget or 0.2 % excluding schools
 - (ii) an increase in the range of eligible costs covered, in particular internal time-sheeted staff costs and lost income
 - (iii) aggregation of incidents within any one year so that it would be possible to claim in years when there are a number of small-scale emergencies

- 8.20 In addition, most authorities sought greater clarity over the type and nature of incidents that could bring the scheme into operation and in particular the clarification of what constitutes natural disasters and consequential incidents

OVERALL CONCLUSION

- 8.21 The Bellwin scheme poses a difficult presentational issue. On the one hand, authorities are not encouraged to rely on it (at the expense of making adequate safeguards and preparations). On the other hand, authorities need to know it is available in the last resort and need to know how to operate it. It has generally operated well for those authorities who are familiar with it. Our broad conclusion is that the scheme is 'fit for purpose'. However the fact that the Department wishes to promote the scheme as a scheme of last resort has tended in fact to obscure the circumstances when it is accessible and therefore its perceived usefulness as a potential funding instrument. This is unfortunate given that the nature of climate change and other potential environmental disasters (such as an incident like the loss of the Prestige oil tanker off the Galicia Coast in November 2002) may increase the potential need for the scheme in the future.
- 8.22 Several measures could be taken to address this situation. First, despite the review of 2001, there still appears to be some concerns about the detailed of the scheme particularly the size and treatment of the threshold. The possibility of more widespread incidents in the future may also require some scheme amendments such as opening an 'advance funding stream' or keeping the scheme open for longer.
- 8.23 Second unified guidance on the various sources of funding available to meet the costs of emergencies in the future, including expectations on proper role of reserves and insurance may help to both clarify and effectively publicise the role of the scheme.
- 8.24 Third it would be appropriate to provide additional guidance to local authorities on the incorporation of emergency planning in their risk management strategies. None of these conclusions vitiate the basic principle, encapsulated by the scheme that self-reliance is the first priority.

The appendices to this report are available from Demelza Birch of the Local and Regional Government Research Unit at ODPM at the following address:

Demelza Birch
Local and Regional Government Research Unit
ODPM
5/D5 Eland House
Bressenden Place
London
SW1E 5DU

Tel: 020 7944 4123
Email: demelza.birch@odpm.gsi.gov.uk