

**SCOTTISH ENVIRONMENT PROTECTION AGENCY  
PROPOSED ENVIRONMENTAL REGULATION (SCOTLAND) CHARGING SCHEME  
ANNEX A**

## **Development of the Proposed Scheme**

### **Purpose**

SEPA is consulting on its proposed Environmental Regulation (Scotland) Charging Scheme (the Scheme).

This Annex supports the consultation. You should read this for an explanation of how we have constructed the Scheme and how we propose to operate it. This document will form the basis of the guidance to the Scheme which will be produced if the Scheme is signed off by Ministers.

### **Structure of paper**

We have two types of charges:

- Application charges which fund the work required to process an application for authorisation; and
- Annual charges, which apply each year and support our on-going work to regulate authorised activities.

This paper considers application charges in Part 1 and then annual charges in Part 2.

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**Part 1 - The Setting of Application Charges**

**1. Introduction**

- 1.1. The granting of a permit is an important part of our regulatory process. When an operator wishes to develop an activity which can pose a risk to the environment, they may need to apply for a permit from us. We then work with the operator to identify how to manage these risks in the most sustainable cost-effective way. We risk assess the impact of that activity on the environment, while also consulting with other agencies and individuals who may have an interest in the development, to ensure that any environmental impacts and consequences are controlled.
- 1.2. This system of processing applications into permits is important as it determines whether the activity can operate in that location without causing a significant environmental impact, and it sets the necessary conditions that need to be complied with to protect the environment and local people. The permit forms the basis of the regulatory relationship between the operator and ourselves.
- 1.3. We want to minimise any unnecessary administrative burdens for businesses so we are streamlining our application process to make it as efficient as possible. The new permitting powers in the Regulatory Reform (Scotland) Act will provide an improved framework for the way we regulate and so help us reduce such burdens.

**Current application charges**

- 1.4. Our current charges were calculated and set at different times for each of the existing 14 charging schemes between 1996 (Waste) and 2006 (Water).
- 1.5. Scottish Government requires us to achieve full cost recovery for our regulatory work. We have not achieved cost recovery for our work on applications for many years. Our application expenditure for 2014/15 was £5.5m compared to our income of £2.9m which represents a level of cost recovery of 57%. The rate of recovery for Water and PPC applications was less than 50%. We have reported the shortfalls in our [annual report and accounts](#).
- 1.6. We attribute this poor level of cost recovery to three factors:
  - Some application charges are set too low to recover costs (particularly for complex applications);
  - Applications are often of poor quality and require us to put in a high level of support; and
  - The determination process takes longer than workload planning estimates. We need to make the process more efficient to deliver the work within workload planning estimates.
- 1.7. The changes we propose to our application charges are in part designed to help rectify this, but our streamlining of the application process will also help address these issues.

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1.8. We estimate that the changes in application fees proposed below would, if applied to the applications received in 2014/15 (excluding variations, surrenders and transfers), increase our income from £2.9m to £3.6m thereby improving our overall level of applications cost recovery from 57% to between 70% and 80%. We will aim to achieve full cost recovery by improving the efficiency with which we process applications. We will review progress in the move towards full cost recovery as part of our 2018/19 review.

## **2. Proposals to change**

2.1. The following section explains how we propose to set charges for applications for authorisations.

2.2. Annex A1 provides an overview of how the charge for a standard application is calculated. The following sections in this annex provide an explanation of the process of calculating the proposed standard application charges. We then go on to explain the charges for the other types of application and specific rules that apply to applications.

2.3. The approach that we have taken to calculating application charges is similar to that used to develop the application charges for past charging schemes. This involves identifying all the steps in the authorisation process and calculating the time required for each. We have, however, standardised the various steps to make them the same across all types of applications. Not all applications need all the steps – we pick those needed for each class of application. This allows us to fit the application charges into a limited number of bands (reflecting the number of steps required).

2.4. We believe that the resulting new application charges will be simpler and easier for applicants to follow. We have also removed charges for simple administrative changes required to keep authorisations up to date. We are also proposing to maintain the zero charge for applications that relate to delivering an environmental service for water applications and some other activities.

## **3. What SEPA work is chargeable?**

3.1. The basis of cost recovery for applications varies across existing charging schemes. For instance, some include pre-application costs and advertising and consultation costs while others do not.

3.2. Most of this type of work is chargeable. By deriving the cost of this, we can then take allowance of this in determining which application charge band an application should be placed in.

3.3. We propose to standardise the type of SEPA work that is cost recoverable under application charges by making the following changes:

- We propose to ensure that appropriate costs associated with pre-application discussions (in which we help the applicant to make a valid application) are recovered across all application types. Previously this was not consistently applied across the regimes, with pre-application costs included in water application charges but not for applications for waste management licences. The charges allow for up to one hour pre-application discussion for simple permits and up to fifteen hours for complex permits. (Simple permits should require less discussion, hence the lower allowance for pre-application discussion).

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- We have also ensured that all applications take account of the scientific advice required to support the determination process. The appropriate science costs were not previously included within some PPC and WML applications.

**4. How does SEPA derive the cost of each activity charge?**

- 4.1. Charges will recover the average cost of determining applications within each application band. For applications, the level of effort/cost is linked to the nature of the prescribed activity. We have developed a list of over three hundred activity types and grouped these into seventeen bands, where each band attracts a similar level of effort and cost.
- 4.2. The level of technical complexity of the application and potential environmental impact also determines the grade of staff involved and the time that they spend on each stage of the application. Generally, the more complex the activity, the longer it takes and/or the higher the required grade of staff is to assess the application. In other words, the more complex applications in higher bands are assessed by more senior staff and may take more time to process.
- 4.3. From the required time and staff grade for each step of the determination process across the different groupings of application, together with staff and overhead costs, we have calculated the application charge for the various bands. Because we are looking to improve effectiveness and time spent on applications, we have assumed the delivery of expected efficiencies.
- 4.4. When calculating average costs, we have excluded very large, complex or otherwise exceptional applications because these disproportionately skew the charges and penalise customers applying for the typical scale of activities.

**5. Calculation of individual charges for normal applications**

- 5.1. The existing charging schemes have approximately 160 different levels of charges. We are proposing to consolidate these into 17 bands of charges (See Table in Legal Scheme in Annex E for details) with an 18<sup>th</sup> band covering unusually large/complex applications. This brings together, into the appropriate band, those activities which require a similar level of resource to determine the authorisation. The charge for the band is calculated as the average cost of determining these authorisations.
- 5.2. The majority of application charges will not change significantly. However, we do include proposed significant increases for the following applications:
  - Some simple water licences. We process an average of 300 to 400 “simple” water applications each year. Following a process review it became apparent that many such activity types require more resources than were covered by the current charge. We therefore propose to increase the charges for such ‘simple’ permits to £2,000.
  - Medium sized hydropower schemes and marine fish farms. Although we have made efficiency savings for hydropower schemes and marine fish farm applications by establishing dedicated teams to reduce costs, we are still not recovering our full costs. This is because these application types require a complex environmental assessment, which leads to higher than normal costs compared to other CAR applications. We therefore propose to increase charges to £4,000.

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- 5.3. We expect the implementation of the Regulatory Reform programme and the introduction of web-based applications will further improve the efficiency with which we process applications and this will allow us to reduce the costs of some applications.
- 6. Calculation of application charges for unusually large/complex applications**
- 6.1. We deal with a small number of projects for which the application requires significantly greater input. Typically we receive one or two of these exceptionally large applications in a year. These fall into two main types:
- Large and complex projects with activities which demand a substantial amount of our resources to support the determination process.
  - Infrastructure projects, which have large numbers of small-scale activities and are often developed over both an extended time period and geographical area. These projects require extensive support to manage discharges to water, engineering of the water environment, waste management and possibly emissions to air.
- 6.2. Both types of project are often controversial involving substantial levels of public engagement.
- 6.3. We will develop guidance on the type of projects that will be covered by this type of application charge. We expect these charges to include the following types of activities:
- large cross-catchment hydropower schemes,
  - very large windfarms,
  - large infrastructure schemes,
  - large waste incinerators, and
  - other projects which involve major re-engineering of water bodies.
- 6.4. Given the level of these costs, we believe it is more appropriate to charge for them directly as it would not be fair to spread them across all applications. We therefore propose to directly bill for the time taken to process the application. This is the approach that we use for applications covering major hazard establishments (under COMAH) and nuclear sites under the Radioactive Substances Act.
- 6.5. For these large-scale applications, we will establish dedicated project teams who will work very closely with the developers, delivery teams and contractors on these projects. Normally this will involve a technical lead and project manager who drive the delivery of our assessment process. We will also use this to manage and fund legal, scientific and consultancy support. This helps ensure we work efficiently with the

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developers and minimise costs and uncertainties.

- 6.6. We are conscious however that charging on the basis of time and materials creates uncertainty over the costs of an application. We will therefore be prepared to enter into discussions - in advance of the application being submitted - to help calculate the charge required to process such a complex application. Under these circumstances, we propose to develop an agreed plan for determining the application and supporting the project. This will allow us to calculate the charge for the application. Such an arrangement will have appropriate change controls to allow for changes on both sides and to help manage changes and preserve cost recovery. This project plan will profile the charge, with payments every six months, over the pre-application period and determination process. The project plan will continue after the permit has been determined to cover our on-going costs during the delivery phase of the project. This will continue until the project has been completed and no longer imposes demands upon our resources or until normal annual charges apply.
- 6.7. Should it not be possible to agree such a plan with the operator, then we will bill the applicant every six months based upon the costs that we incur. However we believe this should be rare given the advantages to the operator of such a plan and an agreed and programmed level of charge.

**7. Other types of application**

- 7.1. This section describes how we propose to set charges for a range of other types of application. Typically these charges are set as a proportion of the bands of application charge (as defined in the Table within the Legal Scheme in Annex E).

**Imposition of authorisation**

- 7.2. There are some circumstances where SEPA has to impose an authorisation upon an operator. Typically this occurs when the operator is responsible for a regulated activity but refuses to apply for a SEPA authorisation. Under these circumstances, SEPA will impose the full authorisation charge plus a 25% surcharge to cover the additional costs incurred and to provide an incentive for operators to apply for an authorisation.

**Substantial technical variation/surrender of an authorisation**

- 7.3. Where an operator proposes to substantially change the operation of a site, we are required to advertise the proposed change, carry out additional consultation and risk assess the impact of the proposed change. Under these circumstances, we propose to charge 75% of the full application charge. For example, this might involve a substantial increase in biomass held at a marine fish farm site which would require us to re-assess the whole permit, including the consequences of increased organic deposition on the sea bed and the quantity of sea-lice treatment used.
- 7.4. There are also some situations where the surrender of a permit may involve us in very extensive technical work. For example, the surrender of some landfill permits may involve substantial work to assess the condition of the site and long-term environmental impacts of continuing emissions and legacy issues. For these sites we propose the surrender charge will be 75% of the full application charge.

**Partial technical variation/surrender of an authorisation**

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- 7.5. Where an operator proposes to change part of a site's operation, we will only have to review aspects of the site's environmental impact. Under these circumstances, we propose to charge 30% of the full application charge. For example, this might involve the change in the type of sea-lice treatment used at a fish farm

**Administrative variation, surrender and transfer of an authorisation**

- 7.6. An operator may wish to change/correct a part of the permit, which does not involve us in any technical review or assessment. This includes the transfer of the permit to another person where a fit-and-proper person test is not required. We wish to encourage operators to ensure that their permits are kept correct and up to date. Consequently, we propose to stop charging for such administrative variations.
- 7.7. We have a significant number of authorisations, which cover processes that no longer operate. We wish to encourage operators to surrender authorisations when they are no longer needed. Consequently, we will not charge for a surrender of an authorisation if the process of surrendering the authorisation does not involve us undertaking technical work.
- 7.8. Some of our administrative reviews also include reducing licensed emissions in situations where this does not involve any significant technical work. This would include, for example, a reduction of the licensed quantity of water which could be abstracted by an irrigation pump. Again we propose not to charge in these circumstances.
- 7.9. All holders of authorisations will benefit from there being zero charge for administrative variations/surrenders and consequently we propose to incorporate the relatively small costs incurred for this work within subsistence charges.

**Transfer of a permit to another person/company**

- 7.10. Where an operator wishes to transfer an authorisation to another person or company, and we are required to apply a fit-and-proper person test, we propose to apply a charge of £1200.

**8. Supplementary rules**

**Pre-application advice**

- 8.1. Our experience shows that pre-application discussion with an applicant is an important part of the application process. It can help the applicant produce a good quality application and can help make the overall process of applying for a permit more efficient. We have recognised this by allowing for such pre-application discussions in our charges. However, it should also be recognised that including a too generous general allowance can penalise operators who produce good quality applications independently. So we are looking to balance these considerations by just including a suitable allowance for such pre-application discussions. We propose to provide the following defined levels of support for operators preparing an application:
- Application Bands 1 to 4. These are low risk simple activities that only need generic advice and guidance.
  - Application Bands 5 to 9. We propose to provide up to one hour of pre-application discussion time.
  - Application Bands 10 to 17. We will provide up to 15 hours pre-application advice.

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- 8.2. We find that some operators make speculative applications without much preparation and expect us to undertake the work to develop the applications. This adds to our costs, and as we are required to recover our costs, results in overall increased levels of charges. In such circumstances we are proposing that such applications are considered not-duly-made and consequently returned to the applicant.

**Advertising**

- 8.3. There is a statutory duty to advertise certain applications, which could adversely affect the interests of local people. We propose a charge of £500 will apply to recover our administrative costs.

**Modification of applications**

- 8.4. We propose to apply a charge of 30% of the application fee where an applicant wishes to substantially change an application to the extent that it requires the re-advertising of the application.

**Commercial confidentiality**

- 8.5. Where an applicant wishes to exclude information included within an application from the public register, we propose an additional charge of £750 to recover our administrative costs.

**Reduced charges for associated activities**

- 8.6. There are some efficiency savings when processing applications which include multiple activity types. For applications involving more than one of the same activity type or different activity types within one site or scheme, we propose the full charge will apply to the activity type with the largest charge only. Other associated applications submitted at the same time will pay 90% of the appropriate full application charge. Examples include abstractions and impoundments for a hydro generation or a water supply scheme or final effluent discharge and storm and emergency overflows from a sewage works.
- 8.7. PPC application charges already include associated activities such as water discharges and waste activities, which are part of the installation. Consequently, no separate application is required for these associated activities.

**Mobile plant**

- 8.8. Water abstraction: Where an abstraction activity is mobile and moves from location to location (e.g. irrigation pump), an application may be made for a mobile plant permit. The locations must be specified however and we propose to base the application charge on the total volume of water to be abstracted not on the number of locations where the plant is used. The charge will be similar to our existing charge of £600.
- 8.9. Waste: We propose to retain a similar charge to the current charge of £4,000. However please note that the regulation of all waste activities is currently subject to review, including the regulation of mobile plants. We are aiming to issue a consultation on this later this year.

**Environmental service**



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- 8.10. Under the CAR water-charging scheme there is the potential to ask for an application to be considered as an environmental service application. We propose to maintain the concept of environmental service in the new Scheme.
- 8.11. If we accept that the application does deliver an environmental service, then we will not impose a charge for determining the application. This exemption from charges is strictly limited to situations where the purpose of an activity is solely to deliver an improvement to the environment. Environmental service exemptions were intended to cover work to restore the water environment. It does not cover commercial activities or implementation of a statutory duty or condition of an authorisation (such as improving treatment at a wastewater treatment works).
- 8.12. The delivery of work covered by the environmental service provisions delivers general good and the money that we receive from the Scottish Government will fund our work here.

**Micro and Craft scale activities**

- 8.13. A small number of activities which regulations require us to authorise but which we judge to be of micro or craft scale only and for which only a limited assessment is needed, will pay a lower application charge of £130. We propose to develop and publish a list of such activities using the feedback that we get from the consultation process.

**Energy Efficiency Directive (EED) assessment and cost benefit analysis**

- 8.14. Under Article 14 of the Energy Efficiency Directive (EED) operators of new and refurbished combustion plants are required to carry out a cost-benefit assessment for opportunities for combined heat and power, such as district heating. SEPA will incur additional work analysing and assessing Article 14 submissions. To recover the costs of this work, we propose to charge £1,630 in addition to any other application charges. We anticipate that this will impact only a small number of applications each year.

**Application and annual charges**

- 8.15. There may be some situations where we may bill an operator for (1) the application charge and (2) a charge to cover our on-going work to support the authorised activity. This on-going charge is equivalent to the annual charges imposed upon some authorisations. Examples of where this might apply include
- Where there are regular time-limited or single-use applications and the annual charge is best raised at the same time.
  - Where there is a short period of post-authorisation work when charges are required to support the work associated with the authorised activity.
  - Where the annual charge is small and is best raised at the time of applying for a permit or registration.
- 8.16. We propose that the on-going costs will be recovered from charges for the following applications:
- Waste exemptions – the on-going charge will cover our work to ensure compliance with the condition of the exemption.
  - Three yearly renewal of Waste Carriers and Brokers – will cover follow up checks and investigations, for instance our work with other authorities, police and DVSA (Driver and Vehicle Standards Agency) carrying out roadside checks on waste

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carriers.

8.17. This continues the approach used within the existing charging scheme:

**9. Summary of application rules.**

Table 1. List of application charges

<b>Types of application</b>	<b>Charge</b>
Application for an authorisation (e.g. permit, registration, notification, exemption)	Look up activity charges from table in legal scheme
Charges for adverts	£500
Application for commercial confidentiality	£750
Imposition of authorisation	125% of application charge
Technical variation of an authorisation	75% of application charge
Surrender of an authorisation requiring technical assessment	75% of application charge
Substantial technical variation of application which requires re-advertising	30% of application charge
Minor technical variation of an authorisation	30% of application charge
Partial surrender of an authorisation requiring minor technical assessment	30% of application charge
Transfer of an authorisation where a fit-and-proper person test is required	£1200
Energy Efficiency Directive (EED) assessment and cost benefit analysis	£1,630
Administrative variation	No charge
Administrative surrender	No charge
Administrative transfer of authorisation	No charge
Environmental service application	No charge

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**Part 2 - The Setting of Annual Charges**

**1. Introduction**

- 1.1. Our annual charges account for around £31m (out of a total charging income of £36m) and fund much of our day-to-day work.
- 1.2. Our main tool for protecting and improving the environment is the issue of authorisations that allow an operator to run a site or activity. These authorisations set conditions, which protect the environment and the health and wellbeing of people in the vicinity. The setting of these conditions is influenced by domestic and European legislation and associated guidance.
- 1.3. We monitor operators' compliance with the authorisation conditions by undertaking site visits and by taking samples of the emissions from a site. Operators also have to provide us with information on the activities undertaken at the site (such as the amount and type of waste material entering a landfill sites).
- 1.4. We work with operators to help them comply with the conditions specified in their authorisations. Our guidance and meetings with operators help them to maintain compliance. Where a site or activity is not compliant, we will work with the operator and expect action to be taken to bring the site back into compliance. Significant non-compliance could ultimately lead to enforcement action with the case being referred to the Procurator Fiscal.
- 1.5. In addition we monitor the effects of authorised activities upon the environment. For example, we have a programme of monitoring rivers to assess the impact upon the quality of the water and its aquatic animals and plants. We also collect information on the performance of regulated sites and activities from members of the public. Liaison with people around sites that we regulate is an important part of our work. Authorisations are periodically reviewed to ensure that the conditions set are providing the necessary level of environmental protection. Where the conditions need to be changed we agree a timetable over which these changes can be implemented.
- 1.6. This information we receive is wide ranging and is required to determine issues such as environmental capacity for issuing future authorisations or modifications to permits. It can also be used for state of the environment reports and international obligations on reporting emissions. These reports to Government, the European Union and the public are important to provide reassurance that regulated sites and activities are managed in a way that protects the environment, human health and wellbeing, as well as supporting sustainable economic growth.

**2. Current charging schemes**

- 2.1. We currently have 14 annual charging schemes. These schemes have been progressively developed over many years to support individual regulatory regimes and as a result each scheme has its own set of rules, charges and constraints. This is overly complicated for both us and for charge payers. Having multiple schemes makes it more difficult to manage and adjust charge allocations overall, to ensure they remain reflective of risks and priorities over time as well as complying with advice and guidance on charge setting. In addition, as we move towards a single new regulatory regime under the Regulatory Reform (Scotland) Act 2014, it makes sense to develop a scheme that moves away from the link to individual regulatory regimes.
- 2.2. It is proposed to abolish five schemes and replace them with our proposed Scheme:

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- [Water Environment \(Controlled Activities\) Charges and Charges \(Scotland\) Scheme 2014;](#)
- [Pollution Prevention and Control Charges and Charges \(Scotland\) Scheme 2014;](#)
- [Radioactive Substances Act 1993 Charges and Charges \(Scotland\) Scheme 2014 \(Band B & C\);](#)
- [Waste Management Charges and Charges \(Scotland\) Scheme 2014;](#) and
- [Waste Management Exemptions \(Scotland\) Schedule 3 \(Paragraphs 7, 8\(2\), 9, 10, 12, 19, 46 and 47\) Charges and Charges Scheme 2014.](#)

2.3. These five schemes provide the bulk (90%) of our total £31m annual charging income. We will (with Scottish Government approval) consider incorporating some of the remaining schemes in the future.

### **3. Proposed charging scheme: identification of our costs**

3.1. This section describes how we calculate the amount of money we need to support the regulatory functions assigned to it by Government.

3.2. The first stage is to calculate the time we spend across the wide range of tasks that we undertake.

3.3. Our staff record the time that they spend on a range of tasks (for example: determining a Controlled Activities Regulation permit, taking enforcement action at a waste management site, or monitoring the water environment). This Activity Time Recording (ATR) system allows us to derive the time that the different grades of staff spend on different tasks.

3.4. We then use other sources of information to check or calibrate the output from ATR. Some examples are provided below:

- Our national monitoring plan defines the number of samples and inspections taken from each type of regulated activity and we use this information to help allocate monitoring costs correctly.
- Our management units develop workload plans, which define how much time staff should spend on areas of work. These workload plans can be used to drive efficiencies in the business, and will be reflected back in ATR in due course.

3.5. The information from time recording is then converted into costs. This includes salaries and National Insurance for our various grades of staff, travel, training, as well as factors for overheads such as buildings and information systems.

3.6. Virtually all of our costing is done on the basis of SEPA work undertaken over the past year. We have, however, modified some figures to take account of projected changes in the way we will operate. For example, we have

- subtracted the costs arising from our efficiency programmes; and
- added the costs where there are new duties; for example, we have added the costs associated with the introduction of the Material Recycling Facility code of practice.

3.7. The costs are projected forward to take account of inflation, to give 2016/17 charges.

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**4. Proposed charging scheme: what will we charge for?**

- 4.1. This section describes how we identify which costs should be raised from charge payers and which costs should be supported by Government grant.
- 4.2. The existing charging schemes predate SEPA's formation; developed over the past 19 years, there are differences in how costs have been allocated between charges and Government Grant-in-Aid (GIA). As part of the development of the proposed Scheme, we have standardised our interpretation using the Government's current guidance in the Scottish [Public Finance Manual](#), as spelt out below.
- 4.3. Operators will pay the cost of the direct regulation for their type of site. This includes the following activities.
- Visits to the site (e.g. inspections, sampling, meetings).
  - Communications with the site.
  - Costs associated with environmental events and action to help the operator comply with their permit conditions.
  - Regulatory and monitoring costs associated with managing sectorial compliance. This includes running of initiatives to promote good practice or improve compliance and work to ensure that all operators comply with legislation.
- 4.4. Operators will also contribute towards the following indirect costs.
- Appropriate contributions to the costs of environmental monitoring, including the costs of environmental and regulatory data analysis and reporting. If the monitoring has more than one function then costs will be allocated in proportion to the relative scale of the functions. (This currently applies to the water charging scheme and we are now proposing to fully apply these rules to the other parts of our proposed Scheme).
  - Appropriate contributions to the costs of our work, which supports development of methods, models, guidance and procedures that are required to deliver our regulatory and environmental functions.
- 4.5. In addition we take account of the following types of overhead costs when calculating the direct and indirect costs:
- Relevant costs (such as administration, facilities and management costs); and
  - Appropriate depreciation and rate of return costs for our assets.
- 4.6. Work that is not subject to cost recovery from charges includes the following:
- Enforcement costs associated with taking legal action.
  - Action on “freeloaders”<sup>1</sup> - who operate illegally without an authorisation. Our work here is designed to stop companies who are operating illegally from undercutting legitimate operators.
  - There are some situations in which we undertake work to monitor the impact of a sector but do not charge that sector for the work. Typically this is because the costs are large relative to a relatively small charging base. Under these circumstances, other charge payers should not have to cover the costs and the

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<sup>1</sup> “Freeloaders” is a term used to describe those operating without a licence and in competition with legitimate business. As they do not have to pay for a license and operate to much lower environmental standards, this can allow them to undercut legitimate business.

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work will be funded by GIA. This applies to the following impacts:

- o Regulation of engineering in or near water bodies. The current water-charging scheme includes annual charges for work supporting the regulation of engineering work. A very large amount of work is still being undertaken to develop this relatively new area of work for us. There are, however, only a very small number of permits which could pay annual charges. This small charging base cannot support the level of cost recovery required. We will therefore not try to recover the costs of the wider engineering supporting work from charges at this stage.
- o We are directing substantial resources to address diffuse pollution caused by land use activities (such as agriculture). This is also a relatively new area of work, and is requiring substantial resources. The work involves monitoring compliance against General Binding Rules and taking action to enforce compliance with these rules. There is not an appropriately-sized charging base against which these charges could be allocated and we will not try to recover the costs of the diffuse pollution work at this stage.

4.7. There are some broader works we undertake that we also do not charge for.

- Work on flooding (e.g. flood warning or flood risk assessment).
- River basin management planning engagement and plan production – this promotes cooperation between a wide range of organisations who have an interest in the water environment.
- Strategic reporting and environmental service were considered cost recoverable under the water charging scheme but not in other schemes and we propose should be defined as GIA funded.
- Transformational change - This covers the costs associated with the work of developing our Transformational Change Programme. It includes the costs of our input into the development of the regulations under the Regulatory Reform Act. We propose to cover the costs of this work from GIA until it enters the implementation phase when it will become chargeable.

4.8. The combination of the calculation of our costs, and the rules on what can be charged for, allows us to calculate the amount of money that we should recover from charges. This is a detailed and complicated process. As part of developing our proposed new Scheme, we have subject this work to independent review in order to reassure ourselves and charge payers that the process has been undertaken correctly.

**5. Proposed charging scheme: what regulated activities are chargeable?**

5.1. This section describes our proposals on which regulated activities should pay annual charges.

5.2. National policy on charging means the funding required to support our work must be raised from the relevant regulated activities (e.g. permits, registrations).

5.3. Currently there are differences in the way regulated activities contribute to our on-going costs:

- All PPC and WML permits/licences pay annual charges;
- Some WML exemptions do pay an annual charge component as part of their application charge;

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- Although most CAR licences do pay annual charges, some do not;
- CAR registrations do not pay annual charges; and
- General Binding Rules (GBR) do not pay annual charges.

5.4. We consider that generally all licences should pay an annual charge. We consider that some registrations/exemptions, which require on-going work, should also pay an annual charge. Those registrations/exemptions, which do not pay an annual charge, should make a one-off contribution to our running costs as part of the application charges (as detailed in the applications section of this document).

## **6. Overview of proposed charging scheme structure**

6.1. This section provides an introduction to how our proposed Scheme allocates costs between charge-payers.

6.2. The calculation of the charges incurred by a regulated activity will be based upon three components.

- Activity Charge – generally recovers our direct regulatory costs. This is covered in more detail in Annex B.
- Emission Charge – designed to recover relevant indirect costs. This is covered in more detail in Annex C.
- Compliance Factor – looks to recover additional costs imposed by poor permit compliance.

6.3. The Activity Charge component of the Scheme captures our direct regulatory costs. For each type of regulated activity we are able to define the overall level of regulatory effort and therefore the charge that should apply. Generally this element of the charge increases in proportion to the complexity and environmental risk of a site.

6.4. The Emission Charge looks to recover our indirect costs (e.g. those associated with environmental monitoring, data management and reporting), reflecting the scale of the emission, abstraction or waste throughput of a site. It takes account of the environmental significance of these variables (not just scale). This is considered to be a fair way of allocating our indirect charges. As our indirect costs are mainly linked to our larger sites, this element of our charge is focused upon the larger sites.

- All sites will have a baseline Emission Charge added to their Activity Charge. This ensures that all activities contribute to our indirect costs.
- The larger sites are responsible for the bulk of the emissions in a sector and these will drive most of our indirect costs. Consequently, these sites will also have a separately calculated variable Emissions Charge component. The variable Emission Charge will be allocated in proportion to the scale of the emission, abstraction or waste throughput of a site. This approach to charging delivers the “polluter pays principle”, so that those who have the largest potential environmental footprint generally pay higher charges. We believe that this is a fair way for an environment agency to allocate its indirect costs.

6.5. This approach has the potential to provide a financial incentive to improve the environmental performance of a site. We believe that our Scheme should generally encourage site operators who reduce their emissions (and therefore environmental impact) to receive a reduction in their charges.

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- 6.6. The Compliance Factor will introduce an incentive for operators to improve their compliance with the conditions in their authorisation. Those operators who have a poor compliance record as recorded by our Compliance Assessment Scheme will financially contribute to the additional costs created by their performance. See Section 9 below for more details on this element of the Scheme.
- 6.7. The introduction of the compliance factor will not come into effect until our new Compliance Assessment Scheme has run for one or two years.
- 6.8. The manner in which the charge is calculated from the three components is summarised below.

**Figure 1 - Schematic representation of how the annual charge is calculated**



- 6.9. The amount of money raised by the three components of the Scheme will differ. Some types of activity have higher regulatory and compliance costs (for example waste management). Water discharges, abstractions and impoundments have to support a comprehensive environmental monitoring programme, which does not exist for waste and air. Emission Charges for water are consequently larger, reflecting this.

## **7. Calculation of Proposed Activity Charge**

### **Overview**

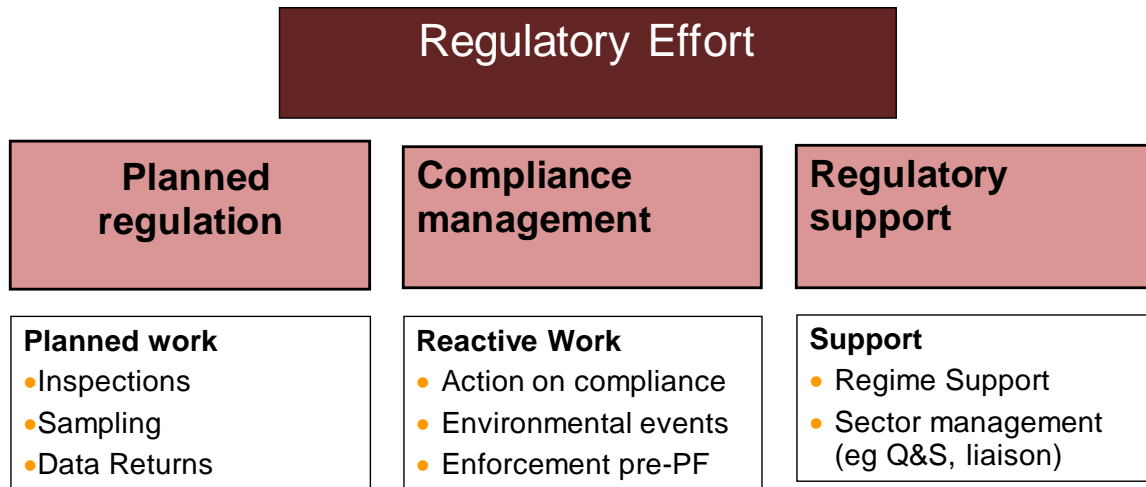
- 7.1. This section describes how we propose to calculate the Activity Charge. A more detailed description of the Activity Charge is provided in Annex B.
- 7.2. The Activity Charge element of the Scheme seeks to capture our direct regulatory costs. These costs are defined at the level of over three hundred different types of regulated activities (this aspect of the charging scheme is similar to the PPC charging scheme in that charges are defined for the different types of activities that we regulate).
- 7.3. For each activity type, we are able to define the overall level of regulatory work and therefore the charge that should apply. The Activity Charge is built up from three parts:
- Planned regulation covering inspections, sampling and data returns;
  - Compliance management covering actions to deal with continual improvement, future developments, non-compliance and environmental events; and
  - Regulatory support covering a range of activities, which provide support at either the sector or regime level.



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**Figure 2 - The components of the Activity Charge.**



**Planned regulation**

- 7.4. Planned regulation involves the following types of tasks: our site inspections and - for some sites - our sampling (e.g. discharge to water, emission to air or waste analysis). We also receive data returns from the operator of a site. These reports may provide information on the activities on the site (such as the waste material passing through the site) or it may provide information on the processes used to manage the environmental risks on the site. This is all planned work that is programmed for the year.
- 7.5. From a combination of our inspection and sampling plans, along with the complexity of the data returns and the grades of staff used, we can calculate our costs. Only the costs of sample collection are reflected here and not the sample analysis which will be captured through the Emission Charge.

**Compliance management**

- 7.6. We may receive information from our planned work (inspections etc.) or from other sources (such as the public) that there is a problem at a site, which requires us to take action. Typically these problems are linked to non-compliance with a condition in the site permit. Under these circumstances, we may take a wide range of action to ensure that the operator moves towards compliance. These actions may range from
- undertaking further investigations,
  - discussions with the operator, or
  - reviewing with the operator what changes may be needed to their permit.
- 7.7. The time spent on this work is captured as part of our activity time recording systems and this time (and cost) is allocated across sectors or regimes depending upon the level of information available.

**Regulatory support**

- 7.8. We provide a wide range of information and support to our staff and operators to support the delivery of good practice. Typically this information is provided at two levels:

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- sector support such as work on Quality and Standards (public water supply and water treatment); and
- regime specific support such as work to support PPC, CAR, WML and RAS.

7.9. Our activity timekeeping records have been used to identify the time and therefore the costs spent on this work. These costs have then been allocated across sectors or regimes in proportion to sum of the Direct Regulation and Compliance Management costs.

**Summary**

7.10. The Activity Charge part of the Scheme captures our costs of regulating activities. This part of the Scheme is more consistent and transparent than our previous charging schemes. We believe that it is a proportionate and therefore fair way of allocating our charges. It means that those activity types that impose the greatest demands upon our resources will generally pay the highest activity charges.

7.11. To an Operator the Scheme is simple. They just have to look up the appropriate activity charge in the Table in the Legal Scheme.

**8. Calculation of Proposed Emission Charge (Emission Assessment Scheme)**

**Overview**

8.1. All Activities have to pay a baseline emission charge. This ensures that everyone pays a contribution to SEPA's indirect costs. This baseline Emission Charge is added on to the Activity Charge and is spread across activities in proportion to the size of the Activity Charge.

8.2. This section describes how we propose to calculate the variable emission charge which is applied to large scale activities (about 10% of permits covered by this Scheme. Further details on the calculation of the charge are provided in Annex C. The calculation of the variable emission charge will be based upon SEPA's proposed Emission Assessment Scheme (EAS). The purpose of the EAS is to describe the relative scale of emissions in a way that has environmental significance, which can then be used to allocate our indirect charges to charge-payers. SEPA will separately publish the results of applying the EAS.

8.3. The types of emissions covered by the EAS are as follows:

- pollutant emissions to air,
- pollutant discharges to water,
- water abstractions,
- water impoundments, and
- handling of waste material.

8.4. We have not applied this approach to the small-scale activities that involve the:

- application of material to land, or
- holding of radioactive substances.

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- 8.5. The intention is that the Scheme is cost-reflective. For example, the indirect costs of running our work on controlling discharges to water will be raised from operators responsible for sewage treatment works, fish farms and industrial discharges, whereas, the indirect costs of carrying out our work regulating waste management will be raised from operators of landfill sites, transfer stations and recycling facilities. In other words, costs will fall on those driving our indirect costs, and generally charges will increase with larger levels of emissions and impacts. This approach to charging helps achieve the “polluter pays principle” and we believe that this is a fair way of allocating our indirect charges.
- 8.6. A secondary benefit of this approach is that the charging scheme may encourage site operators to deliver improvements in environmental performance. We are keen to ensure that operators who reduce their environmental footprint receive a reduction in their charges.

**Defining the emissions from an activity**

- 8.7. The objective of the EAS is to describe the scale of the emissions.
- 8.8. To do this we use the following information:
- Emissions to air and discharges to water – we propose to use the pollutant load emitted by the activity as recorded in the Scottish Pollutant Release Register (SPRI) which we publish every year. This information is also used to provide Scotland’s contribution to the European Pollution Pollutant Release and Transfer Register (PRTR). This lists all pollutants released in significant quantities. For discharges to water, we also use the information that we collect from our sampling programmes.
  - Abstractions of Water – we propose to use the licenced volume abstracted. At this stage we do not propose to use the actual volume extracted because we are interested in describing the scale of the water resource that is “booked” by each activity. The intention is to create an incentive to reduce the licenced abstraction volume so that any freed up capacity can be made available to others.
  - Impoundments – we propose to use the licenced volume impounded for the same reasons as abstractions.
  - Waste management activities – we propose to use the quantity of material handled by the site, split according to European Waste Catalogue (EWC) codes, as reported to SEPA as part of the waste management site data returns. We will also take into account whether the material is recovered or disposed.
  - Holding of radioactive substances - we have not developed an EAS score for these activities.

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**Defining environmental significance**

8.9. Providing information on the level of emissions does not, by itself, provide a measure of the environmental significance of the activity. We have therefore developed factors we propose to apply to reflect the environmental impact of the activity. The output of this process is a score that allows the comparison of activities.<sup>2</sup>

- Emissions to air and discharges to water – we propose to use a measure of the hazard posed by the substances released. Typically this is derived from published environmental assessment level (air) or environmental quality standards (water). We divide the load by the relevant standard to “normalise” the load against environmental hazard. We then add up all the scores for each substance to give the total EAS.
- Abstractions to Water – we intend to use a factor, which reflects how the water is used. If the water is returned within a short distance of the abstraction then the factor is small (e.g. 0.2) and this produces a smaller score. If the water is returned to another catchment, or not returned at all, then the factor is larger and this produces a larger score.
- Impoundments - we have not yet developed a measure of environmental significance for impoundments. Indeed, this may not be necessary as scale may be sufficient in itself. Rather we will just use the licenced volume.
- Waste management activities – we have allocated the weight of material in each EWC to three categories: high, medium and low hazard, and defined factors for each of them. The categorisation of waste is not in itself sufficient to reflect the environmental significance of a waste management activity. There is a big difference, environmentally, if material is recover/recycle at a site compared to the situation in which material is disposed of in a landfill. At this stage we have taken a simple approach to defining a factor to reflect this by proposing factors for the following waste management activities: material recovery/recycling, energy recovery (incineration), or disposal in a landfill. This “waste management factor” will lower the score for sites that recovery/recycling waste and increase the score for those that dispose of waste. We intend to further develop the expression of the waste hierarchy in the Scheme over future review periods as data improves.

**Relationship between significance and charge**

8.10. In order to provide an incentive for operators to reduce the environmental footprint of their activity we have moved away from the traditional approach to constructing charging schemes. In the past our charging schemes have been constructed using a series of bands (see Figure 3). Instead, we propose to construct the Scheme using a continuous relationship between emission and charge.

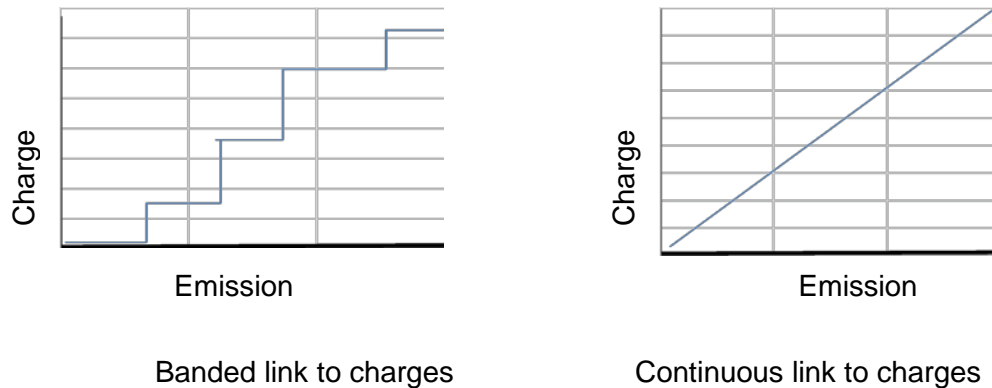
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<sup>2</sup> Note this comparison can only be made between emissions of the same type e.g. different types of emissions to air, but not to compare discharge to water with emissions to air.

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**Figure 3 - Banded vs. Continuous Relationship**



- 8.11. The advantage of the old banded structure is its simplicity. There are only six charges across the range of activities. It is easy for us to construct the Scheme and it has low levels of data requirements.
- 8.12. The disadvantage of the banded scheme is that it is not very cost reflective. There is no recognition of the different scales of activity within a band because an average charge covers the whole band. This means that if a site is at the upper end of a band, the charge is relatively low; whereas if a site is at the lower end of the band, the charge is relatively high. This type of structure also provides limited incentive for improving performance. Most sites within a band will not be able to influence their charge by improving their behaviour. If a site is near a band boundary, however, then relatively small changes in behaviour will have large consequences for charges. This can lead to improvements in behaviour but it also has the potential to create unintended consequences.
- 8.13. It would not be fair, however, to allow a direct link between the scale of the emissions and the charge. The scale of emissions covers many orders of magnitude with typically a very small number of activities that operate at a very large scale. As a consequence, these very large activities would attract the bulk of the charge if our costs were allocated in direct proportion to the scale of activity. This would not be fair. Consequently, we are proposing to take the square root of the emissions to “flatten out” the spread of data and this means that charges are spread more equitably across activities covered by the variable emission charge.
- 8.14. The consequence of the square root transformation of the data is that the emission scores do not respond to small changes in emission. There has to be a significant change before the score, and therefore the charge, responds. For example, as shown by Table 2 below a load reduction of 40% will only result in an assessed emission score (and therefore charge reduction) of 23%.

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**Table 2 Illustration of how charges will change relative to emission reduction.**

Emission Reduction	Charge Reduction
20%	11%
40%	23%
60%	37%
80%	55%
90%	68%

**Advantages and disadvantage of proposed approach**

- 8.15. We believe that the proposed EAS is more progressive and therefore fairer than previous mechanisms for allocating indirect charges. We believe that the incentive will provide a useful recognition for those sites that reduce their environmental footprint, although the extent and focus of the incentive varies according to the charging scheme category.
- 8.16. The disadvantage of the proposal is that the Scheme is dependent upon large quantities of data. However, most sites (80% or so small scale activities) will not have this element of the Scheme applied to them and this simplifies the data needs. Where it does apply, we will work with charge-payers to ensure that the data correctly reflects their situation. The intention is to provide sufficient information to charge-payers during the consultation period to allow them to check the approach that we have taken to calculate their charge. We will look to address any issues with data quality in the period up to the issue of the Scheme. The EAS will then be fixed until the next review for 2018/19.
- 8.17. In order to manage the data demands imposed by the proposed EAS (as well as keeping the Scheme simple where possible) we have only applied this approach to allocating indirect costs to the largest activities (air, water discharges and waste throughput with an EAS >1, abstractions > 2000 m<sup>3</sup>/day and impoundments > 25 ML). This approach covers about 10-15% of the sites we regulate but which typically are responsible for about 80% of the emissions, waste throughput and water abstracted and impounded.

**Summary**

- 8.18. The EAS combines two components (1) scale of regulated emissions qualified by (2) a factor that reflects the environmental significance of the activity. This approach is only applied to the largest activities in a sector.
- 8.19. Table 3 summarises how the charges are allocated and identifies the extent to which the proposals act as an incentive to drive environmental benefits.

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**Table 3. Structure of the Emission Assessment Scheme.**

<b>Type of emission</b>	<b>Scale</b>	<b>Environ significant</b>	<b>Incentive</b>
Emission to air	Measured pollutant loads	Pollutant threshold (e.g. EQS)	Charges responsive to reductions in pollutant emissions
Discharge to water	Measured pollutant loads	Pollutant threshold (e.g. EQS)	Charges responsive to reductions in pollutant emissions
Abstraction	Licensed annual volume abstracted	Proportion of water returned and to what location.	Charges responsive to reductions in authorised levels of abstraction.
Impoundment	Licensed volume impoundment	None developed	No incentive
Waste material	Weight of material handled	Split between low, medium and high risk  Contribution made by an activity to recovering waste material.	Limited incentive but will increase with future development of the Scheme.
Material applied to land	Not applicable		
Holding of radioactive substances	Not applicable		

8.20. The output of the EAS is a score for each type of emission. It is not possible to compare the scores of different emission types, but the score does allow a comparison of permits across the same type emission: e.g. emissions to air.

8.21. We believe that it provides an appropriate mechanism for allocating our indirect costs. It may also provide some incentive to encourage operators to progressively reduce the environmental footprint of regulated activities.

8.22. We intend to progressively improve the EAS in parallel with the on-going development of the Scheme.

## **9. Proposed Calculation of Compliance Factor**

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**Overview**

- 9.1. This section describes how we propose to calculate the Compliance Factor. This Compliance Factor will not come into effect until the second cycle of the Scheme in 2018/19.
- 9.2. Currently, only the existing PPC charging scheme includes a compliance component that increases charges for sites with poor or very poor levels of compliance and reduces charges for sites with excellent or good compliance ratings.
- 9.3. We proposed this in our 2012 consultation to help ensure that those operators who had poor compliance recorded should financially contribute to the additional costs caused by their poor performance. This proposal was strongly supported by 90% of consultation responses.
- 9.4. In developing a compliance component for the Scheme we propose the following changes to rules which have been applied in the PPC scheme:
  - The incentives against poor performance should be greater than the 10% increase in charges currently applied; and
  - The funding raised should be used to direct additional measures to drive down poor compliance and to reduce charges for compliant sites.

**Compliance Assessment Scheme (CAS)**

- 9.5. We will be consulting on a revision to our Compliance Assessment Scheme in 2015. Our intention is to ensure that sites are only defined as having poor or very poor compliance when they have serious compliance problems. Under the current Compliance Assessment Scheme rules, a series of minor compliance problems could lead to categorising a site's compliance as poor or very poor.
- 9.6. We expect the new Compliance Assessment Scheme to operate from 2015/16 and to have the following classes:
  - compliant,
  - broadly compliant,
  - improvement required,
  - poor compliance, and
  - very poor compliance.

**Charge compliance assessment**

- 9.7. We propose to define the Compliance Factor on the basis of the annual Compliance Assessment Scheme score (Table 4). The Compliance Factor will act as a multiplier which will increase the charges faced by a non-compliant Operator. This will ensure that their charges are more reflective of SEPA's additional regulatory costs for non-compliant sites.
- 9.8. We will use some of this funding to drive improvements in compliance and thereby reduce our costs. Once the scheme fully cost recovers, any additional money raised by the compliance factor will be used to reduce charges for compliant operators.



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**Table 4  
Compliance Factors**

<b>Level of compliance</b>	<b>Compliance Factor</b>
No compliance assessment	1 (i.e. no change in charges)
Compliant	1 (i.e. no change in charges)
Broadly compliant	1 (i.e. no change in charges)
Improvement required	1.2 to 1.5
Poor compliance	1.5 to 2.5
Very poor compliance	2 to 5

**Phasing of compliance component**

- 9.9. We expect that a consultation on the proposed amendments to the Compliance Assessment Scheme will be issued later this year. Whilst our aim is to have the new charging scheme operating from 1 April 2016, our intention is to not introduce the Compliance Factor into the new charging scheme until the amended Compliance Assessment Scheme is in place and operators have had time to adjust to it.
- 9.10. We believe that it is important to allow time for operators to understand their compliance rating under the amended Compliance Assessment Scheme and have the opportunity to address any non-compliance before introducing the new Compliance Factor into the charging scheme.
- 9.11. Our expectation is that the Compliance Factor will not come into effect for charging until 2018/19 at the earliest. Initially, we expect that the Compliance Factor will be in the lower end of the ranges shown in the table above. Over subsequent review periods we will increase the strength of the Compliance Factor: for example, this means that the Compliance Factor for sites with a “very poor compliance” record may have a Factor of two in 2018/19 but this might increase to three at the next review. This will ensure that we will move towards direct cost recovery of our work on non-compliant sites whilst giving operators time to drive improvements in compliance.

**10. Calculating the Annual Charge**

**Overview**

- 10.1. This section describes how to calculate charges from the proposed charging scheme, i.e. how the three components – Activity Charge, Emission Charge, and Compliance Factor - work.
- 10.2. The section then goes on to describe a number of rules that we propose to modify how the charge is calculated.

**Calculating your charge**

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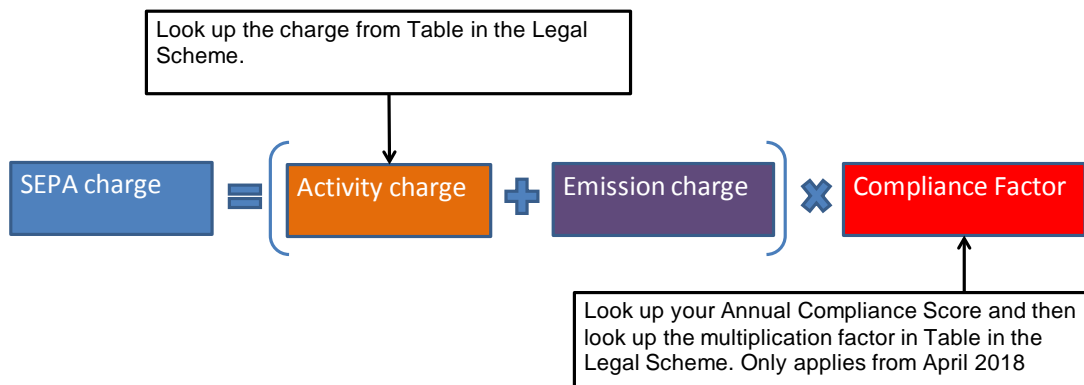
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- 10.3. Firstly, the charge depends upon whether we have defined the regulated activity for which you are responsible as a large-scale or small-scale activity.

Small-scale activities

- 10.4. If you are operating a small-scale activity there will not be a variable emission charge as we have added to the Activity Charge a baseline emission charge to cover this part of our indirect costs.
- 10.5. From 2018/19, the Compliance Factor will come into effect. This will be based upon our updated version of the current Compliance Assessment Scheme. You will then have to look up your Annual Compliance Score in SEPA's Compliance Assessment Scheme. Compliance factors will be published in the Legal Scheme allowing you to look up the Factor that applies to you.

**Figure 4 - Calculating your charge for small-scale activities.**

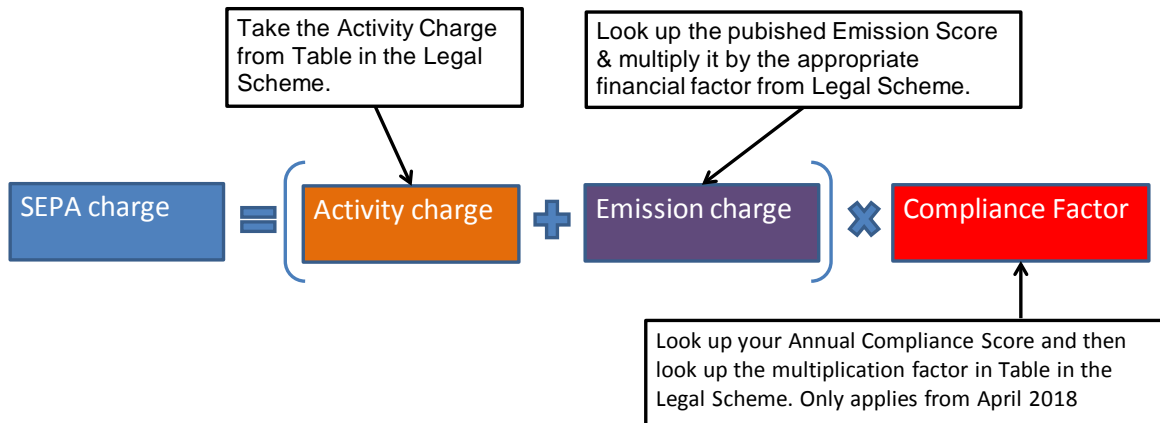


Large scale activities

- 10.6. You can look up the Activity Charge and the added baseline emission charge in the Table in the Legal Scheme. For the variable emission charge you will need to look up the emission score that we have published for your regulated activity using our Emission Assessment Scheme. You then multiply the score by the financial factor in the Legal Scheme. This information will be included in the half-yearly bill that we send you in April and September each year.
- 10.7. From 2018/19, the Compliance Factor will come into effect. This will be based upon an updated version of the current Compliance Assessment Scheme. You then have to look up your Annual Compliance Score in our Compliance Assessment Scheme. This will allow you to work out the Compliance Factor that applies to you.

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**Figure 5 - Calculating your charge for large-scale activities.**



### Multiple activity rules

- 10.8. In most cases, charge-payers will receive a bill calculated from one activity, for example, a private sewage treatment works or a waste transfer station.
- 10.9. In a relatively small number of situations the charges will need to be calculated from multiple activities that fall into different charging scheme categories, for example, a large industrial site may have charges derived from the following charging scheme categories:
- water discharges,
  - water abstractions,
  - waste management, and
  - emissions to air.
- 10.10. Where there are multiple activities included within a permit we may have efficiencies associated with visits and liaison. In recognition of these efficiencies, we are proposing to offer the discounts for the activity charge described in Table 5.
- 10.11. When calculating the discount for a number of activities the following rules apply:
- the rules should be applied in the order listed in Table 5;
  - no discount applies to the largest activity charge;
  - the discount does apply to the remaining activity charges; and
  - only one discount should apply to any activity.

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**Table 5**

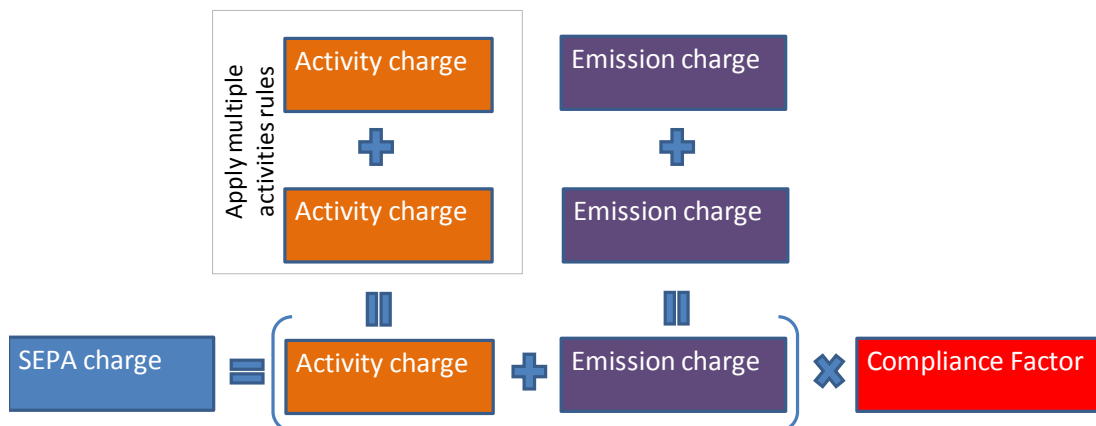
**Activity Charge discounts**

Rule	Description	Discount
Rule 1	Permit contains two or more of the <u>same</u> activity types. A discount will be applied to the second or more activities.	75%
Rule 2	Permit contains two or more <u>different</u> activity types a discount will be applied to the second or more different activity types.	10%

10.12. No discounts apply to the variable emission charges.

10.13. Once the total of the Activity and Emission charges has been calculated it should be multiplied by the compliance factor.

**Figure 6 Illustration on how to calculate a charge where there are multiple activities covered by a single permit.**



**11. Other forms of subsistence charges**

**Post-authorisation work for unusually large/complex applications**

- 11.1. There are some authorisations for which long-term annual charges are not appropriate but for which we may have to commit significant resources to support the authorised activity over several years. These large and complex applications referred to in the Applications Section 6 of this annex. The most frequent example of this type of activity, is engineering activity associated with the water environment. Typically these activities require on-going support from us to cover a wide range of issues including waste management, emissions to air, discharges to water and engineering activities affecting the water environment.
- 11.2. Our previous water charging scheme had a complex mechanism for calculating the annual charge for engineering activities which required on-going support. This was applied in very few circumstances. We are not proposing to continue this part of the water charging scheme. Instead, we propose to charge large scale activities on a time and material basis. This will continue the approach used as part of the permit determination process.

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- 11.3. As described in the Applications Section 6, we are prepared to discuss with an operator a costed plan to cover the application work required to support a scheme. This cost plan can include the post authorisation work.

**Customer-specific charges**

- 11.4. There are situations where SEPA may develop a major work programme focused upon a customer or group of customers. This may be associated with specific environmental issues or the implementation of particular areas of statute. Under these circumstances, we will develop a programme of work and then charge specific customers for the time spent by SEPA on this project.

**Post-authorisation work for one-off or repeat applications**

- 11.5. There are some other types of application charges, which will include a charge to cover our on-going costs (see Applications Sections 8.15 and 8.16). Typically these are small-scale activities that do not justify a separate annual charge. They include applications that have
- A short period of on-going work (such as some waste exemptions) after the application is determined; or
  - Regular renewals (waste carrier licences) where it is appropriate to capture on-going costs at the same time as application charges.
- 11.6. Under these circumstances, the total annual charge required to support such on-going costs is calculated and divided by the average number of applications. This “annual charge ” is then incorporated within the application charge.

**12. Terms and conditions**

**Refund of annual charges**

- 12.1. We will provide a refund of part of the annual charge, if an operator asks us to revoke or transfer a permit part of the way through the year. We propose to standardise refunds to 1/365<sup>th</sup> of the annual charge for each day following confirmation of acceptance of surrenders or transfers or other changes, which remove the charge liability subject to a minimum value of £35, to cover the administrative processing costs.

**13. Exemptions and abatement in charges that are not changing**

- 13.1. The existing water charging scheme identifies some situations where we consider that an activity should be exempt from charges or should be subject to a reduced charge. We proposed to continue those listed below into the new charging scheme.

**Environmental service**

- 13.2. Under the existing water charging scheme we exempted activities from annual charges if they delivered an environmental service. We intend to continue these exemptions

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- 13.3. 'Environmental service' means the carrying out, operation or maintenance of any activity which is, in our view, solely for the benefit of the environment, not being for commercial purposes or the implementation of a statutory duty
- 13.4. The following sections provide more of our interpretation of an environmental service.
- 13.5. Environmental service should not be confused with mitigation measures, which are intended to reduce the impact of a controlled activity. For example, the following activities will **not** be considered as an environmental service.
- A sewage treatment works that removes pollutants so that a discharge can be made to the water environment;
  - A reservoir that maintains flows in a downstream river to compensate for upstream abstractions.
- 13.6. There may be situations where, as part of a programme, an activity may be eligible for consideration as an environmental service. For example, if during the construction of a housing estate, a builder opens up a culvert and engineers a more natural river profile then this component of the work will be considered as an environmental service. Similarly, if a flood defence project includes the restoration of a flood plain, then the removal of flood defences will be considered as an environmental service.
- 13.7. Environmental service activities can be grouped under the following four headings:

Abstractions associated with the control of historic causes of pollution

- Abstraction from mines that are no longer operational and where the abstraction is intended solely to control the breakout of polluted groundwater.
  - Abstraction of groundwater associated with contaminated land solely for the purpose of the remediation of that contaminated land.
- 13.8. In both situations, we are proposing no application fees or subsistence fees associated with such abstractions. However, there would be application fees and potentially subsistence charges for the discharge element associated with the abandoned mine or the remediation of the contaminated land.

Structures and abstractions to maintain or improve the existing water environment:

- An ex-water supply reservoir that is no longer intended as a drinking water source and is maintained solely to support the ecology that has developed within the reservoir.
  - A canal that is no longer used for navigation and is maintained solely to support the ecology that has developed within the canal.
  - A wetland or pond, fed by an abstraction, which is intended solely to maintain or enhance the biodiversity of the water environment.
- 13.9. Abstractions and impoundments that are solely associated with the delivery of the environmental service will not be subject to charges.

Habitat restoration

- 13.10. This is engineering work intended solely to restore the environment to a more natural state or to enhance the biodiversity of the water environment or wider environment. It covers the:
- restoration of a canalised or culverted watercourse to a more natural profile;

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- removal of flood defences in order to restore a flood plain; and
- creation of wetlands and ponds to enhance biodiversity.

13.11. Here we are proposing there will be no fees or charges associated with the engineering work, abstractions or impoundments associated solely with the restoration work.

13.12. This definition does not include fishery improvement work that modifies a natural river in order to improve fishing.

Maintenance of native fish populations

13.13. We are proposing no abstraction or discharge fees or charges should apply if a fish hatchery:

- is a non-commercial operation;
- only rears juvenile native fish up to parr stage; and
- the fish reared are returned to the same river of origin for use in restocking programmes.

**Lades**

13.14. We are proposing that the volume of water abstracted from the water environment into a lade should not be used to calculate application or subsistence charges where only part of that volume is subject to use.

13.15. The following examples are intended to illustrate how this rule would be applied:

- If there is a lade serving a paper mill or a distillery, then the volume to be subjected to charge is that which is abstracted from the lade for cooling, process water or other purposes.
- If there is a lade serving a fish farm, then the volume to be subjected to charge is the volume used by the fish farm processes. If the full volume of the lade is used by the process, then the lade volume will be used to calculate the charge.
- If there is a lade serving a canal, then the volume to be subjected to charge is that which passes into the canal.
- If there is a lade providing water for hydropower, then the volume to be subjected to charge will be that which passes through the turbine.

13.16. We propose not to impose subsistence charges for a lade used only to:

- power a water wheel which is not used for the generation of electricity;
- fill or maintain any off-line pond that may have amenity uses (e.g. fishing and sailing).

**Geothermal heat pumps**

13.17. We propose no subsistence charge where a heat pump extracts heat from abstracted groundwater and then returns this water close to the same location.

**Borehole construction and test pumping**

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- 13.18. Under CAR, the construction of a well or borehole for the purpose of abstraction, whether permanent or temporary, must be authorised. In addition, when groundwater resources are being investigated, it may be necessary to undertake a temporary abstraction in the form of a test pumping in order to assess the available resources or to determine potential environmental impacts. The construction of boreholes or wells and their test pumping must be authorised.
- 13.19. We believe it is not appropriate to charge an applicant two permit fees (one for the borehole construction/pumping test and one for the abstraction). Consequently, we propose there will be no charge for borehole construction/test pumping for an abstraction that would be covered by a registration. Construction and testing of boreholes requiring a simple or complex permit will then be subject only to a registration fee.

**Flood defence (Diversion of Flood Water Offline or Intermittent Online Flood Storage)**

- 13.20. Where flood water is diverted from the river channel into off-line flood storage or a flood relief channel, this will represent an abstraction and will be authorised. We propose not to charge a subsistence charge for such abstractions.
- 13.21. Impoundment structures installed for the purposes of retaining some flood flows online during high flows will require authorisation and be liable for normal application fees but we propose that they will not be liable for any subsistence charges.

**Impoundments less than a metre high**

- 13.22. There may be circumstances where an existing passive impoundment exceeds the 25-megalitre threshold, but is not licensed because the existing dam creates a water level differential of less than 1 metre and allows fish migration. Such impoundments would be covered by a General Binding Rule and we are proposing they would not be subject to charges.
- 13.23. New passive dams that are less than 1 metre high but which do not allow fish migration are not covered by GBRs. These will be required to apply for a permit and so will be subject to an application fee in the normal way. This is because we must assess whether this new impoundment will cause environmental harm. But to ensure an equitable approach with existing impoundments, we propose that such impoundments will not be liable to subsistence charges.

**Off-line impoundments and isolated ponds**

- 13.24. An off-line impoundment does not hold back the flow of a river, but is constructed on the land adjacent to a river. Off-line impoundments do not pose a barrier to fish migration or affect sediment movement. Such off-line impoundments may collect water seeping from the surrounding land or may be supplied by an abstraction. Such off-line impoundments are not considered a controlled activity under CAR and do not need to be authorised.
- 13.25. Abstractions from off-line impoundments or isolated ponds that are filled by groundwater, surface run-off and land drainage are controlled activities and will require to be authorised. This is because the impoundment/pond is used as a mechanism to collect groundwater or surface water, which can then be abstracted. However, abstractions from off-line impoundments or constructed isolated ponds that are filled by an authorised abstraction will not require authorisation. This is because such impoundments/ponds are considered to be part of the infrastructure used to store water that has been authorised to be removed from the environment.



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**Commercial/amenity use of Ponds and Reservoirs/ Historic Mills**

- 13.26. The following water uses will not be liable for impoundment subsistence charges as long as they do not manage the flow from the dam in order to support the maintenance of the activity:
- cage fish farms; and
  - amenity uses such as fishing and sailing.
- 12.25 We propose not to impose subsistence charges for abstractions solely to fill or maintain any offline pond or reservoir or historic mill lade that may have historic and/or amenity uses (e.g. fishing & sailing, historic mills etc.).

**14. Changes to exemptions and abatement in charges**

- 14.1. This section describes our proposed changes to the existing exemption from, or abatement of, charges. It also proposes some new exemptions or abatements.

**Hydropower**

- 14.2. Our existing water charging scheme has caps and exemptions for charging for hydropower schemes. Our experience of regulating small and medium scale hydropower schemes has demonstrated that we need to apply significant resources to ensure that the schemes do not cause environmental harm. Consequently we propose to progressively remove the caps and exemptions from this sector.
- 14.3. We propose the generating capacity referred to below will be calculated at the scheme level and not on the basis of **individual** components of a scheme.
- 14.4. Hydropower schemes generating between 2 MW and 5 MW previously had their charges capped. We propose to remove this cap from April 2016/17 and as a result these schemes will be subject to normal annual charges.
- 14.5. Small hydropower schemes generating between 0.1MW and 2 MW were exempt from annual charges. We propose to remove this exemption from 2018/19 and as a result these schemes will be subject to normal charges.
- 14.6. We propose that small hydropower schemes below 0.1MW generating capacity will remain exempt from annual charges.

**Mothballed sites**

- 14.7. We propose to standardise our approach to how we charge operators when they mothball a site for a minimum of one year. Currently we apply charges for PPC and Waste Management Licences but mothballed CAR licences are exempt from charging. Permit holders must apply for and be granted mothball status. Mothball status must be renewed annually otherwise charges will revert to full charges.
- 14.8. We propose to introduce standardised annual charges for mothballed sites from 2018/19. We consider that the current approach for CAR does not provide any encouragement for operators to give up permits that they do not need. This means that they continue to “book” part of the environmental capacity, limiting our ability to allocate this available capacity to new permits (and so limits potential development or competition).

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- 14.9. We recognise that this proposal will have significant implications for some sectors; in particular, fallow marine cage fish farms and agricultural irrigation. Consequently, we propose not to introduce this charge until 2018/19. This will allow operators to surrender permits that they do not need. As with other changes in charges, we will phase these changes in, so that they do not come into full effect until 2020/21. It is expected that charges will be rebalanced so active site charges would go down.
- 14.10. The mothballing charge will be 20% of the activity charge plus the base emission charge, subject to a minimum of £100. Table 6 provides examples of the proposed mothballing charges.

**Table 6 - Examples of the scale of proposed annual mothball charges from 2018/19**

Table B Activity	Activity Charge element	Base Emissions Charge element	Total Annual Charge when operating	Annual charge if mothballed
Agricultural irrigation	£574	£272	£846	£169
Marine Fish Farm	£11,852	£5,745	£17,597	£5,745
Transfer Station	£3,238	£263	£3,501	£700
PPC A Chapter 6 Printing/Textiles	£835	£65	£900	£180

**Water permits not subject to monitoring**

- 14.11. The existing water charging scheme did not charge those who held licences for discharges that we did not inspect or sample. Licences for all other categories of activities are charged and therefore make a contribution to our costs. We propose to remove this exemption from charging so that these discharges also pay their fair contribution to our costs. We will consult on our proposals for doing this in 2017/18.

**Micro-activity and low impact PPC installations**

- 14.12. We propose to introduce abated fixed charges for permitted activities (non PPC) that are exceptionally small and have little or no environmental impact, operating at a micro or craft scale. We propose to retain low impact charges for appropriate PPC installations. Table 7 lists proposed charges.
- 14.13. Low impact installations (LII) are PPC A installations defined in the SEPA [PPC Technical Guidance Note TG7](#) on our website
- 14.14. We currently propose to apply micro-activity charges to very small fish hatcheries.

**Table 7 – Proposed micro activity and PPC Low Impact activity charges**

Activity	Reduction in effort applied	Proposed Micro-scale Activity Charge
Discharge: Micro Activity	75%	£211
Abstraction: Micro Activity	75%	£133
Waste: Micro Activity	75%	£368
PPC Part B: Micro Activity	75%	£203

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PPC Part A: Low Impact	50%	£738
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14.15. We would welcome the identification of other appropriate activities which could fall into this category together with an explanation of how the size threshold could be defined.

**Abstractions from estuaries and coastal waters**

14.16. We intend to introduce a new exemption for abstractions of water from estuaries and coastal waters. We are not aware of any abstractions from estuaries or marine waters in Scotland that pose an environmental risk. Consequently, we propose to exempt such abstractions from charges.

**Consequences of proposed changes**

14.17. These changes to capping and exemptions will be subject to the same phasing rules as the rest of the annual changes and will be increased or decreased incrementally to their full charge, or exemption, in 2020/21.

14.18. It should be stressed that removing the capping and exemptions for charges does not increase our income. It merely spreads these costs more fairly between a larger number of charge-payers and thereby reduces costs for existing charge-payers and these are reflected in our proposed new charges.

**15. Summary**

15.1. This Annex summarises the detailed proposals for our proposed new Application and Annual Subsistence charges. It provides information on

- What we charge for,
- How we have allocated our costs,
- How we have applied this to our proposed new charges,
- How to derive new application and annual subsistence charges,
- Provided information on the various rules that will apply, and
- Outlined proposed changes to exemptions.

15.2. A summary of how charges were calculated is given in Annex A1

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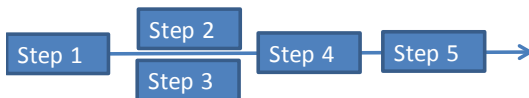
**Annex A1**

**Schematic representation of how application charges were calculated**

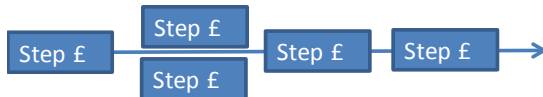
1. Identify regulatory activities

**List of regulated activities**

2. Create standardised work flow which defines the steps required to process an application.



3. Calculate the resources required for workflow for representative selection of activities. Defines charge per application.



4. Rationalise into hierachy of charges. Allocate each regulatory activity type into appropriate charging level

Level	Charge
1	£100
2	£130
3	£200
4	£370
5	£465
6	£600
7	£1,200
8	etc

**Regulated activity**

5. Drive efficiencies in the processing of applications and then reallocate regulated activities to charge level.



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### Schematic representation of how annual charges were calculated

