

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

**ASSESSMENT OF THE FINANCIAL CONSEQUENCES OF
NEW CHARGING SCHEME**

1.0 Purpose

1.1 This document is an Annex to our consultation on the Proposed New SEPA Regulatory Charging Scheme it is intended to describe the financial consequences of the proposed scheme.

2.0 Background

2.1 SEPA's new Charging Scheme consultation is available on SEPA's website. This Annex should be read together with this consultation, which explains the background and details the proposed scheme. This Annex summarises the expected financial consequences of the changes we are proposing.

2.2 In addition, if you hold a permit with us, then you will have received a letter by post with details of how to access information on your individual charge. If you are a permit holder and have not received this letter or cannot access the information, please contact SEPA by email or phone.

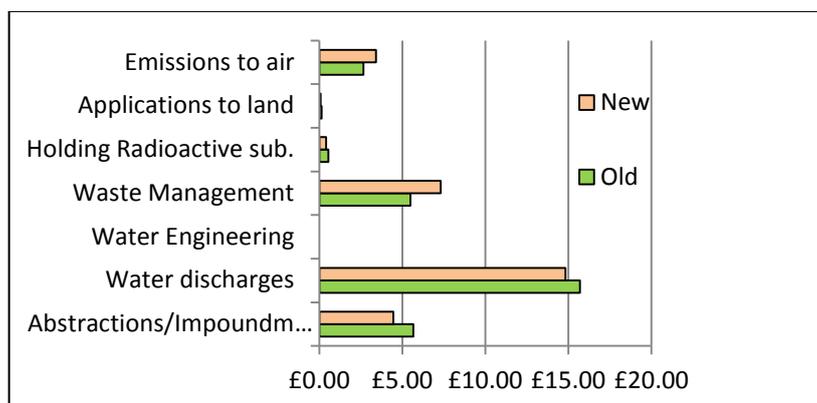
3.0 Overall scale of cost recovery

3.1 SEPA proposes to introduce the charging scheme at the beginning of financial year 2016/17. The objective is that the overall income that SEPA raises from charges will not change.

4.0 Distribution of charges

4.1 The distribution of projected charges between the main categories of SEPA work will change. The amount of income that we expect to recover will fall for water discharges and water abstractions and impoundments. The amount of income that we aim to recover from waste management and emissions to air will increase.

Figure 1. Comparison of the amount of money raised for SEPA's main areas of work under the existing and proposed charging schemes (in £m).



4.2 This change in distribution of charge is due to the:

- shift of SEPA effort (e.g. SEPA has moved staff resources into waste management to address significant problems with compliance);

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- rationalisation of what activities are chargeable. More information on this is provided under section: Description of the Scheme
- introduction of charges to recover the costs of the Materials Recycling Facilities (MRF) Code of Practice.

4.3 This shift in cost allocation is further illustrated in Table 1 below.

Table1. Comparison of the amount of money raised for SEPA’s main areas of work under the old and proposed new charging schemes (in £m)

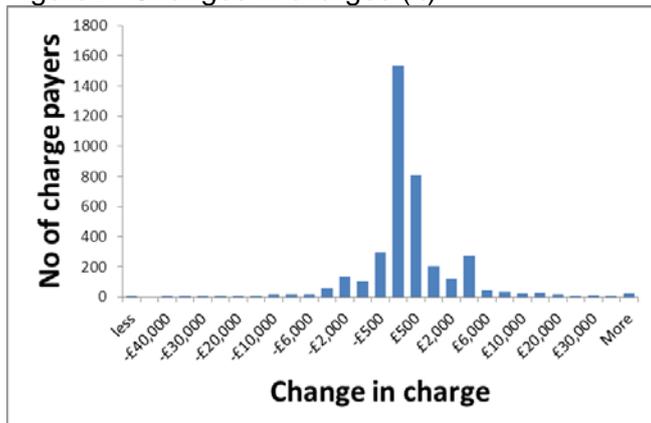
	Income (£m)		difference	
	old	new	£m	%
Abstractions/Impoundments	£5.66	£4.46	-£1.20	-21%
Water discharges	£15.70	£14.83	-£0.87	-6%
Water engineering	£0.00	£0.00	£0.00	0%
Waste management	£5.50	£7.31	£1.81	33%
Holding radioactive sub.	£0.55	£0.42	-£0.13	-24%
Applications to land	£0.14	£0.08	£0.06	-45%
Emissions to air	£2.67	£3.42	£0.75	28%
Total	£30.22	£30.51	£0.29	1%

4.4 The proposed changes will mean that our charges will properly reflect the current allocation of SEPA effort.

5.0 Customer charges

5.1 Moving from five charging schemes to a single more consistent scheme, inevitably means that charges for some will increase, some will decrease and some will stay broadly the same. Figure 2 and Table 2 show how these changes affect customer charges.

Figure2. Changes in charges (£)



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5.2 Most customers face relatively small changes in charges:

- 58% have a reduction in charge;
- 84% have a reduction or an increase of less than £1k;
- 95% have a reduction or an increase of less than £4k and
- 97% have a reduction or an increase of less than £10k.

5.3 There are, however, some customers who face very significant increases in charges or very significant reductions. A more detailed breakdown is shown below.

Table 2. Changes in charge (£)

Change in charge	No charge payers	Cumulative No	Percentage	Cumulative percentage
<-£20,000	12	12	0.3%	0%
-£10,000 to -£19,999	22	34	0.6%	1%
-£4,000 to -£9,999	91	125	2.4%	3%
-£2,000 to -£3,999	131	256	3.4%	7%
-£1,000 to -£1,999	108	364	2.8%	10%
£500 to -£999	295	659	7.8%	17%
0 to -£499	1,535	2,194	40.4%	58%
0 to £499	808	3,002	21.2%	79%
£500 to £999	202	3,204	5.3%	84%
£1,000 to £1,999	124	3,328	3.3%	87%
£2,000 to £3,999	272	3,600	7.2%	95%
£4,000 to £9,999	104	3,704	2.7%	97%
>£10,000.	48	3,752	1.3%	99%
>£20,000	52	3,804	1.4%	100%

5.4 In the existing charging schemes the top 50 permit charges (see table below) are for sewage treatment, Pollution Prevention and Control (PPC), and hydropower. Four sewage treatment work permits have charges between £400k and £500k.

Table 3 Existing Scheme: top 50 permits

	No	Total (£k)	Average (£)
Chemicals	3	£224,269	£74,756
Energy	14	£1,598,672	£114,191
Incineration	1	£63,413	£63,413
Sewage treatment	32	£4,381,005	£136,906

5.5 The proposed new charging scheme results in a more equitable distribution of charges across the different regulatory regimes. There are five sectors represented in the top 50 including the largest PPC, waste, and water sites. The maximum charge for a permit is £243k (sewage treatment works).

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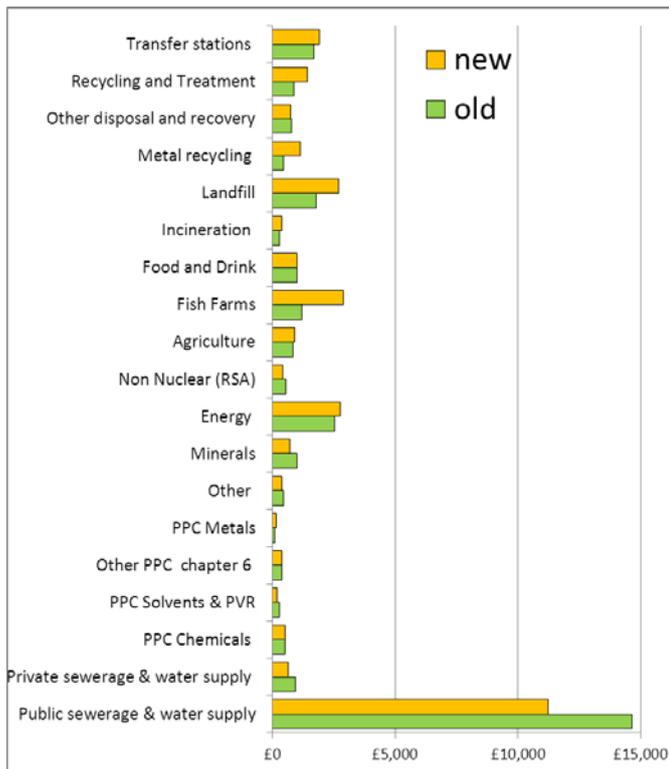
Table 4 New Scheme: top 50 permits

	No	Total (£k)	Average (£)
Chemicals	3	£204,609	£68,203
Energy	14	£1,490,766	£106,483
Food & Drink	1	£131,001	£131,001
Landfill	8	£563,312	£70,414
Sewage treatment	24	£2,563,232	£106,801

6.0 Sectorial impacts

6.1 Figure 3 and Table 5 show the consequences of adding up the individual customer charges at a sectorial level. Some sectors such as water supply and treatment have substantial reduction in charges. Whereas other sectors such as fish farming and landfill sites face large increases in charges.

Figure 3. Change in total charge at the sectorial level (£k)



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Table 5 Average change (£) in permit charges at a sectorial level

Sector	Number	Average charge (£)		Difference in charge	
		Current	New	£	%
Public sewerage and water supply	2080	£7,040	£5,404	-£1,636	-23%
Private sewerage and water supply	524	£1,766	£1,223	-£544	-31%
PCC Chemicals	49	£10,425	£10,192	-£233	-2%
PPC Solvents & PVR	773	£353	£258	-£96	-27%
Other PPC chapter 6	182	£2,085	£2,094	£9	0%
PPC Metals	33	£2,991	£4,637	£1,646	55%
Other	227	£2,042	£1,703	-£339	-17%
Minerals	689	£1,476	£1,035	-£440	-30%
Energy	88	£28,822	£31,370	£2,548	9%
Non Nuclear (RSA)	516	£1,064	£811	-£253	-24%
Agriculture	1756	£469	£520	£50	11%
Fish Farms	381	£3,100	£7,603	£4,503	145%
Food and Drink	274	£3,594	£3,625	£30	1%
Incineration	48	£5,744	£8,169	£2,425	42%
Landfill	290	£6,195	£9,311	£3,115	50%
Metal recycling	218	£2,109	£5,175	£3,065	145%
Other disposal and recovery	46	£16,542	£16,441	-£102	-1%
Recycling and Treatment	157	£5,625	£9,156	£3,531	63%
Transfer stations	418	£3,996	£4,545	£550	14%

7.0 Management of Charge Increases

7.1 We recognised that the increases in charges for some customers will be significant. We therefore propose that all charges should be phased-in over five years. This means that the full charges will not come into effect until 2020/21. Customers who face an increase in charge will have a charge increase of one fifth of the total increase for each of the five years; whereas customers who will get a reduction in charge will pay a bill which reduces by one fifth each year of the total expected decrease.

Figure 4 phasing for customer facing an increase in charge.

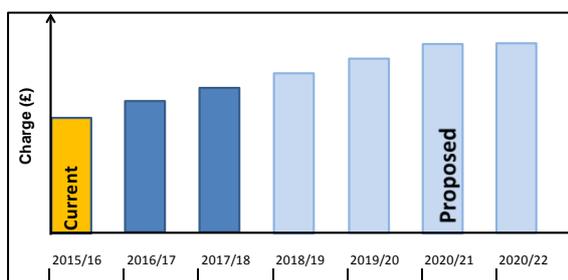
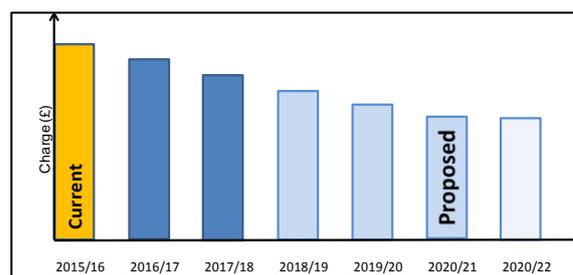


Figure 5 phasing for customer facing a decrease in charge.



7.2 We want to mitigate the impacts on businesses whose charges would increase most significantly and as a consequence a key purpose of this consultation is to seek views on the broad impact, both positive and negative, of the proposed changes to charges and on the proposals for mitigation. We want to avoid unsustainable financial impacts on our charge payers whilst also maintaining the fairness and coherency of the scheme for everyone. During the consultation period we plan to engage with stakeholders who are most likely to be impacted so as to allow SEPA to

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carry out further impact analysis work. This will help to inform a final decision on the approach that will be applied at the introduction of the scheme.