

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

**SEPA'S RESPONSE TO INDEPENDENT REVIEW OF THE PROPOSED SCHEME**

The review confirms that SEPA has constructed the scheme in a manner largely consistent with the principles intended. The table below presents the SEPA's response to the review recommendations.

Comment	Proposed SEPA action	Progress
We recommend that all the documentation is improved to ensure that any adjustments made to financial data are clearly referenced and justification of these is fully documented (s3.2.3)	<u>Documentation.</u> Whilst we have produced 200 pages of explanation of the scheme we agree that further improvement in the documentation covering the details of the model is required.  We will aim to deliver further improvements in the documentation by October 2015	Work to improve the documentation has started.
We recommend that the documentation covering the basis of cost allocation between general ledger accounts, costs centres and workload areas should be brought together to fully document and justify the allocation methods.(s3.3.3)		
Creation of a detailed design document would contribute to ensuring the integrity of the Activity Model is maintained and enabling it to be interpreted by those not directly involved in the development process(s3.6.3)		
To further enhance the approach to calculation of the Emissions Score, we recommend that wherever pollutant factors deviate from existing or commonly accepted values, SEPA fully justifies and documents the selection, making the scientific basis of the changes explicit.(s3.5.3)		
While we consider the methodology adopted by SEPA for the calculation of Activity Score to be appropriate we still have some concerns over the lack of adequate documentation and the use of complex Excel spreadsheets within the overall charges model.(3.6.3)		
The score and charge calculation process (in spreadsheets and Spotfire) is dependent upon derived input data. It is important that this input data is robust, accurate and error free. Consequently, we recommend that a full forensic review of the derivation of the Spotfire input spreadsheets is conducted to ensure the integrity of all reference tables used in the Spotfire Annual Charges Model.(3.6.3)	Agreed we will complete this action before the end of the consultation period.	Independent review complete, recommendations accepted and report published 14 September 2015.
Nevertheless, through maintaining separate models there is a risk that the changes made in emissions/ activity development models are not fully or accurately reflected it the Annual Charges Model. While we noted that this	Agreed – a log has been set up and in addition the developer has reviewed the methodology	John Burns

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<p>risk has been recognised by SEPA and thorough control checks are in place to ensure alignment of the Activity Model and the Annual Charges Model, equivalent control checks have not been developed to ensure the alignment of the Emissions Model and the Annual Charges Model.</p> <p>(s3.8.3)</p>	<p>to ensure the methods and charge model are the same.</p>	
<p>We recommend SEPA develop further control checks, specifically in relation to the Emissions Model. Control checks should seek to ensure that the Annual Charges Model completely and accurately reflects the methodology used to calculate Emissions Scores in the development model and that charges are accurately calculated. We recommend that consideration is given to developing a 'checklist' approach to validating the calculations prior to release of each future iteration of the full charging model.(s3.8.3)</p>	<p>Agree - will initiate within one month.</p>	<p>A full verification was performed comparing all individual emissions and activity model results to the full model. This was done as a manual process for the consultation. The results are stored here: \\sepa-app-spl02\sepa\Spotfire Data\Charging Scheme Modelling\Consultation Data\Testing Results. This process will be automated when more time is available.</p>
<p>The methodology adopted for the calculation of Application Charges is not consistent with that adopted for the Annual Charges. The approach is intended to act as an incentive to improve efficiencies in this area. Whilst SEPA are not setting out to intentionally under-recover the cost of applications, we do recommend that the progress of efficiency initiatives are carefully monitored to ensure that intended savings are realised and any impact on overall cost allocation is correctly reflected. (s393)</p>	<p>This is clearly important. We are intending to reach cost recovery for applications by increasing some charges and by improving the efficiency with which we undertake the work. It is not possible to confirm that we have got the balance right. We can be confident that we will substantially improve the level of cost recovery.</p>	<p>Post implementation action</p>
<p>Specifically, we recommend that workflows are developed for band three, band five and band ten charges. Furthermore, we recommend that all workflows are refined to reduce reliance on assumptions and professional judgement. SEPA should also look to develop detailed supporting information that robustly justifies the level of discount/surcharge applied in certain circumstances. (s393)</p>	<p>Agreed we will aim to complete this before the end of the consultation period.</p>	<p>Workflows for the 3 missing bands have been added. SEPA has a lot of regulatory and costing experience acquired during development of the existing schemes and believe that the estimates used are reflective of actual cost variations. Any reliance on assumptions and professional judgement will be</p>

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		reviewed and refreshed in light of knowledge gained ahead of each future review beginning in 2017.
We recommend that as better time recording data becomes available, efforts are on-going to refine the application charging model. In particular focus should be made in relation to minimising the reliance on estimations and judgement in favour of using more robust data sources. (s393)	Agreed we will be able to deliver improvements for the 2017 review.	Will be undertaken as part of the review of the scheme for 2018/19
Significant effort needs to be made in terms of defining large and complex projects including clear criteria that can be used to identify band seventeen projects. Furthermore, clear protocols will also need to be established to ensure that any deviation from the agreed project plan is able to be quickly identified and any material increases in costs notified and agreed with the applicant. (s393)	Agreed the implementation of this proposal will require substantial work. We will have the outline procedures in place for the commencement of the scheme.	Work expected to start in September
Consideration will also need to be given to how any significant support in excess of the standard support provision can be identified on the basis that time recording is unlikely to be conducted at an applicant level for band one to band sixteen applications.  We recommend that SEPA seek advice in relation to the tax (specifically VAT) implications of provision of pre-application support services. Whilst it is not SEPA's intent to provide consultancy services, if this could be regarded as being provision of a commercial service there may nevertheless be a taxation implication for SEPA.  Furthermore, if pre-application support services are in competition with private sector consultancy providers there may be implications for state aid rules. SEPA therefore need to be able to robustly demonstrate that they are recovering full cost and that there is no subsidy from public funds (grant-in-aid) (s393).	We will remove the proposal to charge for pre-application advice about the average time included within application charges.	Done
Similarly, the work involved in deriving this set of charges has highlighted the need to re-align underlying data capture systems to help improve the level of direct cost re-allocation that can be achieved and thereby reducing the need for complex modelling or use of professional judgement in determining charges. (s3.10.3)	This is critical to ensure that data such as ATR is aligned to deliver the requirements of the new charging scheme in time for the review in 2017.	Review of Activity Time Recording (ATR) started.
To ensure clarity on the future impact of the new charging scheme further detail needs to be provided on how the review in 2018-19 will impact the phasing of changes in charges. (s3.10.3)	Will ensure that this is covered in the consultation documentation	Text included in consultation.