

SCOTTISH ENVIRONMENT PROTECTION AGENCY

APPENDIX 1: ASSESSMENT OF THE FINANCIAL CONSEQUENCES OF NEW CHARGING SCHEME

A1. Purpose

A1.1 This document is an Appendix to our consultation on the proposed review of the Environmental Regulatory (Scotland) Charging Scheme 2016. The intention is to describe the financial consequences of the proposed scheme.

A2. Background

A2.1 SEPA's new Charging Scheme consultation is available on SEPA's website. This Appendix should be read together with this consultation, which explains the background and details of the proposed scheme. This Appendix summarises the expected financial consequences of the changes we are proposing.

A2.2 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(s). If you are a permit holder and have not received this letter or cannot access the information, please contact SEPA by email or phone.

A2.3 Please note that these charges can only be indicative because the scheme may change as a result of this consultation and updating the data upon which the charges are constructed. Indicative charges do not include RPI.

A3. Overall scale of cost recovery

A3.1 SEPA proposes to introduce a revised charging scheme at the beginning of financial year 2018/19.

A4. Distribution of charges

A4.1 Table 1 shows the impact of the changes between the existing (2016 scheme) and the proposed scheme. The majority of the increases / decreases are due to the changes which were first consulted in the 2015 charging consultation. In particular the increase for:

- abstraction and impound is due to the 0.1 – 2 MW hydro schemes being charged for the first time. Most of the charges against these hydro schemes is redistributed except where we believe we are going to undertake additional regulatory or monitoring work.
- small sewage discharges which have been charged for the first time. Again, most of the charges are redistributed except where we believe we are going to undertake additional regulatory or monitoring work.

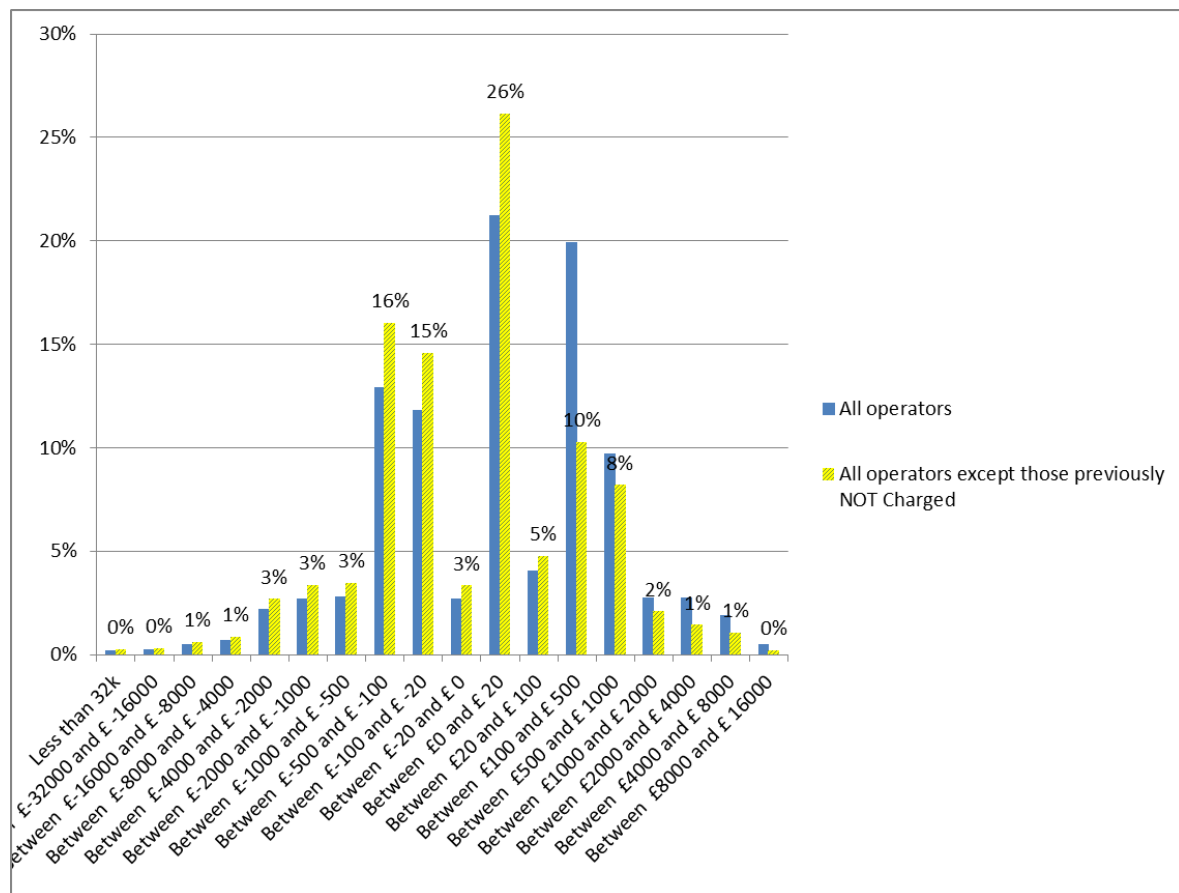
Table 1. Comparison of the projected income under the existing and proposed scheme (in £) – after 3 year transition period.

	Income		Difference	
	Existing	Proposed	£	%
Emissions to air	£3,322,375	£3,221,069	-£101,306	-3%
Disposal to land	£77,218	£80,675	£3,457	4%
Holding radioactive substances	£443,493	£446,378	£2,885	1%
Waste management	£7,594,049	£7,569,946	-£24,104	0%
Discharges to water	£15,448,914	£15,555,607	£106,692	1%
Abstraction & impoundments	£4,519,747	£4,779,315	£259,568	6%
Grand total	£31,405,797	£31,652,989	£247,192	1%

A5. Charge-payer bills

A5.1 Introducing the planned changes that were outlined in the 2015 Charging consultation and those identified in response to the consultation are expected to modify a number of charges. These changes give rise to the impacts outlined in Figure 2 and Table 2 on customer charges.

Figure 1. Changes in charges (£)



A5.2 The graph shows two bars; the blue bar shows all operators and yellow and chevroned bar show only those who had been previously been charged under the current scheme. Looking only at those that have previously been charged (chevored) since they represent existing charge payers this shows that the majority (72%) of existing charge payers get a reduction or small increase of £20.

A5.3 For the remaining 29% of operators the main change is due to operators who have 0.1 – 2 MW hydro schemes or small sewage discharges which are charged for the first time and have another licence which is already charged. A more detailed breakdown is shown below.

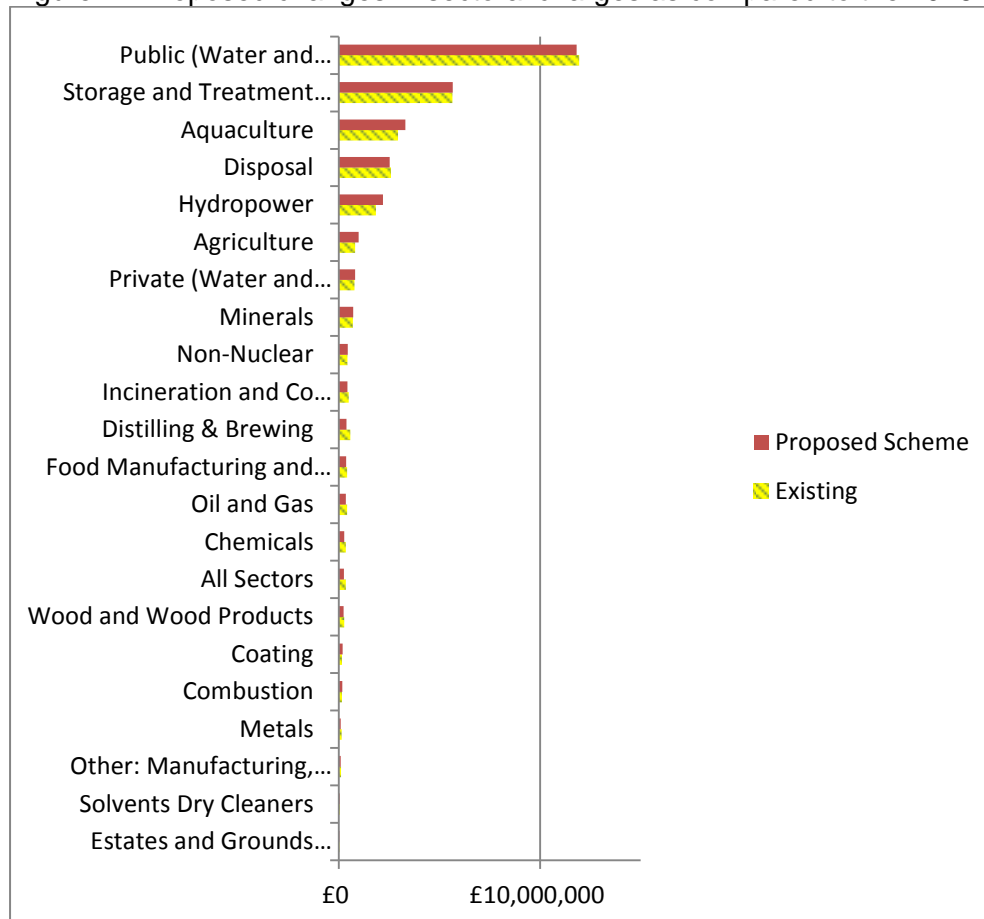
Table 2. Changes in charges faced by charge-payers (£)

	All operators	All operators except those previously NOT Charged	Cumulative - All operators	Cumulative - Excluding not previously charged
Less than 32k	0%	0%	0%	0%
Between £-32000 and £-16000	0%	0%	0%	1%
Between £-16000 and £-8000	0%	1%	1%	1%
Between £-8000 and £-4000	1%	1%	2%	2%
Between £-4000 and £-2000	2%	3%	4%	5%
Between £-2000 and £-1000	3%	3%	7%	8%
Between £-1000 and £-500	3%	3%	9%	12%
Between £-500 and £-100	13%	16%	22%	28%
Between £-100 and £-20	12%	15%	34%	42%
Between £-20 and £0	3%	3%	37%	45%
Between £0 and £20	21%	26%	58%	72%
Between £20 and £100	4%	5%	62%	76%
Between £100 and £500	20%	10%	82%	87%
Between £500 and £1000	10%	8%	92%	95%
Between £1000 and £2000	3%	2%	95%	97%
Between £2000 and £4000	3%	1%	97%	98%
Between £4000 and £8000	2%	1%	99%	99%
Between £8000 and £16000	0%	0%	100%	100%
Between £16000 and £32000	0%	0%	100%	100%
Greater than £32k	0%	0%	100%	100%

A6. Sectorial impacts

A6.1 Figure 2 shows the consequences of adding up the individual permit charges at a sectorial level. Some sectors such as distilling and brewing have a reduction in charges. Whereas other sectors such as fish farming, hydropower and, storage and treatment of waste face increases in charges.

Figure 2 Proposed changes in sectoral charges as compared to the 2016 scheme



A6.2 Table 3 shows the change number of licences that are charged under the existing and proposed scheme by sector. The largest increase is for the hydropower sector which increases from 39 to 325. The main other increases are due to small sewage discharges which are charged for the first time.

A6.3 The increase in the number of licences charged for aquaculture and agriculture is due to the introduction of charges for fallow / mothballed permits.

A6.4 The remaining changes are due to licences which are currently being determined but are not operational yet but will be by 2018.

Table 3 Average change (£) in permit charges at a sectorial level (the change includes new licences and licences that were zero charged due to mothballing rules).

SECTOR	2016 Scheme	Proposed Scheme	% Change
Hydropower	39	325	733%
Transport Infrastructure	20	52	160%
Private (Water and Wastewater)	588	1,141	94%
Aquaculture	414	651	57%
All Sectors	173	193	12%
Food Manufacturing and Processing	103	114	11%
Distilling & Brewing	202	222	10%
Agriculture	1,684	1,843	9%
Storage and Treatment of Waste	881	950	8%
Public (Water and Wastewater)	2,117	2,277	8%

A7. Management of Charge Increases

- A7.1 We recognised that the increases in charges for some customers will be significant. All charges should be phased-in over the remaining three years of the new scheme. These transitional arrangements only apply to sites that were licenced before 1/4/16. This means that the full charges will not come into effect until 2020/21 for those sites that were licenced before 1/4/16. Sites that were licenced after this time will have the revised charges implemented immediately.
- A7.2 Where transitional arrangements apply they will be undertaken in three ways:
- A7.3 1) Activities that were charged will continue to be phased in as if it was over a 5 year period. The charge based on them being operational.
- A7.4 2) For activities not previously charged (except sites coming under temporary cessation) will be phased in over three years with 60% in 2018/19, 80% in 2019/20 and 100% in the final transition year (2020/21).
- A7.5 3) Sites which have a temporary cessation charge will pay the full temporary cessation charge.
- A7.6 We want to mitigate the impacts on businesses whose charges would increase most significantly as a consequence of the proposed changes. 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 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.