

**Note of the Joint Scottish Government / SEPA
Charging Scheme Stakeholder Workshop held
4th December 2013**

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1. Purpose

- 1.1 This note provides a summary of the key points given within the presentations along with a record of the general questions raised by stakeholders at the workshop. The results of feedback from the questionnaires will be sent out separately.

2. Introduction – Calum MacDonald

- 2.1 Scottish Government and SEPA consulted a year ago on the high level proposals for SEPA's future funding arrangements and received strong support for the move to a single charging framework based on risk and operator performance.
- 2.2 The June 2013 stakeholder workshop built on the consultation and explored some of the different options for defining risk that could underpin the future scheme. This workshop further builds on that.
- 2.3 It was stressed that the development of the new scheme isn't about increasing the overall amount collected via charging. It is about how to design a better charging framework – one that is fairer, more risk-based, flexible and joined-up. We also want the new model to help incentivise good practice.
- 2.4 The papers and presentations for the December workshop will be made available on SEPA's website SEPA would welcome comments on the proposals up to the 27th January.

3. Direction of travel – Martin Marsden

This following indicative timetable was presented:

- May 2014 – next stakeholder workshop;
 - October 2014 – formal consultation on new charging scheme;
 - March 2015 – ask Scottish Ministers to approve the scheme; and
 - March 2016 – implemented (first invoices issued under the new scheme).
- 3.1 It is proposed that there will be a delay of one year between Ministerial sign-off and implementation to provide operators with time to prepare for the new charges.

Business Planning

- 3.3 Existing charging schemes are based upon workload planning exercises undertaken by SEPA when the schemes were first produced. The workload planning assumptions for these schemes are now out of date.
- 3.4 The new scheme proposes to use the corporate planning round to formulate charges. Consequently, the charging scheme will evolve as SEPA's allocation of work changes making SEPA's charges more cost reflective.
- 3.2 The issues raised on Business Planning were:
1. How are the unregulated / not licensed aspects causing diffuse pollution going to be funded for example education drives etc?

4. The Rules for GiA and charging – John Shaw

4.1 The rules determining whether a SEPA activity should be funded by GiA or charges are based upon the SG Scottish Public Finance Manual ([link](#)).

Principles - full cost of service

4.2 Work is chargeable if it relates directly or indirectly to the existence of the regulated activity e.g.:

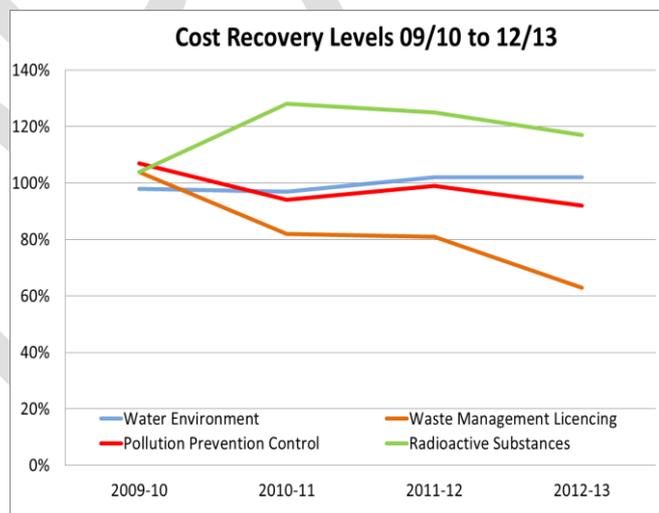
- Direct - Inspection, sampling, reporting
- Indirect – environmental monitoring, research & development

4.3 The main principles SEPA will follow are:

- full cost recovery of the service;
- not intentionally over-recovering the cost of the service;
- reflect the cost of the providing the service;
- a clear and direct link between the charge payer and the benefits received; and
- cross-subsidies are not good practice.

Current level of recovery from Charging Schemes

4.4 The following graph shows the current level of recovery over a number of years for the main schemes all of which will come into the new charging scheme. Post-workshop note: SEPA has submitted proposals to the Scottish Government that will help to reduce the funding gap over the next two years and a consultation is currently underway ([link](#)).



GiA and Charging Split

4.5 There are a number of activities which are clearly either GiA or charging. However there are activities in the middle ground which need to be allocated according to some rules, consequently this is a more complex area.

4.6 The interpretation of these rules varies between the existing charging schemes

- 4.7 The intention is to ensure that the rules for the scheme are consistent and not a reflection of when the sub-components of the scheme were developed. This, in turn, will help to improve transparency, management and understanding.

Re-allocation decisions

- 4.8 A review has been carried out of the allocation rules and the following decisions made.
- 4.9 Costs allocated to GiA:
- The costs of the “environmental service” exemption from application fees was funded by charges for water. In future these costs will be covered by GiA. Note: these exemptions apply to applications where the only intent is to deliver environmental improvements.
 - strategic reporting was defined as chargeable for water and will in future be funded by GiA for all media.
 - SEPA change programme funding is chargeable under the rules but SG and SEPA agree that this is best covered by GiA.
- 4.10 Costs to be completely allocated to charges:
- monitoring / reporting will be funded from charges for all regimes (currently this is only fully applied for water)
 - sector management – working with sectors and operators as part of an improved focus on outcomes (currently the rules vary between regimes).

Breakout Session on: “The Rules for GiA and Charging”

- 4.11 This session provided an opportunity to discuss how the rules work in practice. The key issues raised were:
1. How the Scottish Pollutant Release Inventory (SPRI) should be used and charged for.
 2. Whether SEPA would focus on areas charged for to the detriment of other areas where greater environmental harm arises.
 3. Opportunity to improve how SEPA invoices provide information on the charges (e.g. more akin to those issued by private utility companies).

5. How to allocate charges to sites – John Burns

- 5.1 This presentation outlined the proposed charging scheme structure and how the costs are then allocated. This was work derived from the consultation and the June workshop.
- 5.2 The current model comprises three main elements. All of these elements had a wide level of support in the June workshop, and include:
1. Site / sector – this would capture the regulatory level of knowledge and time at site to regulate it effectively.
 2. Emissions – this uses the emissions / abstractions to scale the monitoring, data assessment work.
 3. Environmental sensitivity – this reflects the additional assessment work which needs to be factored in to due potential impacts on environmental receptors.

Workshops on the Allocation of Costs to Site

- 5.3 Three workshops were held one for each element. A high level summary is provided below. A further note will be produced on the feedback from the questionnaire.
- 5.4 The principal observations / issues which need to be addressed / accounted for include:
1. The potential for overlaps between each element (e.g. impact on a receptor may be part of each element).
 2. An environmental receptor factor may address issues which have already been addressed by the licence / permitting process.
 3. Concern that too complex a model will result from the emissions and environmental sensitivity elements.
 4. Larger emissions do not necessarily mean a higher level of work is associated with the site.
 5. The use of a scale called "complexity" in the site / sector element maybe misleading.
 6. Concern that the model will just fit current activity rather than the potential future activity.
 7. How could self monitoring be taken account of?
 8. The potential that a number of similar activities which only differ by scale would be subject to vastly different charges.

6. Compliance charge – Simon Bingham

- 6.1 This session highlighted some ideas currently being considered but which have not been formally agreed. The main aspects flagged were the need to:
1. simplify the process for compliance assessment for operators and SEPA,
 2. remove some of the "cliff edge" effects in the scheme,
 3. make the terminology reflect 'compliance' better and be less emotive, and
 4. better reflect the costs of non-compliance at poor performing sites.
- 6.2 On the last point above, the PPC scheme uses compliance score element in the charge but this does not reflect the work / costs associated for non-compliant sites. A 10% increase only is applied for very poor sites. By comparison, the Environment Agency scheme for the poorest performing sites in England increases charges by 300%. This better reflects the costs associated with poor performing sites.
- 6.3 Any introduction of compliance would be phased in.
- 6.4 The key issues raised were:
1. How are minor breaches going to avoid "cliff edge" effect?
 2. How does investment in the right areas get reflected in the compliance score?
 3. How are "one-off" failures taking account of particularly to give the operator and opportunity to respond?

7. Other areas of work – Martin Marsden

- 7.1 The final charging scheme will be fully accountable and auditable. A 3rd party auditor will review the new charging scheme and report back to stakeholders
- 7.2 The proposal to include a standing charge is to be dropped as it is not considered an efficient way to charge operators and did not provide the flexibility initially expected. As a concept, it is also difficult to use and to meet public finance guidance.
- 7.3 Work on application fees has yet to start. The work will need to address the gap in costs versus charges. Areas which influence the application charges are:
 - 1. improving efficiency of the process,
 - 2. tightening up on how poor quality applications will be dealt with and
 - 3. how major infrastructure / building projects should be charged.
- 7.4 This last point is a particular area of concern for SEPA where considerable amount of work is not covered by existing charges.

8. Final Set of Issues Raised

- 8.1 The following summarises the main issues raised in this section were:
 - 1. concerns that the timescales were too long to deal with the current known issues.
 - 2. whether the intention was for SEPA to recover costs under the planning aspects.
 - 3. Recognition that SEPA work is allocating a lot of time and resources in dealing with non-compliant operators – ones which may not be directly regulated. It was felt by some that other licensed operators should not be picking up the costs of this work. How much of this work should be publicly funded versus paid for by charges payers, to provide a more level playing field etc, needs to be discussed so that the GiA / charge split for this aspect of SEPA's regulatory effort is understood.