



# Consultation on our charges for 2012 to 2015

**Consultation summary document**

September 2011

We are the Environment Agency. We protect and improve the environment and make it **a better place** for people and wildlife.

We operate at the place where environmental change has its greatest impact on people's lives. We reduce the risks to people and properties from flooding; make sure there is enough water for people and wildlife; protect and improve air, land and water quality and apply the environmental standards within which industry can operate.

Acting to reduce climate change and helping people and wildlife adapt to its consequences are at the heart of all that we do.

We cannot do this alone. We work closely with a wide range of partners including government, business, local authorities, other agencies, civil society groups and the communities we serve.

**Published by:**

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# Executive summary

The Environment Agency has powers under legislation to recover the costs of some of its services. Under these powers people and organisations who require an environmental permit pay for the cost of the service, rather than it being funded from general taxation. This reflects the government's "polluter pays principle".

We are mindful of the economic impact our charges have and have kept increases below inflation over the past seven years. We did not increase our charge rate last year. We remain committed to continuing to improve our efficiency and for the savings to offset inflation increases. In addition we have introduced a range of better regulation initiatives, such as low cost standard rule permits. This is covered in more detail in Section 1. However, after three years of zero increases (this year and the first two covered by the consultation) we believe that there are likely to be cost pressures that will require a small increase in charges in year three (2014/15).

Building on this, we propose:

- No change to the rate of charges for the majority of charge payers for two years with a check at the end of each year;
- A small number of technical changes that are largely beneficial to industry;
- A small increase in charges in year three.

This proposal for no change compares to the latest government forecast for general inflation of around 2% to 4% over the next few years<sup>1</sup>. To achieve our proposal we will need to continue to make substantial efficiency savings in how we deliver our services and in the costs of our support services.

We need to ensure that we comply with HM Treasury rules over cost recovery and the need to balance our costs with our income year on year. We will consult again if we need to but only on any changes we need to make. If there is no need to change, the charges will stay the same for the next year. This approach has been initiated by the Environment Agency but has the agreement of HM Treasury and other government departments.

We are proposing some technical changes to give us flexibility and to allow us to introduce better regulation initiatives (for example new standard permits and reductions for assurance schemes members).

We believe that overall this consultation provides a package that is once again sensitive to business needs, the economic situation and provides as much certainty as possible.

We welcome your comments on our proposals; details of how to respond to the consultation can be found in chapter nine of this document.

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<sup>1</sup> Office for Budget Responsibility projections for Consumer Prices Index

We plan to issue a consultation in 2013-14 outlining a more strategic approach to charges going forward and this will be used to inform the next spending review. It will also provide an opportunity for early input from charge payers on any proposed changes that are planned to be introduced from April 2015.

# 1 Introduction

We are the Environment Agency. We protect and improve the environment and make it a better place for people and wildlife.

We operate at the place where environmental change has its greatest impact on people's lives. We reduce the risk to people and properties from flooding; make sure there is enough water for people and wildlife; protect and improve air, land and water quality; and apply the environmental standards within which industry can operate.

We are required by Government to recover the costs of our main regulatory services from the businesses we regulate under the "polluter pays principle". This also means that those who are required to have a permit pay for the cost of the service, rather than this being funded from general taxation.

This consultation builds on our achievements over many previous years. We have not only been able to restrict charge increases to below inflation but we have also introduced a range of new measures that benefit operators including:

- introducing low cost standard rules permits in 2008. We currently have permits for over 50 activities available allowing us to offer significant reductions on the bespoke permit application charge. For example, the charge for a waste standard rule permit fell from £2,545 to £1,590 from April 2010 after we made the process more efficient. This compares to a typical application charge of around £4,000 for a bespoke permit;
- linking charges to environmental performance with poor performers paying up to 3 times more than good performers;
- introducing a range of free exemptions for low risk sites. Approximately 700 sites a year carrying out the lowest risk activities can now register a simple exemption free of charge rather than paying £575 to register a complex exemption. This includes land restoration or using waste as a construction material;
- introducing a range of payment options;
- dealing sympathetically with operators in financial hardship, such as operators of waste facilities and installations looking to temporarily mothball their sites;
- introducing lower subsistence charges for intensive livestock producers who are part of an accredited assurance scheme. This reduced subsistence charges by nearly £900 for around 500 operators;
- reduced charges for those water quality consents where operators undertook monitoring of their own discharges (Operator Self Monitoring).

Unlike previous years where we have consulted on our charging schemes for the next 12 months, we are consulting this time for a three year period from 2012 to 2015. The main thrust of our proposals over this period is to build on our achievements of recent

years and continue to deliver below inflation increases to our charges. For this consultation period we are proposing no change to our charge rate for the majority of our major schemes for the next two years. This is dealt with in more detail in Section 3.

We have kept charge increases below inflation over the past seven years. We did not increase our charge rate last year and we remain committed to continuing to improve our efficiency and for these savings to offset inflation increases. However, after three years of zero increases we believe that there are likely to be cost pressures that will require a small increase in charges in year 3 (2014/15).

We have also identified a small number of proposed technical changes. Some of these are designed to enable us to introduce new measures part way through the three year cycle without having to consult each time. Examples of these include charges for new Standard Permits and potential reductions for operators who become members of defined assurance schemes. They also include the transfer of charges (with no change) from regulations into a charging scheme. These are dealt with in Sections 4 to 6.

The consultation will run for 12 weeks, which is in line with government's Code of Practice on Consultation. There will be a further period to assess responses and secure approvals. We welcome your comments.

## 2 What this consultation covers

This consultation sets out our proposals for our charges from April 2012 to March 2015 and covers the following schemes:

- Environmental Permitting (EP)
- Abstraction
- EU Emissions Trading Scheme (EU ETS)

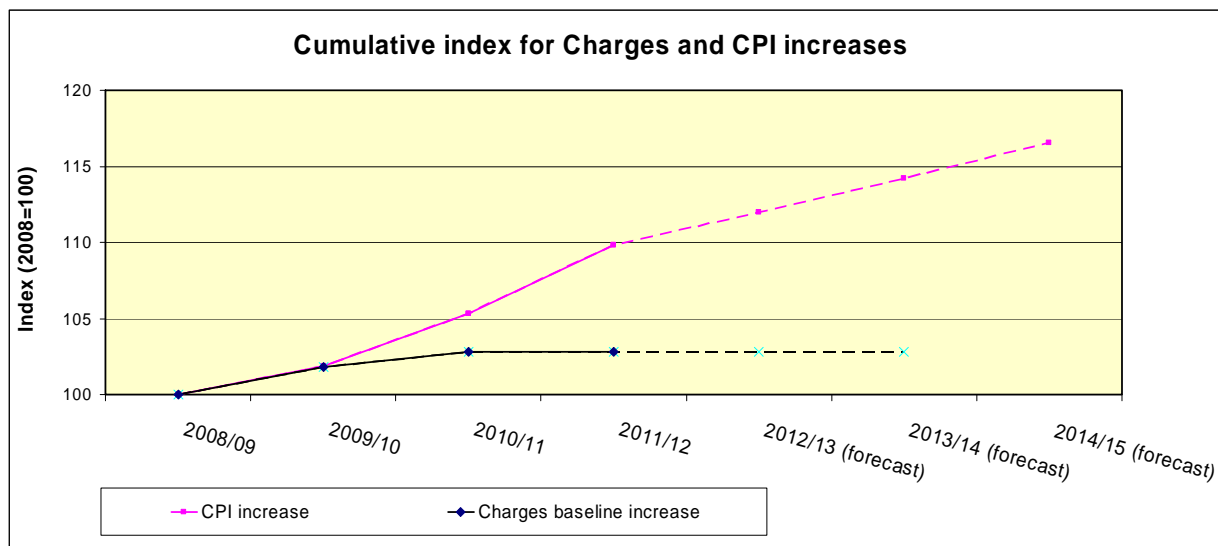
The EP charging scheme has brought together the following regimes:

- Waste Operations
- Installations (formerly Pollution Prevention and Control)
- Mining Waste
- Mobile Plant
- Water Quality (formerly Charging for Discharges)
- Radioactive Substance Regulation (RSR)
- Groundwater (disposal of sheep dip)
- Notifiable Exemptions

# 3 Charge rates to remain the same for 2 years with potentially a small increase in year 3

We propose no change to our charge rates for the majority of our schemes for the period of April 2012 to March 2014. However after three years of no increases we believe that potentially we will need to make a small increase in our charge rate in 2014/15.

We have been able to set our charges below the average rate of inflation for many years. We have achieved this through ongoing efficiency savings and by modernising the way we regulate. The following graph shows how this will continue over the period of the consultation based on forecasts of inflation.



**Note: CPI forecasts are based on HM Treasury average forecast May 2011.**

It will be challenging for us to absorb cost increases over the next two years but we believe we can through further efficiency measures. We need to ensure that we comply with HM Treasury rules over cost recovery and the need to balance our costs with our income year on year.

We will review the position at the end of each year. If we need to, we will consult again but only on any changes we need to make rather than on all of our charges. If there is no need to change, the charges will continue to the following year unaltered.

This approach will give clarity to charge payers while ensuring that we will not experience large surpluses or deficits in our charging scheme balances and so avoid major swings in charges in subsequent years. This approach has been initiated by the Environment Agency but has the agreement of HM Treasury and other government departments.

The main exception to our no increase in charge rate is for our Abstraction charges. This is due to the need to fund compensation for some abstractions and to cost pressures outside of our control. More details are given in Section 5.

## 4 Summary of proposed changes to the Environmental Permitting charging scheme

Our proposed changes for each scheme are described in more detail in the annexes to this document, including the impacts they will have on charge payers. The annexes also refer to the relevant section in the response form to help you structure your comments. We have also provided a glossary of terms to clarify some of the terminology used.

The main proposals are:

- Introduce a provision for a 10% reduction in subsistence charges where our regulatory costs are reduced as a result of a permit being linked to an Environment Agency approved assurance scheme. Where such schemes provide a direct link to a reduced level of regulation, and result in a corresponding reduction in our overall costs of compliance, we propose a 10% reduction in subsistence charge. We will only apply this reduction to schemes that are specifically approved by the Environment Agency. Such schemes are in the early stage of development with accreditation providers and industry sectors. This facility will allow adoption of this approach when the schemes are implemented. We will publish more information as and when such schemes are developed.
- Introduce a facility so that when new standard permits are developed they are placed into the most appropriate existing charge band. This will help us to implement standard permits more quickly by avoiding the need to wait for the next charges consultation.
- Incorporate civil sanctions as criteria in the enforcement history part of our Opra (Operational Risk Appraisal) system. This is a small change allowing us to take account of any civil penalties in assessing operators' compliance rating.
- Reduce some charges for Civic Amenity sites. This will result in a more consistent approach for these sites.
- Transfer of the Waste Electrical and Electronic Equipment ("T11 WEEE treatment") simple exemption waste charge from regulation to our charging scheme. These charges will stay at the same level.
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Details of all of the above proposals are set out in Annex A.



# 5 Summary of proposed changes to the abstraction charging scheme

It is our responsibility to manage water resources in England and Wales. Water is precious and our role is to reconcile the needs of society, businesses, agriculture and the environment. We manage water resources day to day using abstraction licences, giving rights (subject to conditions) to the holder.

## **Standard Unit Charges (SUC)**

Water abstraction charging is regionally based and reflects local conditions and cost pressures. We do not propose any generic increases linked to our national cost pressures but there are some local cost pressures and capital and operational costs specific to water resources which lead to variable charge increases.

There are two major cost pressures that we need to address:

- An environmental improvement at Llyn Brianne reservoir that may require an increase in the EA Wales SUC charge by 4.5% in each of the next three years.
- We are required to fund an annual return on investment based on the retail price index in the Operating Agreement we have with Northumbrian Water for Kielder Reservoir. Because the total costs of the agreement represent the overwhelming majority of our costs in our Northumbrian charging region, there is limited scope to offset them and charges will have to increase.

In both these cases the cost pressures are due to external cost pressures outside of our control (Llyn Brianne is subject to agreement with Welsh Water and Welsh Government and the Kielder Operating Agreement is subject to a contract with Northumbria Water). Cumulative charge increases over the three years to 2015 are required to cover these.

This means increases of 4.5% for EA Wales, 4.5% for North East, each year for three years but no increase for all other regions.

## **Environmental Improvement Unit Charge (EIUC)**

EIUC is required to generate the funding to compensate licence holders whose permits need to be modified where they are unsustainable. To moderate the impact on existing abstractors it was agreed, following consultation, that increases would be capped at 10% calculated on the sum of the SUC and the EIUC. It was also agreed to separate each regional account into Water Company and Non Water Company accounts. We have to balance this environmental duty and its costs with the potential impact on charge-payers. This work supports European directives and if the problems are not resolved there are impacts on infraction risks and possible fines.

Our proposals continue the use of the Government agreed mechanism to provide for compensation. Following the consultation we will seek approval from the Minister in the usual way.

Based on this, we propose to increase charges, as previously, by up to the agreed 10% SUC/ EIUC cap over the period 2012 to 2015.

Some of our regions have no need to modify licences so do not have any EIUC charge. In some of the regions EIUC charge level is sufficient to fund the required compensation.

We have also reviewed regional EIUC accounts and the corresponding Restoring Sustainable Abstraction programmes. Based on this:

- Midlands are looking to reduce non water company EIUC charges to 2010/11 levels – equivalent to a 9.2% reduction.
- North West are considering increasing non water company EIUC to fund potential compensation for potential changes to the abstraction permits. This would result in a 10% increase for non Water Company permits.
- South West may not recover further water company EIUC. The proposed reduction in charges would be 6.9%.
- You can read all of our abstraction charge proposals and see tables of proposed charges by region and charging year in Annex B.

### **Pre application charges**

Our Environmental Permitting (EP) charges have a provision for charging for pre application advice, in the case of bespoke permits, after 15 hours of free advice. This is subject to agreement in advance with the applicant. We propose to introduce a similar facility in our Abstraction charging scheme. The application charge for an abstraction licence is £135 which only covers the administrative aspects of the application. However some applications require substantial effort to process, particularly those for hydropower permits. Furthermore most hydropower permits do not attract a subsistence charge.

We believe such an approach is fairer to general charge payers in that costs are more closely linked to those benefiting from our services. It also helps harmonise our charging arrangements across all our schemes. Operators are able to obtain such advice from other service providers.

## **6 Summary of proposed changes to emissions trading charges**

In line with other charging regimes we do not propose to change current emissions trading charge levels. However we propose some new arrangements to:

- introduce a new subsistence charge of £380 for EU Emission Trading Scheme trader accounts holders
- we propose to introduce an annual subsistence charge of £380 for holders of Person Holding Accounts (or 'trader accounts'). This only impacts independent traders and reflects a fair apportionment of costs.
- transfer existing charges in respect of Clean Development Mechanism and Joint Implementation projects from regulations into an Environment Agency charging scheme.

We propose a simple transfer of existing charges.

These proposals are explained in more detail in Annex C.

## 7 Future developments

We are carrying out a comprehensive review of our charges. This will pull together the effects of our various change and efficiency programmes and we would look to link charges more closely to work on Better Regulation, risk and environmental outcomes. Such changes will take time to develop and we are intending to consult on our proposals in 2013/14.

Other factors that may impact on our charges over the next few years include:

**1. A possible new environmental body for Wales:** Welsh Government is looking into the possibility of creating a new environmental body for Wales. If this goes ahead, the new body will be in place before the period covered by this consultation expires (before March 2015). The major implications for us will be considered and we will work with Defra and Welsh Government to ensure that robust actions and communication plans are in place.

**2. Government Reviews:** These include the Waste Review and the Cave and Walker Reviews and any Water White paper that may follow.

**3. Changes in Legislation:**

- The Industrial Emissions Directive, which came into force in January 2011, will revise the Integrated Pollution Prevention and Control (IPPC) Directive (96/61/EC) that controls pollution from major industrial sites.
- Legislative amendments to accommodate future phases of the EU Emissions Trading and Carbon Reduction Commitment trading schemes.

**4. Environment Agency internal changes:** our internal change programmes in support of Better Regulation will reduce regulatory workloads, eliminate unnecessary red tape and reduce our administrative costs.

## 8 Invitation to consultees

We welcome comments from consultees on the proposals we outlined in sections 2 to 7. Your comments, and our responses, will form part of our formal submission to Defra and Welsh Government for approval.

Please respond to the consultation no later than **21 December 2011**.

# 9 Responding to this consultation

## How to respond

As part of government's Digital First approach, we would encourage you to respond online at <https://consult.environment-agency.gov.uk/portal/ho/finance/charges2012>.

However, if you would rather respond by post, please send your completed response form to:

Alan Day  
Charges Programme Manager  
Environment Agency  
Horizon House  
Deanery Road  
Bristol, BS1 5AH

Or email your completed response form by the closing date to [eacharges\\_consultations@environment-agency.gov.uk](mailto:eacharges_consultations@environment-agency.gov.uk).

To request a hard copy of the consultation documents and/or response form, please contact us on 03708 506 506 (Mon-Fri, 8am - 6pm)\*.

## Publishing our consultation results

We will publish our full response to the consultation by February 2012. It will include summary comments and queries we received in the responses and will outline our recommendations which will take these into account. The report will be on our website and circulated to all consultees and other interested parties.

## How we will use your information

We will use your responses to help shape our charging proposals. We will publish all responses after the consultation has closed, unless you have specifically requested that we keep your response confidential. We will not publish the names of individuals who respond. Where a response is on behalf of an organisation, we will publish its name. Please indicate on your response if you want us to treat it as confidential.

If you respond online or provide us with an email address, we will acknowledge it and send you a summary of responses after the consultation has closed. We will also publish the summary of responses on our website.

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\* Calls to 03 numbers cost no more than a national rate call to an 01 or 02 number and must count towards any inclusive minutes in the same way as 01 and 02 calls. These rules apply to calls from any type of line including mobile, BT, other fixed line or payphone.

## Confidential responses

In accordance with the Freedom of Information Act 2000, we may have to supply your response to this consultation if asked for it – *including your personal information*.

Please let us know if you want us to keep your response confidential and explain why. We will take this into account when dealing with requests but cannot guarantee confidentiality.

## Code of Practice on Consultation

We are running this consultation in accordance with the criteria set out in the Government's Code of Practice on Consultation.

If you have any queries or complaints about the way this consultation has been carried out, please contact:

Emma Hammonds, Consultation Co-ordinator  
Environment Agency  
Horizon House  
Deanery Road  
Bristol, BS1 5AH  
Email: [emma.hammonds@environment-agency.gov.uk](mailto:emma.hammonds@environment-agency.gov.uk)

## The seven consultation criteria

### **1 When to consult**

Formal consultation should take place at a stage when there is scope to influence the policy outcome.

### **2 Duration of consultation exercises**

Consultations should normally last for at least 12 weeks with consideration given to longer timescales where feasible and sensible.

### **3 Clarity of scope and impact**

Consultation documents should be clear about the consultation process, what is being proposed, the scope to influence and the expected costs and benefits of the proposals.

### **4 Accessibility of consultation exercises**

Consultation exercises should be designed to be accessible to, and clearly targeted at, those people the exercise is intended to reach.

### **5 The burden of consultation**

Keeping the burden of consultation to a minimum is essential if consultations are to be effective and if consultees' buy-in to the process is to be obtained.

### **6 Responsiveness of consultation exercises**

Consultation responses should be analysed carefully and clear feedback should be provided to participants following the consultation.

### **7 Capacity to consult**

Staff running consultations should seek guidance on how to run an effective consultation exercise and share what they have learned from the experience.

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