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Wales

# Consultation on our Charging Scheme for 2015-16

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## 1. Introduction

Natural Resources Wales is the first organisation of its kind created to ensure that our natural resources and environment are sustainably maintained, enhanced and used in a way that is good for people, good for the environment and good for the economy.

This means that our remit is wide and includes providing a range of regulatory services. We are required by Government to recover the costs of these regulatory services from those we regulate, rather than being funded by general taxation. Our fees and charges to cover our regulatory costs account for approximately 20% of Natural Resources Wales total funding of £180m<sup>1</sup>.

As well as following our regulatory principles and the Regulators' Code, we are committed to the following principles:

- transparency of our charging decisions
- avoidance of cross subsidy between regimes
- providing longer term planning horizons wherever possible
- avoiding cycles of cutting then raising charges by actively managing our surpluses and deficits
- keeping charges as low as possible

Our Fees and Charges Scheme is reviewed regularly to ensure that our costs are covered and technical requirements are being met. You can download a copy of our existing charging scheme from our website. As a result of our most recent review we are proposing to make a small number of changes to our baseline charges and to some of the technical requirements within specific charging regimes.

We have established a Charge Payers Consultative Group consisting of the various trade and representative organisations of our stakeholders, to discuss our proposals and to develop our charging strategy and schemes for the future. We would like to thank those in the group for their commitment to represent their members by working with us in this way, now and in the future.

We are seeking your views and opinions on proposals for our fees and charges for 2015/16 onwards, as well as seeking initial views and ideas on the future look of our charging strategy and schemes. This 13 week consultation will close on 9 January 2015 and the results will be used to inform our final scheme. This will be submitted to Welsh Government for approval with the aim of introducing the new scheme from April 2015.

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<sup>1</sup> Natural Resources Wales Corporate Plan

## 2. Changes to baseline charges

### 2.1 Key Messages

Based on the proposals within this document, charges raised by Natural Resources Wales will reduce overall by £0.5m in 2015-16 (although some charge schemes will see a 'cash' increase).

There have been no increases to charge schemes over the last 3 years (with the exception of Abstraction / EIUC). Therefore, these schemes, in effect, will have reduced in real terms over the period 2012-13 to 2015-16.

### 2.2 Charge Proposals

Our charge setting process is strictly governed by legislation and HM Treasury rules. These rules require us to set the level of charges on a cost recovery basis, but do allow us to recover surpluses and deficits over a period of time by 'taking one year with another'.

For the first two years of Natural Resources Wales, we have been part of a 3-year Charge Scheme (2012-13 to 2014-15) where rates have been agreed by Central Government in consultation with Welsh Ministers, meaning charges (with the exception of Abstraction) have been set at a common rate for both England and Wales. As such, existing rates have not previously been calculated to a level that reflects the costs of our activities in Wales. This has resulted in inherited surpluses and deficits arising across the individual charging schemes.

During 2014-15, we reviewed our charge scheme cost base and modelled predicted income and expenditure for future years. In doing this we ensured that the costs attributed to schemes relate specifically to our regulatory activity and that our allocation of corporate overheads and financing charges are accurate.

We are only proposing changes to our charges where schemes are showing significant balances (surplus or deficit) that need remedial action. We have considered various approaches for each of the changes, taking full account of the need to provide stability and certainty to charge payers over the long-term. This will give clarity to fee payers, whilst ensuring that we will not experience large surpluses or deficits in our charging scheme balances to avoid major swings in charges in subsequent years. The overall outcome from these proposals is that our total income from charge schemes included in this consultation will be £35.1m. This is £1.1m less than the expenditure attributable to these schemes, however we will implement plans to reduce this deficit through focussing on our cost base.

As an organisation, Natural Resources Wales is currently implementing a major transformation and efficiency programme which will involve changes to both our direct and corporate cost bases over time. We will continue to drive efficiencies in our systems and processes, and will be further reviewing our approach during 2015-16. We will prioritise our review on our activities where we currently have the most material deficits. In doing this we are actively seeking to make the savings identified in the business case for the formation of Natural Resources Wales.

The impact of these changes will feed into charge rates when they are known with certainty over the coming years. As we develop our modelling over time and our long-term

cost base becomes more certain, we will be able to increase the transparency of individual schemes.

We propose the following changes to baseline charges:

### **2.2.1 Environmental Permitting – Installations and Waste**

There is currently a significant deficit for both these regimes, especially Waste (an in-year deficit of over 40%). Charging levels have remained unchanged for the past three years and previously rates were set on the basis of England and Wales. As a consequence, the income required to properly regulate and manage these areas of activity needs to increase. We therefore propose a 5% increase across all charges within these regimes. This increase will still not recover the annual expenditure attributed to these schemes, but this is where we are focussing our attention on delivering efficiencies.

### **2.2.2 Environmental Permitting – Water Quality**

There is currently a smaller deficit for this regime. To ensure full cost recovery for activities in 2015-16 we propose a small increase in line with the Consumer Price Index (CPI) across this regime.

### **2.2.3 Abstraction Licensing**

We have generated a surplus over the period since the last consultation to fund works at Llyn Brienne reservoir. However, it has recently been determined that such works are no longer required. During this period, our abstraction cost base has increased significantly as a result of higher asset financing charges which have reduced this surplus. The modelling we have completed includes the impact of these changes along with projected cost increases for our Reservoir Operating Agreements.

On the basis of providing future stability to charge rates, our proposal is to provide a one-off rebate of £1 million in 2014-15, shared proportionately between all licence holders who pay an annual abstraction license fee. In addition, we are proposing a 5% reduction across subsistence charges within this regime for 2015-16, which will bring current income in line with expenditure. Both of these changes exclude the Severn Catchment within Wales, whose subsistence charging remit currently falls under Environment Agency, Midlands Region.

We have also collected a separate abstraction charge since 2008-09 to cover our costs of paying compensation to abstractors where we amend or revoke an abstraction licence to prevent environmental damage. We are proposing to continue collecting this charge in 2015-16 but will keep the charge at the same level as in 2014-15 as this will enable us to cover our full compensation liability. We will stop collecting the charge after 2015-16.

### **2.2.4 All other Schemes**

All other charge levels will remain at 2014-15 levels, apart from the technical changes outlined within section 3 of this consultation document.

## 2.2.5 Summary of proposed 2015-16 Baseline changes

Charge Scheme	2015-16 Proposed Change %
<b>a) Environmental Permitting Regulations (EPR)</b>	
Installations (Application & Subsistence)	+5%
Waste (Application & Subsistence)	+5%
Water Quality (Application & Subsistence)	+CPI
International Waste Shipments	-
Producer Responsibility - Packaging	-
Producer Responsibility - Waste Electrical and Electronic Equipment (WEEE)	-
Producer Responsibility - Batteries	-
Radioactive Substances (Nuclear)	-
Radioactive Substances (Non-Nuclear)	-
Waste Carriers, Brokers & Dealers	-
Materials Recycling Facilities	-
<b>b) Abstraction</b>	
Water Resources - Abstraction (Subsistence) - Standard Unit Charge (excluding the Severn catchment)	-5%
Water Resources - Abstraction (Subsistence) - Environmental Improvement Unit Charge (excluding the Severn catchment)	-
Water Resources - Abstraction (Application) (including the Severn catchment)	Higher Application Fee £1,500
<b>c) Other</b>	
Rod License (Coarse, Non-Migratory, Migratory)	-
Hazardous Waste	-
Control of Major Accidents & Hazards (COMAH)	-
Carbon Reduction Commitment Energy Efficiency Scheme	-
EU Emissions Trading Scheme	-
FCRM Consents	-
Marine Licensing	-

**Question 1:** Do you support the changes to EPR Waste and Installation charges where the increase doesn't fully recover our costs?

**Question 2:** Do you support the changes to EPR Water Quality charges where the CPI increase doesn't fully recover our costs?

**Question 3:** Do you support reducing the Abstraction Licencing charge to ensure cost recovery is maintained?

**Question 4:** Do you support us absorbing cost pressures on our other charging schemes and leaving the current charges unchanged?

## 3. Technical changes

### 3.1 Abstraction charges

Currently our abstraction charges are in two forms:

1. Application fee plus annual subsistence
2. Application fee only with no annual subsistence,

We do not fully recover the cost of the work we undertake to assess the application information we receive or to issue the licence, where we only charge an application fee. Therefore, we need to make some changes to abstraction charges to cover the cost of this work.

If licence holders in this scheme pay an annual subsistence fee, we will retain the current £135 application fee; this will be referred to as the Lower Application Charge.

Where there is no annual subsistence fee we propose to introduce a new Higher Application Charge of £1,500 from 1 April 2015 to recover costs for these activities. We project that this will affect between 100 and 300 permit applicants each year over the next three years.

In calculating this figure we assessed the number of hours taken to determine a range of abstraction and impoundment licences. Costs ranged from £2,000 - £10,000 depending on complexity. We have now introduced a more streamlined approach to this permitting regime, so anticipate these costs will be reduced slightly as a result. Therefore, we propose an application fee of £1,500 reflecting the lower end of the identified range. We will continue to monitor actual costs involved to ensure the fee proposed represents full cost recovery.

The Higher Application Charge would apply where an application is made to transfer, vary or gain a new licence for:

- a transfer abstraction licence;
- an impoundment licence; and
- a full licence for water abstracted directly for use in the production of electricity or any other form of power by any generating station or apparatus of a capacity of not more than five megawatts.

If both the abstraction and impoundment licence applications are made at the same time we would only charge one fee, provided they relate to:

- associated activities at a single site, **and**;
- we could do the technical determination simultaneously

We will be closely monitoring the cost of our licensing work and the effects of streamlining our approach. We want to ensure that we are recovering the costs involved with this work by charging the right amount in the right way.

We accept that there are other possible approaches that would enable us to recover our costs, such as further banding of application fees for example, and would welcome views

on this. In the coming year (2015-16) we will be working with stakeholders to explore this more fully and establish what other options are viable; with the aim of consulting on any further changes during that year.

Certain abstractions are currently exempt from licence control. However, these may be repealed in the future and such applications would then fall under the higher rate charge. We still will not charge for the exceptions listed in section 4.2 of our current Abstraction Charges Scheme.

**Question 5:** Do you support our proposal to introduce a new “Higher Application Fee” and the level at which it is set?

**Question 6:** What other options should we explore to recover our costs in determining licences?

### 3.2 Technical changes to the Environmental Permitting Scheme (Installations and Waste Facilities)

We propose the following changes to the Environmental Permitting (EP) Charging Scheme for 2015-16.

#### 3.2.1 Assessment of recovery or disposal

Before we issue some types of permits we need to assess if the process is waste recovery or disposal. The initial assessment is covered in the permit application fee but we find increasingly that operator’s plans change and we need to carry out further assessments. There is no mechanism for us to recover these costs at present.

We therefore propose to introduce an additional charge of £350 for each time we are asked by the operator to reassess the waste recovery plan. This is to ensure we recover the costs of reassessment once we have issued the permit and will triggered by a specific request by the operator for us to do so.

**Question 7:** Do you support charging each time the operator requests a review of the waste recovery plan?

#### 3.2.2 Permit subsistence charge for pre-construction phase

We introduced some changes to our previous charging scheme, reducing the annual fees due to be paid by environmental permit holders where construction of the permitted facility had not yet started. Previously the waiver remained in place until construction work started or April 2015, whichever was sooner. This benefitted everyone, but unless we make changes to our scheme now the reduction will stop during 2015/16.

We are proposing a fee cap because we recognise that our costs reduce if construction has not yet started. However, there are still costs incurred in maintaining liaison with the operator and developer, assessing documents provided by them and maintaining permit records.



Therefore, we want to introduce a capped subsistence fee where permitted activities are in the pre-construction phase. Under our proposals environmental permit holders would not pay more than £3,190 per year for the time their site remains in pre-construction. Once construction starts, the cap on fees would be removed and permit holders would pay fees at the full rate thereafter. This would be pro-rated for the year construction begins.

**Question 8:** Do you support the proposed capped annual charge for those sites still in pre-construction?

## 4. Links to Environmental Permitting (EP) Operational Risk Appraisal (OPRA) Scheme

The EP Operational Risk Appraisal (OPRA) Scheme is currently used to calculate charges for some Natural Resources Wales regulated activities. We intend to carry out a substantial review of our current approach as part of our future charging arrangements. In the meantime we will not be making any major changes to our approach.

The OPRA Scheme is amended from time to time by the Environment Agency. We want to inform Natural Resources Wales charge payers as to the ways our charges are linked to the EP OPRA Scheme and to enable them to track any changes made.

We also want to minimise the potential for confusion. Therefore, until we have completed our wider review, as indicated above, we are proposing to continue using the most up to date version of the EP OPRA Scheme, as published by the Environment Agency.

We therefore encourage Natural Resources Wales charge payers to refer to the Environment Agency's charging consultation where current proposals for technical changes to the OPRA Scheme are explained.

The Environment Agency are currently consulting on the changes to their scheme, which is available on the consultations area of their website.

**Question 9:** Do you agree with our proposal to mirror the technical changes to the OPRA Scheme proposed by the Environment Agency, in order to maintain consistency on this particular aspect between England & Wales?

## 5. Other changes during 2015/16 outside of this review

There are also a number of changes or points in relation to our charges that we wish to highlight. These are either ones that have been consulted on separately in the past year, or particular aspects of the charging scheme that may be of specific interest to charge payers and merit clarification.

## 5.1 Materials Recycling Facilities Regulations

Following the introduction of the Environmental Permitting (England and Wales) (Amendment) Regulations 2014, new requirements were placed on us to monitor materials recycling facilities.

This will affect 30 existing permit holders and our role is to conduct inspections to assess the robustness of an operators reporting process. The charge of £2,065 per annum will cover the costs of our regulatory visits, follow up action and data management. These charges have already been set following a separate consultation in 2014. These charges are now in place and will be billed from October 2014 and integrated into our Charging Scheme for 2015/16.

## 5.2 Variation charges for Industrial Emissions Directive derogations

Operators can apply to us for derogations to emission limit values under Article 15(3) of the Industrial Emissions Directive. These will continue to be charged as a substantial variation in a similar way to the Environment Agency. We are continuing to work with the Environment Agency, through their sector groups, when considering permit reviews arising from the publication of Best Available Technique (BAT) Conclusion documents.

## 6. Planning for the future

There are other changes that we are currently considering with regard to our charging arrangements in the future and are likely to be incorporated into charging scheme consultations in future years. However we wish to highlight some of these potential changes now so we can get your views before more work is done.

### 6.1 Flood Defence Consenting

The Water Resources Act 1991 requires us to assess applications and issue our consent for certain works that are proposed in or near a main river. This is to ensure they will not increase flood risk. What we can charge is set by the Act and the £50 fee remains unchanged since 1991. This amount does not cover the cost of assessing the information we receive or issuing the consent, particularly for complex applications that require significant time and expertise to determine.

Where there is a future opportunity to review and revise the amount we charge, we would look to develop a new charging scheme for Flood Defence consenting.

Our initial thinking is that any such scheme would operate along the following principles:

- risk assessment governing the requirements on applicants and ourselves
- minimising costs to applicants through more efficient and effective processes
- using an exemption framework to ensure the approach to regulation is proportionate
- ensuring costs are effectively recovered

The full details of any future charging scheme for flood defence consenting would be subject to a separate consultation. However, we welcome views regarding the principles and initial thinking in relation to such a scheme described above.

**Question 10:** Do you support our broad proposals and principles with regard to any new charging scheme for Flood Defence?

## 6.2 Development Planning Advice

Natural Resources Wales and its legacy bodies have sought to provide early advice on development proposals, wherever possible. However, our Grant in Aid (GiA) only funds provision of our statutory planning advice. Our pre-application work adds value, but is often above and beyond our statutory obligations and we do not always have the capacity to provide a consistent level of service.

Our capacity to provide early advice is diminishing at a time when developers are increasingly seeking such advice from us. We have already established charging agreements with some developers to enable us to recover costs on large or complex development proposals, as we are able to do under our establishment order.

The introduction of a chargeable service would allow us to invest in providing a consistent standard of pre-application advice focused on meeting customer needs and providing them with clarity and certainty. They will know when they can expect advice from us, and what the format and nature of that advice will be.

Our initial view is that any chargeable service would operate on the following basis, which accords with other organisations, including those in England, who already offer this service:

- free access to statutory advice and a set minimum level of pre-application advice;
- establishment of a framework setting out levels of advisory service offering a consistent approach to all customers across Wales;
- an optional charged service to enable us to provide new services or deliver improved standards to existing services;
- improved customer experience through clear standards of service;
- transparent charging making costs clear in advance.

If this proposal is supported we will develop a scheme to provide this level of service with the associated charging approach. This will be subject to further consultation before implementation.

**Question 11:** Do you support the option of introducing charging for non-statutory development planning advice?

**Question 12:** What alternatives to a charged service could be considered, recognising that such a service will need to be funded in some way?

### 6.3 Marine Licencing

We cannot change the fees currently set for Welsh Marine Licensing as they are set in legislation. However, we are working with Welsh Government to review the current charging approach, to ensure we achieve full cost recovery where appropriate. The review will examine three main aspects: the fee structure; charging for currently free activities under the Marine Works Regulations; and, in relation to new powers being sought through the Environment Bill. Process improvements and low risk activities that could be made exempt from needing a licence will also be considered. The Marine Licensing Team has established a stakeholder group to help inform this process and formal public consultation will be needed to introduce the new regime, which is planned to be in place by October 2015.

### 6.4 Future Charging Arrangements

We will be consulting on other changes to charges over the next two years, ahead of our more comprehensive review of charging, the aim of which is to develop a new charging strategy and scheme for 2018 onwards. This would also include reviewing our approach to risk assessment and its links to charging.

Therefore as part of this consultation, we also welcome your views on the longer term future of our charging strategy and scheme. We would like to hear all suggestions and thoughts.

This will not be your only opportunity to be involved as we will be engaging further on the development of our future charging strategy and scheme. However, as you answer the questions below please explain why you think the changes are needed.

**Question 13:** What features or aspects of our charging scheme works now and what needs to change?

**Question 14:** How can we build best practice into our future scheme?

**Question 15:** Do you have any additional thoughts or comments on what should be in our future charging strategy and scheme?

## 7. Responding to this consultation

We are seeking your views and opinions on proposals for our fees and charges for 2015/16, as well as seeking initial views and ideas on the future look of our charging strategy and schemes.

### 7.1 How to respond

The closing date for replies is 9<sup>th</sup> January 2015.

You can reply in the following ways.

#### Email

[feesandchargesconsultation@naturalresourceswales.gov.uk](mailto:feesandchargesconsultation@naturalresourceswales.gov.uk)

#### Post

Charging Consultation Response  
Natural Resources Wales  
Ty Cambria  
29 Newport Road  
Cardiff  
CF24 0TP

#### Telephone

0300 065 3000

#### Online

Available on our website at [www.naturalresourceswales.gov.uk](http://www.naturalresourceswales.gov.uk)

### 7.2 Data Protection

#### How the views and information you give us will be used

Any response you send us will be seen in full by Natural Resources Wales staff dealing with the consultation. It may also be seen by other Natural Resources Wales staff to help plan future consultations.

We intend to publish a summary of the responses to this document. We may publish responses in full. Normally the name and part of the address of the person making the response are published with the response. This helps to show that the consultation was carried out properly. If you do not want your name and address to be published let us know when making your response and we will remove them from published material.

Names and addresses we remove might still get published later, although we don't think this would happen very often. The Freedom of Information Act 2000 and the Environmental Information Regulations 2004 allow the public to ask to see information held by many public bodies, including Natural Resources Wales. This includes information which has not been published. However the law also allows us to withhold information in some circumstances. If anyone asks us to seek information we have withheld, we will have to decide whether to release it or not. If someone has asked for their name and address not to be published that is an important factor that we would take into account. However there might sometimes be an important reason why we would have to reveal someone's name and address, even though they have asked for them not to be published. We would get in touch with the person and ask their views before we finally decide to reveal the information.

### 7.3 Next Steps

Following the consultation we will make all comments (excluding personal information as detailed above) and our responses publicly available on our website. If you respond with an email address we will acknowledge your response and will notify you when the summary of responses has been published on our website.



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