



Consultation response: Charges for the Kielder Reservoir and transfer scheme from April 2020

1 April 2020

We are the Environment Agency. We protect and improve the environment.

We help people and wildlife adapt to climate change and reduce its impacts, including flooding, drought, sea level rise and coastal erosion.

We improve the quality of our water, land and air by tackling pollution. We work with businesses to help them comply with environmental regulations. A healthy and diverse environment enhances people's lives and contributes to economic growth.

We can't do this alone. We work as part of the Defra group (Department for Environment, Food & Rural Affairs), with the rest of government, local councils, businesses, civil society groups and local communities to create a better place for people and wildlife.

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1. Introduction

In January 2020 the Environment Agency published its consultation 'Environment Agency charge proposals: Kielder Reservoir and transfer scheme'. These proposals and the decisions we reached will continue to ensure that:

- people only pay for the service they receive - this is the main basis of our changes to the costs we set for our charge payers
- we reduce reliance on taxpayer funds that might otherwise be needed to support this work

1.1. Purpose of this document

This document is a summary of the responses we received. We provide our reply to these responses and confirm the final decisions. This document also describes how we carried out the consultation, and who we consulted with.

1.2. Background

The consultation set out proposals to change the Abstraction Charges Scheme for Kielder Reservoir and transfer scheme. It set out our proposed charges for this transfer scheme from April 2020.

The proposals were in accordance with HM Treasury's managing public money handbook and Classification of Receipts guidance. This ensures we recover the costs of providing our services through charges to customers receiving those services.

1.3. How we ran this consultation

We opened the consultation on Tuesday 28 January 2020. It ran for 4 weeks until Tuesday 25 February 2020. It was shorter than usual because we engaged directly with all 8 operators affected by the proposals before and during the consultation.

Consultees were able to respond directly to known Environment Agency contacts or by email to the consultation team. We ran the consultation in accordance with the criteria set out in the Cabinet Office's 'Consultation Principles' guidelines.

2. Findings from consultees

2.1. Overview

This section explains the main themes raised during the consultation and the Environment Agency response to each.

We follow HM Treasury guidelines when we calculate the costs of our service and set our charges. As a result our approach is based on achieving full cost recovery.

Seven out of the 8 operators engaged in dialogue throughout this period. There was a mixed reaction to the proposals. Those seeing a significant monetary increase in their charges expressed more concern. These same operators questioned if we had proposed an appropriate method to calculate or collect increased charges.

2.2. The individual questions

Question 1: Do you agree that changes to costs for Kielder Reservoir and transfer scheme should be recovered from those abstractors that benefit from the operation of the scheme?

Summary of consultee responses

Of the 8 licence holders, 4 responded formally. Two agreed with this proposal, and 2 did not.

The 4 formal responses expressed concern over the lack of transparency on the rationale for this charge. The consultees indicated that they did not understand how or if they might benefit from this transfer scheme.

Before the consultation, 2 other operators told us this would mean significant increases in their charges. However, in further conversation, 1 operator realised that their activity was no longer the same as that permitted by the licence. Therefore we have begun discussions on varying this licence. This will result in reducing future charges they will incur.

Another operator used information provided in the consultation documentation to calculate how the proposal would affect them. This resulted in no increase to their charges so they advised us that they would not return a formal response.

Another operator has begun the process of surrendering their licence.

Environment Agency response

Whilst there was a mixed reaction to this question, we feel that a continuing dialogue has helped operators. They have either reassessed their licence or understand that only those abstractors benefitting from the Kielder Reservoir and transfer scheme will see changes to charges that reflect costs incurred.

We consider this approach to be reasonable and proportionate, ensuring that only those abstractors who benefit from this service will be charged accordingly.

Question 2: By changing the Kielder source factor, the Environment Agency will collect more in charges from those that are licensed to abstract more water - do you agree with this approach?

Summary of consultee responses

Of the 8 licence holders, 4 responded formally. Two agreed with the proposal and 2 did not.

The 4 formal responses expressed concern over the size of the increase to be recovered in 1 year. One operator was concerned they were paying charges that should sit entirely with the "operator of the pumping station", believing this to be Ofwat's intention.

Environment Agency response

Throughout this consultation period, the figures we quoted in our proposal and applied to the calculations, used a Kielder Source Factor (KSF) of 22.4. We based this on indicative costings received from the operator of the Kielder Reservoir and transfer scheme. However we have yet to receive a final invoice. We are now advised that the final figure is likely to be reduced. This means that our calculations reflect a worst case scenario and we are therefore now likely to reduce the charges due. The final value will allow the Environment Agency to fully recover costs for the Kielder Reservoir and transfer scheme and no more. We consider this approach to be reasonable and proportionate.

Question 3: Do you have any suggestions on how charges can reflect cost which may have less of an impact on your business?

Summary of consultee responses

Of the 4 formal responses, only 2 suggested other ways we may recover costs. However these both proposed spreading out the cost rather than alternative approaches.

One operator suggested that costs should be amortised over future years. While another, NWL Ltd, proposed that "the relevant costs are recovered over a two year period from April 2020 to March 2022."

Other operators declined to comment on the overall approach. Instead focussing on mitigating their own expenditure (where applicable) through the variation or surrender of their licence.

Environment Agency response

The NWL Ltd suggestion to recover costs over a two year period is something we would be happy to pursue. To meet our obligations under the International Finance Reporting Standard 2015 (IFRS15), this would need to be reflected in costs charged to the Environment Agency during that period. This approach would reduce costs to the Environment Agency in the year 2020 to 2021, which would in turn reduce the charges through which those costs would be recovered.

3. Decisions reached

We received a total of 4 formal responses. We have summarised the responses to each question in Annex 1.

Annex 2 lists the organisations that participated in the consultation.

We consulted on how we proposed to recover the cost of our activity. Consultees had no further suggestions on how we might recover costs incurred, other than to spread charges over a longer period of time. However, the Environment Agency is bound by the terms of IFRS15 which requires us to balance costs and income over the same financial period. We are still in discussion with NWL Ltd to explore options that are available to us to minimise increases. We will ensure that wherever possible the lowest charge is levied - just enough to cover costs that apply.

We sought to better understand any potential impacts on organisations from these proposals. In particular on the smaller organisations classified as small or medium sized enterprises (SME). Although they did not submit a formal response, one SME advised that the change in charges will have little impact. Another SME is already in conversation to vary their licence which will reduce their costs. Another has started proceedings to surrender their licence. All 3 of these operators declined to submit a formal response. Despite leaving voicemail and email messages, the eighth licence holder has not responded.

After careful consideration we have decided to implement our proposals as they stand. We will finalise the Kielder Source Factor multiplier for the scheme, based on the most up to date cost information available to us. To this effect, the current scheme represents a maximum that will be due. We are determined that we will not over-recover these costs from any operator.

The new system of charges will recover the cost of the transfer scheme as appropriate (as set out in the consultation), while recognising that it is desirable to keep the annual subsistence charge paid by each operator as low as possible.

We consider this approach to be reasonable and proportionate, fair to all of the operators concerned, and necessary to discharge the duties required of us to protect people and the environment.

4. Next steps

The new charging scheme will come into force on April 1 2020, after approval by the Secretary of State, Department for the Environment, Food and Rural Affairs (Defra) and HM Treasury. We will implement the changes under existing legislation in Sections 41 to 43 of the Environment Act 1995.

The following documents are published on GOV.UK:

- Environment Agency Scheme of Abstraction Charges 2020

Annex 1: Summary of each consultees' responses to each question

Question 1: Do you agree that changes to costs for Kielder Reservoir and transfer scheme should be recovered from those abstractors that benefit from the operation of the scheme?

Yes: 2

No: 2

Not applicable: 0

Please provide further explanation if you think it would be helpful (Responses included in their entirety):

- No and when do we benefit? How do we know we are using that water?
- There is no transparency on the charge's rationale and how this increase links to any benefit. Whilst the direction from Ofwat is that this should not be passed to customers the KOA allows Northumbrian Water to do exactly this, via the EA. These additional costs should sit with those who benefit rather than penalising local business due to a loophole agreed by the Secretary of State in 1989

Question 2: By changing the Kielder source factor, the Environment Agency will collect more in charges from those that are licensed to abstract more water - do you agree with this approach?

Yes: 2

No: 2

Not applicable: 0

Please provide further information if you think it would be helpful (Responses included in their entirety):

- No. Why when you have a licence should you be the only ones paying? What about the people that remove water without a licence (120M³ per week I believe)
- The costs are disproportionate and totally unannounced. It is irresponsible to expect an increase in charges of 249% to be recovered within one budget year. Costs, including the Riding Mill Pumping Station refurbishment and the rateable value increase, provide no tangible benefits to xxx. Again, we believe these benefits and charges should sit with Northumbrian Water as per the intent of the Ofwat direction.

Question 3: Do you have any other suggestions on how charges can reflect cost which may have less of an impact on your business?

Responses included in their entirety:

- Abstractors should only pay for the water they abstract and do not return to the river.
- No. These costs were not budgeted for this financial year. How do you expect us to just find this money?
- Costs should be amortised over future years and any costs reflected in future projections. Ultimately these costs belong to Northumbrian Water; mitigation should start with them rather than being passed to local businesses. The decision to charge business rates against Kielder has resulted in the raising of funds for some parties to the detriment of others. This decision should be reviewed.
- We support the use of the Kielder Support Factor (KSF) to recover costs related to the Kielder reservoir and transfer scheme, though it is important that any increase in the KSF is set to only recover the relevant costs and no more. However, the increase proposed to take effect in April 2020 would have a very significant impact on the costs of NWL, and others, in 2020 and does not allow sufficient time for mitigating actions to be taken. We would therefore propose that the relevant costs are recovered over a two year period from April 2020 to March 2022. We will continue to work with the Environment Agency to manage the timing of recovery of business rates and refurbishment costs for the Riding Mill Pumping Station under the Kielder Transfer Scheme.

Annex 2: List of consultation respondents

- Durham University
- Eldon Colliery
- Essity Ltd
- Northumbrian Water Ltd

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