



## **Environment Agency guide on how we calculate our charges**

Date: January 2024

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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# Introduction

In this document we outline the different types of costs included in our charges. We also provide additional detail about the departments receiving income from these charges and the services they provide in delivering our regulatory role.

We have the power to make our own charges (most are under section 41 and 42 of the [Environment Act 1995](#)). However, before we can publish a charging scheme, we develop the charge proposal which is approved through a 2-stage sign off by ministers and the Secretary of State in Defra. The first stage is to go to public consultation on our proposed charge, the second stage is to allow us to publish and implement the charges.

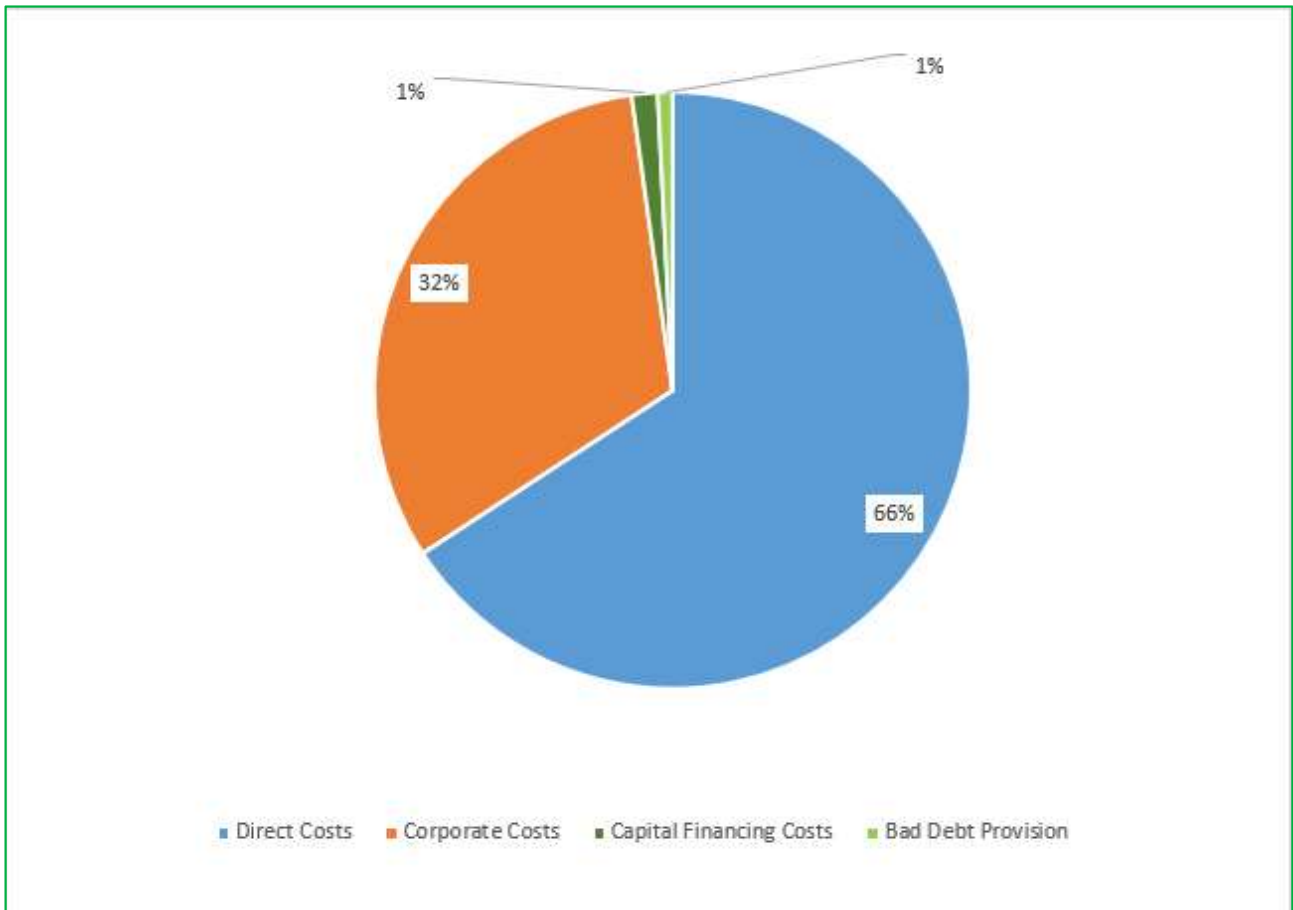
We use a charge model to calculate the costs of our regulatory services in line with HM Treasury guidance in [Managing Public Money](#) (MPM). This makes it possible for us to propose appropriate charge rates that recover the cost of chargeable activities (as set out in MPM).

All permitted activities are categorised based on the level of regulatory effort we consider necessary to assure compliance. We use two models, one for our permitted activities and one for hourly rate charging. Both HM Treasury and Defra Fees and Charges Group scrutinise the structure and outputs from our models before the Secretary of State gives permission for us to implement our charging proposals.

When developing our charges we include:

- **direct costs** (people costs, non-people costs, operations management and support, fixed costs)
- **corporate costs** (IT, estates, finance, shared services, communications, human resources, procurement and commercial)
- **capital finance costs**
- **bad debt**

This is a simplified chart below to shows a high-level breakdown of the costs that make up our charge proposals.



## Direct costs included in a charge

Direct functions, whether delivered locally or nationally, exist to deliver the specific activities required for one or more identifiable charge schemes. The costs are therefore attributable directly to the related source of income. Our direct costs are made up of:

- direct people costs
- direct non-people costs
- operations management and support

The vast majority of these costs are direct people costs.

## Direct people costs

Direct costs are primarily the staff costs of people who are engaged in carrying out regulatory activities. Most of the staff costs are salaries, employers' National Insurance, employers' pension contribution and some ancillary costs such as travel and subsistence.

We model our charges based on our knowledge of the time to be spent on tasks and activities. We input this to our charge models, including the grade mix of the teams carrying out the tasks. The average cost is then calculated based on our standard chargeable days, our employee related costs (National Insurance, pensions etc.) and direct costs identified in MPM as recoverable such as travel and equipment.

## Direct non-people costs

Our direct non-people costs are the costs we are allowed to charge for under MPM. They are the expenses we incur that are not related to the payment of salaries or wages to employees but are necessary for our employees on the frontline to complete their regulatory role.

We include the following costs:

- administration costs – stationery, publications, paper
- local building costs – cleaning, maintenance and repairs, catering, security, office waste
- fees and commissions – contract payments, solicitor fees, agents' fees, professional fees
- IT – electronic consumables, data communications, voice communications
- insurance – premiums, accident and theft repairs, uninsured liabilities
- transport and plant – hire and repair
- utilities – telephone, mobiles, electricity, gas, water, rates
- fleet operations which ensure our people have the vehicles they need to conduct their regulation
- other costs – postage, printing, fuel, protective clothing, laboratory services, local equipment

## Direct operations management and support costs

These are the costs of people who line manage and supervise people engaged in carrying out regulatory activities.

We seek to achieve a balance between not having too many layers of management while making sure staff doing the regulation have sufficient leadership and support, including access to specialist technical advice.

## Fixed costs

The fixed costs are a part of the total charge and are specific to each regulatory regime. The regime specific fixed costs do not vary with changes in staff levels or volume of work increasing or decreasing. They can be contracts that have to be paid regardless of our

activity levels. These are included in our modelling by apportioning the costs across expected levels of charges and charge types.

The fixed costs typically relate to IT systems used to support regulation or consultancy fees paid to organisations within Defra Group who are required to support our regulatory work; for example, where a water discharge, waste or installations application requires habitats assessment in a sensitive location we are required to consult Natural England, so the charge will also include a fixed cost to pay for their services.

## Corporate costs included in a charge

To fully cost recover for an activity we also include in the charge rate the cost of our national corporate support teams and Defra Corporate Services.

These are services provided across all our chargeable and non-chargeable work, whose costs are recoverable under MPM. Without these support services, a regulatory regime and charging scheme could not operate. These corporate functions exist to support our whole business and our frontline teams, but their costs cannot easily be allocated directly back to specific sources of income.

All charges must make a fair contribution to our corporate costs. To do this, these costs (that cannot be specifically allocated to a source of income), are apportioned across all funding streams (both charges and grant-in-aid) using total direct revenue expenditure as the cost driver.

The apportionment of corporate costs across funding streams is calculated each year during our business planning process. This means, for example, the benefit of efficiency savings in our corporate functions is shared proportionally across all funding streams. Similarly, the corporate costs incurred by a particular funding stream stay proportionate if the funding stream is either in growth or is in decline. A benefit of the approach taken is that it facilitates consistency of charges for customers.

## National corporate support teams

These are made up of:

- centralised teams working on direct delivery of regulation
- teams whose work underpins the direct delivery of regulation
- functions that enable the direct delivery of the regulation

Approximately half of our nationally delivered support is through the Environment and Business directorate (E&B). This includes both the direct delivery of regulation and the teams whose work support the delivery.

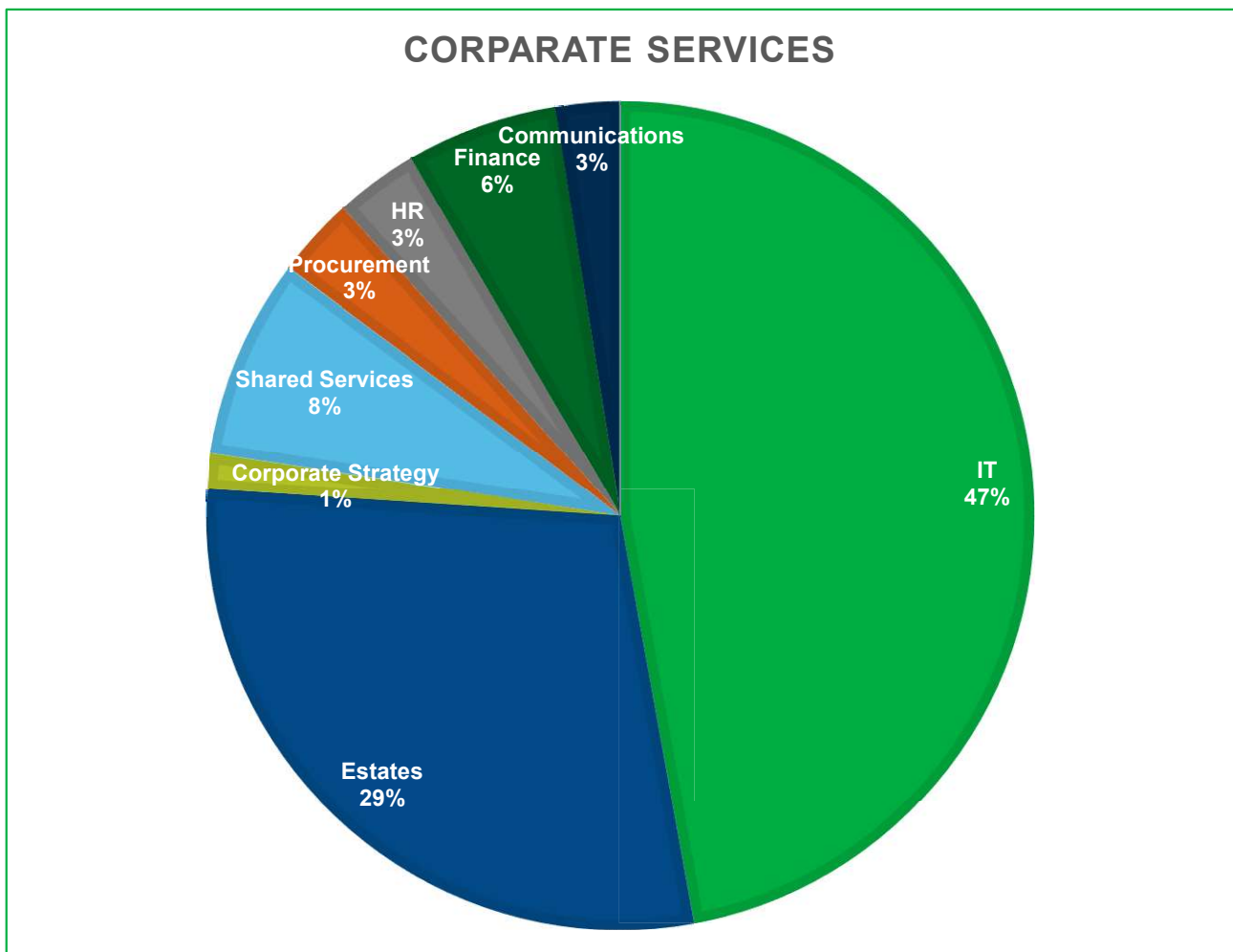
E&B teams look at how we can achieve more with our funding by being more efficient and developing innovative solutions.

The remaining half of the nationally delivered support is made up of functions enabling delivery, such as:

- evidence teams who make sure scientific and other information is available to regulate effectively
- legal services who make sure we regulate in line with the law
- learning and development costs
- health, safety and wellbeing who make sure our people carry out their work in a manner which keeps them and the public safe
- internal audit projects to enhance the effectiveness of our operations

## Defra Corporate Services

Defra Corporate Services form the backbone of any organisation. The chart below provides more information on the make-up of our Defra Corporate Services costs within our charges.



Alongside the costs of other national corporate support teams, the costs of core Defra Corporate Services are another element in delivering our regulatory service. They are



identified separately from other corporate costs in the charge models as these functions transferred to Defra in April 2017. The cost of these services supplied by Defra are recharged back to us and we apportion them fairly across all funding streams.

One of the drivers for bringing Defra Group Corporate Services together is to benefit from economies of scale. Efficiencies will be reviewed, and savings passed onto charge payers.

Defra Corporate Services deliver work across the whole Defra group and operates a system of accounting to enable the cost to be identified to each Defra entity. In some cases, it will be straight forward to isolate the cost of a finance team that solely supports the Environment Agency. In other cases, such as a building shared by a number of Defra group entities, the cost will be apportioned across entities using an appropriate cost driver.

As previously described, we apportion the total Defra Corporate Service charge across funding streams in a similar way to other indirect costs, using revenue spend as the cost driver. The rationale behind this apportionment method is that each person on the front line, delivering direct activity, has requirements such as building space, facilities provision including consumables, IT support and HR support.

## **Information Technology (IT)**

We rely on the information and communication technology systems and services provided by information technology (IT), including the technology our staff use daily as well as external services available to the public.

The IT function includes:

- service operations, to manage our IT systems
- digital services, to develop our IT systems
- data services, to support our many IT applications and our operational decisions
- architecture and standards, to make sure we comply with legislation and IT security
- change and governance, to manage the delivery of IT
- knowledge and information management, to make sure training is available for our IT systems

## **Estates**

The cost of Estates is the second largest component of our Defra corporate services costs. Estates provide working premises for all staff including those directly employed for regulatory activities. If our regulatory staff were in centralised locations, we would spend much more time travelling to and from sites, which is time inefficient and poor value for money.

To make best use of office space, we co-locate offices with Defra group partners and other government bodies. We have already made efficiency savings through:

- sale of uneconomical properties
- reduction of property energy use by 45%

- setting up of national facilities management contracts

## **Finance**

Finance produces the annual report and accounts. They make sure the National Audit Office audit is successful and complies with rules set by HM Treasury. They make sure costs are properly allocated against the appropriate charging scheme and provide:

- professional advice
- financial strategy
- integrated business planning
- a significant role in decision making
- focus on priority outcomes and value for money through:
  - financial controls
  - setting budgets
  - making forecasts
  - managing the year end

## **Shared Services**

Our transactional processing of Finance, human resources (HR) and procurement activities is outsourced to Shared Services Connected Limited (SSCL). SSCL carry out tasks like processing new joiners, payroll, paying suppliers and resolving payment of invoices.

## **Communications**

The communications team work to provide essential staff engagement and advice and support for the leadership by helping to:

- deliver our regulatory policy priorities
- build a positive relationship with partners
- lead an engaged and motivated workforce

## **Human Resources**

The HR team make sure we are properly prepared to undertake our regulatory work by helping to:

- develop and maintain a best practice people policy, manage trade union relationships and employee pay, benefits and pensions for all staff
- provide expert advice for learning and development
- manage the workforce strategy and related risks through supporting the organisation
- provide information and analysis to support leaders in making sound risk-based decisions on all people matters

## Procurement and commercial

The procurement and commercial function provides a range of commercial and procurement advice and support to delivery. Through managing supplier relationships, commercial risk and getting value from substantial procurement via our supply chain, they help with:

- tendering and commercial negotiations
- supplier management and development to leverage more value
- commercial contract and project assurance

They set up overarching frameworks and contracts for the common goods and services our people need every day, including:

- contracts enabling capital works and maintenance
- facilities management
- advisory services
- fleet provision and management
- permanent and temporary staff
- training and development
- communications
- office supplies

## Capital financing costs

We also include an element of capital financing costs within all charges. This includes financing costs for specific assets used exclusively by the regimes and a proportion of corporate assets (IT systems, buildings). Financing costs applied in our charges reflect the requirement set by HM Treasury in MPM for a rate of return of 3.5% of the value of fixed assets, plus the cost of depreciation of those assets.

More information about these costs can be found in section 6.1 of HM Treasury's guidance in MPM.

## Bad debts

Unlike businesses in the private sector, we are not allowed to choose our customers based on an assessment of perceived credit risk. This does mean bad debts are higher than would be expected in the private sector for schemes which have a wider range of customers. Several schemes, however, have no bad debts.

Our credit control function is provided by SSCL. In 2013 we contracted services from a debt collection agency to which SSCL refer any unpaid invoices. The debt collection agency collects a substantial portion of the outstanding invoices and where it has been

unable to do so, refers them back to us, to decide how to proceed. Unless there is a valid dispute to resolve, we revoke permits, and we now pursue debtors using the small claims court to seek a county court judgment against them for non-payment.

All applications charges have 0% bad debts because we require up-front payment with the application. Bad debts only affect subsistence charges on some schemes. The highest level of bad debt is currently held by waste operators under the [Environmental Permitting \(England and Wales\) Regulations 2016](#) and its amendments.

# Would you like to find out more about us or your environment?

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