

**Scottish Environment Protection Agency**

# **Report and Accounts**

Period from 12 October 1995(date of commencement)  
to 31 March 1997

# Report and Accounts 1997

## Board Members and Professional Advisors

### HEAD OFFICE

Erskine Court  
The Castle Business Park  
Stirling  
FK9 4TR

### BANKERS

Royal Bank of Scotland  
St Andrew Square  
Edinburgh  
EH2 2YB

### AUDITORS

KPMG  
24 Blythswood Square  
Glasgow  
G2 4QS

### BOARD MEMBERS

#### Main Board

Professor William Turmeau CBE ( <i>Chairman</i> )	Director of Dynamic Earth Charitable Trusts. Member of Academic Standards Committee. Member of Steering Group of University of Highlands & Islands Project. Former Principal and Vice Chancellor of Napier University.
Alasdair C Paton ( <i>Chief Executive</i> )	Former Director and Chief Engineer of the Engineering, Water and Waste Directorate at The Scottish Office.
Councillor Basil Baird ( <i>Deceased</i> )	Member of the former Clyde River Purification Board. Member of the former Eastwood District Council.
Alexander Buchan ( <i>Deputy Chairman</i> )	Farmer in North East Scotland. Vice Chairman of the former North East River Purification Board.
Brian Fitzgerald ( <i>Chairman, West Region</i> )	Chairman and Managing Director of The Portfolio Partnership Ltd. Chairman of Watts Optronics Ltd. Chairman of the Environment Committee of Confederation of British Industry (CBI) Scotland. Former Vice Chairman, Council of CBI Scotland.
Graeme Gordon OBE	Director/Shareholder of Kenmure Fisheries Ltd, Convenor of Scottish Landowners Federation. Vice Chairman of former Solway River Purification Board. Member of the Advisory Committee to the Institute of Aquaculture.
David Hughes Hallet	Director of Scottish Wildlife Trust. Director of Eyemouth Marine Centre Ltd. Director of SWT Environmental Services Ltd.
Councillor Alastair Hewat OBE	Member of Scottish Borders Council. Chairman of the former Tweed River Purification Board and Scottish River Purification Boards Association.
Professor Cliff Johnston	Director of Orkney Enterprise. Managing Director of Environment & Resource Technology Ltd. Member of the Advisory Committee to the Institute of Aquaculture.
Councillor Alison Magee	Member of Highland Council. Chairman of Highlands & Islands Joint Valuation Board. Non Executive Director of Highland Health Board. Member of the Board of Management, Thurso College.
Councillor Cormick McChord ( <i>Chairman, East Region</i> )	Leader of Stirling Council and serves on the Convention of Scottish Local Authorities (COSLA) Committee and Strategy Forum.
Cameron McLatchie CBE	Chairman and Chief Executive of British Polythene Industries plc. Non-Executive Director of Motherwell Bridge Holdings Ltd. Non-Executive Chairman of Hiscox Select plc.
Councillor Mrs Jennifer Shaw ( <i>Chairman, North Region</i> )	Member of Moray Council. Fellow of the Society of Antiquaries for Scotland. Marketing Partner, North East Chalets. Member of the Board of Directors, 'Buckie Drifter' Heritage Centre. Justice of the Peace. Member of the former North East River Purification Board.

## Board Members

### East Region Board

Councillor Cormick McChord (Chairman)	Leader of Stirling Council and serves on the Convention of Scottish Local Authorities (COSLA) Committee and Strategy Forum.
Professor Kathleen Anderson OBE	Biologist and Crown Trustee of the National Library of Scotland. Former member of the Radioactive Waste Management Advisory Committee (RWMAC).
Disney Barlow OBE	Farmer. Member of the National Farmers Union Scotland. Member of East of Scotland Water Authority. Former Chairman Rural Practice Division, Royal Institute of Chartered Surveyors in Scotland. Vice President of the Scottish Landowners Federation.
Stephen Davis	Employee of Glaxo Wellcome Operations. Member of the Scottish Committee Chemical Industries Association.
Frederick Edwards LVO RD	Voluntary worker. Council member of the Scottish Wildlife Trust. Environmentalist. President of Volunteer Development Scotland.
Councillor Alan Grant	Information Services Librarian, Dundee University. Councillor with Perth and Kinross Council.
Vaughan Hammond	Technical Services Director, Tilhill Economic Forestry Ltd. Member of the Institute of Chartered Foresters. Member of the Institute of Agricultural Engineers. Member of the Timber Growers Association. Member of the Council of Forestry and Arboriculture Safety and Training Council. Member of the Executive of Mountaineering Council of Scotland.
Councillor William Hardie	Member of Scottish Borders Council. Chairman of the Protective Services Committee. Vice Chairman of Lothian & Borders Fire Board.
Councillor Avril Hughes	Member of Fife Council. Vice Chair of Planning and Environment. Currently studying Town Planning/MA Hons Degree course at Heriot-Watt University.
Elizabeth Leighton	Policy Officer with the World Wide Fund for Nature. Member of Scottish Wildlife and Countryside Link, Freshwater Working Group and Joint Waste Group.
Eur. Ing. Jack Lord	Engineering Director Caledonian Paper plc. Member of the Scottish Grid Code Review Panel. Non Executive Director of Scot-West Services Limited.
Malcolm Macdonald OBE	Retired Director of Environmental Health with the former Falkirk District Council. Shareholder of Wiseman Dairies Ltd.
Dr Peter Maitland	Independent Consultant in freshwater ecology. Member of the former Forth River Purification Board. Member of the Scottish Freshwater Group.
Councillor Ian Perry	Lecturer at Stevenson College. Member of the City of Edinburgh Council. Member of the Scottish Water and Sewerage Customers Council.
Councillor Julia Sturrock	Convenor of Environmental and Consumer Protection Department Dundee City Council. Convenor of the Protective Services Forum for COSLA.
Councillor Thomas Young	Member of Angus Council. Member of the Tayside Joint Police Board. Companion of Institute of Personnel and Development.
Captain Anthony Wilks	Member of Scottish Natural Heritage, East Areas Board. Member of the former Forth River Purification Board. Chairman of the Forth Estuary Forum. Member of the Scottish Coastal Forum.
John Williams	General Manager of BP Oil plc.

**West Region Board**

Brian Fitzgerald (Chairman)	Chairman and Managing Director of The Portfolio Partnership Ltd. Chairman of Watts Optronics Ltd. Chairman of the Environment Committee of CBI Scotland. Former Vice Chairman of the Council of CBI Scotland.
Dr Patricia Bradley	Employee of the Royal Society for the Protection of Birds.
Donald Campbell	Head Teacher with Argyll and Bute Council. Crofter and member of the Scottish Crofters Union. Member of BBC Scotland's Gaelic Advisory Committee.
Stuart Cannon	Managing Director and Shareholder of Kames Fish Farming Ltd. Director/Shareholder of Connell Fish Farming Ltd, Melfort Salmon Ltd. Chairman/Shareholder of Scot Trout & Salmon Ltd. Member of the former Clyde River Purification Board. Chairman of Kilmelford & Kilninver Community Council.
Professor John Davenport	Environmental scientist. Director of the University of London's Marine Biological Station, Millport. Member of the Scottish Association for Marine Science.
Derek Elder	Assistant Director, Scotland, of the CBI. Member of the West of Scotland Environment Business Forum.
Professor Desmond Hammerton	Retired biologist. Director of the former Clyde River Purification Board. Chairman of the Scottish Council, Institute of Biology. Governor and visiting Professor of the University of Paisley. Member of the Advisory Committee on Sites of Special Scientific Interest. Member of the Scottish Association for Marine Science. Member of the Scottish Wildlife Trust.
Councillor William Hendry	Member of East Dunbartonshire Council.
Councillor James McCabe	Depute Leader of North Lanarkshire Council. Member of the National Environment Forum.
Councillor Dugald McDonald	Member of South Lanarkshire Council. Justice of the Peace. Trustee (Emeritus) New Lanark Conservation.
Councillor Rita Miller	Member of South Ayrshire Council. Justice of the Peace. Director, Glenraig Knitwear Ltd. Board member, Strathclyde Fire Board. Vice Convenor Community Protection & Support Services Committee. Member of the Social Affairs Forum. COSLA nominated member of Advisory Committee on Protection of the Sea (ACOPS).
Ken Morin	Managing Director of Shanks & McEwan (Northern) Ltd. Employee/Shareholder of Shanks & McEwan Group plc. Former Scottish Regional Chairman of Environmental Services Association. Member of the Institute of Wastes Management and representative on the Scottish Centre Council.
James Riach	Self employed consultant. Chief Environmental Health Officer with the former Kilmarnock and Loudoun District Council.
Jeremy Sainsbury	Estate Manager and member of the National Farmers Union Scotland. Member of the Distribution Code Review Panel (Scotland). Member of the Scottish Committee of Association of Electricity Producers.
Councillor Donald Urquhart	Councillor with Dumfries and Galloway Council. Chairman of the Commercial Services Committee. Self employed planning and engineering consultant.
Charles Wilson	Business and engineering consultant, with experience in the management of Power Stations.

**North Region Board**

Councillor Mrs Jennifer Shaw (Chairman)	Member of Moray Council. Fellow of the Society of Antiquaries for Scotland. Marketing Partner of North East Chalets. Member of the Board of Directors, 'Buckie Drifter' Heritage Centre. Justice of the Peace. Member of the former North East River Purification Board.
Councillor John Brown	Councillor of Orkney Islands Council. Director/Shareholder of Viking (Orkney) Associates. Director/Chairman of Orcodes Viking Ltd. Director/Chairman of Norfish Ltd. Geologist oil industry.
Marina Dennis	Crofter. Commissioner of the Crofters Commission. Member of the National Farmers Union Scotland. Member of the former Highland River Purification Board.
Councillor William Fulton	Member of Highland Council. Involvement in marine pollution prevention and waste management strategy.
David Glass	Employee of Johnson Controls Ltd. Engineer with experience in engineering and management at Dounreay. Member of the Scottish Wildlife Trust Northern Advisory Committee.
Councillor John Gordon	Farmer. Member of Aberdeen Council. Chairman of the former North East River Purification Board.
Raymond Grant	Employee of Shanks & McEwan (Northern) Ltd, Waste Management Operations. Member of United Kingdom Offshore Operators Association, Waste Liaison Group.
Councillor Brian Gregson	Councillor of Shetland Islands Council. Member of the Shetland Health Board. Company Secretary of Shetland Oil Industries Group.
Councillor George Holden	Hill farmer. Member of Highland Council.
Councillor Janet Home	Member of Highland Council.
Alastair Hume	Retired bank manager. Member of the former North East River Purification Board. Founder member of the Scottish Anglers National Association.
Robert Kelly	Salmon farmer. Director/Shareholder of Strathaird Farms Ltd. Member of the former Highland River Purification Board. Member of the Scottish Salmon Growers Association.
Ian Lambart	Environmental Manager of United Distillers plc. Member of the former Highland River Purification Board.
John Macaulay	Experience with P & O Scottish Ferries and the boat charter business. Member of Highland & Moray Firth District Marine Safety Sub Committee.
Douglas McLeod	Shellfish Farmer and Economics Consultant. Member of the former Highland River Purification Board.
Roderick Murray	Member of Western Isles Council. Member of Stornaway Trust. Chairman of the Western Isles Region Prince's Youth Business Trust.
Peter Wardle	Chemical Engineer with Hydro-Electric, Peterhead Power Station.
Mark Young	Senior Lecturer in zoology and freshwater ecologist. Member of the former North East River Purification Board. Member of Oldmeldrum Community Council.

**Audit Committee**

David Hughes Hallet (Chairman)  
Councillor Alison Magee  
Graeme Gordon

**Chief Executive and Accounting Officer**

Alasdair C Paton

## Foreword

### Foreword to the Accounts

The Board of the Scottish Environment Protection Agency presents its Annual Report and Accounts for the period from 12 October 1995 (date of commencement) to 31 March 1997. The accounts have been prepared in a form directed by the Secretary of State for Scotland with the consent of the Treasury in accordance with Section 45(2) of the Environment Act 1995. The Direction is reproduced as an appendix to the accounts.

The Agency commenced operations on 1 April 1996. Due to delays by predecessor bodies in finalising their accounts, the Agency was unable to post opening balances until October 1997. As a result, payments and receipts occurring during the first few months may have related to predecessor bodies. In addition, the systems inherited around the country were piecemeal and it was several months before an integrated method of recording transactions was established. For these reasons, and other reasons explained below, the auditors have been unable to form an opinion on 'income from charging schemes' and 'other operating charges' in the income and expenditure account. The introduction of integrated financial systems ensures that this limitation of scope will not be an issue in future years.

### Financial Management 1996/97

From its formation in October 1995, SEPA had only five months in which to establish payroll, purchasing, financial accounting and reporting systems. A Director of Corporate Services, responsible for Finance, was appointed in December 1995 and the Head of Finance in January 1996. There was little time available to establish a financial function prior to the organisation becoming operational on 1 April 1996 with over 400 staff and 21 offices throughout Scotland. Only two of the predecessor bodies had independent computer based payroll and accounting systems. These were small and verging on obsolescence. An

immediate priority was the establishment of a single payroll system for SEPA. This was achieved by 1 April 1996 through expansion of one of the predecessor systems, which operated successfully until superseded on 1 April 1997. A decision was also taken to develop a fully integrated purchasing and accounting system for implementation by 1 April 1997. An interim system involving delegation of purchasing to Regional Offices was established through the upgrading of an inherited system. These interim arrangements were labour intensive, involving extensive use of temporary staff. Problems developed with the inherited purchase ledger and accounting systems which coupled with the urgent need to quickly develop SEPA operationally and provide the necessary buildings and equipment, led to difficulties in tracking transactions and bringing fully demonstrable financial control and timeous reporting.

These difficulties were exacerbated by the detection of a fraud in July 1996. Whilst this was quickly detected, the resultant work on establishing the full extent of the fraud and other flaws discovered in the work of the individual concerned caused great disruption. It was soon established that the extent of the fraud was £25,000 although this was not fully confirmed until final reconciliations were completed in August 1997. The fraud was reported to the authorities and a report for the Procurator Fiscal prepared. The case is still under consideration.

The disruption caused by maintaining an interim computerised accounting system, reliance on temporary staff and the pressures of developing SEPA meant that timeous reporting of income and expenditure could not be established until after the year end. Accurate and timely commitment reporting was also impossible. A substantial reconciliation exercise was necessary and carried out from April to August 1997. This demonstrated that payroll, representing some £16m of expenditure, reconciled to within £1,000, expenditure on goods and

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services to within £7,000 on some £13m expended, and income to within £4,000 on £7m received. Whilst audit cannot fully confirm these reconciliations due to the nature of the records, management are satisfied that the reconciliations are correct.

Owing to the rapid development of SEPA, no integrated systems were in place to identify charging scheme related activity costs against income received and so this is not presented in the accounts. Nevertheless, from our checks we are satisfied that charging scheme income has not over-recovered our costs.

We are confident that the introduction of a fully integrated accounting system on 1 April 1997, together with the subsequent recruitment of permanent staff has resolved the reporting and control difficulties encountered in 1996/97.

### History of SEPA

SEPA is a Non-Departmental Public Body which is responsible for the protection of the environment and is accountable to the Secretary of State for Scotland. SEPA commenced on 12 October 1995 and became fully operational on 1 April 1996, taking on the duties and responsibilities of the following bodies:

- the seven river purification boards in Scotland and their counterparts in the three Islands Councils.
- the fifty-six District and Islands Councils in respect of their functions as:
  - a) local enforcing authorities for releases of substances into the air.
  - b) waste regulation authorities.
- Her Majesty's Industrial Pollution Inspectorate.

However, SEPA's powers and duties extend beyond the sum of those of its predecessors. Along with its inherited ones, SEPA also has a range of new powers.

### Statutory Background

SEPA was established and is regulated primarily by the relevant sections of the Environment Act 1995.

### Results for the Period

SEPA had an operating budget for the period of £30.5m. In the period to 31 March 1997, the Agency had an operating surplus of £0.18m. This relates to the eighteen month period from 12 October 1995 to 31 March 1997.

### Principal Activities

SEPA took up its duties in environmental regulation, enforcement and monitoring with vigour over a wide range of issues. Sampling, inspection and monitoring programmes for all environmental media were established. All applications received for environmental licences were processed. A key achievement in establishing the organisation during 1996/97 was the formation of multi-disciplined pollution control and licensing teams.

### Significant Changes in Fixed Assets

The majority of fixed assets were inherited from predecessor bodies and these were valued by the Board in line with the accounting policy detailed in Note 1. The most significant additions during the period included the purchase of a new building (Rosewood House) as the headquarters of SEPA West Region, and investment in a new fully integrated computer system.

### Activities in the Field of Research and Development

SEPA's research expenditure for the period was £426,000. Of this, 75% was paid by subscription to the Scottish and Northern Ireland Forum for Environmental Research (SNIFFER), which commissioned a total of

## Foreword

30 projects, largely related to water quality and water resources, plus a technical services facility for SNIFFER members. Collaboration with other research commissioning organisations (in particular the Environment Agency) enabled SNIFFER to achieve significant financial benefit, with the total value of the programme being three times that of SNIFFER's contribution. During the year, SNIFFER's remit was extended to cover all environmental media and SNIFFER's advisory system was modified to take account of this change.

The remaining 25% of SEPA's research and development expenditure was applied to projects of particular relevance to SEPA. Thirteen projects were funded plus subscription to the UK Mirror Task Force on Water. Projects covered all environmental media and due to collaboration, the total value of the programme was over £400,000 (SEPA's contribution being £110,000). A research steering group was established to determine SEPA's research priorities.

### Important Events since the Financial Year End

Since the year end, SEPA has received confirmation of a VAT ruling which states that it is unable to reclaim input VAT incurred on expenditure. All expenditure is stated gross in the accounts for the period to 31 March 1997.

### Charitable Donations

There have been no charitable donations made by SEPA for the period.

### Names of Board Members During the Year

A list of current Board members is set out on pages 26-29.

### Supplier Payments Policy

It is SEPA policy to pay suppliers generally no later than the end of the month following that in which the supplier's invoice is received. The policy is made known to the staff who handle payments to suppliers and is made known to suppliers on request. SEPA accepts that this policy was not adhered to in its first year of operation, but aims to do so in the future.

### Ministerial Performance Targets

Beyond the general requirements in respect of accounting and reporting, no financial performance targets were set by Ministers.

### Disabled Employees

SEPA adopts a positive attitude towards the employment of disabled persons both in recruitment and, as far as possible within the operating environment, in provision of suitable working conditions.

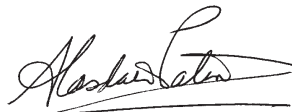
### Employee Consultation

The management of SEPA communicates with staff and consults with their nominated representatives. Open meetings are held to discuss major items of importance to SEPA. Staff information is distributed by way of notices, meetings and circulars.

### Auditors

Under Section 46 of the Environment Act 1995, SEPA's auditors are appointed on an annual basis by the Secretary of State for Scotland. KPMG was appointed as SEPA's auditors for the financial year ended 31 March 1997.

Approved by the Board  
and signed on behalf of the Board  
on 11 November 1997



Alasdair C Paton  
Chief Executive and Accounting Officer

## Corporate Governance Matters

SEPA aims for the highest standards in corporate governance and the Treasury Code of Best Practice for Board members of Public Bodies has been adopted. As explained earlier, during the period the Agency experienced certain difficulties with regard to systems, internal controls, compliance monitoring and staffing which the Board believes have been overcome.

### Board Composition and Board Committees

The Board meets regularly throughout the year and comprises a Chairman, who is non-executive, 10 further non-executive members, and a Chief Executive. Members of the Board are appointed by The Secretary of State for Scotland. The normal term of office for a non-executive Board member is four years, although lengths of appointments may be varied to ensure continuity of Board membership. The Chairman was appointed for four years.

The Board has agreed a policy of requiring matters to be reported to the Board for decision unless specifically within delegated powers given to the Chief Executive.

The Board has an Audit Committee which comprises solely non-executive members and is chaired by David Hughes Hallet. It meets four times a year. The external and internal auditors attend all meetings, and are given the opportunity to speak confidentially to the non-executive Board members.

Information on membership of the Board and composition of the Audit Committee is given on pages 26-29 of the Report and Accounts.

### Internal Financial Controls

The Accounting Officer is responsible for monitoring proper financial systems and procedures of control, and for securing propriety, regularity and value for money in

the use of SEPA's resources. The Accounting Officer is also responsible for ensuring that SEPA's system of internal controls is designed to deliver the stewardship of public funds and the safeguarding of SEPA's assets. Standards of internal control are kept under constant review, through the work of the Audit Committee. Any such system can only provide reasonable, and not absolute, assurance against misstatement or loss.

The framework of internal financial control now comprises:

#### Financial Reporting

The Agency operates a comprehensive financial reporting system which compares monthly out-turn to budget with variances being investigated by management.

#### Control Procedures

Financial controls and procedures which head office and regional offices are required to follow are detailed in a financial administration manual which includes appropriate authorisation limits.

#### Compliance Monitoring

Compliance with the system of overall financial control is monitored by the Accounting Officer through the work of internal audit. SEPA outsources the provision of the internal audit function, reporting directly to the Chief Executive. The Head of Internal Audit produces an annual internal audit programme which is approved by the Chief Executive and Audit Committee on behalf of the Board, together with progress reports on performance against the programme to the Chief Executive.

In the light of guidance expected from the Treasury, SEPA plans to undertake a fuller risk analysis and control assessment for the identification of business risks with a view to reporting on the effectiveness of internal control in future years financial statements.

Internal Audit Services are provided by the Environment Agency for England and Wales. Since the service commenced in September

## Corporate Governance Matters

1996, Internal Audit has performed various reviews of the SEPA finance systems and recommended improvements to controls aimed at helping SEPA to manage its financial risks and achieve greater efficiency. Its work in 1996/97 has included:

- close monitoring of the financial control environment (Financial Memorandum, Scheme of Delegation and finance procedures);
- review of the major finance systems and financial information inherited from predecessor bodies;
- proactive advice on the project management and implementation of the SEPA Personnel and Finance Integrated System; and
- assessment of the control risks in the major inherited systems and the identification of improvements to be incorporated with the Personnel and Finance Integrated System.

During the period, Internal Audit issued a number of reports to the Accounting Officer and project executives, which enabled SEPA management to act quickly to address control weaknesses.

## Corporate Governance Matters

### Report of the Auditors to the Board of the Scottish Environment Protection Agency on Corporate Governance Matters

In addition to our audit of the financial statements, we have reviewed the Members' statements on page 33 concerning the Agency's compliance with the paragraphs of the Cadbury Code of Best Practice for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with the Listing Rules 12.43(j) and 12.43(v).

#### Basis of Opinion

We carried out our review in accordance with Bulletin 1995/1 'Disclosures relating to corporate governance' issued by the Auditing Practices Board. The guidance does not require us to perform the additional work necessary to, and we do not, express a separate opinion on the effectiveness of either the Agency's system of internal financial control or corporate governance procedures, or on the ability of the Agency to continue in operational existence.

#### Opinion

With respect to the Members' statements on internal financial controls on page 33, in our opinion the Members have provided the disclosures required by paragraph 4.5 and 4.6 of the Code and such statements are not inconsistent with the information which came to our attention as a result of our audit work on the financial statements.

Based on the enquiry of certain Members, Directors and staff of the Agency, and examination of relevant documents, in our opinion the Members' statements on page 33 appropriately reflect the Agency's compliance with the other paragraphs of the Code specified for our review.



KPMG  
Chartered Accountants  
Registered Auditors  
11 November 1997

## Statement of Board's and Chief Executive's Responsibilities


Under Section 45(2) of the Environment Act 1995, the Board of SEPA is required to prepare, in accordance with best commercial practice, accounts for each financial year in the form and on the basis determined by the Secretary of State, with the consent of the Treasury. The accounts are prepared on an accruals basis and must show a true and fair view of the state of affairs as at the end of the financial year and of the income and expenditure and cash flows for the financial year.

In preparing those accounts, the Board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that SEPA will continue in business.

The Chief Executive's relevant responsibilities as Accounting Officer for SEPA, include his personal responsibility for the proper presentation of financial statements for which he is answerable and for ensuring that:

- proper financial procedures are followed;
- public funds are properly and well managed and safeguarded;
- assets are similarly controlled and safeguarded; and
- funds are applied only to the extent and for the purposes authorised by Parliament.



Alasdair C Paton  
Chief Executive and Accounting Officer



24 Blythswood Square  
Glasgow  
G2 4QS  
United Kingdom

## Report of the Auditors to the Secretary of State for Scotland

appointed under Section 46 of the Environment Act 1995

We have audited the financial statements on pages 38-52 which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out on pages 41-42.

### Respective Responsibilities of Directors and Auditors

As described on page 36 the Board members are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of transactions in the Accounts. It also includes an assessment of the significant estimates and judgements made by the Members in the preparation of the Accounts, and of whether the accounting policies are appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error.

The Agency was not in a position to maintain adequate records during the period to allow 'income from charging schemes' and expenditure on 'other operating charges' to be allocated between the period under review and prior periods. Such income and expenditure for the period may therefore contain items relating to prior periods, including the write-off of debtor balances against which no cash is recorded as having been received. In addition, controls to ensure completeness of recording of charges were not always adequate during the period. Consequently, we have been unable to satisfy ourselves that (a) the income and expenditure account for the period ended 31 March 1997 shows a true and fair view of the results of the trading activities of that period or that (b) the balance sheet at 31 March 1997 reflects all amounts due to the Agency at that date.

### Qualified Opinion Arising From Limitation in Audit Scope

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the matters referred to above, in our opinion (a) the financial statements give a true and fair view of the state of the Agency's affairs as at 31 March 1997 and of its surplus for the period then ended and have been properly prepared in accordance with the Environment Act 1995 and with the Format of Accounts (Scottish Environment Protection Agency) Notice of Requirements 1996 and (b) in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In respect alone of the matters referred to above (a) we have not obtained all the information and explanations that we consider necessary for the purpose of our audit and (b) in our opinion accounting records were not always maintained during the period.

**KPMG**

*Chartered Accountants  
Registered Auditors*

11 November 1997

## Income and Expenditure Account

Period from 12 October 1995 (date of commencement) to 31 March 1997

	Note	Period to 31 March 1997 £000s
<b>Income</b>		
Grant-in-Aid received		23,714
Income from charging schemes	2	6,342
Other income	3	567
		<u>30,623</u>
<b>Expenditure</b>		
Staff costs	4	(17,084)
Depreciation	5	(2,646)
Other operating charges	6	(10,469)
		<u>(30,199)</u>
<b>Operating surplus</b>		424
Interest receivable and similar income		79
Interest payable and similar charges	7	(324)
		<u>(245)</u>
Surplus for the financial period		<u><u>179</u></u>


All activities relate to continuing activities acquired during the period. There are no other recognised gains and losses relating to the financial period.

## Balance Sheet

31 March 1997

	Note	1997 £000s
<b>FIXED ASSETS</b>		
Tangible assets	9	<u>8,776</u>
<b>CURRENT ASSETS</b>		
Debtors	10	785
Cash at bank and in hand	11	<u>981</u>
		1,766
<b>CREDITORS: amounts falling due within one year</b>	12	<u>(5,735)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(3,969)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u><u>4,807</u></u>
Financed by:		
<b>CREDITORS: amounts falling due after more than one year</b>	13	2,322
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	15	390
<b>CAPITAL AND RESERVES</b>		
Income and Expenditure Account		179
Other Reserves	16	<u>1,916</u>
		<u><u>4,807</u></u>

These accounts were approved by the Board on 11 November 1997  
Signed on behalf of the Board



Alasdair C Paton  
Chief Executive and Accounting Officer

## Cash Flow Statement

Period from 12 October 1995 (date of commencement) to 31 March 1997

	Note	1997 £000s
<b>Net cash inflow from operating activities</b>	21(i)	<u>5,326</u>
<b>Returns on investments and servicing of finance</b>		
Interest received		79
Interest paid		<u>(324)</u>
<b>Net cash inflow from returns on investments and servicing of finance</b>		<u>(245)</u>
<b>Capital expenditure</b>		
Payments to acquire intangible fixed assets		(6,278)
Receipts from sales of tangible fixed assets		<u>11</u>
		<u>(6,267)</u>
<b>Net cash inflow before financing</b>		<u>(1,186)</u>
<b>Financing</b>		
Repayment of loans		(255)
<b>Decrease in cash for the period</b>	21(ii)	<u><u>(1,441)</u></u>

# Notes to the Accounts

Period from 12 October 1995 (date of commencement) to 31 March 1997

## 1. Accounting Policies

The accounts are prepared in accordance with the Format of Accounts (Scottish Environment Protection Agency) Notice of Requirements 1996 ('the Notice'). The particular accounting policies adopted are described below and are applied consistently within the accounts and from one financial year to another.

Without limiting the information given, the accounts meet the accounting and disclosure requirements of the Companies Act 1985 and accounting standards issued or adopted by the Accounting Standards Board in so far as these requirements are appropriate.

Under the terms of the Notice, SEPA is not required to provide the additional information required by paragraph 33(3) of Schedule 4 to the Companies Act, or to include a note showing historical cost profits and losses as described in FRS 3.

### Accounting convention

The accounts are prepared under the historical cost convention, modified by the inclusion of fixed assets at their value to the business by reference to current costs.

### Accounting period

The accounting period of SEPA commenced on 12 October 1995, being the date on which SEPA was brought into existence, and ended on 31 March 1997, in accordance with a Direction issued by the Secretary of State for Scotland.

### Tangible fixed assets

#### (i) Valuation

Fixed assets were valued by the Board at 1 April 1996 as follows:

- Operational land, buildings and their installations and fittings and external works are assessed within existing use on the basis that the occupation will continue for the foreseeable future, unless otherwise stated. For non-specified properties where there is direct market evidence, the value is assessed at open market value for existing use. For specialised properties, where there is no market evidence within existing use, the value is assessed by using a depreciated replacement cost approach.

It is intended to commission professional valuations of land and buildings every five years. The most recent valuation took place on 31 March 1997.

- All equipment in full use has been valued at replacement cost, adjusted in accordance with the asset lives assigned to give a depreciated value. Where equipment is not in use, either awaiting disposal or deployment, it has been designated as being 'in store' and valued at a cash sale value.
- Vessels have been valued by management at an estimate of their value to the Agency, based on a depreciated replacement cost.

## Notes to the Accounts

Period from 12 October 1995 (date of commencement) to 31 March 1997

### (ii) Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost or valuation in equal annual instalments over the remaining estimated useful lives of the assets. These lives are as follows:

Freehold buildings	25 years
Gauging stations	20 years
Plant and equipment	8 years
Vessels	30 years
Fixtures and fittings	5 years
Motor vehicles	4 years

Asset lives will be reviewed periodically to ensure that they continue to represent a reasonable estimate of useful economic life.

### (iii) Title

Operational and non-operational land and properties are included in the Agency's accounts on the basis of the actual and intended ownership and management of the assets concerned, notwithstanding that the actual transfer of title from predecessor bodies may yet have to be completed.

### Corporation tax

The income generated by Grant-in-Aid and charging schemes are not chargeable to tax. Surpluses from income generated by contract work undertaken by the Agency will be chargeable to tax. This is subject to agreement with the Inland Revenue.

### Value added tax

Irrecoverable VAT is charged to the Income and Expenditure Account in the period in which it is incurred.

### Leases

Operating lease rentals are charged to income in equal annual amounts over the lease term.

### Government grants

Grant-in-Aid in respect of revenue expenditure is credited to income in the period in which it is received. Any portion relating to capital expenditure is credited to a Deferred Government Grant account and released to the Income and Expenditure account over the expected useful lives of the relevant assets.

### Pension costs

The Agency participates in the Local Government Superannuation Scheme which is a defined benefit scheme. The expected cost of providing staff pensions is recognised on a systematic basis over the expected average remaining lives of members of the pension fund.

### Research and development expenditure

Research and development expenditure is written off as incurred.

## Notes to the Accounts

Period from 12 October 1995 (date of commencement) to 31 March 1997

### 2. Income from Charging Schemes

	<b>1997 Income £000s</b>
Control of Pollution Act discharge application consents	3,152
Integrated Pollution Control authorisation charges	1,298
Waste Management Licensing fees	1,375
Special Waste	264
Radioactive Substances Act	253
	<u>6,342</u>

The financial objective for the above charging schemes is full cost recovery, based on all costs including the cost of capital and other notional costs.

### 3. Other Income

	<b>1997 Income £000s</b>
Income from contracts	357
Income from projects	199
Other income	11
	<u>567</u>

## Notes to the Accounts

Period from 12 October 1995 (date of commencement) to 31 March 1997

### 4. Information Regarding Employees and Board Members

	<b>Period to 31 March 1997</b>
	<b>£000s</b>
<b>Staff costs during the period</b>	
Wages and salaries	12,730
Social security costs	996
Pension costs	908
Other staff related costs, principally Agency and temporary staff	2,450
	<u>17,084</u>
	<u><u>17,084</u></u>
	<b>Number</b>
<b>Average number of persons employed in the period ended 31 March 1997</b>	
Pollution control	216
Environmental assessment & science	209
Support	84
Administration	87
	<u>596</u>
	<u><u>596</u></u>
	<b>18 month Period to 31 March 1997</b>
	<b>£000s</b>
<b>Emoluments of the Chief Executive</b>	
Remuneration:	
salaries and taxable benefits	117
performance related incentive payments	10
Pension scheme contributions	17
	<u>144</u>
	<u><u>144</u></u>
	<b>18 month Period to 31 March 1997</b>
	<b>£000s</b>
<b>Emoluments of the Chairman</b>	
Remuneration:	
salaries and taxable benefits	58
performance related incentive payments	–
Pension scheme contributions	–
	<u>58</u>
	<u><u>58</u></u>

## Notes to the Accounts

Period from 12 October 1995 (date of commencement) to 31 March 1997

### Information Regarding Employees and Board Members (continued)

	Period to 31 March 1997 Main Board £000s	Period to 31 March 1997 East Region £000s	Period to 31 March 1997 West Region £000s	Period to 31 March 1997 North Region £000s	Period to 31 March 1997 Total £000s
<b>Remuneration of Board members</b>					
Fees	4	1	–	3	8
Remuneration: salaries and taxable benefits	34	30	17	32	113
	<u>38</u>	<u>31</u>	<u>17</u>	<u>35</u>	<u>121</u>

In the table below, Chairmen of the Regional Boards have been allocated to their Regions as this was more appropriate, although they also serve on the Main Board.

The number of Board members whose emoluments were within the scales indicated were:

	Number	Number	Number	Number	Number
£0 - £5,000	1	17	15	17	50
£5,001 - £10,000	6	–	–	–	6
£10,001 - £15,000	–	1	1	1	3
£55,001 - £60,000	1	–	–	–	1
£140,001 - £145,000	1	–	–	–	1
	<u>9</u>	<u>18</u>	<u>16</u>	<u>18</u>	<u>61</u>

The number of employees excluding Board members whose emoluments were within the scales indicated were:

	Number
£40,000 - £49,999	20
£50,000 - £59,999	7
£60,000 - £69,999	3
£70,000 - £79,999	1
£80,000 - £89,999	4
	<u>35</u>

The emoluments of employees, including the Chairman and the Chief Executive, can relate from 12 months upwards to 18 months, dependent upon the employee's start date.

## Notes to the Accounts

Period from 12 October 1995 (date of commencement) to 31 March 1997

### 5. Depreciation

Charge for period for assets over £5,000 - Note 9	2,296
Charge for period for assets under £5,000 - Note 15	350
	<u>2,646</u>

The depreciation charge for assets under £5,000 reflects a provision for the replacement of operational assets not included in fixed assets on the basis that they are below the de minimis level for capitalisation.

### 6. Other Operating Charges

	Period to 31 March 1997 £000s
Supplies and services	5,013
Irrecoverable VAT	2,224
Property costs	1,844
Other administrative charges	1,321
Board expenses	48
Auditors' remuneration	19
	<u>10,469</u>

### 7. Interest Payable

	1997 £000s
Amounts payable on bank loans and overdrafts	5
Amounts payable on other loans	319
	<u>324</u>

### 8. Taxation

The Agency believes no taxable surplus was earned on its taxable activities and accordingly no provision has been made for corporation tax. The Agency has some £200,000 of trading losses carried forward.

## Notes to the Accounts

Period from 12 October 1995 (date of commencement) to 31 March 1997

### 9. Tangible Fixed Assets

	Land and buildings £000s	Plant and machinery £000s	Motor vehicles £000s	Fixtures, fittings, tools and equipment £000s	Total £000s
<b>Valuation and Subsequent Cost</b>					
Transfer from predecessor bodies at valuation	1,975	2,127	97	606	4,805
Additions at cost	3,453	736	35	2,054	6,278
Disposals	–	–	(11)	–	(11)
At 31 March 1997	5,428	2,863	121	2,660	11,072
<b>Accumulated depreciation</b>					
Charge for the period	483	278	34	1,501	2,296
At 31 March 1997	483	278	34	1,501	2,296
<b>Net book value</b>					
At 31 March 1997	4,945	2,585	87	1,159	8,776

Fixed assets transferred from predecessor bodies were valued as explained in the accounting policy. The land and buildings were independently valued as at 31 March 1996 at open market value on the basis of existing use by Messrs Jones, Lang, Wootton, Chartered Surveyors, in accordance with RICS guidance. Land and buildings were also valued at 31 March 1997 at open market value on the basis of existing use by Messrs Jones, Lang, Wootton, Chartered Surveyors.

The net book value of land and buildings comprises:

	Valuation £000s	Cost £000s	Total £000s
Land - not depreciated	320	-	320
Buildings - revalued	2,224	-	2,224
Buildings purchased at market value at period end	-	2,401	2,401
At 31 March 1997	2,544	2,401	4,945

## Notes to the Accounts

Period from 12 October 1995 (date of commencement) to 31 March 1997

### 10. Debtors

	1997 £000s
Trade debtors	437
Other debtors	50
Prepayments and accrued income	298
	<u>785</u>

### 11. Cash at Bank and in Hand

	1997 £000s
Cash at bank	978
Petty cash	3
	<u>981</u>

### 12. Creditors: Amounts Falling Due Within One Year

	1997 £000s
Bank loans and overdrafts	2,422
PWLB loans - Note 14	25
Trade creditors	35
Other taxes and social security	816
Other creditors	66
Accruals	2,371
	<u>5,735</u>

### 13. Creditors: Amounts Falling After More Than One Year

Amounts falling due after more than one year relate to PWLB borrowings. Borrowings are analysed in Note 14.

## Notes to the Accounts

Period from 12 October 1995 (date of commencement) to 31 March 1997

### 14. Short and Long Term Borrowings

The Agency's borrowing powers are defined in Section 48 of the Environment Act 1995. The present limit is that borrowings must be within £10 million with Secretary of State for Scotland approval.

The Agency inherited a number of Public Works Loan Board loans from predecessor bodies.

At 31 March 1997, the Agency had long term borrowings of £2,347,000.

The following analyses these by date of maturity and by interest rate.

#### a) By date of maturity

	Up to 1 year £000s	1-2 years £000s	3-5 years £000s	6-10 years £000s	Over 10 years £000s	31 March 1997 £000s
PWLB:	25	521	46	378	1,377	2,347
Less amounts due within 1 year	(25)	–	–	–	–	(25)
	–	521	46	378	1,377	2,322

#### b) By interest rate

%	Up to 1 year £000s	1-2 years £000s	3-5 years £000s	6-10 years £000s	Over 10 years £000s	31 March 1997 £000s
6.0 - 6.99	22	–	45	–	–	67
7.0 - 7.99	–	–	–	216	–	216
8.0 - 8.99	–	–	–	–	518	518
9.0 - 9.99	3	–	1	–	578	582
10.0 - 10.99	–	521	–	162	216	899
11.0 - 11.99	–	–	–	–	–	0
12.0 - 12.99	–	–	–	–	65	65
	25	521	46	378	1,377	2,347
Less amounts due for repayment < 1 year	(25)	–	–	–	–	(25)
	–	521	46	378	1,377	2,322

## Notes to the Accounts

Period from 12 October 1995 (date of commencement) to 31 March 1997

### 15. Provision for Liabilities and Charges

	1997 £000s
Provision for replacement of assets < £5,000	350
Provision for uninsured losses	40
Balance at 31 March 1997	<u>390</u>

### 16. Other Reserves

	1997 £000s
Reserve arising on the incorporation of fair values of assets inherited from predecessor bodies	1,216
Other reserves inherited from predecessor bodies	700
	<u>1,916</u>

### 17. Financial Commitments

	1997 £000s
<b>Capital commitments</b>	
Contracted for but not provided	594

### Operating lease commitments

	Land and buildings £000s	Vehicles £000s
Annual commitments under operating leases which expire:		
Within one year	28	98
Within 2 to 5 years	35	129
After 5 years	522	–
	<u>585</u>	<u>227</u>

### 18. Pension Costs

The Agency contributes to the Local Government Superannuation Scheme which is a defined benefit scheme and is administered by Falkirk Council. Employee contributions are fixed by statute. An actuarial valuation of the fund at 31 March 1993 required the members to contribute 80% of employees' contributions in 1996/97. The last actuarial valuation was performed as at 31 March 1996. The actuarial valuation as at 31 March 1996 is scheduled for release later in 1997. The employer's contribution rate is 7.8% of pensionable salary. The pension charge for the period represents contributions payable by the Agency to the scheme of £908,000.

# Notes to the Accounts

Period from 12 October 1995 (date of commencement) to 31 March 1997

## 19. Balance Sheet as at 1 April 1996

The assets and liabilities of each of the predecessors on 1 April 1996, together with the adjustments made to achieve consistent accounting policies, were as follows:

	Solway	Highland	Tweed	Forth	Tay	Clyde	NERPB	Sub-total	Accounting policy adjustments	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Fixed assets	485	552	152	-	666	431	1,303	3,589	1,216	4,805
Net current assets	(34)	(69)	-	228	-	(158)	69	36	(143)	(107)
<b>Total assets less current liabilities</b>	<b>451</b>	<b>483</b>	<b>152</b>	<b>228</b>	<b>666</b>	<b>273</b>	<b>1,372</b>	<b>3,625</b>	<b>1,073</b>	<b>4,698</b>
Financed by:										
Creditors: amounts due after more than one year	485	439	152	-	666	431	609	2,782	-	2,782
Capital reserve	-	-	-	-	-	-	700	700	1,216	1,916
Revenue reserve	(34)	44	-	228	-	(158)	63	143	(143)	-
<b>Total</b>	<b>451</b>	<b>483</b>	<b>152</b>	<b>228</b>	<b>666</b>	<b>273</b>	<b>1,372</b>	<b>3,625</b>	<b>1,073</b>	<b>4,698</b>

## Notes to the Accounts

Period from 12 October 1995 (date of commencement) to 31 March 1997

### 20. Related Party Transactions

Apart from their service contracts and their interests in the liability insurance taken out by the Agency for its officers no member is or was during the financial period materially interested in any contract of significance with the Agency.

### 21. Cash Flow Statement

#### i) Reconciliation of operating surplus to net cash inflow from operating activities

	£000s
Operating surplus	424
Depreciation charges	2,646
Increase in debtors	(785)
Increase in creditors	3,041
<b>Net cash inflow from operating activities</b>	<b>5,326</b>

#### ii) Reconciliation of Net Cash Flow to Movement in Net Debt

	£000s
Decrease in cash in the period	(1,441)
Cash used to increase liquid resources	-
Change in net debt	-
Balance at 31 March 1997	(1,441)

#### iii) Analysis of Net Debt

	Cash flow £000s	Other non-cash changes £000s	At 31 March 1997 £000s
Cash at bank and in hand	981	-	981
Short-term investments	-	-	-
Bank overdrafts	(2,422)	-	(2,422)
	<b>(1,441)</b>	<b>-</b>	<b>(1,441)</b>

### 22. Fees and Charges

SEPA was unable to calculate the related activity costs against income received by its charging schemes. Whilst these data are now becoming available, it is considered that they are not sufficiently accurate for inclusion in this financial period. However, management are confident that the charging schemes income has not over-recovered costs. It is envisaged that more information will be available for the next financial year.