

Annual report and accounts 2013–2014

SG/2014/171 Laid before the Scottish Parliament by the Cabinet Secretary for Rural Affairs and the Environment in pursuance of Section 46 of the Environment Act 1995.

The annual accounts are being laid before the Scottish Parliament by the Cabinet Secretary for Rural Affairs and the Environment in pursuance of Section 22(5) of the Public Finance and Accountability (Scotland) Act 2000.

Please send your comments about this report to
performance@sepa.org.uk

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Chairman and Chief Executive's foreword

Welcome to our annual report for 2013-14

The provision of public services in Scotland is undergoing significant change due to increasing public awareness, constrained financial resources and ambitious political aspirations to engage more effectively with communities. These drivers were highlighted in the 'Future of Public Services in Scotland' Christie Commission report, but rather than wait to be directed by this change, SEPA has taken a lead through the implementation of strong mechanisms to enable us to be proactive and inclusive in our approach. We scan and monitor global developments in the environment and we are inclusive in our considerations to deliver better services by working closely with our wide range of national and local partners in both the public and private sector.

The rising demand for better, more streamlined public services is happening at a time of constrained public spending so it is even more important to achieve 'more with less'; this continues to demand that we free up resource to reinvest in new services. Against this challenge SEPA continues to deliver a high quality service to its customers and this annual report demonstrates our continued commitment to improve our performance year on year.

We are therefore very pleased to report that in this time of change SEPA met 25 out of its 27 performance targets for the year, including determining 99% of licence applications within agreed timescales, publishing Flood Hazard and Flood Risk maps on time, meeting all our key reporting requirements, delivering 100% of our environmental monitoring programme, and completing six problem-solving projects. Unfortunately, we just missed our target to improve performance among non-compliant operators, and although we met the specific greenhouse gas emissions milestones we set ourselves for the year we remain a bit uncertain that we will meet our ambitious target of a 42% reduction by 2020.

This would be a good performance under any circumstances, but when set against the background of transformational change we are implementing, we believe it's quite exceptional. In March 2014 the Regulatory Reform (Scotland) Act was passed by the Scottish Parliament. SEPA worked closely with the Scottish

Government on its development, and the Act paves the way for a new regulatory framework and new enforcement powers, supported by a new funding model for SEPA. We've also made a lot of progress on changing our whole approach to environmental regulation, initiating projects to improve the way we gather and analyse evidence from a variety of sources, including citizen science and listening to communities, and to improve our ability to resolve important environmental problems. Also we've continued to work with partners to make more environmental data and information publicly available through Scotland's Environment website, and to use this to inform discussions with communities, young people and academics to help identify the most important environmental issues, and encourage everyone to play their part in protecting our environment and the essential resources and services it provides. As if that wasn't enough, we have also been making the preparations for our new role in relation to the collection of the Scottish Landfill Tax and, finally, we've been making really substantial changes to our buildings and IT systems, to encourage new collaborative and flexible ways of working.

Meeting 25 out of 27 targets, while also continuing to lay the foundations for a new approach to protecting and improving our environment, is a great performance and we would like to thank all of SEPA's staff, and our many partners, for their tremendous effort and commitment during the year. There is still a lot to do, and we look forward to the coming year as we continue to cement our position as a genuinely world-leading environment protection agency and, more importantly, as a public service that delivers for the people of Scotland.



David Sigsworth
Chairman

Professor James Curran
Chief Executive

About us

Our environment provides the natural resources and ecosystem services on which our society and economy depend – which is why protecting and improving our environment is absolutely essential.

SEPA's purpose is to protect and improve the environment, including managing natural resources in a sustainable way. We also contribute to improving the health and well-being of the people of Scotland and to the achievement of sustainable economic growth. Our role is wide-ranging, and includes environmental regulation, mitigating and adapting to climate change, monitoring and reporting on the state of our environment, raising awareness of environmental issues, championing the sustainable use of resources and providing public warning systems. Scotland's environment generates wealth for Scotland¹, both directly, for example by providing water for the whisky industry and aquaculture, growing crops and timber, and indirectly through tourism and the recreation opportunities afforded by a healthy environment.

As Scotland's principal environmental regulator, we are committed to making regulation as simple as possible, providing clear guidance and encouraging good environmental practice beyond regulation. We are a non-departmental public body, accountable through Scottish Ministers to the Scottish Parliament, and an independent advisor on the environment.

We focus our efforts on dealing with the most important environmental harms. We chair the Environmental Crime Taskforce and take determined action against law-breakers to help ensure environmental crime doesn't pay.



We take tens of thousands of samples every year from land, water and air, and analyse these in the field and in our laboratories to help assess the quality of our environment.

We continuously test new techniques for assessing the levels and source of pollution. We make publicly available our depth of knowledge of the environment and its condition in our publications, on our website, and through the [Scotland's Environment](#) website. We work with our partners to introduce new interactive tools to these websites to improve their accessibility for professionals and public alike, and to encourage the expansion of 'citizen science'.

We provide a range of emergency response and public warning services, including a 24-hour flood warning service and bathing water quality forecasts. We also operate the Airborne Hazards Emergency Response service.

We cannot, however, protect and improve the environment by ourselves. We work increasingly in partnership with others in the public, private and voluntary sectors to deliver the multiple benefits which can be realised from a healthy environment, and to encourage everyone to take responsibility for protecting and improving their environment.

¹ A [2009 study](#) valued the benefits provided by Scotland's environment at up to £23.5 billion per year. Williams E (2009) Preliminary exploration of the use of ecosystem services values in a regulatory context. *Environmental and Resource Economics Project Report for the Scottish Environment Protection Agency*.

What difference have we made?



Businesses and the public are better prepared for flooding after we have encouraged more people in Scotland to sign up to our Floodline direct warning service. We have also further expanded our coastal flood warning service coverage.

Scotland has a clearer picture of the local risk of flooding following publication of our flood maps, which will allow better planning decisions and the avoidance of unnecessary development in flood risk areas. They will support local authorities and emergency responders in developing plans to tackle flooding and support a more sustainable approach to managing flooding risk by considering where natural flood management could be effective.

We have reduced damage to the environment and the amount Scotland has to spend dealing with the effects of environmental crime. We have tackled and discouraged environmental crime through successful prosecution and fining of offenders and by providing support and encouragement to legitimate businesses.

Environmental crime has been further discouraged after the Scottish Government's Environmental Crime Taskforce, chaired by SEPA, looked into using the Proceeds of Crime Act to prevent criminals profiting from illegal activities.

The quality of Scotland's water is improving thanks to the river basin management plans that we manage. Our work to develop river basin management plans for the next six-year cycle will ensure this improvement continues.

Land managers have been introducing mitigation measures to reduce diffuse pollution, which remains the hardest source of water pollution to detect and treat. Our innovative approach to tackling rural diffuse pollution through one-to-one farm visits has made further progress and has been recognised as demonstrating best practice within Europe. Repeat visits to land managers show that

over three-quarters have either implemented, or partially completed, the required mitigation measures identified at earlier visits.

The physical condition of the water environment has been improved through the grants we have provided to local organisations through the Water Environment Fund. Benefits have included improved water quality, improved habitats, increased biodiversity, improved fish migration and reduced flood risk. Grants have supported projects such as the removal of weirs and reversing the straightening of water courses.

People in Scotland have had their chance to shape the future of their environment through a number of public consultations we have run over the year, including the challenges facing the second river basin management plans for the Scotland and Solway-Tweed river basin districts.

The Scottish public have better access to information on the state of Scotland's environment, and environmental data, through the expansion of interactive tools available on Scotland's Environment website provided by us and our partners.

Businesses and local authorities have a much greater awareness of their new duties under the Waste (Scotland) Regulations 2012. The advice, guidance and data we produce are set to contribute to Scotland's ambition to reduce waste. Our focus in 2013 has been on the introduction of rules for businesses on the segregation of dry recyclable materials and food waste. Early inspections in 2014 are encouraging.

We minimised our own impact on the environment by reducing greenhouse gas emissions from our use of transport by 7%.

We made 3% savings over the year while maintaining or improving the services we provide.

Our resources

In 2013–2014 we received:

- £35,911,000 grant-in-aid from the Scottish Government;
- £35,843,000 in fees from business and industry for activities related to regulation;
- £426,000 grant from LIFE+²;
- £4,938,000 other income³.

As of 31 March 2014, we had 1,299 employees, working in [24 offices across Scotland](#), from Lerwick in the north to Newton Stewart in the south.

Our outcomes, our values and our strategic objectives

Our outcomes

Our work is focused on delivering four outcomes for Scotland:

- Scotland's environment is protected and improving.
- Scotland's environment is understood and SEPA is an influential and respected authority.
- Scotland is preparing for a sustainable future and is taking steps to limit climate change.
- SEPA is a high performance organisation.

Our values

We are committed to the Environment, Engagement and Excellence.

Environment

- Understanding, protecting and improving the environment.
- Improving our own environmental performance.

Engagement

- Seeking out productive partnerships and always treating our customers with respect.
- Achieving more by working together as one SEPA.

Excellence

- Achieving high standards in our pursuit of excellence.
- Being the best by continually developing and improving.

Our strategic objectives

These are the areas we will focus on to deliver our outcomes:

- Promote compliance and enforce environmental law.
- Influence the future shape and delivery of environmental regulation.
- Monitor, understand and report on the environment.
- Act to combat climate change.
- Champion sustainable resource use.
- Demonstrate excellent environmental performance.
- Promote the benefits of a good environment.
- Develop innovative partnerships.
- Engage the public in our work.
- Find creative and flexible solutions.
- Focus on the areas where we can make the biggest impact.
- Be the best we can.

² The LIFE+ programme is the EU's funding instrument for the environment.

³ This includes all other income such as the income we get for administering grants under river restoration, LIFE+ grant, and work we do for the Environment Agency.



Review of the year 2013–2014

The review of the year illustrates the breadth and diversity of our role. It includes activities which require careful planning, and others which demonstrate our ability to respond to opportunities and unforeseen events.



April

Environment Minister visits pioneering river restoration project

Scottish Minister for Environment and Climate Change, Paul Wheelhouse, visited Carrbridge in the Cairngorms National Park to view a project designed to restore valuable river bank habitat and contribute to flood alleviation downstream. Funding⁴ administered by SEPA has, by removing some artificial barriers, set in motion a process by which the Allt Lorgy can re-establish a more natural flow. This should help encourage more natural habitats, reduce flooding and improve spawning conditions for salmon. The project includes fencing to assist tree regeneration, alongside planting a further 4,800 native trees.



May

Results of consultation on SEPA's funding arrangements published.

The joint [SEPA-Scottish Government consultation](#) on our new funding and charging structure showed a good level of support for our proposals to move to a charging scheme based on environmental risk and operator performance. The consultation also covered a proposed new statutory purpose for SEPA. Three-quarters of respondents supported a risk-based approach to charging based on the proposed principles, and 62% agreed with the proposed statutory purpose for SEPA.



June

First Scottish company given a confiscation order for environmental crime

A company conducting illegal scrap metal activities became the first to be convicted for environmental crime under the Proceeds of Crime Act. On top of a fine for breaking environmental regulations, the sheriff placed a confiscation order of over £41,000 on the company. The Act allows prosecutors to deprive a person or business of the financial gains obtained by breaking the law. We chair the Scottish Government's Environmental Crime Taskforce, which has been looking to use the Act to prevent environmental criminals profiting from illegal activities.



July

SEPA takes possession of the Angus Smith Building

On 8 July the first staff moved into our new building at Eurocentral. The consolidation of the Edinburgh and East Kilbride science laboratories into the new, first class laboratory took a few more weeks to complete. The building holds just under a third of our staff. The seven month fit-out programme was completed on time and within budget and achieved a BREEAM⁵ Excellent rating.



August

A century of river flow measuring

The Glenfield gauging station on the River Irvine was the first in Scotland to celebrate a century of continuous river level monitoring. Water level monitoring here coincided with the pioneering work of [Captain WN McClean](#) on the River Garry, where, using a bosun's chair and propeller-type current meter, he investigated river depths and flows. We now monitor water levels at 392 Scottish sites and recently launched a [mobile-friendly website](#) to make it easier for fishermen, canoeists and other interested members of the public to track the latest river level conditions at over 330 of these sites.



September

Bathing waters figures reveal a record year

The [results](#) for the June to mid-September bathing season show a record number of beaches reaching the highest standard. The fine weather over the summer resulted in all 83 designated bathing waters achieving at least the current mandatory European standard, and 47 (57%) also gaining the stricter guideline standard. This is the first summer with no failures since 2006.

⁴ Funders included National Park, SEPA, the Scottish Government, the Woodland Trust and the Spey Fishery Board.

⁵ BREEAM is a recognised environmental assessment and rating method for buildings



October

Latest household recycling figures released

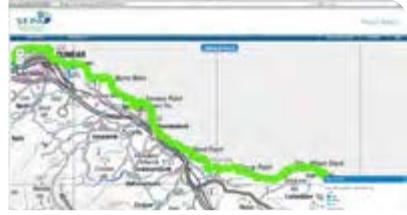
[SEPA's official statistics](#) showed Scottish councils recycled 41% of household waste collected in 2012. This was a small increase on the previous year's level of 40%, under the second annual data-set using an updated calculation required by the Scottish Government's Zero Waste Plan. The launch in October of the "[Discover Data](#)" tool on the Scotland's Environment website allows greater interactive analysis of the detailed figures held on each of the 32 local authorities, displayed in a graphical format.



November

Launch of flood warning service in Stonehaven

SEPA's new river [flood warning scheme for Stonehaven](#) was officially launched by Minister for Environment and Climate Change, Paul Wheelhouse. Stonehaven has been badly affected by flooding in recent years. By signing up to SEPA's Floodline service, locals will be given free advance notification when flooding is predicted in the River Carron catchment area, providing crucial time to prepare and protect themselves, and their properties, against the damage which flooding can cause.



December

New flood maps produced

We met a tight European and Scottish legislative deadline by completing the new flood maps for Scotland on 22 December. The maps will assist decision-making in flood risk management and land use planning and generally raise awareness of flood risk across Scotland. They were developed in partnership with local authorities, Scottish Water and other flood risk management partners and reflect local knowledge of flooding and impacts from river, coastal, surface water and groundwater flooding. The maps were very well received by the Scottish Government, our partner organisations and the media. They were available on our [website](#).



January

Four new Board members

We welcomed [four new members](#) to our Board. Michelle Francis, Dr Jackie Hyland, Nick Martin and Trisha McAuley each bring a wealth of new experience and expertise to SEPA.



February

Healthy Working Lives Bronze award

SEPA was officially presented with the [Healthy Working Lives Bronze Award](#) in recognition of our efforts to improve health, safety and well-being in the workplace. Healthy Working Lives is a Scotland-wide, NHS-led initiative which aims to increase awareness of, and participation in, activities that improve and promote health and well-being in the workplace. We are now working to achieve the Silver award.



March

Compliance with new waste regulations 'encouraging'

We completed a series of inspections of major food producers and large to medium scale food-related businesses in four of Scotland's major cities to assess the adequacy of measures currently in place for segregating dry recyclable materials and food waste, under the new [Waste \(Scotland\) Regulations](#). 74% of businesses inspected were either fully or broadly compliant with the new requirement to recycle food waste, which reflects well on our efforts to notify food-related businesses of their forthcoming duties.

Performance scorecard

Our *Annual operating plan 2013–2014* identified 27 performance measures which we monitored throughout the year to assess progress towards our outcomes. We achieved 25 out of 27 performance targets, details of which are included throughout this report. Further information can be found in our [Annual review of performance 2013–2014](#), available on our website.

Performance measure	Status	Page
Outcome: Scotland’s environment is protected and improving.		
1. Improving poor performers	✓	13
2. Reducing non-compliance	✗	14
3. Water quality	✓	14
4. Radioactive waste disposals	✓	15
5. Flood risk and hazard maps	✓	16
6. Flood risk management	✓	17
7. Civil contingencies	✓	17
Outcome: Scotland’s environment is understood and SEPA is an influential and respected		
8. Reporting requirements	✓	24
9. Citizen science	✓	24
10. Environmental monitoring plan	✓	25
11. Monitoring action plans	✓	25
12. Scotland's Environmental Web	✓	26
13. SEARS partnership	✓	27
14. Rural diffuse pollution	✓	27
15. Problem-solving projects	✓	28
Outcome: Scotland is preparing for a sustainable future and is taking steps to limit climate change.		
16. Wind farm carbon assessment	✓	36
17. Landfill audits	✓	37
Outcome: SEPA is a high performance organisation.		
18. Greenhouse gas emissions	✗	44
19. Zero waste plan recycling	✓	45
20. Zero waste plan landfill	✓	45
21. Development Plans	✓	46
22. SEA consultations	✓	46
23. Planning consultations	✓	47
24. Licence determination	✓	47
25. Environmental incident reports	✓	48
26. Efficiency targets	✓	48
27. Cost recovery	✓	48

Key	✓ Achieved	✗ Not achieved
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Scotland's environment is protected and improving

Scotland's environment is protected and improving



Introduction

As Scotland's principal environmental regulator, we protect the environment and human health from the impacts of pollution through the implementation of environmental legislation and regulations. Promoting compliance and enforcing environmental law involves encouraging and helping operators to comply with, and go beyond, regulatory requirements, whilst seeking effective penalties and deterrents for those who fail to meet these standards. Environmental law has been further reinforced by the passing of the [Regulatory Reform \(Scotland\) Act](#) on 16 January 2014. This paves the way for the development of a new risk-based, regulatory framework and charging structure, and introduces new powers of enforcement.

Since November 2011 we have been working closely with our partners on the Environmental Crime Taskforce to agree priorities for preventing and deterring environmental crime. A report was delivered to Scottish Ministers in July 2013, and is discussed on page 11. One of the tools used to discourage unlawful activities is the Proceeds of Crime Act. In 2013 we obtained the first-ever confiscation order for an environmental crime in Scotland under the Proceeds of Crime Act. Our work with partners on environmental crime has been recognised internationally as an example of best practice. We were accordingly invited to present at the [Interpol crime conference](#) in Nairobi in November, as described on page 11.

It has been a very busy year for our flooding teams who provided around the clock flood warnings through the Floodline service, as reported on page 12. The holiday period around Christmas was exceptionally busy. The value of our Flood Warning and Forecasting service was well recognised by the general public during this period, reflected in an increase in registered users.

Our flood mapping teams completed the challenging task of publishing flood maps for the whole of Scotland, which will underpin the flood risk management strategies and plans as set out in the Flood Risk Management (Scotland) Act 2009. A tight deadline required developing innovative solutions with our subcontractors and working closely with our partners, such as local authorities and Scottish Water. The maps were completed by the statutory deadline of December and were made available on our website in mid-January, as described on page 12. Within days, they were being widely used by professionals and the general public.

There are many businesses in Scotland who are making considerable progress in developing more sustainable business models. Through the [Vision in Business for the Environment of Scotland Awards](#) (VIBES) we and other similar national bodies join forces to select annual prize winners, as described on page 13. By raising the profile of the winning companies, the awards promote the benefits of innovative and creative environmental practices that also make good business sense.



Facts and figures

6,949

The number of environmental incident reports we received in the year, compared with 7,668 last year.

15%

The percentage increase in customer visits to our live web-based flood updates, compared to the previous year: over 357,000 individual visits.



10,512

The number of environmental licences issued by SEPA in force at 31 March 2014, an 8% increase on the year before.

Environmental crime goes international

The Environmental Crime Taskforce was established in November 2011 by Cabinet Secretary for Rural Affairs and Environment, Richard Lochhead, and is chaired by SEPA. It brings together representatives from the police, the Crown Office Procurator Fiscal Service, the Scottish Government, Scottish Natural Heritage and local authority chiefs to crack-down on serious offenders and strengthen the response to criminal activity.

The Taskforce delivered a [report](#) to Scottish Ministers in July 2013 on priorities for preventing and deterring environmental crime. Particular reference was made to serious organised crime groups and on how to improve coordination between the police and all key stakeholders. It proposed legislation, research and other measures to tackle environmental crime. The report also highlighted the adoption of the Proceeds of Crime Act 2002 in relation to environmental crime, and the use of financial investigators to confiscate assets obtained through unlawful activities. In December 2013 the [Scottish Government](#) accepted all the recommendations in the Environmental Crime Taskforce report.

Evidence of the Taskforce's success in building up resources to support its Proceeds of Crime investigations came in May 2013 when we obtained the first-ever confiscation order agreed for an environmental crime in

Scotland for just over £41,000. The scrap metal operator involved was also fined £23,500 under the Environmental Protection Act 1990 for illegally keeping waste on the site and failing to comply with a notice to clear it by a set deadline.

The Environmental Crime Taskforce report noted an increase in the involvement of serious and organised gangs in the waste sector. In December we announced the formation of a new [Waste Crime Team](#), to work in partnership with law enforcement agencies such as Police Scotland, to lead investigations and to tackle this growing threat within the waste sector. As the Cabinet Secretary, Richard Lochhead, commented: "The creation of the Waste Crime Team will undoubtedly help in the fight against those who hold no regard for Scotland's environment".

The work undertaken in Scotland on environmental crime was seen as an example of best practice. We were invited to present at the [Interpol crime conference](#) in Nairobi in November. We were involved in leading a workshop for the Pollution Crime Working Group on organised crime in the waste industry, in a closed session attended by government representatives. The workshop also explored opportunities for future international collaboration to combat cross-border waste crime.

Paul J. Martin Shutterstock



Winter floods and storms

It was a very busy winter for those teams in SEPA involved in flooding. At various times in December, flood forecasting and warning services were in particularly high demand with the [Scottish Flood Forecasting Service](#) (SEPA's partnership with the Met Office) and our [Floodline](#) and Flood Advisory Services working round the clock. For example, on 5 December the flood warning section of our website received over 40,000 unique visitors and over three days we delivered more than 12,000 messages directly to registered Floodline customers.

The teams had little time to rest over the Christmas period as continuous rainy weather left many rivers in Scotland near or at record levels and gale force winds caused further coastal flooding. Between 18 December and 7 January we issued 360 Flood Alerts as well as almost 96,000 texts or telephone calls to registered Floodline customers. During this period the number of registered customers increased by 7%, reaching over 18,000 by early January.



Flood maps

By chance, this year's winter floods coincided with the publishing of our [flood maps](#) covering the whole of Scotland. These maps will assist decision-making in flood risk management and land use planning and generally raise awareness of flood risk across Scotland. The maps have been well received and attracted significant national and local media attention following their website launch in January.

The maps give the option of displaying the flood risks from river, coastal or surface water flooding. They were not intended to identify individual properties that might be affected as the maps are designed to provide a community level view to support decision-making. There are three levels of risk – high, medium and low – which refer to the probability of flooding occurring once over a 10 year, 200 year or 1,000 year period respectively. Mapping flood risk is an ongoing and complex process and we will continue to learn and reassess our assumptions following floods.

The VIBES annual awards for ‘green’ companies

For 14 years, the [Vision in Business for the Environment of Scotland Awards](#) (VIBES) has recognised the commitment, actions and achievements of Scottish companies in reducing their impact on the environment. VIBES is a strategic partnership between SEPA, Scottish Government, Scottish Water, Scottish Enterprise, Highland and Islands Enterprise, Zero Waste Scotland, Energy Saving Trust and Bright Green Business, and is supported by CBI Scotland.

This year, nine companies were recognised for their commitment to carbon reduction at a well-attended award ceremony in November 2013. There were ten award categories that ranged from an Energy award, through to Circular Economy and Management (both small and large company) awards. Each nominated company was visited by a panel of three judges who came from a wide variety of backgrounds and organisations, from bodies within the Scottish Government to Scottish Water and Resource Efficient Scotland.

As one judge claimed: “After many years as a financial analyst trying to persuade companies to take the environment more seriously, it was refreshing to be lectured by company directors on the benefits of their environmental measures, not just to their bottom line”.

This year's [prize winners](#) were presented by our Chairman, David Sigsworth and featured well-known companies such as Müller Wiseman Dairies (Transport award) and lesser-known emerging companies such as [Dryden Aqua](#), winner of the Hydro Nation and Circular Economy awards, for its water purification product range based on glass powder derived from recycled bottles.



Performance measure	Status
Improvement in performance at sites identified as non-compliant during 2012	✓

We work to minimise the impact on the environment from operators and sites that we regulate. We do this by monitoring the compliance of operators and sites with the conditions included in their licences that we issue under environmental legislation. We use a number of tools to improve operators' compliance with environmental regulation, from providing advice and guidance to targeting specific harms and taking enforcement action. This measure lets us know whether the steps we are taking to improve compliance are having the desired effect and to assess whether or not compliance with licence conditions improves for 50% or more of the licences identified as non-compliant during 2012-2013.

Over the year 53% of the 417 non-compliant licences from the previous year had shown an improvement in their status.

Status	Number of licences
Improvement shown	222
Deterioration shown	38
No change	122
Not assessed	35
TOTAL	417



Performance measure	Status
Decrease in the percentage of sites which are identified as non-compliant in 2013 compared to 2012	✗

The purpose of this measure is to show whether the steps we are taking to improve compliance are having the desired effect on the longer-term levels of non-compliance. The target was to reduce the non-compliance rate by a tenth from the previous year. The non-compliance rate in 2012-2013 was 10.8% making the target for 2013-14 9.7%.

The non-compliance rate for the year was 9.9%, marginally missing the target of 9.7%. The non-compliance rate improved by 8.4% over the year, against a planned improvement of 10%. We carried out some targeted campaigns that were likely initially to drive up the levels of non-compliance in certain sectors.

Performance measure	Status
Progressively improve the ecological status of water to achieve 70% of water bodies at good status or better by 2015 and 96% by 2027	✓



We help protect and improve Scotland’s wetlands, rivers, lochs, estuaries, coastal waters and groundwater through regulation, monitoring and planning. We are the competent authority for the delivery of Scottish Ministers’ objectives set out in the River Basin Management Plans for the Scotland and Solway-Tweed river basin districts. These provide the means to deliver improvements in Scotland’s water environment.

In December 2013, we published the [‘Current Condition and Challenges for the Future’](#) consultations for the Scotland and Solway-Tweed River Basin Districts. These reports describe the current condition of the water environment and assess progress made towards the improvement targets set in the first River Basin Management Plans. They also describe the future challenges to delivery for the second cycle, and identify where our priorities lie.

These consultations represent a significant milestone as they are the first formal review of Scotland’s delivery of River Basin Management Planning objectives. Responses to these consultations will inform the draft second River Basin Management Plans.

The review indicates significant progress has been made in some areas. Clearly identifiable sources of water pollution (point source pollution) have been reduced through Controlled Activities Regulations licence reviews, which are largely

on track and predicted to deliver planned improvements in water bodies impacted by authorised discharges and abstractions. For water resources we anticipate reaching target status in 74 out of 75 water bodies, and 32 out of 38 water bodies for water quality.

However, although we are broadly on-track to achieve our target, we are tackling some big challenges relating to reversing historic physical alterations to water bodies and mitigating diffuse pollution. The former is being addressed through the Water Environment Fund. The Fund is supporting over 40 projects this year and was fully spent in 2013–2014. However, we predict that we will not fully meet the target objective of improvements in 142 water bodies by 2015.

Due to the complexity of diffuse pollution (multiple 'diffuse' sources and many different pollutants and pathways), the environmental response is likely to be slower than for point source mitigation and it is not possible to predict accurately what further improvements will be achieved by 2015. It is likely that we will not meet the target of improving 154 water bodies.

More details about progress made with these programmes and Scottish Water's Quality & Standards 3b programme (Q&S3b) of water improvement are available in the Annual Review of Performance 2013–2014.

Despite the shortfall in achieving those challenging targets associated with land use impacts, Scotland continues to be recognised internationally for its approach to River Basin Planning, particularly in relation to diffuse pollution, and its use of risk-based and 'bespoke' regulations.

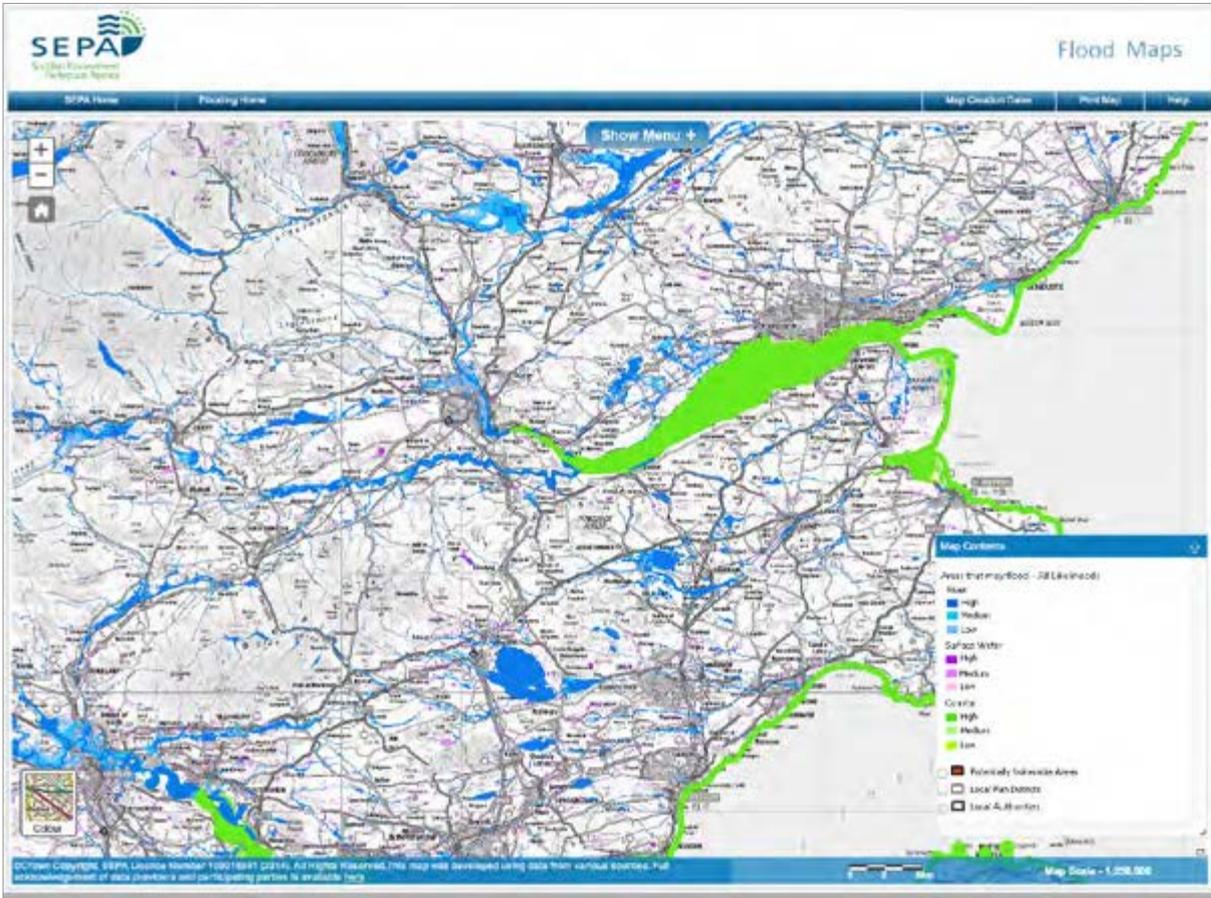
Performance measure	Status
Ensure that disposals of radioactive waste authorised by SEPA do not lead to any member of the public receiving a radiation dose exceeding the annual dose limit of 1 millisievert	✓

We do this by monitoring the compliance of nuclear, non-nuclear and equivalent Ministry of Defence sites with the conditions included in their registrations or authorisations that we issue under the [Radioactive Substances Act 1993](#). Each year, SEPA publishes a retrospective report on Radioactivity in Food and the Environment (RIFE).

The most recent report, [RIFE 18](#), published in October 2013 confirms that in 2012 no member of the public received a radiation dose exceeding the annual dose limit of 1 millisievert from disposals of radioactive waste authorised by SEPA. This record was maintained through to the end of March 2014.



Performance measure	Status
Publish flood risk and flood hazard maps by December 2013	✓



We are working in partnership with the Scottish Government, Scottish Water, local authorities, community groups and the public to develop Flood Risk Management Plans by 2015. The delivery of modelling and mapping work is an important step towards delivery of the plans. We commissioned consultants to model flooding in rivers, coastal areas and following heavy rainfall to produce flood hazard maps in preparation for the submission of flood risk and flood hazard maps to the European Union in 2014, which will allow for the appraisal of flood risk management strategies.

We successfully produced the flood hazard and flood risk maps by December 2013, and also finalised the official reporting submission to the European Union Commissioners

in March 2014. Production of the flood maps has been a significant challenge for us, with many activities being undertaken for the first time. Fitting a task of this scale to very tight deadlines has required much innovation, adaptation and hard work. Success has required a high level of engagement with our contractors and partner organisations throughout the year to overcome various challenges.

Maps of potential areas for natural flood management were also prepared by this statutory date and were published alongside the flood hazard and flood risk maps.

The new maps show more information than ever before and help raise awareness of flood risk and its potential impacts. They are a key tool for Flood Risk Management

Planning and will be used by ourselves, local authorities, Scottish Water, National Park authorities and Forestry Commission Scotland to develop the first set of co-ordinated plans to tackle flooding across Scotland.

They were published on our [website](#) on 15 January and received 40,000 visits in the first five days. Positive comments were received from the Minister for Environment and Climate Change, the Scottish Government and partner organisations. Media response has been also been very good with the maps being used in a constructive manner to highlight flood risk management issues.

Performance measure	Status
Work with flood risk management partners to develop our 14 flood risk management strategies prior to the December 2014 public consultation deadline	✓



The completion of the National Flood Risk Assessment and the agreement of 14 Local Plan Districts and 243 Potentially Vulnerable Areas was the first stage of delivering the new planning arrangements set out in the Flood Risk Management (Scotland) Act 2009.

The outputs from more detailed flood hazard mapping and other data are being used by SEPA and our appointed consultants to identify high-level objectives and appraise potential measures for flood risk reduction in Potentially Vulnerable Areas. This information will contribute to the production of Flood Risk Management Strategies for each Local Plan District, drafts of which are required for public consultation by December 2014. The Flood Risk Management Strategies will inform the development of Local Flood Risk Management Plans by lead local authorities, which will require our agreement.

Despite delays, we still intend to start the public consultation process by December 2014 with sufficient information to have meaningful engagement with stakeholders. More detail on the reasons behind these delays and our response to them are described in the [2013-2014 Annual Review of Performance](#).

Performance measure	Status
As a Civil Contingencies Act Category 1 responder, we will ensure that nominated staff attend a minimum of 95% of all Strategic Coordinating Group meetings during 2013-2014	✓

The Civil Contingencies Act includes within its definition of an emergency, "an event or situation which threatens serious damage to the environment". Through strategic engagement, the effects of emergencies upon the environment are more widely recognised and our role is better understood. Our various Civil Contingencies partners are thus able to identify and include environmental mitigation and effective clean-up measures within their organisational emergency plans.

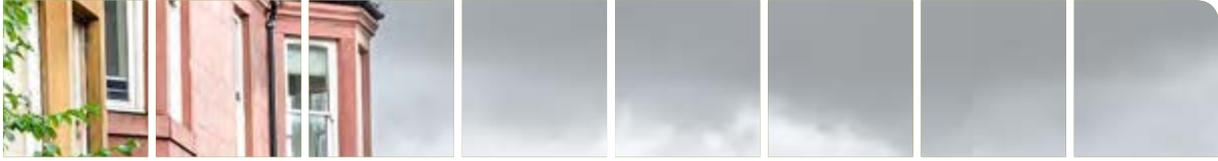
Attendance during the year at all meetings of Strategic Coordinating Groups and the three new Regional Resilience Partnerships replacing them, allowed SEPA's senior staff to highlight and influence relevant environmental impacts and issues to our key Civil Contingency partners.

Further details on our involvement with the Regional Resilience Partnerships is available in the [2013-2014 Annual Review of Performance](#).



Scotland's environment is understood and SEPA is an influential and respected authority

Scotland's environment is understood and SEPA is an influential and respected authority



Introduction

We must monitor, understand and report on the environment in order to carry out our environmental protection and improvement role effectively. By providing clear, easily accessible information we can help businesses, communities and individuals to understand environmental issues and the positive actions they can take.

The importance of good air quality for human health has increasingly been recognised. We have a critical role in influencing the level of air pollution. Through our monitoring of major industrial sites under the Pollution Prevention and Control regulations we can address one of the most significant sources of air pollution, as described on page 20. By setting limits for emissions and carrying out inspections, we can ensure licence holders are adhering to acceptable emission levels. Major air pollution incidents that directly threaten public health are monitored by the [Airborne Hazards Emergency Response Service](#), a mobile monitoring service delivered by SEPA in partnership with Health Protection Scotland, the Fire and Rescue Service and other partners. We have been working with our partners on the Scottish Transport

Emissions Partnership to provide technical support to all those trying to combat urban air quality, especially local authorities, who have responsibility for local air quality.

We encourage the public to assist us in protecting the environment. Members of the public can call our Pollution Hotline at any time to report suspected incidents of damage to the local environment. Our local offices are often contacted directly and can respond in a flexible manner to environmental incidents.

We help Scottish businesses keep well-informed about the latest environmental regulations. [NetRegs](#) is a partnership between the Northern Ireland Environment Agency and ourselves, which provides free guidance on how to comply with environmental law, as described on page 22.

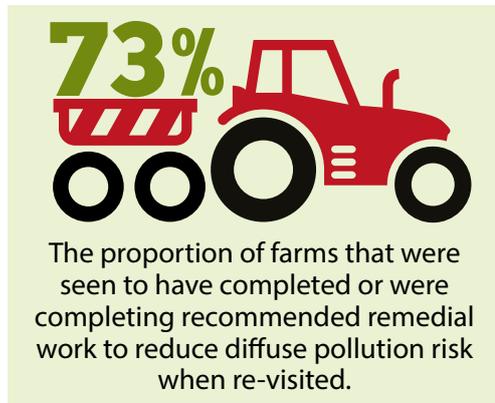
[Scotland's Environment](#) website is an ambitious project to present a wide range of information and data about Scotland's environment. During the year we have contributed to a number of new tools, as documented on page 22, covering topics such as land search and water body classification.



Facts and figures

1,215

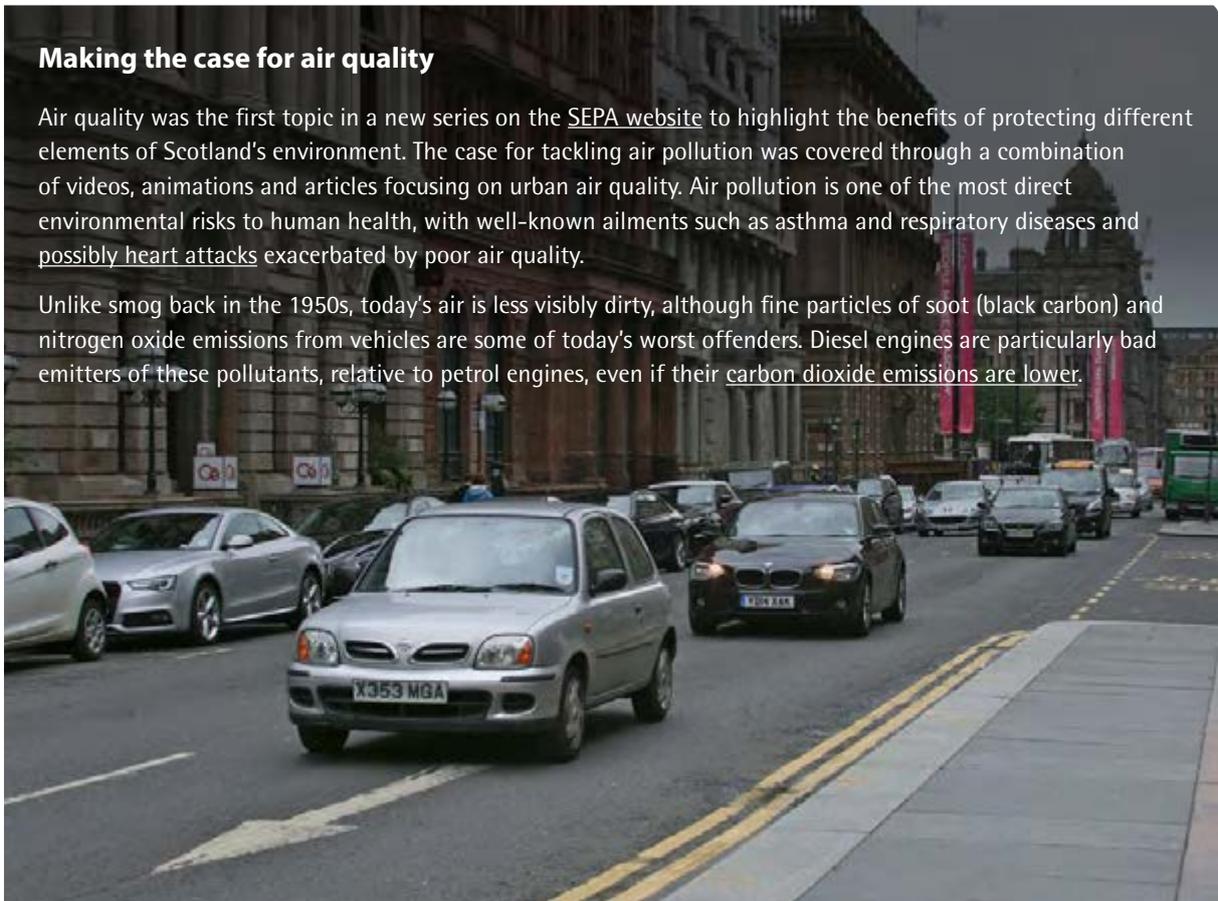
The number of diffuse pollution inspections carried out by SEPA's partners on our behalf in the year.



Making the case for air quality

Air quality was the first topic in a new series on the [SEPA website](#) to highlight the benefits of protecting different elements of Scotland's environment. The case for tackling air pollution was covered through a combination of videos, animations and articles focusing on urban air quality. Air pollution is one of the most direct environmental risks to human health, with well-known ailments such as asthma and respiratory diseases and possibly heart attacks exacerbated by poor air quality.

Unlike smog back in the 1950s, today's air is less visibly dirty, although fine particles of soot (black carbon) and nitrogen oxide emissions from vehicles are some of today's worst offenders. Diesel engines are particularly bad emitters of these pollutants, relative to petrol engines, even if their [carbon dioxide emissions](#) are lower.





Combatting such air pollution through encouraging more use of public transport, cycling and walking can reinforce the health benefits of cleaner air, as well as reducing carbon emissions and making a contribution to limiting climate change. Increasing greenspace in cities can also offer multiple benefits: trees can filter out pollutants in the air as well as creating safer, more pleasant environments, and reducing noise and flooding.

Although Scotland's urban air is better than many European countries, we still have 31 locations with recognised poor air quality. There are, for example, three in the centre of Glasgow and five in Edinburgh. These [Local Air Quality Management Areas](#) are monitored by the local authorities. Historic trends for Scotland as a whole are available on the [Air Quality in Scotland](#) website, with hour-by-hour air conditions from over [90 monitoring sites](#) accessible online or via daily or hourly [email updates](#).

We have a number of critical roles in controlling Scotland's air quality. We regulate over 500 major industrial sites that have the potential to cause air pollution. We set limits for emissions and carry out inspections to ensure licence holders are adhering to the maximum permitted emission levels. Pollutants monitored include oxides of nitrogen and sulphur, particulate matter, heavy metals and organic substances. We provide information on emissions from regulated industries through the annual publication of the [Scottish Pollutant Release Inventory](#).

If a significant pollution incident occurs, we play an important role in protecting the public through our participation in [Airborne Hazards Emergency Response Service](#) (AHERS). A mobile monitoring unit staffed by SEPA's field response team can be deployed to check the levels of airborne pollutants and assess the potential threat to the public.

We also provide policy and operational advice to government, industry and the public on pollution control. Although local air quality is the responsibility of local authorities, we are a statutory consultee and deemed the 'appropriate authority' in relation to local air quality management. We are also a statutory consultee for some planning applications and local development plans and can ask for revisions to plans that might impact local air conditions.

In October 2012 we set up the [Scottish Transport Emissions Partnership](#) (STEP) in partnership with Transport Scotland and a variety of other partners, as a technical group to provide support to all trying to combat poor air quality. The overall aim is to improve Scotland's urban air quality through partnership working and establishing close working relations with key stakeholders. A clear sign that other countries are taking the subject more seriously came in December 2013 when the European Commission issued a policy to clean up Europe's air. It was claimed the [policy package](#) could benefit people's health by around €40 billion a year.

Environmental advice for small companies

[NetRegs](#) is a partnership between the Northern Ireland Environment Agency and SEPA which provides free guidance to help companies comply with environmental law. The website was re-launched in April 2013 designed with businesses in mind and provides sector by sector advice that translates important environmental legislation into plain English. A monthly newsletter was introduced, covering new and forthcoming environmental regulations as well as relevant environmental stories and events.

The site also offers five learning tools covering subjects such as preventing pollution, a duty of care for waste and generating renewable energy. One month after the re-launch, 720 users had logged on to use these tools. By January 2014, subscriber numbers for the monthly email update had risen steadily to just short of 5,000 and the number of visitors to the website per month had risen to over 20,000.

To assist in tailoring content to the needs of small businesses, we carried out two surveys of businesses in Scotland and Northern Ireland. The first assessed awareness of environmental regulations, and the second evaluated the perceived benefits of using NetRegs to achieve good practice. The majority of businesses commenting on the website agreed the layout was either good or excellent. Around 45% felt that NetRegs had either directly saved them money or improved resource efficiency. Around 80% of the businesses interviewed confirmed they had used the internet to search for environmental advice, but overall environmental awareness amongst such businesses was very low. This suggests the free and accessible service provided by NetRegs, should be welcomed by most businesses looking for straightforward environmental guidance.

The evaluation survey found there was a range of estimates for how much money NetRegs saved businesses, but the largest number fell into the category of between £500 and £1,000.

Scotland's Environment website

The [Scotland's Environment website](#) brings together information and data on Scotland's environment in an easily accessible form, using modern, innovative approaches.

The website has had funding from the EU Life+ programme since 2011 when we successfully applied for support on behalf of SEPA and our [partners](#)⁶.

Another aim is to provide access to high quality interactive resources in order to encourage the public to take more of an interest in protecting and improving

⁶ The thirteen other governing partners include bodies such as the Scottish Government, Scottish Natural Heritage, the James Hutton Institute and Forestry Commission Scotland.

Scotland's environment 



the environment. These 'citizen science' activities include [downloadable mobile apps](#), such as PlantTracker and AqualInvaders, which allow the public to become actively involved in monitoring the environment.

The website is constantly being updated, and new tools added. These are readily accessible, interactive tools which professionals and public alike will find invaluable sources of local and national environmental information.

Examples of tools launched over the last year include:

1. Land Information Search

Launched in January 2014, this is [a map-based tool](#) that allows a search for data relating to any chosen area of land. The search results highlight the presence of a range of features such as scheduled monuments, sites of special scientific interest and native woodlands falling within the selected area of interest and within a 500 metre buffer.

Direct links with the Scotland's Environment website partners ensure that the tool uses the most up-to-date published information. The search tool has been created for applicants of rural development contracts and/ or felling licences, but is likely to be of interest to anyone investigating the character of a particular location, including council planning departments, developers and house buyers.



2. Water Body Classification

This application provides [a visual analysis of the water classification results](#) for Scotland. These classifications are used to track our progress with improving the state of the water environment. Users of the application can view the most recent overall classification results for a chosen water body and the classification results for the past three years.

Each water body is classified on an annual basis on a spectrum from 'high' to 'bad' using a system devised from EU and United Kingdom guidance. The quality of the water is measured not just on the basis of the chemical and biological content, but also in terms of water levels and flow, morphology (changes to the beds, banks and shores of water bodies) and presence of invasive non-native species such as Japanese Knotweed and Himalayan Balsam.



3. Household Waste

This application provides [summary data on Scottish household waste](#) and its management (recycling, recovery and disposal) for the period 2004–2012. A more detailed breakdown of the data is available for 2011 and 2012, which shows the management of household waste for each of the 32 local authorities in Scotland and the breakdown by type of waste. At a glance, it shows how recycling rates vary significantly by local authority.

4. Climate Projections for Scotland

This application provides information designed to help those needing to plan how they will [adapt to a changing climate](#), and draws on the work of the many contributors to the [UK Climate Projections](#) application. Projections for temperature and precipitation are probability-based and provided by region, river basin or on a 25km grid, under three different 'emission scenarios' (high, medium or low). Based on these three scenarios, climate change projections extend as far as the end of this century.

Performance measure	Status
Deliver 85% our key reporting requirements to agreed timescales	✓

We aim to be an influential and respected authority. To achieve this, we must turn our data into useful information and produce high quality reports on time. Some of these reports are required by legislation or under agreements with the UK and Scottish Governments. We identified 13 important reports that we needed to deliver this year. All 13 reports were delivered on time.

Performance measure	Status
Develop a decision-making framework to identify the most suitable citizen science projects to support	✓

Citizen science encourages the people of Scotland to contribute to environmental protection by providing data and observations on their local environment. We hope this will develop local understanding of environmental issues, and encourage stewardship and a sense of ownership. We also want to promote the collection of long-term datasets to improve our understanding of Scotland’s environment.

This measure was about refining the way we develop citizen science within SEPA. We wanted to improve the decision-making framework for identifying suitable citizen science projects. We achieved this by applying SEPA-specific project selection criteria when evaluating potential citizen science projects. We have demonstrated progress by applying the criteria in the development of two specific citizen science initiatives during 2013-2014.

The project team from the Centre for Ecology and Hydrology have created an illustrated summary report ([‘Choosing and Using Citizen Science: a guide to when and how to use citizen science to monitor biodiversity and the environment in the UK’](#)) based on a longer report we had published. The official launch of the illustrated guide and the full report took place on 8 May 2014 at the Sharing Good Practice event hosted by Scottish Natural Heritage, on ‘Citizen Science – volunteer engagement in environmental monitoring’.

The decision-making framework was applied internally in the development of two potential citizen science initiatives:

1. identifying potential barriers to fish migration, and
2. wetland habitat mapping in the Seven Lochs Wetlands Park.

Bids for internal funding were submitted. Funding was approved for the fish barriers project and the tender is in preparation.



Performance measure	Status
Deliver 95% of our environmental monitoring plan	✓

We have a duty to monitor and report on the state of Scotland's environment and to use that scientific understanding to inform our independent regulation of activities that may affect its quality. Our environmental monitoring plan is designed to ensure that we collect the right samples at the right locations at the right time. We need to do this in order to meet our statutory monitoring obligations under European, UK and Scottish environmental law and to ensure that we gather enough data to help us understand Scotland's environment.

During 2013 we collected 26,623 samplings against the total of 26,237 planned, ensuring we met 100% of our environmental monitoring plan.

2011-2012	2012-2013	2013-2014
97.6%	98.2%	100%

Performance measure	Status
Working with CAMERAS partners to develop a co-ordinated approach to monitoring	✓

The Scottish Environmental Monitoring Strategy, produced by CAMERAS, has been published on the Scottish Government website. SEPA is leading on the implementation of this strategy as part of the CAMERAS programme of work, with Monitoring Action Plans being produced for important areas. The purpose of this performance measure was to monitor how well we were working with our CAMERAS partners to encourage the development of a further two Monitoring Action Plans by the end of March 2014.

Overall, progress has been made this year. So far one Monitoring Action Plan is complete - ecosystem indicators (biodiversity) and four are underway. Commitment from our partners has allowed us to move forward on four Monitoring Action Plans (landscape, hazardous substances, pollination and litter). Proposals to develop a Climate Change Monitoring Action Plan are under consideration.

Progress has been achieved with the development of the landscape Monitoring Action Plan and completion of a good second draft. Work has started on scoping out a litter Monitoring Action Plan, and a workshop has been agreed for the cross-media Monitoring Action Plan for hazardous substances.



Performance measure	Status
Continue to work with the Scotland’s Environment website to develop an agreed state of the environment report	✓

The Scotland’s Environment [website](#) contains a report written by various bodies, including SEPA, which summarises the condition of the environment and what is being done to improve it. The purpose of this measure was to track our ability to contribute to the State of the Environment report through recording the production of various publications scheduled for the year in the form of reports, podcasts and infographics.

We continue to work with Scotland’s Environment Web to enhance the State of the Environment report, which will be published as part of a high profile re-launch of Scotland’s Environment website in June 2014.

The report will be the focus of the launch and the Editorial Group (chaired by SEPA) has thoroughly reviewed the structure, tone and content of the topics which make up the body of the report. Considerable effort has gone into updating and revising the existing topics, as well as delivering new ones. At least 31 topics will be published, and we will continue to work with partners to develop new topics to inform the public.

Underpinning the State of the Environment report, is a wide range of data and information that can be accessed, viewed and analysed on Scotland’s Environment website.

The website has undergone extensive user engagement and feedback, redesign and new product development. Other key features of the new Scotland’s Environment website include:

- a new search function giving direct access to extensive range of content, including documents and information from our partners’ own websites;
- an improved Map View platform offering over 160 different datasets displayed as map layers;
- aerial photography;
- a new ‘geolocator’ that can present data relevant to a current GPS location;
- improved links to environmental news and promotion of key environmental messages through social media;
- a searchable register of citizen science projects active in Scotland, assisting volunteers to identify interesting projects and helping projects to advertise for volunteers; and
- a new page offering access to social media services.



Performance measure	Status
Continue to build on the success of the SEARS⁶ partnership focusing on training and improving administrative arrangements	

The SEARS partnership successfully introduced a better-integrated inspection regime for land owners by getting others to do inspections previously carried out by SEPA. Training delivered by SEPA provides staff with knowledge and experience beyond their normal line of duty.

The purpose of this performance measure is to monitor how well we are working to ensure that we deliver planned training on time to the Scottish Government's Rural Payments and Inspections Directorate for those who carry out inspections on our behalf, and to fulfil the requirements of our service level agreement.

Training was delivered to staff from Scottish Government's Rural Payments and Inspections Division, Scottish Natural Heritage and the National Parks staff throughout the year. In total, 79 staff from across the three SEARS partners received training on Diffuse Pollution, General Binding rules and the Control of Pollution (Silage, Slurry and Agricultural Fuel Oil) (Scotland) Regulations (SSAFO). These partner organisations complete compliance assessments for SEPA in respect of the above regulations, whilst also undertaking inspections on the land as part of their own routine duties.

Our SEARS partners have been undertaking Diffuse Pollution and SSAFO inspections (farm steading inspections) throughout the year. A total of 1,215 diffuse pollution and 159 SSAFO inspections were undertaken from April 2013 until 27 March 2014, in line with previous years. The Scottish Government's Rural Payments and Inspections Directorate have also carried out Controlled Activity Regulation reviews of waste sheep dip disposal to land applications as part of SEPA's licence review programme.

Performance measure	Status
Work with the Rural Diffuse Pollution Management Advisory Group to deliver the Rural Diffuse Pollution Plan for Scotland.	

The Rural Diffuse Pollution Plan for Scotland aims to ensure that key stakeholders in Scotland work in a coordinated way to reduce diffuse pollution in order to improve the quality of Scotland's water environments to the standards set in River Basin Management Plans. As traditional regulatory approaches were not successful, the [Rural Diffuse Pollution Management Advisory Group](#) was established in 2009 to provide a framework for the effective delivery of rural diffuse pollution actions, covering rural, environmental, and biodiversity interests. Members of the Advisory Group oversee our diffuse pollution work, promote good practice, investigate other mechanisms to tackle diffuse pollution and review the effectiveness of the current strategy. The operational work that SEPA does to reduce rural diffuse pollution contributes to our Water Quality performance measure.

2,206 initial one-to-one advisory farm visits have now taken place. Critically, 499 repeated visits have indicated that 73% of land managers have either implemented, or are planning to implement the required mitigation. This positive uptake was well received by the Diffuse Pollution Management Advisory Group.

We supported the Scottish Government in hosting a conference on diffuse pollution on 12 November 2013 in Peebles. The conference, entitled 'Mind the Gap - working in partnership with Scotland's land managers to reduce pollution from rural land use' was opened by Paul Wheelhouse, the Minister for Environment & Climate Change, who praised the approach taken in Scotland. More details on the conference and related activities are available in our [2013-2014 Annual Review of Performance](#).

⁷ Scotland's Environment and Rural Services (SEARS) is a partnership between eight public bodies aiming to improve the experience among land managers by working together to provide an efficient and effective service.

Performance measure	Status
Work with partners to implement SEPA's problem-solving projects	✓

Problem-solving projects involve focusing our resources on the specific environmental harms where we can make the biggest impact. By working in partnership with others, we can share resources to address a number of environmental objectives. The purpose of this measure is to track progress on the selected projects with the aim of five or more out of the seven projects having substantially completed stated project deliverables by the end of the year.

The previous year, the projects focused reporting upon developing key external partnerships, and identifying partnership goals and milestones to tackle specific environmental harm. This year, we set out to demonstrate that successful partnerships have delivered project objectives and improved environmental outcomes.

Six of the seven projects have substantially completed their stated project deliverables. An impressive body of work has been completed with significant outcomes that should benefit how we regulate particular sectors in future.

Some of the projects described below illustrate in particular how the problem-solving approach was undertaken in partnership with external organisations.

Project solving projects



1: Landfill gas management; improving standards and reducing greenhouse gas emissions

The major constituents of landfill gas (carbon dioxide and methane) are both greenhouse gases. The potential global impact of the net releases of methane from an average active biodegradable landfill is estimated to be equivalent to 30,000 tonnes carbon dioxide per annum (equivalent to 94 million miles in an average sized petrol-driven car⁸). Emissions of gas can continue from sites for several decades after closure. Collection and flaring, or use of the gas, can significantly reduce the impact from emissions.

The project has established a baseline of SEPA licensed landfills, prioritised with regard to the extent of landfill gas emissions. Individual intervention strategies have been developed for all sites. Case studies have been established that illustrate best practice and the potential for reducing greenhouse gas emissions:

Dunion Hill Landfill, a 2.6 hectare site located in the Scottish Borders, is estimated to be generating approximately 200 cubic metres per hour of landfill gases, the largest element being methane. This equates to about 710 tonnes of methane a year. In January 2013, work began on extending the landfill gas management infrastructure with the installation of a further 12 gas collection wells and a flaring system. This converts the methane mostly into carbon dioxide, a much less potent greenhouse gas. In the first year after installation, the system is claimed to have cut carbon dioxide equivalent emissions by an amount representing almost 30% of Scottish Borders Council's total carbon emissions (against a 2006/ 2007 baseline of 52,643 tonnes).

⁸ Taken from [DEFRA's 2013 conversion factors](#)

2: Tackling multiple pollution harms in Loch Lomond and Trossachs National Park

In the course of this project, we have successfully engaged with multiple stakeholders that influence water quality in the loch, resulting in a range of improvements. This involved proactive engagement with the Loch Lomond and Trossachs National Park Authority as well as a wide range of land managers, fisheries groups, local businesses and utility services that contribute to maintaining the environmental quality of the area for residents and tourists.

Specific outcomes already achieved are:

- addressed issues with effluent quality at small treatment works and septic tanks at seasonal camping sites and hotels;
- reduced the number of pollution incidents associated with Combined Sewage Overflows on the River Leven; and
- identified reasons for oil pollution and reduced the number of incidents and complaints on Loch Lomond and River Leven.

3: Reducing pollution from forestry related activities in the Galloway and Eskdalemuir forests



Through this project we have been able to promote awareness and deliver practical on-site training on required standards for forestry operations, ensuring that forestry activities are undertaken in a manner that minimises impacts to the environment. Evidence has been collected and collated to illustrate forestry impacts on the water environment from poor work practices. This has included 72 inspections carried out by our team between January and March 2014 using the Diffuse Pollution Forestry inspection sheet developed in 2013. Main environmental issues reported involved harvesting in particular, but included road drainage, quarry run-off, brash management and slow reaction time to pollution events.

Extensive engagement with private and public forestry companies has been established in the area to improve operator understanding of the issues, and compliance with General Binding Rules and the [Forestry Commission Forests & Water](#). In partnership with the Forestry Commission Scotland and industry representatives, we are developing a best practice document to be published in 2015, that will be applied to forestry operations across all of Scotland with a view to reducing the number of environmental events associated with forestry activities.

ENVIRONMENTAL THREATS IDENTIFIED DURING PLANTING, PESTICIDE APPLICATION AND FELLING:

- Pollution of water courses with suspended solids, nutrients and pesticides.
- Damage to river banks.
- Diffuse pollution in the downstream catchment.

DELIVERY PARTNERS

- Forestry Commission Scotland
- Forest Enterprise
- CONFOR (private forestry companies)
- Fishery Boards and Trusts
- Scottish Natural Heritage
- Scottish Water

12 TRAINING EVENTS COMPLETED, OTHER PARTICIPANTS INCLUDED:

- Tillhill
- Scottish Woodlands
- Fountain Forestry
- Euroforest
- James Jones

PUBLICATIONS AND BRIEFING NOTES ISSUED OVER THE PROJECT INCLUDE:

- Brash and bark cast off to roadside drains
- Aerial fertiliser spreading
- Natural Sitka regeneration on afforested land
- Quarry and access road run off
- Reducing Pollution from Forestry related activities in the Galloway and Eskdalemuir forests: A review of Best Management Practices to reduce diffuse pollution, July 2013 (Centre for Expertise for Waters).



4: Addressing use of unlicensed chemicals and overuse of licensed chemicals to treat sea lice infestations

Although progress has been made, this project is red because we are running behind schedule. A list of illegal substances that may offer potential for misuse by unscrupulous operators has been identified and is being investigated as an outcome of this project. Additionally, a rigorous audit system has been developed to assess sea louse treatment methodologies and ensure compliance with licence conditions.

This project will continue to work with industry partners, Marine Scotland and the Veterinary Medicines Directorate to raise awareness of the consequences of improper chemical application. Seabed residue monitoring will also be conducted at sites demonstrating behaviours which may be indicative of inappropriate medicine use.

The aquaculture industry is economically significant for Scotland and has an international reputation for quality and high environmental standards. This project is working to sustain the sector's good reputation, maintain fair and equal conditions for all producers and protect Scotland's water environment.

5: Detecting illegal waste sites

This project has delivered an initial assessment of the scale and extent of illegal waste sites in Scotland, established a methodology to assess their relative harm and prioritised a list of sites for targeted action by our Waste Crime Team.

In addition to providing a framework and assessment methodology through which illegal waste sites are detected, recorded and assessed, this project has identified a suite of potential indicators that may give an early warning of illegal activity.

Work undertaken with industry partners and Police Scotland has delivered an interim baseline assessment of serious organised crime in the waste industry which will be used to provide an assessment of the environmental and economic harm caused by them.



6: Understanding SEPA's influence on greenhouse gas emissions and identifying opportunities to manage these emissions

The project reviewed how larger industrial facilities, regulated by SEPA, currently reduce resource use and greenhouse gas emissions and concluded that, collectively, there have been significant reductions in resource and energy use, as well as reductions in greenhouse gas emissions. Six case studies illustrating best practice have been developed in conjunction with businesses that illustrate the wide range of benefits that can accrue from tackling resource efficiency projects. They also show that whilst the trigger may be a regulatory requirement or a drive to reduce costs, it can often be because someone has questioned a long standing and accepted practice:

- Bardyke Chemicals: Improving operational systems
- Alcan: Reducing raw material and re-processing costs
- Alcan: Recovering value from waste through better management
- North British Distillers: Beneficial use of excess heat
- Fujifilm: Optimising clean down and improved water/ solvent segregation
- Syngenta: Reducing scrubber water use

Reports supplied under regulatory reporting requirements were reviewed to identify good reporting practice and core data which would assist comparisons of year-on-year site performance. A tool was also developed to allow assessment of a site's resource, energy and waste production and re-use. Outputs of the project will direct a national approach for regulated industries to improve resource efficiency and reduce greenhouse gas emissions.

Bardyke Chemicals Ltd – improving operational systems

Employing 18 people Bardyke Chemicals Ltd specialises in developing and manufacturing copper compounds primarily used as anti-fouling coatings on yachts' hulls. They began modernising their manufacturing processes using low cost improvements to eliminate waste by reorganising their process area.

After visiting other sites to learn about more sophisticated lean manufacturing techniques, Bardykes Chemicals Ltd had the confidence to challenge the manual nature of their operation. This came at a time when they needed to refurbish one of their filter presses and they restructured the process flow and invested in automated process control. They are now progressively automating other parts of their process, having been encouraged by the wide ranging benefits:

- Environmental and associated costs benefits: reduced energy, water and raw material consumption and reduced packaging to landfill
- Environmental risk mitigation
- Improved productivity
- Improved product quality
- Health and safety benefits to operators
- Improved maintenance scheduling.



Syngenta Grangemouth Manufacturing Centre - reducing water scrubber use



Employing approximately 350 people, Syngenta Grangemouth Manufacturing Centre manufactures, formulates and packs a range of crop protection products for the global market. Their Pollution Prevention and Control Permit for one of the manufacturing plants contained a condition requiring a review of water use.

To minimise emissions to air of a range of Volatile Organic Compounds, ammonia and hydrogen chloride associated with the later stages of this particular process, the plant vessel emissions extraction system is routed via a once-through water scrubber system. In support of the water use review, SEPA's site officer had asked a simple question about the logic of keeping the once-through scrubber in operation for 24 hours a day, 365 days a year.

Syngenta identified that the scrubber was only required for a particular reaction stage. In addition, they successfully challenged the need to use the manufacturer's suggested flow rate. These two actions have led to a

50–60,000m³/year reduction in water consumption and avoided the need for its treatment as effluent. In addition two important lessons were learnt:

- To revisit traditional tried and tested arrangements and question the appropriateness of accepted practice
- This project, along with SEPA's encouragement, helped to raise the profile of water use on site, which has triggered other similar water saving projects.

7: Strathclyde Loch Commonwealth Games water quality issues

Strathclyde Loch is Scotland's freshwater national water sports venue. Managed by North Lanarkshire Council it is the venue for the Glasgow 2014 Commonwealth Games triathlon events in July 2014. The main water quality risks to the event result from potential periods of elevated Faecal Indicator Organisms (particularly following heavy rainfall), and/ or potentially toxic blue-green algae (due to elevated nutrient levels, mainly phosphorus).

An options appraisal in 2012 recommended that the swim area should be isolated and chemical treatments used to control risks of blue-green algae.

North Lanarkshire Council is managing the installation of the physical water barriers and delivery of the chemical treatment programme through third party contractors.

Our primary role has been to report live water quality data to our partner organisations by installing and operating a water quality monitoring station in the loch, along with four water level pressure sensors across the temporary barriers. We have also ensured that all necessary environmental permits and authorisations have been issued in a timely manner.

We continue to offer scientific and regulatory advice to the leading organisations (North Lanarkshire Council, Scottish Government, Glasgow 2014 and Scottish Water) to achieve a successful triathlon event and leave a legacy of cleaner water for this important local recreational facility.





Scotland is preparing for a sustainable future and is taking steps to limit climate change

Scotland is preparing for a sustainable future and is taking steps to limit climate change



Introduction

Scotland is preparing for a sustainable future in which the services and resources provided by the environment can be maintained for future generations.

We have been working closely with Zero Waste Scotland to champion sustainable resource use and the reduction of waste going to landfill, as described on page 35.

We and our partners have been informing waste contractors, business groups and local authorities about the new regulations, and in particular the duty of every

business to separate dry recyclables and food waste from the start of 2014.

We have been supporting Scotland's transition to a low carbon economy through working collaboratively with industry and public sector partners. During the year we have worked closely with our partners such as the Enterprise Agencies, the Scottish Government and representatives from industry on the Green Growth initiative, as described on page 36.



Facts and figures

9

The number of landfill audits planned and duly completed during the year.



72%
The amount of SEPA's general waste that is recycled, well ahead of the Zero Waste target of 50% by 2020** As calculated by MITIE, SEPA's lead waste contractor.

18,372

The number of individuals who have now registered for SEPA's Floodline warning service against 15,395 the year before.

382

Messages were sent out by the **Floodline direct** warning service to local flood warning areas compared to 269 the year before.

65

The number of carbon assessments for major wind farm applications validated during the year (developments of more than 50 megawatts) compared to 47 the previous year.

Spreading the Zero Waste message

On 1 January 2014 the new [Waste \(Scotland\) Regulations 2012](#) came into effect.

The regulations introduce a legal duty for every business, regardless of size, to separate metal, plastic, paper, card and glass for recycling. For the first time, a clear focus has also been placed on the collection and treatment of food waste. Businesses producing more than 50kg of food waste per week in urban areas need to use dedicated food recycling bins. From 2016, this requirement expands to include all businesses in urban areas producing more than 5kg of food waste per week.

In the lead up to the regulations coming into force, SEPA representatives travelled the length and breadth of the country talking to waste contractors, business groups and local authorities about the regulations and the extended recycling requirements. Hundreds of businesses turned out for seminars and over 120,000 leaflets were distributed to raise awareness with small retailers. In 2013 we sent questionnaires to around 400 of the larger food waste producers, and used the feedback to help focus support. We are also working closely with the waste industry, giving special attention to waste collectors who persist in offering single mixed collection services with no segregation of recyclables.

Recycling requirements for business will be jointly enforced by SEPA and local authorities. As the lead authority for advice and interpretation of the regulations, we presented to all 32 local authorities in 2013 to explain recycling requirements, discuss our joint regulatory approach and develop a joint approach on enforcement.

Once the regulations came into force, we began inspection of businesses to assess compliance. This was initially targeted on Scotland's four largest cities and on those businesses generating the most waste. While early focus has been on advice, persistent offenders will be tackled more robustly. Ongoing engagement with environmental health teams, trade waste inspectors and waste managers has been invaluable in developing targeted compliance campaigns.

We have kept our website updated with [a summary of the current and forthcoming requirements](#), such as the ban on all biodegradable municipal waste going to landfill from 2021.

Supporting the transition to a low carbon economy

Supporting innovation and the transition to a low carbon economy is central to our role in championing sustainable resource use. We help to drive the transition to a low carbon economy through our regulatory role as well as working collaboratively with industry and public sector partners.

This past year, we have been strengthening our partnership working through the Green Growth initiative. Endorsed by the [Scottish Energy Advisory Board](#), with the involvement of the Enterprise Agencies, Scottish Government and industry, the Green Growth initiative identifies opportunities for sustainable economic growth by focusing on both economic and environmental factors.

Four areas are being developed, based on Scotland's distinctive strengths and assets:

- Water and waste water treatment (focus on priority substances and phosphorous reduction/ recovery);
- Environmental monitoring;
- Circular economy (energy infrastructure, steel recycling, decommissioning, remanufacturing); and
- Sustainable food production (high value secondary products, integrated pest and disease management).

The Green Growth initiative is also adding value in the following ways:

- involving a broader group of partners in unlocking sustainable growth opportunities and making new connections;
- enabling the transfer of expertise and knowledge between sectors, helping to cross-fertilise ideas and technologies, and overcome market barriers; and
- raising the visibility of low carbon market opportunities among industry-led groups and other decision-makers.



Performance measure	Status
Ensure 100% of carbon assessment validations for large wind farms requiring consent from Scottish Government are returned to the Scottish Government within agreed timescales.	✓

The Scottish Government wants to ensure that carbon emissions over the life of a wind farm are lower than the carbon savings generated by the wind farm in relation to other forms of energy production. Using the Scottish Government's [carbon assessment tool](#), developers of large wind farms⁹ must submit a carbon assessment identifying the net carbon emissions and the carbon payback period in relation to traditional sources of energy. We validate the data provided by developers and issue a validation report to the Scottish Government, together with our planning application response, within agreed timescales.

In total, 65 carbon assessments for Section 36 onshore wind farms were validated during 2013–2014. All of them were validated and responses sent to the Scottish Government on time. The 65 assessments were made up of 24 new applications, 34 re-submissions and seven pre-applications.

We attended the inception meeting for a project proposed by ClimateXChange in order to assess the current use of the tool and the potential for a future expansion of its application. A paper on the validation of carbon assessments was submitted to the Scotland's Rural College/ SEPA biennial conference in April 2014 and we presented the paper on the second day of the conference.

⁹ The Scottish Government's carbon assessment tool is used only for Section 36 (power stations above 50 megawatts) wind farm developments on peat.

Performance measure	Status
100% of audits delivered against plan by 31 March 2014	✓



Greenhouse gas emissions from landfill sites can be significant, and encouraging operators to reduce emissions contributes to the Scottish Government's target of a 42% reduction in greenhouse gas emissions by 2020. Ensuring that landfill sites are well managed is also important for Scotland's transition to a [Zero Waste](#) nation. By auditing landfill sites and sharing best practice, SEPA is contributing to both of these important ambitions.

A problem-solving project was introduced in 2011–2012 to audit landfill sites to find ways of reducing greenhouse gas emissions and to improve standards. The audits focused on the sites where we can make the biggest impact.

A total of nine landfill site audits were planned for 2013–2014. By the end of the year all had been completed. The audits carried out were evenly spread geographically and analysis of the findings shows that there were common issues uncovered. Most of the sites showed decreasing waste inputs as the preparation for the impact of landfill bans and the Waste (Scotland) Regulations 2012 began to take effect with more waste being pre-treated and diverted from landfill.

The individual sites addressed these changes in a multitude of different ways and although each was conversant with the Zero Waste themes there was only one which could make a reasonable claim to providing an integrated approach to resource management. Common themes also included poor compliance with the financial provision aspects of the Pollution Prevention and Control permits, permit conditions in need of review and inconsistent follow-up on issues raised by previous audit reports. Steps have been taken to address this last issue by altering the way the audit reports are issued to ensure local teams and operators resolve non-conformances within acceptable timescales.

The audits will continue on a reduced basis next year before an anticipated increase in numbers to coincide with the new duties introduced by the Landfill Tax in April 2015.

Landfill audit at Gartbreck, Islay – monitoring environmental performance

Argyll and Bute Council own and operate three landfill sites which are all located on islands off the west coast. The largest of these is Gartbreck on Islay where approximately 2,000 tonnes per year of waste is disposed. This site was audited by SEPA in the summer of 2013. Despite the relatively small size and throughput of the site, officers were impressed to find a bespoke software package, developed by council officers, with assistance from consultants, which recorded and analysed all monitoring data relating to the site.

Each monitored parameter or substance was assessed against trigger and control levels with results plotted graphically for each substance. A large number of substances, ranging from ammonia to methane, were

monitored in the groundwater or gases released from the site. Trends for individual parameters, displayed graphically, could be assessed over significant time periods and compared with what would have been expected from the land prior to conversion to landfill. This gave the operator a chance to understand the environmental risks and impacts and react accordingly.

The functionality and user-friendliness of the system compared very favourably with those seen at much larger sites, and those run by waste specialist companies. Argyll and Bute Council is to be commended for its efforts to develop a system to improve its understanding of the performance and impact of the site.



SEPA is a high performance organisation

SEPA is a high performance organisation



Introduction

We want to be an excellent environment protection agency and an excellent employer, continuously reviewing and improving our own performance in the light of changing environmental and social priorities and the needs of our many stakeholders.

The passing of the Regulatory Reform (Scotland) Act on 16 January 2014 was a major milestone in the development of SEPA. It has, for the first time, given us a statutory purpose, as described on page 40. Over the year, we have listened to the views of our stakeholders whilst developing the new charging model. A further formal consultation is planned towards the end of 2014.

Supporting our aim to be the best we can, we have focused on continuous improvement in both our facilities and the treatment of our staff. In July 2013, we moved into the Angus Smith Building, as described on page 42. The building has contributed to further improvements in working conditions for our staff. Crucially, quality standards in the relocated laboratories were maintained and our external auditors were very impressed with the seamless nature of the move, as described on page 42.

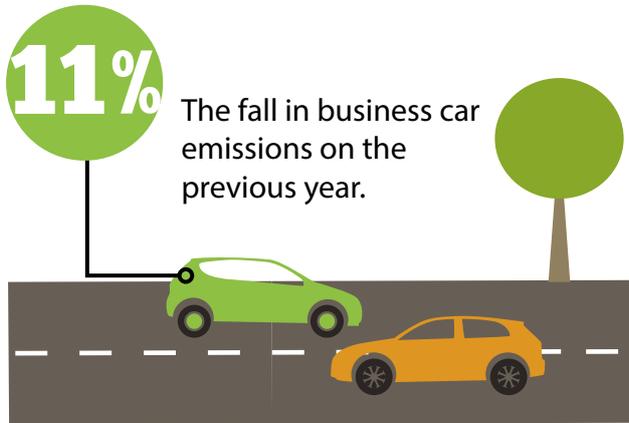
Our staff are our most important and valuable asset. We acknowledged this in our [People Strategy](#) published in November 2012. Evidence of the success of this strategy can be seen reflected in a further reduction in staff absence levels this year and in many of the responses to our people survey, detailed on page 43.

Naturally, we expect to see such continuous improvement reflected in the quality of our external services. Our planning service has an important role to play in supporting developments that take full account of the environment. Significant improvements in our levels of service since 2008 were confirmed by an external audit completed in 2013, as described on page 43.

It is our duty as an environment agency promoting low carbon growth to set a good example internally. We have continued to look for ways to reduce greenhouse gas emissions from our business travel. On page 44 we describe how we reduced business travel emissions by 7% on the previous year and how over the years we have reduced the use of domestic flights by 96%.



Facts and figures



21

The number of senior management posts occupied by females* (31% v 30% last year)

*There are 67 occupied management posts at the end of March 2014 (Grade B or higher)



2.25%*

SEPA's Lost Time Rate for the year compared with 2.41% last year

*% of total full-time equivalent working time available that has been lost through absence.

26

Employees declared themselves disabled.



Better Environmental Regulation and a New Regulatory Charging Model

Working via our joint SEPA/ Scottish Government Better Environmental Regulation Programme, we have made significant progress this year on new legislation, a new regulatory charging scheme, and associated stakeholder engagement. These will enable us to take a more effective, outcome-based and joined-up approach to

protecting and improving the environment and delivering benefits to communities and the economy.

We formed part of the Bill team which developed the environment aspects of the Regulatory Reform (Scotland) Act, passed by the Scottish Parliament on 16 January 2014.

From our perspective, Section 38 represents a critical part of the Act as it now gives us a statutory purpose: 'protecting and improving the environment (including managing natural resources in a sustainable way)' contributing to 'improving the health and well-being of people in Scotland' and 'achieving sustainable economic growth'. This reflects the contribution we make to the environment, communities and the economy and gives us flexibility for the future.

The Act paves the way for a single environmental regulatory framework that will work across all the four main regimes: water, waste, industrial emissions and pollution, and radioactive substances. We have also been granted new powers of enforcement, including the use of fixed or variable monetary penalties and voluntary enforcement undertakings. The maximum fine has been currently set at £40,000 and we are expected to publicise any use of these enforcement measures. The Courts have also been given new sentencing options. The overall policy and operational aspiration is for us to have access to more proportionate and flexible enforcement measures that are more effective in changing behaviour and tackling non-compliance.

We have worked with the Scottish Government to plan the phasing of regulations under the Act, with the regulations on enforcement planned to be introduced in advance of the regulations on the single environmental regulatory framework. With the Scottish Government, we are aiming to issue a consultation on the new enforcement arrangements by summer 2014. The Scottish

Government is also planning to consult on new statutory guidance on how we should carry out our new purpose.

We were also on the Scottish Government working group that developed the statutory Strategic Code of Practice for Regulators, which supports the general duty in the Act for regulators to contribute to sustainable economic growth. The proposed Code was launched for consultation in February 2014 and includes, as a case study, the benefits achieved by SEPA taking a more risk-based and streamlined approach to flow monitoring at Scottish sewage treatment works.

We have also been working jointly with the Scottish Government on the development of a new regulatory charging scheme. This builds on [the consultation](#) (in January 2013) on our future funding arrangements, where support was expressed for the move to our proposed single risk-based charging model.

We have made significant progress and have listened to the views of stakeholders directly via individual meetings, as well as having two formal workshops (June and December 2013). This has helped us understand current concerns and design a more transparent charging model. Work is progressing to test the model to ensure it is robust in reflecting the costs for different sectors and activities. A formal consultation on the revised charging scheme is expected by the end of 2014 and will require Ministerial approval. The new charges are not likely to take effect until April 2016 to allow operators time to prepare.





Left to right: David Sigsworth, Chairman; James Curran, Chief Executive; and Paul Wheelhouse Minister for Environment and Climate Change.

Continuous improvement in working conditions - Angus Smith Building



The official opening of the Angus Smith Building on 9 December was carried out by Paul Wheelhouse, Minister for Environment and Climate Change, who unveiled a specially-commissioned bust of Dr Robert Angus Smith. Born in Glasgow in 1817, Dr Smith is considered to be the world's first environmental regulator and is known for his pioneering work on what is now termed 'acid rain'. The Minister remarked: "This first-class facility will enable SEPA to provide a coordinated approach to environmental protection for Scotland. My congratulations go to all those involved in successfully bringing forward this project to create a future-proof building for SEPA in central Scotland."

In July 2013 we moved into the Angus Smith Building in North Lanarkshire: a modern, well-designed building, with a first class laboratory, replacing the laboratories at East Kilbride and Edinburgh. The building accommodates around a third of our staff in a modern, open plan environment.

The first class office accommodation and laboratory were delivered on time, within budget and to the required quality, achieving a BREEAM¹⁰ Excellent rating as a result of various environmental measures, such as solar panels for electricity and hot water production.

By concentrating on developing a well-organised work place and engaging staff at an early stage, we have improved efficiency and have delivered a model for flexible working and better use of space that can be replicated elsewhere. The next stage of this programme will be the consolidation of our two Stirling offices into a single, modern building on the same business park later this year, for which we agreed a lease in December 2013.

New working practices at the Angus Smith Building include a staff to desk ratio of 10:7. Virtual Desktop Infrastructure provides flexibility to staff, allowing access to a virtual desktop from anywhere in the building, or from external internet-linked computers. The new terminals give significant energy savings, using only 4.5 watts in comparison to 80 watts for a traditional computer.

The UK Accreditation Service audited the new laboratory in December to confirm that the relocation of the laboratories had been effective and the ISO 17025 Standard has been maintained. Their findings were very positive and they duly extended our accreditation to include the Angus Smith Building. The auditors concluded that the integration of the two laboratories: "has however not changed the level of compliance of the quality system during these challenges. It is pleasing to report that an impressive laboratory facility (Angus Smith Building) has been produced and this is testament to the good planning by management and to the hard work of all the SEPA staff involved."

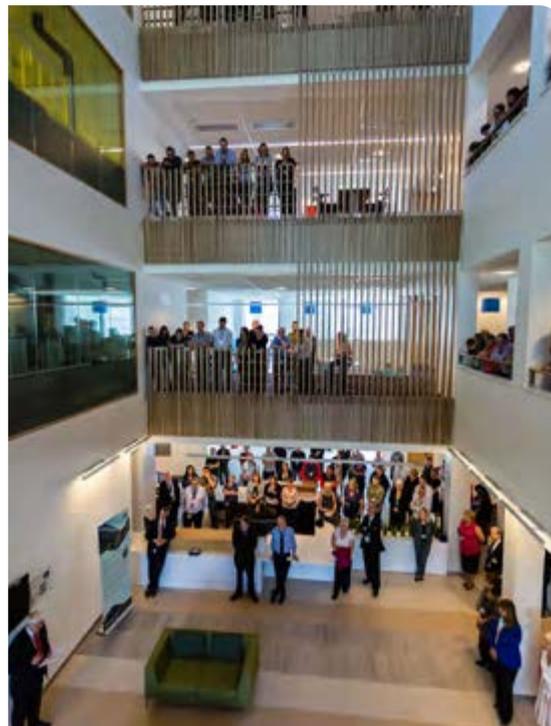
¹⁰ [BREEAM](#) is a recognised environmental assessment and rating method for buildings

Continuous improvement in working conditions – human resources

Striving to be a first class employer, we are committed to undertaking regular people surveys. The latest survey was undertaken in October 2013, following surveys completed in 2009 and 2011, with the following objectives:

- to assess employee opinion and employee engagement;
- to identify what is driving overall job satisfaction;
- to compare SEPA results to similar organisations;
- to compare the 2013 results with those seen in 2011;
- to identify areas to celebrate and promote within SEPA; and
- to identify areas for action.

Some 76 of the questions were identical to the previous survey, making comparisons possible. Encouragingly, employees still feel very positive about working for SEPA and around 90% were happy to go the 'extra mile' at work, and really care about the future of SEPA. Scores here were 1-4% higher than in 2011. This was reflected in the employee 'engagement index', made up of these and other similar measures, rising from 75% to 79% over the two years. Meanwhile, 78% of employees were proud to work for SEPA, well ahead of the 61% benchmark.



Employees also seem well informed about SEPA's strategic direction and strategic outcomes. Clear understanding, and support, for these strategic outcomes have both risen by 35% or more, to 75%, from the level in 2011.

The people survey has provided strong indications for areas of focus. We will celebrate the successes and look to address the issues highlighted.

Planning Service improvements recognised

We commissioned an external audit of our planning service in 2013 which confirmed we had made considerable progress in both customer service and the speed and effectiveness of our responses since we reorganised our planning service in 2008.

From an audit of 500 responses issued to planning consultations, it was found that 80% of them led to modifications to the proposed development, to improve site drainage, flood risk resilience and prevent pollution of the water environment, or other regulatory matters. For the vast majority our requested conditions were duly applied. In the majority of cases where we made objections, these were resolved prior to planning permission being granted.

The survey responses from members of the 27 planning authorities which responded were very positive. Our responses were considered comprehensive and clear, and proportional to the environmental risks identified. Our willingness to engage in pre-application discussions was recognised and our guidance documents covering standard issues were being used. All believed our occasional requests for extensions to normal response times were reasonable.

Even the responses from developers were generally positive and over three-quarters felt that we engaged effectively in the process and that objections were clearly reasoned and actions required made obvious. They noted a welcome improvement in speed of response and reduced use of objections.



Transport emissions fall further

SEPA’s use of transport to deliver our business has a potentially significant environmental impact, so we continue to look for ways to reduce greenhouse gas emissions from our business travel. In the year to March 2014 we reduced the amount of greenhouse gases we produced from business travel by 7% on the previous year, a bigger fall than the 2% achieved in the previous year.

Again there has been a significant 11% reduction in emissions from business car use. Although emissions related to train travel rose by 7%, this demonstrates that staff have been choosing the most carbon efficient form of business transport. Air mileage fell again, with emissions down 19%. Flights now represent only 5% of our transport emissions. Our success in reducing the use of domestic flights by 96% since 2006 was praised during the year in a report by Transform Scotland, reported in the [Public Sector Travel](#) magazine. The Chairman stated: “We commend.....SEPA for reducing their mainland UK flights by 96%. Others need to show such leadership.”

Performance measure	Status
Reduce greenhouse gas emissions by at least 42% by 2020 based on the 2006-07 baseline	X

With external support from the Carbon Trust we have developed a greenhouse gases action plan which will be continually revised to take account of known and anticipated changes and their effects on our 42% target. This measure records our progress in implementing the options and quantifying the energy savings as well as the financial costs.

Although most of the milestones due for 2013-2014 to address the challenging 2020 target have been achieved, provisional data show that in 2013-2014 our overall greenhouse gas emissions have risen by 4.4%.

While there has been a very significant reduction in our emissions from transport and travel, which have decreased by 7% year on year, emissions from energy use in the SEPA estate have risen by 9.9% during the same period. This rise is largely due to our move in 2013 to the new Angus Smith Building, which required us to operate both this new building and our existing buildings simultaneously for a six month period while the move was completed. These buildings have now been vacated and we expect our buildings emissions to fall again in 2014-2015. Further details will be published in the 2013-2014 Sustainability Report later this year, which will set out emissions from all sources.

An energy management policy for our estate has been approved by the Greening SEPA Steering Group. In addition, a new target of a 5% reduction in energy related emissions from our estate has been set for 2014-2015 and the top eight locations with the highest electricity and gas usage have been identified and these are being targeted for maximum energy reduction initiatives. An Energy Performance Group has been formed to take an overview of overall energy performance. This includes developing Building Energy Management Groups in targeted locations.

In addition, approval to proceed with the procurement of a newly fitted out, more energy efficient office in Stirling was received from the Scottish Government. We will be consolidating both Stirling offices into one building later in the 2014-2015 financial year.

Performance measure	Status
Reuse or recycle at least 50% of waste materials by 2020 and 70% by 2025	✓

We are committed to integrating high standards of environmental responsibility into all of our operations. This target is aimed at reducing our environmental impact, and meeting the Scottish Government’s Zero Waste targets. In 2012-2013, SEPA recorded a figure of 73% for reusing or recycling waste material, based on current assessments and the intention was increase the percentage of waste material recycled further and thus to exceed the Zero Waste target.



After averaging 76% over the January to July period, the recycling rate dropped to 67% in August. This has been attributed to the large amount of non-recyclable waste generated by the move to the new Angus Smith Building and the associated clear-out of offices in East Kilbride. The relatively high amount of this non-recyclable waste over the summer and autumn 2013 thus reduced the overall figure for the year to 72%, a marginal decline against the previous year.

Central to the success of this measure is the Green Network which, with the help of Facilities staff and central waste contractor Mitie, is responsible for coordinating the segregation of key dry recyclables and carrying out a series of waste audits to check progress.

Performance measure	Status
No more than 5% of all waste to be consigned to landfill by 2025	✓



We wish to continue increasing the percentage of our waste material being recycled and to meet or exceed Zero Waste targets. The achievement of the previous performance measure is essential in reducing waste sent to landfill. We cannot control where any residual waste is disposed and in the longer term the 5% target will only be met if alternatives to disposing residual waste to landfill are developed.

In April 2013, some of our waste contractors started diverting general waste from landfill to 'refuse derived fuel' production for use in energy from waste facilities. Converting the waste to a fuel rather than sending it to landfill has had the beneficial effect of moving it further up the waste hierarchy.

The average landfill diversion for the year increased to an average of 88% as a consequence of this diversion to 'refuse derived fuel' production. This gives an average of 12% of SEPA's waste generated (managed by Mitie) going to landfill, an improvement on the 27% achieved the previous year, and moving us closer to the 5% landfill target in 2025.

Performance measure	Status
Respond to 100% of formal development plan consultations within agreed timescales.	✔



The Scottish Government has clearly indicated the importance of the planning system to support economic growth and the role of the development plan in this process (Planning Reform: The Next Steps, March 2012¹¹). We are a key agency under the Planning etc (Scotland) Act 2006 and a statutory consultee within the land use planning system. Our engagement in development plans is one of our key planning priorities. We receive around 200 consultations on development plans per year. By involvement at an early stage, we can ensure protection of the environment is given adequate consideration in the development plan, saving unnecessary delays to planning applications later on.

We responded to all formal development plan consultations within agreed timetables during the year. 155 were completed on time with another 14 completed within agreed extended deadlines.

2010–2011	2011–2012	2012–2013	2013–2014
98%	100%	100%	100%

Performance measure	Status
Respond to 100% of strategic environmental assessment consultations within agreed timescales	✔

Strategic environmental assessment is a systematic process for identifying, reporting, mitigating and monitoring environmental effects of plans, programmes and strategies. It aims to ensure that environmental issues are taken into account at every stage in their preparation, implementation, monitoring and review. Under the Environmental Assessment (Scotland) Act 2005 we have a statutory duty, as a Consultation Authority to provide advice to those undertaking strategic environmental assessments. We respond to approximately 300 strategic environmental assessment consultations each year.

We have responded to all strategic environmental assessment consultations within agreed timetables during the year. We have completed 218 in time, with none requiring agreed extensions.

2010–2011	2011–2012	2012–2013	2013–2014
100%	100%	100%	100%

¹¹ www.scotland.gov.uk/Publications/2012/03/3467

Performance measure	Status
Respond to 90% of planning consultations within agreed timescales	

Local authorities, the Scottish Government and other agencies consult us about planning applications ranging from the building of individual houses to power stations and windfarms. We provide standing advice, which local authorities can use when a development has a low level of risk, but we encourage consultation where the issues are more complex. We also provide advice on environmental issues such as flooding, air quality, issues with sustainable waste management or the water environment.

The standard consultation timescale is ten working days but when complex proposals are received we will request an extension to allow us to provide a full response. Sometimes this will include holding a meeting with the developer to gain a better understanding of the proposal.

For the 3,000 planning consultations received each year, we aim to reply in the time given to us by planning local authorities and other bodies. This year we responded to 98% in time (including extensions). 3,292 consultations were completed on time, another 377 completed on time after agreed extensions and 90 were late.

2010–2011	2011–2012	2012–2013	2013–2014
93%	90%	97%	98%



Performance measure	Status
Work with operators to determine 96% of applications within statutory timescales.	

SEPA wants to ensure that we determine applications¹² within the statutory timescales so that businesses can comply with environmental legislation. The statutory timescales for determining Waste Exemptions is 21 days, Controlled Activity Regulations (Registrations) is 30 days, Pollution Prevention and Control Part B (Deemed Applications) is 12 months. For all others reported here, the statutory timescale for determining an application is 4 months.

Over the year 99% of applications were determined within the relevant statutory timescale.

2009–2010	2010–2011	2011–2012	2012–2013	2013–2014
Achieved (target 94%)	Achieved (target 96%)	Achieved (target 96%)	Achieved (target 96%)	Achieved (target 96%)

¹² Applications are registrations, permits, authorisations and licences excluding Radioactive Substances Act Band A nuclear site applications.

Performance measure	Status
Respond to 95% of environmental incidents and pollution reports within 24 hours.	

When members of the public are helping us in our work, we want to respond promptly to them. This includes responding quickly to the people who report environmental incidents and pollution to us.

Over the year SEPA received 6,949 reports relating to 5,783 environmental events and responded to 6,813 (98%) within 24 hours, against the target of 95%.

2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Achieved	Achieved	Achieved	Achieved	Achieved

Performance measure	Status
Achieve all efficiency targets set by the Scottish Government	

The Scottish Government sets efficiency-saving targets for public bodies each year. We had to identify how to make the efficiency savings in order to achieve a balanced budget in future years.

The 2014-2015 budget has been set with 3% efficiencies savings for the year identified and removed from budgets. The 2014-2015 budget has been approved by the Agency Management Team, the Board and the Scottish Government.

2010-2011	2011-2012	2012-2013	2013-2014
11%	11%	2%	3%

Performance measure	Status
Achieve at least 95% cost recovery on charging schemes	

This indicator measures our ability to recover costs through our charging schemes, against the costs incurred in our regulatory monitoring. We have a responsibility to ensure that all relevant costs of regulatory activities are recovered through charges.

For the financial year to March 2014 we have achieved a cost recovery of 96% on charging schemes against the 95% target.

2010-2011	2011-2012	2012-2013	2013-2014
94%	96%	95%	96%





Accounts for year ended 31 March 2014

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Directors' report

1. Introduction

The Board of the Scottish Environment Protection Agency (SEPA) presents its annual report and accounts for the year from 1 April 2013 to 31 March 2014. The accounts have been prepared in a form directed by the Scottish Ministers, in accordance with Section 45 (1 and 2) of the Environment Act 1995.

SEPA's 2013–2014 Annual Operating Plan described its priorities for the year, and the 27 performance measures it would use to monitor its success. SEPA met 25 of the targets set.

More detailed information on SEPA's performance is provided in the Annual Report for the year. www.sepa.org.uk

2. Statutory background

SEPA was established as a Non-Departmental Public Body (NDPB) and is required to fulfil its functions as set out by relevant provisions of the Environment Act 1995.

3. Principal activities

SEPA's principal activities are environmental regulation, enforcement and monitoring encompassing water, waste, land and air in Scotland

4. Independent auditors and professional advisers

Under the Public Finance and Accountability (Scotland) Act 2000, SEPA's independent auditors are appointed by the Auditor General. PricewaterhouseCoopers LLP (PwC) were appointed as SEPA's auditors for the financial year 2013–2014. The independent auditors were remunerated to the sum of £52,000 in respect of statutory audit services for the financial year 2013–2014. The fees payable to the external auditors are shown in note 6 of the 2013–2014 Annual Report and Accounts.

All relevant audit information has been made available to SEPA's auditors and the Accountable Officer has taken steps to ensure that the auditors are aware of any relevant audit information.

Bankers

Royal Bank of Scotland
Edinburgh North Bridge Branch
31 North Bridge
Edinburgh
EH1 1SF

Royal Bank of Scotland
London Corporate SC
PO Box 39952
2 1/2 Devonshire Square
London Corporate SC
EC2M 4XJ

Citibank N.A.
Citigroup Centre
Canada Square
Canary Wharf
London, E14 5LB

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
141 Bothwell Street
Glasgow
G2 7EQ

5. Board

Details regarding the Board composition, its committees and its operation are contained in the governance statement provided on page 15 and the SEPA website www.sepa.org.uk/about_us/sepa_board.aspx.

Board Members

D Sigsworth (Chairman)

B Downes (Deputy Chair)

J Curran (Chief Executive)

R Dixon

M Francis

J Hyland

N Martin

T McAuley

W McKelvey

K Nicholson

L Sawers

R Dinning (retired December 2013)

I Doig (retired December 2013)

H Zealley (retired December 2013)

A Hay (retired December 2013)

6. Financial performance

6.1 Overview of the Year

For the year to 31 March 2014, the excess expenditure over income shown in the Statement of Comprehensive Net Expenditure of £41,990,000 (2013 - £40,929,000) was financed by Scottish Government Grant in Aid (GiA). GiA is taken directly to the Comprehensive Net Expenditure Reserve.

Financial Reporting Manual (FRm 2013–2014) issued by HM Treasury specifies the format of SEPA's annual accounts. GiA is included in the Comprehensive Net Expenditure Reserve in the statement of financial position rather than included in the Statement of Comprehensive Net Expenditure for the year. All other income and expenditure is included in the Statement of Comprehensive Net Expenditure. The in year deficit is transferred to the Comprehensive Net Expenditure Reserve and is funded by GiA held there.

Total funding received by SEPA in respect of cash GiA, charging and other income, decreased by £54,000 (0.1%) in 2014, compared to 2013. Shown within the Net Comprehensive Expenditure Statement there is an increase in charging schemes income of £692,000 and other income of £1,658,000. An uplift in fees accounted for the bulk of the in year increase in charging scheme income. The increase in other income relates to the recovery of costs of activities undertaken for other public sector bodies. These increases in funds are offset by a reduction in GiA cash funding of £2,404,000 compared to 2013, as shown in the Statement of Changes in Taxpayers equity for the year.

Total operating expenditure increased by £4,205,000 (5%) during the year, consisting of increases in staff costs of £3,533,000; depreciation and impairments of £85,000; property costs of £577,000; transport costs of £9,000; and supplies and services of £31,000. These increases were offset by a reduction in research and development costs of £30,000.

The increase in staff costs of £3,533,000 is made up of an increase in payroll costs of £2,156,000; an increase in pensions costs under International Accounting Standard 19 (IAS 19) of £1,770,000; less a reduction in other staff costs of £393,000.

SEPA's statement of financial position shows net liabilities of £29,012,000 (2013 - £15,534,000). The accounts have been prepared on a going concern basis.

SEPA undertook a desk top valuation of its land and buildings and had The Sir John Murray (Vessel) professionally valued during the year. Land and building estimated market values reduced by £55,000 in year and the value of the vessel increased by £70,000. One property has been transferred from non-current assets to current assets, it is now held for sale with an estimated market value of £1,000,000. The only specialised buildings SEPA owns are gauging stations, their asset values at 31 March 2014 has been indexed as proxy for the movement in fair value. This has resulted in a net increase in their value of £53,000.

Following the valuation of pension scheme assets and liabilities at 31 March 2014, the pension scheme deficit has been increased to £58,286,000. The deficit at 31 March 2013 was £46,500,000; the increase in liability of £11,786,000 is a result of changes in the assumptions used to calculate the deficit. There was a change made to the discount rates used in the calculation, in accordance with IAS 19. If the same calculation had been applied in the accounts for 2012–2013 the interest payable net cost of IAS 19 assets and liabilities of £636,000 would have been £1,966,000. This would have resulted in an excess of comprehensive expenditure over income of £40,929,000 for the year, rather than £39,599,000 reported in last years accounts. See notes 19, 20, 21 and 22 for further information.

The Scottish Government expect all public sector bodies to deliver efficiency savings of at least 3%. For SEPA to manage its expenditure within the income available to it in year, running costs were reduced by £1,200,848 as part of the budget setting exercise for 2014–2015. This saving represents 3.6% of cash funding received in year towards SEPA's running costs.

In 2013–2014, the charging schemes achieved 96% cost recovery (note 24) against an Annual Operating Plan (AOP) target of 95%.

SEPA had a net cash inflow of £45,000 (2013 – inflow £32,000) during the year.

SEPA is partially funded by income from the Scottish Government. Its other main source of funding is through the charging scheme. There is not considered to be any significant liquidity or credit risk exposure due to credit controls in place. SEPA's financial instruments comprise trade and other receivables, trade and other payables, cash and liquid resources. Trade receivables and payables are both held at fair value. Any cash held in accounts is with highly rated banks. These financial instruments are considered low risk.

6.2 Capital investments

SEPA spent £2,692,000 (2013 - £4,772,000) on the following capital projects in year:

IS infrastructure / resilience / software	£826,000
Replacement of various items of scientific equipment	£305,000
Angus Smith Building	£1,088,000
Other minor facilities improvements	£473,000

6.3 Equalities Agenda

More information on SEPA's performance regarding disabled employees, equal opportunities and employee consultation is contained in the Annual Performance Report, which can be found on the website www.sepa.org.uk/about_us/sepa_performs.aspx.

6.4 Sustainability and the Environment

A detailed report on the achievement of SEPA's policies and achievements in respect of sustainability and the environment can be found on the website www.sepa.org.uk/about_us/greening_sepa.aspx

6.5 Other

SEPA has complied with the cost allocation and charging requirements set out by HM Treasury and the Office of Public Sector Information guidance on trading funds.

There were no incidents where personal data was lost during the year.

During the year, SEPA staff recorded 2.25% (2013 – 2.41%) lost time.

SEPA had 688 female staff and 611 male staff at 31 March 2014. Of 67 management posts, 21 were occupied by women, of which one was a member of the Agency Management Team. 315 of SEPA's employees are over 50 years old.

During the year, SEPA gifted 16 quaiachs (2013 – 8) to long serving staff that left the organisation. Two gift vouchers each worth £15 were gifted to staff for their contribution to the staff magazine. SEPA donated items with an estimated value of less than £3,000 to a clean water project in Malawi. The items were surplus to requirements following a merger of laboratories.

At 31 March 2014, SEPA provided £501,355 (2013 – £13,783) for write off and impairment of debts. At 31 March 2014, the level of outstanding debt was £1,130,407: £624,692 less than at 31 March 2013. During the year 2013–2014, £521,496 (2013 – £285,034) of bad debts were written off or impaired. This represents 1.5% of charging scheme income. The substantial increase over 2013 was as a result of an impairment provision made in respect of recovery of emergency environmental clean-up costs.

SEPA suffered £37,855 (2013 – £17,690) worth of losses due to theft and loss of equipment and damage to items.

During the year there were no frauds reported (in 2013 there were 3 frauds reported).

It is SEPA's policy to pay all small local suppliers as soon as possible and other suppliers within 10 days from invoice date. The average time taken to pay all supplier invoices was 6 days. SEPA paid 89% of invoices within the 10 day target and 99.7% of all invoices within 30 days.

SEPA's financial system currently has the capability to function with any standard currency which may be introduced as a requirement of European Monetary Union legislation.

6.6 Performance against sponsor directorate financial targets 2013–2014

SEPA is expected to manage its budget, including GiA and charging income, in accordance with the Financial Memorandum and Scottish Public Finance Manual. SEPA is expected to ensure that, taking one year with another, income from GiA and charging schemes equals expenditure. SEPA is expected to achieve full cost recovery on its chargeable services. SEPA regularly reviews and updates charging schemes to ensure that income reflects regulatory effort and costs. SEPA ensures that the basis for and structure of its charging schemes are transparent and incorporates independent external scrutiny, where appropriate. SEPA proposes amendments to charging schemes for Ministerial approval, following consultation with charge payers and trade bodies.

The Scottish Government provides a budget and cash allocation for the year, which originates from the Spending Review Settlement and is subsequently approved in the Budget Bill. During the year, revisions are approved in the autumn and spring budget, as agreed with the Scottish Government.

SEPA managed within the budget limit agreed with Scottish Government for year to 31 March 2014. For the year 2013–2014, the resource budget was £40,395,000 (2013 – £42,339,000). SEPA incurred £40,280,000 expenditure against this limit, an underspend of £115,000. Note 25 provides a summary of the outturn for 2013–2014 against the Scottish Government targets for the year.

6.7 Performance against Corporate Plan 2013–2014

SEPA completed an Annual Operating Plan (AOP) for 2013–2014. This AOP provides the foundation for all SEPA's planning for 2013–2014, including decisions on performance management and where to allocate resources. The annual budget based on the AOP was then agreed with Scottish Government.

Income received from charging schemes and other sources was £3,456,000 more than the annual budget agreed with Scottish Government for 2013–2014. This consisted of an additional £70,000 from charging schemes and £3,384,000 from other income.

When preparing the budget, a conservative view of the work likely to be undertaken at cost for other public sector bodies was taken. It was planned at £1,554,000, and the actual income for the year was £4,938,000, an increase of £3,384,000. The main sources of this additional income were: £2,586,000 from Scottish Government for additional work; contributions from partners for joint projects of £171,000; £169,000 from the recovery of legal fees and expenses of pursuing unpaid bills; £426,000 from LIFE Project; and an additional £32,000 was received in sundry income. The

additional £2,586,000 from Scottish Government was for: £1,030,000 grants administered on their behalf for River Restoration projects; £650,000 for diffuse pollution initiatives; £117,000 towards Landfill Tax implementation costs; £200,000 for air pollution work; £248,000 towards seconded staff costs and small projects; and £341,000 to cover non recovery of emergency site clean-up costs.

Operating expenditure was £8,251,000 greater than approved in the annual budget. Of this £4,794,000 relates to year end IAS pensions cost accounting entries and £3,457,000 increase in operating expenditure incurred in year. The operating expenditure increase consisted of increases in staff costs of £1,024,000; property costs of £615,000; supplies and services of £2,281,000; offset by a reduction in transport costs £253,000; depreciation and impairments were less than budget by £210,000.

6.8 Trends 2010–2014

SEPA's GiA income has reduced by 23.8% between 2010 and 2014. Income from the charging schemes has grown by 8% over the same five year period. This reflects SEPA's charging policy, of limiting price increases to the Consumer / Retail Price Index (RPI) or less over the five year period. If SEPA had applied RPI formula since 2010, charges would have increased by 17.5%. However, as a result of efficiency savings over this period, increases have been restricted to 5.7%, resulting in a real reduction of 11.8% to charge payers.

SEPA's on-going change agenda has sought to improve services and to reduce costs by being proactive and forward looking. This approach has helped to meet the pressures on SEPA's budget through reduced GiA and restricted increases in charging income. The strategy to reduce costs has seen an overall reduction in staffing between March 2010 and March 2014 of 137 (10%) full time equivalent staff. Over the last five years there has been 241 staff who have taken voluntary severance packages. This staff reduction has been offset by additional staff being recruited to undertake new duties in respect of flood warning and dissemination and other duties under the Flood Risk Management (Scotland) Act 2009; Airborne Hazards; EU Life+ and other projects. The net impact on total payroll costs (before pension's adjustments under IAS 19) has been a decrease of 2.5% in the last 5 years.

Depreciation costs have increased by 71% over the five year period and property costs have increased by 13.3% due to dilapidations costs incurred this year. These cost increases are a result of the delivery of SEPA's Estates Strategy. Supplies and services costs have increased by 40% over the last five years as a direct result of the work done on behalf of other public sector bodies. Transport costs have decreased by 30% over the five year period, as a direct result of SEPA's actions to reduce its business mileage and its impact on the environment.

SEPA has continued to invest in non-current assets at an average of £4,967,000 per annum over the last five years, mainly to support the introduction of new legislation and the Estates Strategy.



James Curran
Chief Executive and Accountable Officer

Date: 1 August 2014

Strategic report

The review of SEPA performance for the financial year is provided in the Directors Report.

SEPA's Corporate Plan 2012–2017 explains the outcomes SEPA wants to deliver for Scotland and gives an overview of the way SEPA will work to achieve them over a five year period. Each year SEPA produces an Annual Operating Plan (AOP) to complement the Corporate Plan. SEPA's AOP for 2014–2015, sets out what SEPA intend to do and achieve over the coming year, and how SEPA will measure and report on our performance.

SEPA plans to: develop Scotland's 14 flood risk management strategies; publish draft river basin management plans; begin delivering its new climate change plan; prepare and collect Scottish landfill tax; further develop the 'Scotland's Environment' website (SEWeb); and help deliver Scotland's zero waste ambitions. Much of this work will be delivered through partnerships, from integrated planning at a strategic level, to on-the-ground delivery. There are four outcomes that SEPA would like to achieve for Scotland.

They are:

- Scotland is preparing for a sustainable future and is taking steps to limit climate change.
- Scotland's environment is protected and improving.
- Scotland's environment is understood and SEPA is a respected and influential authority.
- SEPA is a high performance organisation.

A summary of each of SEPA's outcomes and their link to the National Performance Framework is given in the AOP: www.sepa.org.uk/about_us/publications/annual_operating_plans.aspx

As a Non-Departmental Public Body, SEPA anticipates continued financial support from Scottish Government. The Minister has approved changes to the charging scheme fees for 2014–2015 and 2015–2016. SEPA expects Ministerial support for the new funding model being developed for implementation in financial year 2016–2017.

SEPA, in partnership with Scottish Government, is developing improved environmental legislation, making it simpler, more effective, with targeted penalties for environmental offences. This will lead to a need to amend charging schemes to support a new, integrated, risk based framework of permissions (licences, permits, rules etc) which SEPA will use to control environmental activities. SEPA had consulted on the broad principles of future charges in 2012, and will use the stakeholder feedback to inform the next stage of the new charging framework. There will be a further consultation undertaken on this in 2014. For more information on our consultations or to provide comments on a consultation document visit the SEPA website http://www.sepa.org.uk/about_us/consultations.aspx.

SEPA will continue work on the SEWeb LIFE+ project. This project has another six months to run from April 2014.

The Angus Smith Building (ASB) came into operational use in summer 2013. SEPA holds a long term lease for the use of this facility. ASB enables SEPA to provide a first class laboratory service, complementing the sister laboratory opened in Aberdeen in 2010–2011. Between them, the two laboratories will significantly improve the analytical science which underpins our environmental protection work. This is part of SEPA's plan to transform the way it operates. It delivers both excellent environmental services and savings to the public purse. Under SEPA Estates Strategy, offices in East Kilbride have closed and staff moved to the new facility. Staff from SEPA's other offices in Edinburgh, Stirling and Perth have also transferred to the new facility.

SEPA will continue to support partnership working projects, such as Scotland's Environmental and Rural Services (SEARS). SEPA will continue to explore opportunities for shared services and shared accommodation in its efforts to reduce costs. SEPA and Scottish National Heritage have recently agreed to share office accommodation in Stirling. SEPA will continue to support Scottish Government and the public sector on the delivery of their climate change duties.

SEPA's Financial Strategy is based on its existing business model. A programme of improvement and change is on-going to develop a model of service delivery under a new integrated legislative framework.

The Financial Strategy assumes that the new charging scheme under development will generate similar levels of fees as the schemes that it will replace. GiA is assumed to be of the same magnitude as that allocated in 2014–2015.

SEPA expects to maintain the basic structure of its current pay scheme for the foreseeable future. SEPA will follow Scottish Government guidance regarding future pay increases. Inflationary pay increases have been set at 1% for

2014–2015 and staff pay will increase by the annual progression steps that are set out within the current pay scheme. If the economic trends continue, it is expected that the employer's superannuation contribution rate will increase to at least 19% again in 2015–2016.

SEPA, like every other government body, is expected to deliver best value and achieve efficiency savings. The Scottish Government has an expectation that SEPA will make efficiency savings for 2014–2015 of at least 3%.

SEPA increased its charging scheme income by Consumer Price Index (CPI) for 2014–2015 and 2015–2016 with the exceptions of:

- Waste scheme, which will be subject to an additional increase of 5% on waste scheme fees to improve the current forecast under recovery of 64% to 70% by 31 March 2016.
- Special waste and producer responsibility (packaging waste) charges are included in the UK regulations and will not be increased.
- The Emissions Trading Scheme, Carbon Reduction Commitment and transfrontier shipment charges will be maintained to match Environment Agency charges which are substantially less than inflation and identified savings of circa £1,200,000 to balance the 2013–2014 budget.

Accounting for pension costs (International Accounting Standard 19) will continue to cause unpredictable movements on SEPA's net assets employed through fluctuations in market conditions and underlying assumptions. Legislation to make further changes to the Local Government Pension Scheme (LGPS) is currently being drafted; this is expected to change the basis on which pensions earned after April 2015 will be calculated. From the information received to date SEPA expects any increases to its employer contribution rates as a result of these changes, to be manageable with the existing business model.

SEPA's liabilities, falling due in future years, are met from income derived from charging schemes and GiA. Future liabilities of operating include future pension costs. To the extent that the pension deficit is not met from SEPA's other sources of income, it may only be met by future GiA received from SEPA's sponsoring department. SEPA has no reason to believe that either the sponsor teams or future Ministerial financial support will not be forthcoming. The Board has no reason to expect this will change. Given the above, it has been considered appropriate to adopt a going concern basis for the preparation of these annual accounts.



James Curran
Chief Executive and Accountable Officer

Date: 1 August 2014

Remuneration report

1. Unaudited

The Board, Chief Executive, Executive Directors and Chief Officer's remuneration packages are agreed within the parameters set by Scottish Government's (SG) Pay Policy for Senior Appointments. SG approves the daily fee to be paid to the Chairman and Members, as well as approving the Chief Executive Remuneration package. SEPA's Board determines the contractual performance pay of the Chief Executive and ratifies the Chief Executive's recommendations on pay for the Agency Management Team.

Performance pay was not paid in 2013–2014 in accordance with SG pay policy.

Board members contribute at least 2 days per month in support of SEPA's activities. The Chairman devotes, at a minimum, 12 days per month in support of SEPA's activities and the Deputy Chair devotes 3 days per month.

There were no major decisions taken on Directors remuneration in year.

2. Audited

Chairman, Board Members, Chief Executive, Executive Directors and Chief Officers

Year to 31 March 2014	Basic Salary Band	Value of Pensions Benefit	Total Remuneration
	£'000	£'000	£'000
Chairman			
D Sigsworth	45-50	-	45-50
Chief Executive			
J Curran	110-115	19	130-135
Executive Directors and Chief Officers			
C MacDonald	90-95	(2)	85-90
D Pirie	90-95	7	95-100
A Reid	70-75	8	80-85
F Martin	70-75	12	80-85
J Welsh (acting to November 2013)	40-45	2	50-55
J Ford (retired April 2013)	0-5	-	0-5
Board members			
B Downes	5-10	-	5-10
K Nicholson	5-10	-	5-10
L Sawers	5-10	-	5-10
R Dixon	5-10	-	5-10
W McKelvey	5-10	-	5-10
M Francis	0-5	-	0-5
J Hyland	0-5	-	0-5
N Martin	0-5	-	0-5
T McAuley	0-5	-	0-5
A Hay (retired 31 December 2013)	0-5	-	0-5
H Zealley (retired 31 December 2013)	0-5	-	0-5
I Doig (retired 31 December 2013)	0-5	-	0-5
R Dinning (retired 31 December 2013)	0-5	-	0-5

The pensions benefit is calculated as follows:

(Real increase in pension x 20) + (real increase in any lump sum) – (contributions made by member).

The real increase in pension excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.

FReM 2013–2014 specified new reporting requirements for Directors' Remuneration report, therefore, 2012–2013 information has been restated to be comparable with 2013–2014.

Chairman, Board Members, Chief Executive and Directors

Year to 31 March 2013-Restated	Basic salary band	Value of pensions benefit	Total remuneration
	£'000	£'000	£'000
Chairman			
D Sigsworth	45-50	-	45-50
Chief Executive			
J Curran	110-115	42	155-60
Directors			
J Ford	90-95	21	110-115
C MacDonald	90-95	21	110-115
D Pirie	90-95	76	165-170
Board members			
R Dinning	5-10	-	-
I Doig	5-10	-	-
B Downes	5-10	-	-
H Zealley	5-10	-	-
A Hay	5-10	-	-
W McKelvey	5-10	-	-
R Dixon	5-10	-	-
L Sawers	5-10	-	-
K Nicholson	5-10	-	-

The Chief Executive, Executive Directors and Chief Officers are ordinary members of the Falkirk Pension Scheme, and SEPA pays the employer's pension contribution, while the employee pays the employee's contribution, based on a sliding scale, commensurate with salary banding.

The Chief Executive is on an incremental pay scale and the Executive Directors and Chief Officers are on fixed point salaries. In accordance with Scottish Government Pay Policy, performance related pay has not been paid in the current financial year.

Pension entitlements of Chief Executive, Executive Directors and Chief Officers

For year ended 31 March 2014	Real increase/(decrease) at age 60		Total accrued sum at age 60		Cash equivalent transfer value at 31 March 2014	Cash equivalent transfer value at 31 March 2013	Real increase/ (reduction) in cash equivalent transfer value	
	In bands		at 31 March 2014 In bands					
	Pension £'000	Lump sum £'000	Pension £'000	Lump sum £'000				
Chief Executive								
J Curran ¹	0-2.5	(0-2.5)	50-55	130-135	1,041	966	43	
Executive Directors/ Chief Officers								
C MacDonald	0-2.5	(2.5-5.0)	45-50	120-125	1,094	1,035	28	
D Pirie	0-2.5	(0-2.5)	30-35	65-70	511	475	17	
A Reid	0-2.5	(0-2.5)	35-40	90-95	787	736	28	
F Martin	0-2.5	(0-2.5)	20-25	50-55	395	361	20	
For year ended 31 March 2013	Real increase/ (decrease) at age 60		Total accrued sum at age 60		Cash equivalent transfer value at 31 March 2013	Equivalent transfer value at 31 March 2012	Increase/ (reduction) in cash equivalent transfer value	
	In bands		In bands					
	Pension £'000	Lump sum £'000	Pension £'000	Lump sum £'000				
Chief Executive								
J Curran ²	0-2.5	(0-2.5)	50-55	125-130	966	895	34	
Director/ Chief Officers								
J Ford	0-2.5	(0-2.5)	25-30	70-75	665	618	21	
C MacDonald	0-2.5	(2.5-5.0)	45-50	120-125	1,035	977	22	
D Pirie	2.5-5.0	2.5-5.0	25-30	65-70	420	347	54	
Head Count	Male		Female		Total as at 31 March 2014		Total as at 31 March 2013	
Board	6	4	10	7	3	10		
Agency Management Team	4	1	5	4	-	4		
Total	10	5	15	11	3	14		

Approved by the Board on 29 July 2014 and signed on behalf of the Board.



James Curran
Chief Executive and Accountable Officer

Date: 1 August 2014

¹ The actuary has assumed normal retirement age as being 60 for all except one Director

² Appointed Chief Executive on 7 January 2012

Statement of Accountable Officer's responsibilities

Under Section 45(2) of the Environment Act 1995, the SEPA is required to prepare annual accounts for each financial year in the form and on the basis determined by the Scottish Ministers. The annual accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of SEPA as at the end of the financial year and of the income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the annual accounts, the Accountable Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- Observe the accounts direction issued by the Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis.
- Make judgements and estimates on a reasonable basis.
- State whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the annual accounts.
- Prepare the annual accounts on a going concern basis.

In addition, SEPA has general responsibility for taking such steps as are reasonably open to it to safeguard its assets and to prevent and detect fraud and other irregularities.

The principal Accountable Officer of the Scottish Government appointed the Chief Executive as the Accountable Officer for SEPA. As Accountable Officer, the Chief Executive is responsible to the Scottish Ministers.

The Chief Executive's relevant responsibilities as Accountable Officer for SEPA are set out in the Financial Memorandum 2005, published by the Scottish Government and subsequent letters of February 2007 and August 2009. The Accountable Officer has responsibility for the propriety and regularity of the public finances for which they are answerable, for keeping proper records and for safeguarding SEPA's assets, as set out in Managing Public Money published by HM Treasury.



James Curran
Chief Executive and Accountable Officer

Date: 1 August 2014

Governance statement

Scope of responsibility

The Scottish Public Finance Manual (SPFM) is issued by the Scottish Ministers, to provide guidance to the Scottish Government, and other relevant bodies, on the proper handling of public funds. It is designed to ensure compliance with statutory and parliamentary requirements, promote value for money, high standards of propriety, effective accountability and robust systems of internal control.

The responsibilities of the Chief Executive, as Accountable Officer for SEPA, are set out in the Financial Memorandum 2005, published by the Scottish Government, and subsequent letters of February 2007 and August 2009. The Accountable Officer has responsibility for the propriety and regularity of the public finances, for which they are answerable to the Scottish Parliament. The Chief Executive has responsibility for keeping proper records and for safeguarding SEPA's assets, as set out in Managing Public Money published by HM Treasury.

As Accountable Officer, I have responsibility for maintaining sound systems of internal control which supports the achievement of the organisation's policies, aims and objectives, set by the Scottish Ministers, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me, in Managing Public Money.

SEPA is a public body and operates in an open and accountable manner, to provide a high quality public service, based on clearly defined standards. SEPA is committed to accessibility, openness and accountability. SEPA aims for the highest standards in corporate governance, and the Cabinet Office Guidance on Codes of Practice for Public Bodies has been adopted. SEPA's Corporate Office is Strathallan House, Castle Business Park, Stirling, FK9 4TZ.

Board composition and operation

The Board currently comprises the Chairman, the Deputy Chairman, eight further non-executive members, and the Chief Executive. Members of the Board are appointed by the Scottish Ministers. 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 Board has responsibility for ensuring that SEPA fulfils its aims and objectives set by the Scottish Ministers. The roles of Chairman and Chief Executive are separated and clearly understood. The Board has delegated to me as the Chief Executive day-to-day management of SEPA.

The role of the Board, among other things, is to:

- establish the overall strategic direction of the organisation within the policy and resources framework agreed with the responsible Minister;
- oversee the delivery of planned results by monitoring performance of the organisation against agreed objectives and targets;
- ensure that SEPA operates sound environmental policies in relation to its own operations,
- demonstrate high standards of corporate governance at all times; and
- ensure that statutory requirements for the use of public funds are complied with.

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

Board activity and corporate governance is monitored by both internal and external auditors.

Board committees

As has been reported in previous year's annual accounts, to provide for greater efficiency and more effective governance, matters previously considered by the Planning and Finance Committee and the Human Resources and Remuneration Committee are now presented to additional meetings of the Agency Board Strategy meetings. These were established from 01 January 2010, and are chaired by the Chairman of the Board. Directors, Chief Officers and members of SEPA staff are asked to attend meetings, when subjects of particular relevance are discussed.

Committees are established by SEPA in accordance with powers granted under Schedule 6 to the Environment Act 1995. Committee business is conducted in accordance with the SEPA Standing Orders which were approved by the SEPA Board on 12 February 2013. The Audit Committee has delegated authority from the SEPA Board, to undertake or commission work necessary to enable it to fulfill its purpose, or to take what advice, including external legal advice, it considers necessary to discharge its duties.

Audit Committee

The Chair and members of the Audit Committee are appointed by the SEPA Board. A periodic assessment of the skills of members of Audit Committee is made by the Chairman of the Audit Committee. Relevant training and development is provided for all members of the committee. The Audit Committee has continued to monitor and review risk, controls and corporate governance and is chaired by Bob Downes, SEPA's Deputy Chair. The Committee currently comprises six non-executive members and meets four times a year. The external and internal auditors attend all meetings, and are given the opportunity to speak confidentially to the Committee members. The Audit Committee operates independently, and reports to the Board.

The Audit Committee's primary responsibilities include:

- making regular reports and a formal annual report to the Board;
- acting on behalf of the Board in overseeing the work of the Standards Officer;
- advising the Board on its compliance with corporate governance requirements and good practice guidance;
- establishing and overseeing a review process for evaluating the effectiveness of risk management arrangements; and
- overseeing processes for securing the efficient and effective use of resources.

The Audit Committee:

- advises the Board on the selection, appointment or re-appointment and remuneration of the Internal Audit Service provider;
- reviews the scope, efficiency and effectiveness of the work of internal audit;
- advises the Board of the Audit Committee's approval of the internal audit strategic audit plan;
- considers salient issues arising from internal audit reports;
- considers progress reports and management responses to audit findings and monitoring management action on the implementation of agreed recommendations;
- advises the Board on the remuneration of the external auditors;
- considers the annual accounts and reviews the appropriateness of the accounting policies adopted in their preparation;
- reviews the external audit strategy and plan;
- considers the external auditor's annual report and management letter; and
- monitors action on the implementation of the agreed recommendations.

Board Members

The biographies and interests of Board members can be found on the SEPA website at: www.sepa.org.uk/about_us/sepa_board/members.aspx

Agency Board meetings attended by Members in the year 1 April 2013 to 31 March 2014

Member	Number of meetings attended in year
D Sigsworth (Chairman)	6 (6 possible)
B Downes (Deputy Chair)	6 (6 possible)
J Curran (Chief Executive)	6 (6 possible)
R Dixon	5 (6 possible)
W McKelvey	3 (6 possible)
K Nicholson	3 (6 possible)
L Sawers	4 (6 possible)
M Francis (appointed January 2014)	1 (1 possible)
J Hyland (appointed January 2014)	1 (1 possible)
N Martin (appointed January 2014)	1 (1 possible)
T McAuley (appointed January 2014)	1 (1 possible)
Ian Doig (retired December 2013)	4 (5 possible)
Fred Dinning (retired December 2013)	4 (5 possible)
Alison Hay (retired December 2013)	4 (5 possible)
Helen Zealley (retired December 2013)	5 (5 possible)

Agency Board members carry out non-executive engagement with customers, partners and stakeholders. Verbal or written reports of engagement activity are provided at each subsequent Board or Board Strategy meeting to ensure that the activity is noted for the public record and to give members and management the opportunity to discuss issues recorded at, or arising from, the activity.

For more information go to http://www.sepa.org.uk/about_us/sepa_board.aspx

Audit Committee meetings attended by Members in the year from 1 April 2013 to 31 March 2014

Member	Number of meetings attended in year
B Downes (Chairman)	4 (4 possible)
R Dixon	3 (4 possible)
I Doig (retired December 2013)	3 (3 possible)
K Nicholson	4 (4 possible)
W McKelvey	3 (4 possible)
N Martin (appointed January 2014)	1 (1 possible)
T McAuley (appointed January 2014)	1 (1 possible)

Strategy Board meetings attended by Members in the year from 1 April 2013 to 31 March 2014

Member	Number of meetings attended in year
D Sigsworth (Chairman)	4 (4 possible)
B Downes (Deputy Chair)	4 (4 possible)
J Curran (Chief Executive)	3 (4 possible)
R Dixon	3 (4 possible)
W McKelvey	3 (4 possible)
K Nicholson	2 (4 possible)
L Sawers	2 (4 possible)
M Francis (appointed January 2014)	1 (1 possible)
J Hyland (appointed January 2014)	1 (1 possible)
N Martin (appointed January 2014)	1 (1 possible)
T McAuley (appointed January 2014)	1 (1 possible)
I Doig (retired December 2013)	3 (3 possible)
F Dinning (retired December 2013)	2 (3 possible)
A Hay (retired December 2013)	2 (3 possible)
H Zealley (retired December 2013)	3 (3 possible)

SEPA Executive Directors and Chief Officers 2013 - 2014

SEPA's Executive Directors are:

Name	Post
J Curran MBE BA BSc PhD MInstP FRMetS C Met CPhys C Eng	Chief Executive and Accountable Officer
D Pirie BSc PhD CChem MRSC	Executive Director (Science and Strategy Portfolio)
J Ford BA Econ (Hons), FCCA, CPFA (retired April 2013)	Director of Finance and Corporate Services
C MacDonald DipEH, MCIWM	Executive Director (Operations Portfolio)

SEPA's Chief Officers are:

Name	Post
A Reid MA (Hons), MBA	Chief Officer Governance
F Martin MA CIPD	Chief Officer Resources
J Welsh CA	Acting Chief Officer Finance (appointed March 2013 - November 2013)

The Chief Executive, Executive Directors and Chief Officers biographies can be found on the SEPA website at: www.sepa.org.uk/about_us/management_team.aspx

System of internal control

As Chief Executive (SEPA's Accountable Officer), I have overall responsibility for maintaining sound systems of internal control, which support the achievement of the organisations policies, aims and objectives. This responsibility was assigned to me by the Scottish Ministers. These systems of internal control provide reasonable assurance regarding the reliability of financial information used by the business and safeguard its assets. There are inherent limitations in any system of internal control and accordingly even the most effective system can provide only reasonable, and not absolute, assurance against material misstatement or loss.

SEPA's organisational structure has clear lines of delegated responsibility for both operational and financial management. There is a comprehensive budgeting and financial reporting system, in line with the SPFM, which as a matter of routine, compares actual results to the budgets approved by the SEPA Board. Management accounts are prepared for each Portfolio and SEPA as a whole, on a monthly basis. Significant variances from budget are thoroughly investigated. Financial forecasts are prepared on a regular basis throughout the year. Cash flow forecasts are also prepared regularly, to ensure that SEPA has sufficient cash to meet its operational needs.

SEPA has a risk management system, which regularly assesses key risks and controls. The systems of internal control are designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives; they can, therefore, only provide reasonable, and not absolute, assurance of effectiveness.

These systems of internal control are based on processes designed to identify and prioritise risks to the achievement of the organisation's policies, aims and objectives; to evaluate the likelihood of those risks being realised, and the impact, should they be realised; and to manage them efficiently, effectively and economically. The systems of internal control have been in place for the year to 31 March 2014, and are up to the date of approval of the annual report and accounts, and in accordance with SPFM guidance.

The risk and control framework

All bodies subject to the requirements of the Scottish Public Finance Manual (SPFM) must operate in accordance with relevant guidance issued by the Scottish Ministers. At SEPA the following processes have been established:

- consideration and approval by SEPA's Agency Board of the organisation's risk strategy and implementation plan;
- the Agency Management Team considered corporate risk at a number of its meetings;
- a Risk Management Group is responsible for the efficient and effective management of risk, including assurance that SEPA complies with all relevant legislation and the responsibilities of corporate governance. The group reports annually to the Agency Management Team and annually to the Audit Committee, which is then conveyed to the Board;
- maintenance of an internal corporate risk register which is reviewed on a regular basis;
- appropriate risk awareness training is being developed for all SEPA staff;
- development of sound risk management procedures across SEPA Portfolio's and the single change programme, including the production and maintenance of risk registers and risk controls;
- an annual workshop with Agency Management Team and Non-Executive Directors, to review risks and the arrangements for managing these risks;
- regular reporting on key performance indicators and risk measures, including periodic reports from the Chairman of SEPA's Audit Committee, to the Board, concerning internal control.

SEPA sets its standards of information management through its Strategic Security Forum. This Forum has set procedures for SEPA, which if followed, ensure that it complies with the 70 mandatory requirements of the Cabinet Office Security Policy Framework. Internal performance against these procedures is overseen by the Information Security Group.

There is a programme of Internal Audit provided by KPMG to standards defined in the Government Internal Audit Manual. Reports of all internal audits include an opinion on the adequacy and effectiveness of the system of internal control, together with recommendations for improvements. The work of the internal auditors is informed by an analysis of the risk to which SEPA is exposed, and annual internal audit plans are based on this analysis. The analysis of risk and the internal audit plans are approved by me, and following discussion with the internal auditors, are endorsed by the Board's Audit Committee.

Through its business management system, SEPA aims to ensure that the work it carries out is to a high quality and meets customers' requirements. The steps in place to ensure this high quality of service include staff training, individual staff competency framework, documented procedures, proficiency testing and line management supervision. In addition, SEPA has a programme of internal quality and environmental system audits, to ensure effectiveness and continual improvement of its business processes.

To demonstrate that its business is well-managed and that quality is considered in all aspects of its systems and processes, SEPA has adopted three quality and environmental management standards. Lloyd's Register Quality Assurance (LRQA) audits performance against the standards ISO 9001 (quality management system) and ISO 14001 (environmental management system). The United Kingdom Accreditation Service (UKAS) audits the performance of nominated activities in SEPA's laboratories, against ISO 17025 (testing and calibration).

Review of effectiveness

As Accountable Officer, I have responsibility for reviewing the effectiveness of the systems of internal control. My review of the effectiveness of the systems of internal control is informed by the work of the internal auditors and the executive managers within the organisation. The executive managers have responsibility for the development and maintenance of the internal control framework. I also rely on the comments made by the external auditors in their management letter and other reports. I have been advised on the effectiveness of the systems of internal control by the Audit Committee. The Audit Committee has kept me informed of plans to address any weaknesses discovered in internal control systems.

There have been no critical risks and three high risks highlighted by internal audit reports in 2013–2014. The three high risks arose from: a review of office practices; Human Resources – staff training and development; and information security. These are summarised as follows:

- Office reviews – some financial controls were not carried out as required by administrative staff. A process for training and monitoring administrative staff in the application of the Standing Financial Instructions across SEPA offices is being implemented.
- Human Resources – staff training and development – a number of findings were raised in relation to the effectiveness of the staff appraisal system. No one finding was high in itself, but the number of findings resulted in an overall high risk rating for staff appraisals. Management is reviewing guidance on the conduct of appraisals and is working with portfolio management teams to improve the consistency of objective setting and assessment.
- Information security – it was observed that there was a risk to data security resulting from insufficient controls in the process for destroying data-carrying hardware marked for destruction. Procedures have been developed to ensure the necessary controls are in place.



James Curran
Chief Executive and Accountable Officer

Date: 1 August 2014

Independent auditor's report

to the members of the Scottish Environment Protection Agency, the Auditor General for Scotland and the Scottish Parliament

We have audited the annual accounts of the Scottish Environment Protection Agency for the year ended 31 March 2014 under the Environment Act 1995. The annual accounts comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Tax Payers Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2013–2014 Government Financial Reporting Manual (the 2013–2014 FReM).

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of Accountable Officer and Auditor

As explained more fully in the Statement of the Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of the annual accounts and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. Our responsibility is to audit and express an opinion on the annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We are also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Scope of the audit of the annual accounts

An audit involves obtaining evidence about the amounts and disclosures in the annual accounts sufficient to give reasonable assurance that the annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation of the annual accounts. It also involves obtaining evidence about the regularity of expenditure and income. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited annual accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements, irregularities, or inconsistencies we consider the implications for our report.

Opinion on annual accounts

In our opinion the annual accounts:

- give a true and fair view in accordance with the Environment Act 1995 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2014 and of its net operating cost for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2013–2014 FReM; and
- have been prepared in accordance with the requirements of the Environment Act 1995 and directions made thereunder by the Scottish Ministers.

Opinion on regularity

In our opinion in all material respects the expenditure and income in the annual accounts were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Opinion on other prescribed matters

In our opinion:

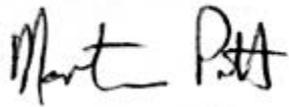
- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Environment Act 1995 and directions made thereunder by the Scottish Ministers; and
- the information given in the Strategic Report and Directors' Report for the financial year for which the annual accounts are prepared is consistent with the annual accounts.

Matters on which we are required to report by exception

We are required to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the annual accounts and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Governance Statement does not comply with guidance from the Scottish Ministers.

We have nothing to report in respect of these matters.



Martin Pitt,
Senior Statutory Auditor for and on behalf of
PricewaterhouseCoopers, Glasgow

1 August 2014

Annual accounts

Statement of comprehensive net expenditure year to 31 March 2014

	Note	Year to 31 March 2014 £'000	Restated* Year to 31 March 2013 £'000	Year to 31 March 2013 £'000
Expenditure				
Staff costs	5	(53,653)	(50,120)	(50,120)
Depreciation, amortisation and impairments	10	(3,092)	(3,007)	(3,007)
Other operating charges	6	(24,142)	(23,555)	(23,555)
		<u>(80,887)</u>	<u>(76,682)</u>	<u>(76,682)</u>
Income				
Income from charging schemes	3, 24	35,843	35,151	35,151
Other income	4	4,938	3,280	3,280
		<u>40,781</u>	<u>38,431</u>	<u>38,431</u>
Comprehensive net expenditure from operating activities				
		(40,106)	(38,251)	(38,251)
Interest receivable and similar income	8	4	3	3
Interest payable net cost of IAS 19 assets and liabilities.	7	(2,143)	(1,966)	(636)
Comprehensive net expenditure after interest paid				
		(42,245)	(40,214)	(38,884)
Taxation		-	-	-
Comprehensive net expenditure after tax				
		<u>(42,245)</u>	<u>(40,214)</u>	<u>(38,884)</u>
Other comprehensive expenditure				
Net gain/ (loss) on revaluation of property, plant and equipment	10	255	(715)	(715)
Excess of comprehensive expenditure over income for the year funded by gja				
		<u>(41,990)</u>	<u>(40,929)</u>	<u>(39,599)</u>

The excess expenditure over income represents the cost of Scottish Government (SG) funded activities; the cash to fund these activities has been being taken directly to the Comprehensive Net Expenditure Reserve. The note numbers referred to above are incorporated within the Notes to the Accounts contained on pages 28 – 58.

*The results for 2012-2013 have been restated to reflect the impact of the changes that have occurred under IAS 19, accounting for employee benefits.

Statement of financial position at 31 March 2014

	Notes	Year to 31 March 2014	Year to 31 March 2013
		£'000	£'000
Non current assets			
Property, plant and equipment	10	27,902	28,048
Intangible assets	10	3,481	4,511
		<u>31,383</u>	<u>32,559</u>
Current assets			
Assets for sale	11	1,000	-
Trade and other receivables	13	3,098	3,504
Cash and cash equivalents	12	1,376	1,331
		<u>5,474</u>	<u>4,835</u>
Total assets		<u>36,857</u>	<u>37,394</u>
Current liabilities			
Trade and other payables < 1 year	14	(5,011)	(4,038)
Provisions for liabilities and charges <1 year	17	(137)	(176)
Total current liabilities		<u>(5,148)</u>	<u>(4,214)</u>
Total assets less current liabilities		<u>31,709</u>	<u>33,180</u>
Non current liabilities			
Other payables > 1 year	15	(19)	(34)
Provisions for liabilities and charges >1 year	17	(2,416)	(2,180)
Employee retirement benefits	19-22	(58,286)	(46,500)
Total non-current liabilities		<u>(60,721)</u>	<u>(48,714)</u>
Total liabilities		<u>(65,869)</u>	<u>(52,928)</u>
Net liabilities		<u><u>(29,012)</u></u>	<u><u>(15,534)</u></u>
Tax payers equity			
Comprehensive net expenditure reserve		(31,366)	(17,920)
Revaluation reserve		2,354	2,386
Total tax payers equity		<u><u>(29,012)</u></u>	<u><u>(15,534)</u></u>

The note numbers referred to above are incorporated within the Notes to the Accounts contained on pages 28 – 58. There are no events which have occurred since the statement of financial position at 31 March 2014 was prepared, which require additional disclosure. These annual accounts were approved by the Board on 29 July 2014.



James Curran
Chief Executive and Accountable Officer

Date: 1 August 2014

Statement of cash flows year to 31 March 2014

		Year to 31 March 2014	Year to 31 March 2013
	Notes	£'000	£'000
Comprehensive net expenditure from operating activities		(40,106)	(38,251)
Adjustments for non cash transactions			
Depreciation, amortisation and impairments	10	3,092	3,007
Pension scheme adjustment	5,21	2,277	661
Transferred to assets held for sale	11	1,000	-
Movements in working capital			
Decrease /(Increase) in assets held for sale	11	(1,000)	-
Decrease/(Increase) in trade and other receivables	13	406	1,808
(Decrease)/Increase in trade and other payables less than 1 year old	14	972	(1,716)
Decrease in trade and other payables more than 1 year old	15	(15)	(16)
Increase in provisions	17	197	62
Net cash outflow from operating activities		<u>(33,177)</u>	<u>(34,445)</u>
Cash flows from investing activities			
Purchase of non current assets	10	(2,692)	(4,772)
Proceeds from disposal of non current assets			
Net cash outflow from investment		<u>(2,692)</u>	<u>(4,772)</u>
Cash flows from financing activities			
Bank interest received	8	4	3
GiA funding received in year	2	35,910	39,246
Net cash inflow from financing		<u>35,914</u>	<u>39,249</u>
Net increase in cash and cash equivalents		<u>45</u>	<u>32</u>
Cash and cash equivalents at start of year	12	1,331	1,299
Cash and cash equivalents at end of year	12	<u>1,376</u>	<u>1,331</u>
Increase in cash for the year		<u>45</u>	<u>32</u>

The note numbers referred to above are incorporated within the Notes to the Accounts contained on Pages 28 – 58. There are no events which have occurred since the statement of financial position at 31 March 2014 was prepared, which require additional disclosure. These annual accounts were approved by the Board on 29 July 2014.

Statement of changes in tax payers equity for the year to 31 March 2014

	Notes	Comprehensive net expenditure reserve	Revaluation reserve	Total year to 31 March 2014
		£'000	£'000	£'000
Balance at 01 April 2013		(17,920)	2,386	(15,534)
Actuarial loss recognised in the statement of changes in tax payers equity	22	(7,366)	-	(7,366)
Income from charging schemes	3	35,843	-	35,843
Other income	4	4,938	-	4,938
Interest receivable and similar income		4	-	4
Operating expenditure	5,6,7,8,10	(82,775)	-	(82,775)
SG Grant-in-aid in year	2	35,910	-	35,910
Revaluation of non-current assets	10	-	25	25
Sale of assets		-	(57)	(57)
As at 31 March 2014		(31,366)	2,354	(29,012)

Comprehensive net expenditure reserve consists of:

Pensions deficit	20	(58,286)
Surplus arising from operating activities		26,920
Balance as at 31 March 2014		(31,366)

Restated* statement of changes in tax payers equity for the year to 31 March 2013

	Notes	Comprehensive net expenditure reserve	Revaluation reserve	Total Year to 31 March 2013
		£'000	£'000	£'000
Balance at 01 April 2012		(12,974)	825	(12,149)
Actuarial loss recognised in the statement of changes in tax payers equity	22	(3,264)	-	(3,264)
Income from charging schemes	3	35,151	-	35,151
Other income	4	3,280	-	3,280
Operating expenditure	5,6,7,8,10	(79,359)	-	(79,359)
Cash grant-in-aid received in year	2	39,246	-	39,246
Revaluation of non-current assets	10	-	1,561	1,561
Sale of assets		-	-	-
As at 31 March 2013		(17,920)	2,386	(15,534)

* The results for 2012–2013 have been restated to reflect the impact of the changes that have occurred under IAS 19, accounting for employee benefits.

	Notes	Comprehensive net expenditure reserve	Revaluation reserve	Total Year to 31 March 2013
		£'000	£'000	£'000
Comprehensive net expenditure reserve consists of:				
Pensions deficit	20	(46,500)		
Surplus arising from operating activities		28,580		
Balance as at 31 March 2012		<u>(17,920)</u>		

Statement of changes in tax payers equity for the year to 31 March 2013

	Notes	Comprehensive net expenditure reserve	Revaluation reserve	Total Year to 31 March 2013
		£'000	£'000	£'000
Balance at 01 April 2012		(12,974)	825	(12,149)
Actuarial loss recognised in the statement of changes in tax payers equity	22	(4,594)	-	(4,594)
Income from charging schemes	3	35,151	-	35,151
Other income	4	3,280	-	3,280
Operating expenditure	5,6,7,8,10	(78,029)	-	(78,029)
Cash grant-in-aid received in year	2	39,246	-	39,246
Revaluation of non-current assets	10	-	1,561	1,561
Sale of assets	-	-	-	-
As at 31 March 2013		<u>(17,920)</u>	<u>2,386</u>	<u>(15,534)</u>

Notes to the accounts

1. Accounting policies

The accounts are prepared in accordance with the Accounts Direction issued by Scottish Ministers. This accounts direction requires compliance with HM Treasury's Financial Reporting Manual (FRM). The annual accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Standards Interpretations Committee (IFRSIC). Where FRM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances at SEPA are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

Accounting convention

The accounts are prepared under the historical cost convention, modified to account for the revaluation of property, plant and equipment to fair value as determined by the relevant accounting standard.

Accounting period

The accounting period commenced on 1 April 2013 and ended on 31 March 2014.

Going concern

The accounts have been prepared incorporating the requirements of international accounting standards and include an actuarial valuation of the pension scheme liability as explained in notes 19, 20, 21 and 22 to the accounts. These reflect the inclusion of liabilities falling due in future years in respect of pension liabilities arising from the application of IAS 19 to SEPA. Hymans Robertson, the actuary to the pension scheme, has calculated the liability as at 31 March 2014. The actuary conducts a triennial review of the funding basis of the pension scheme and in the intervening years rolls forward the scheme's assets/liabilities in a desk top review. The last formal valuation of the fund was conducted as at 31 March 2011 and the next formal valuation is due on the scheme as at 31 March 2014. In preparing the projected pension expense for the year to 31 March 2014, the actuary has assumed employees continue to earn new benefits in line with the regulations as they currently stand and that the pensionable payroll remains stable with new entrants replacing leavers. The other main financial assumptions are set out in note 20.

SEPA's liabilities falling due in future years are in part met from income derived from charging schemes, and charging scheme prices have been increased to meet the expected costs attributable to them in 2013–2014, including pension costs. The Board has no reason to expect this process to change in the future. To the extent that the pension deficit is not met from SEPA's other sources of income it may only be met by future grants or GiA from SEPA's sponsoring team, the Scottish Government Directorate for Environment and Forestry. This is because, under the normal conventions applying to parliamentary control over income and expenditure, such grants may not be paid in advance of need. The Board of SEPA has no reason to believe that both the sponsor team financial support and future Ministerial approval will not be forthcoming or will only provide a reduced support to SEPA. Given the above it has accordingly been considered appropriate to adopt a going concern basis for the preparation of these annual accounts.

Non-current assets

Property, plant and equipment

Valuation of these assets is recognised in the accounts as follows:

- Title of operational and non-operational land and properties are included in SEPA's accounts on the basis of the actual ownership and management of the assets concerned.
- Operational land and buildings fair value is assessed on the basis that the occupation for existing use will continue for the foreseeable future, unless otherwise stated. For non-specialised properties where there is direct market evidence, the fair value is assumed to be equal to open market value for existing use.
- For specialised properties, where there is no market evidence in respect of existing use, the value is assessed by using a depreciated replacement cost. There was a full exercise conducted at 31 March 2013 by a chartered surveyor working directly for SEPA to calculate what the replacement costs would be based on SEPA's recent constructions. These costs have been indexed by the construction costs indices issued by the Office of National Statistics to reflect price movements in 2013–2014.
- Surplus land and buildings are stated at open market value, in accordance with International Accounting Standard 16.
- Depreciated historic cost has been used as a proxy for the current value of equipment, fixtures and fittings, motor vehicles, plant and machinery, computer equipment and software. All of these assets in this category have:
 - low values and short useful economic lives which realistically reflect the life of the asset; and
 - depreciation or amortisation charge which provides a realistic reflection of consumption.
- Small boats have been valued at historic cost, as Directors and Chief Officers believe this is a proxy for fair value. These assets have a medium term economic life and the depreciation charge provides a realistic reflection of consumption. Periodically a professional valuation is obtained for the one larger vessel (Sir John Murray) owned by SEPA, to ensure that the historic cost is not materially different from market value. The last valuation of £1,250,000 as at 31 March 2014 (2013 - £1,180,000) was conducted by Century Marine Services Limited.
- Depreciated historic cost is used as a proxy for fair value of plant and equipment that has a medium term economic life and where depreciation charge provides a realistic reflection of consumption.
- Expenditure on improvements, repairs and renewals of non-current assets is charged to the Statement of Comprehensive Net Expenditure in the year the expenditure is incurred, unless it is considered to have replaced a part of an asset. If it has replaced part of an asset it will be capitalised and the cost and cumulative depreciation or amortisation of the asset it has replaced will be removed from non-current assets.

Depreciation, Amortisation

Depreciation or amortisation is provided on all non-current assets, other than freehold land. Depreciation or amortisation is calculated on a straight line basis over the useful lives of the asset as detailed in the table below. Asset lives were reviewed during the year ensuring that they continue to represent a reasonable estimate of useful economic life.

Depreciation and amortisation is charged to the Statement of Comprehensive Net Expenditure on the carrying value of the non-current assets. An element of the depreciation and amortisation arising from the increase in the valuation and in excess of the depreciation or amortisation that would be charged on the historic cost value of the asset is taken to the revaluation reserve.

Asset category	Asset lives - years
Buildings	20 to 60
Leasehold buildings	Over the remaining period of the lease
Plant and machinery	3 to 40
Fixtures, fittings, tools and equipment	5 to 15
Vessels	30
Computer hardware	5 to 15
Motor vehicles	4 to 10
Software developed in house	3 to 15
Purchased software	3 to 15

Assets in course of completion

Assets in course of completion are valued at cost. On completion they are transferred from the project account into the appropriate asset category. No depreciation or amortisation is charged until the asset is operational. The capitalisation threshold for assets is £5,875 including VAT. The actual salary costs including national insurance and superannuation of SEPA staff who are involved in the creation of non-current assets are capitalised against the relevant assets.

Intangible assets

Purchased software

Purchased software is valued at historical cost. These are licences to use software purchased from third parties with a life of more than one year and a cost of more than £5,875. These licences are written off over the period they are in operational use.

In-house developed software

In-house developed software is the cost incurred for developing software with a life of more than one year and a cost of more than £5,875. The actual salary costs including national insurance and superannuation of SEPA staff who are involved in the creation of non-current assets are capitalised against the relevant assets.

These costs are written off over the period the software is in operational use.

Impairment

The carrying value of SEPA's assets is reviewed at each statement of financial position date to determine whether there is any indication of impairment. An impairment loss is recognised in the Statement of Comprehensive Net Expenditure whenever:

- The carrying amount of assets exceeds the recoverable amount.
- The residual value has fallen below that originally estimated.
- The economic life of the asset is lower than originally estimated.

Provisions for liabilities and charges

Provisions for liabilities and charges are based on realistic and prudent estimates of the expenditure required to settle future legal or constructive obligations, arising from past events that exist at the statement of financial position date.

Provisions are usually charged to the Statement of Comprehensive Net Expenditure. If they relate to a non-current asset they will be capitalised as part of the cost of an asset. In such cases the capitalised provision will be depreciated as a charge to the Statement of Comprehensive Net Expenditure over the remaining estimated useful economic life of the underlying asset.

The only provision at the year end was for unfunded pension liabilities in respect of pension commitments inherited from SEPA's predecessor bodies and the past chairman.

Reserves

The Comprehensive Net Expenditure Reserve represents the excess of expenditure over income on GiA funded activities. The Revaluation Reserve reflects the increase in value of land, buildings, and items of plant included in the gauging stations, over their historical costs.

Corporation tax

The income from GiA and charging schemes is not chargeable to tax. It has been agreed with HM Revenue and Customs that profit generated from commercial contract work undertaken by SEPA will be chargeable to corporation tax.

Value added tax

Irrecoverable VAT is charged to the Statement of Comprehensive Net Expenditure or the cost of assets in the period in which it is incurred.

Leases

SEPA has a small number of operating lease rentals, the costs are charged to expenditure in equal annual amounts over the lease term. SEPA does not enjoy the risks or rewards associated with ownership of the items leased.

Government Grant-in-Aid (GiA)

GiA received to cover general operating activities and replacement of small capital items is shown as financing income and credited directly to the Comprehensive Net Expenditure Reserve.

Income

Income represents the total value excluding VAT of income received from SEPA specific and UK wide charging schemes pertaining to application costs and annual subsistence charges relating to continuance of licences. Other income relates to the recovery of costs of SEPA activities undertaken on behalf of other public sector bodies in the year.

SEPA recognises income when either:

- a. cash is received with an application or variation of a licence and GiA; or
- b. invoices are raised for subsistence fees or other charges.

IAS 1 requires line items for income to be grouped into:

- a. will not be reclassified subsequently to profit or loss; and
- b. will be reclassified subsequently to profit or loss when specific conditions are met.

All of SEPA's income falls under b. above.

Pension costs

SEPA 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 in accordance with International Accounting Standard 19 and recognises retirement benefits as the benefits are earned and not when they are due to be paid. The actuary reviews the scheme on a triennial basis and SEPA has always implemented the contributions recommended (notes 19, 20, 21 and 22). The contribution charges are recognised in the accounting periods in which they arise.

SEPA provides in full for the cost of meeting pensions up to normal retirement age in respect of staff taking early retirement programmes and voluntary severances in the current and previous years. Most pensions payable after normal retirement age are met by the pension scheme; although there are some pension liabilities inherited from predecessor bodies, which are met directly by SEPA, these are reflected in the unfunded pension liabilities, refer to note 17.

Research and development expenditure

Research and development expenditure is written off to the Statement of Comprehensive Net Expenditure as it is incurred. This pertains to specific commissioning of one off research projects.

Financial instruments

SEPA's financial instruments comprise: trade and other receivables; trade and other payables; cash and liquid resources. Trade receivables are initially recognised at fair value and subsequently held at amortised cost. Robust annual reviews are undertaken of all outstanding debtors to determine the likelihood of payment and subsequent write off to the statement of comprehensive net expenditure. Debtors under review are written off to the bad debt provision until resolved. Subsequent recoveries of amounts previously written off are taken to the statement of comprehensive net expenditure. Trade payables are held at cost, which is considered to represent fair value. Any cash is held in accounts with highly rated banks. SEPA is substantially funded by income from Scottish Government. Therefore it is not subject to significant liquidity or credit risk exposure.

Foreign exchange

Transactions that are denominated in a foreign currency are translated into Sterling using the exchange rate applied by the bank when making payment. This policy results in no exchange differences being included in the accounts.

Notional costs

FReM has removed the need to calculate and account for cost of capital, in the form of interest on capital, from 01 April 2010. Notional costs of capital are included in the costs recovered under the charging schemes, to reflect the cost of using government funded assets to deliver services (note 24). The charge was calculated at 3.5% of the average carrying amount of all assets including assets in course of construction less trading liabilities, apportioned between charging scheme and non charging scheme activities.

Review of accounting policies and estimation techniques

These annual accounts have been prepared under International Financial Reporting Standards (IFRS). SEPA has reviewed all its accounting policies to ensure their continued relevance.

There are a number of areas where judgement has to be made in how the accounting policies outlined above are applied. Specifically these relate to:

- valuation of specialised buildings (note 10);
- the fair values of properties (note 10); and
- evidence used to assess impairment in trade receivables (note 13).

SEPA has followed actuarial advice and changed the discount rate applied to discount the pension schemes liabilities in 2013–2014.

Sensitivity analysis

By the nature of assumptions or judgements any change will have an impact on the value of the asset or liability reported in the annual accounts. The most significant financial impact arises from changes to assumptions used to calculate the pension's deficit. The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Change in assumption at 31 March 2014	Approximate % increase in employers liability	Approximate monetary amount £'000
0.5% decrease in real discount rate	13	31,503
1 year increase in member life expectancy	3	7,486
0.5% increase in salary increase rate	5	11,433
0.5% increase in pension increase rate	8	19,332

2. Grant-in-aid

	Year to 31 March 2014 £'000	Year to 31 March 2013 £'000
Cash GiA received to meet expenditure	35,910	39,246

The amount of GiA provided to SEPA is initially agreed by Ministers, as part of the Scottish budget process. This figure is then subject to adjustments as agreed with the sponsor directorate. Government Financial Reporting Manual instructs that GiA goes directly to the Comprehensive Net Expenditure Reserve in the statement of financial position, as financing.

3. Income from charging schemes

	Year to 31 March 2014 £'000	Year to 31 March 2013 £'000
Integrated Pollution & Prevention Control	5,547	5,503
Waste Management Licensing	4,891	4,646
Special Waste	1,538	1,509
Radioactive Substances Act	2,335	2,409
Control of Major Accident Hazards Regulations	156	203
Emissions Trading	295	317
Water Environment Water Services (Water Framework Directive)	20,764	20,390
Carbon Reduction Commitment	290	166
Aviation European Trading Scheme	27	8
	<u>35,843</u>	<u>35,151</u>

The financial objective for the charging schemes is full cost recovery, based on all costs including the cost of capital and other notional costs (see note 24). SEPA achieved a 96% cost recovery across all schemes in 2014 (95% in 2013 - see note 24).

4. Other income

	Year to 31 March 2014	Year to 31 March 2013
	£'000	£'000
Income from contracts	56	43
Other income	4,456	2,793
EU Life income	426	444
	<u>4,938</u>	<u>3,280</u>

5. Information regarding employees and board members

Staff costs during the year	Permanently employed staff	Others	Year to 31 March 2014	Year to 31 March 2013
	£'000	£'000	£'000	£'000
Wages and salaries	36,461	3,407	39,868	38,248
Social security costs	2,835	265	3,100	2,998
Pension costs	5,846	546	6,392	5,958
Sub total of payroll costs	<u>45,142</u>	<u>4,218</u>	<u>49,360</u>	<u>47,204</u>

Other staff related costs (principally recruitment fees, staff subsistence, training costs and hiring agency and temporary staff)

	1,642	2,035
IAS19 pension charge (note 21)	2,277	661
Unfunded pensions charge (note 17)	374	220
	<u>53,653</u>	<u>50,120</u>

The total staff cost of the Voluntary Severance Scheme included in the figures above was £399,829 (2013 - £1,202,364).

Average full time equivalent number of persons employed by service provision

	Permanently employed staff	Others	Year to 31 March 2014	Year to 31 March 2013
	FTE	FTE	FTE	FTE
Operations	540	50	590	560
Science and Strategy	481	45	526	514
Corporate Services*	82	8	90	88
	<u>1,103</u>	<u>103</u>	<u>1,206</u>	<u>1,162</u>

* Corporate Services includes Resources (Estates, Procurement, HR, Organisational development, Health & Safety), Governance (Secretariat Communications, Resilience and Corporate Legal) and Finance portfolios. Science and Strategy Portfolio includes IT Services and Project Management Office. Operations portfolio now includes all office support.

The above numbers derived from SEPA payroll are averaged across the financial year and do not include external contract staff. The 2013 average FTE numbers have been restated to reflect the organisational changes made during the financial year.

The increase in FTE was a result of 33 additional FTE being taken on to complete specific projects, such as Life and Flood plus 11 FTE recruited to fill permanent staff vacancies.

Headcount

These numbers exclude the Chairman and Board Members and include the Chief Executive. The table details the headcount numbers by grade over the past two years.

Headcount by grade

Band	Pay range - £	Number of staff at 31 March 2014	Number of staff at 31 March 2013
CEO, Exec Directors and Chief Officers	Greater than £67,716	5	7*
A	58,734 – 67,716	20	19
B	47,444 – 54,701	42	38
C	40,187 – 46,333	170	163
D	31,703 – 36,550	371	368
E	26,223 – 30,234	421	406
Trainee	23,290 – 23,850	6	3
F	20,731 – 23,291	168	155
G	16,795 – 18,878	93	79
H	14,264 – 16,028	3	3
Total Headcount		1,299	1,241

* Due to restructuring, there was a temporary handover arrangement in place between Executives which resulted in two being in post as at 31st March 2013. The permanent headcount reverted back to six the following month.

There were 15 staff in Science and Strategy and 2 in Corporate Services working on the EU Life project.

	At 31 March 2014	At 31 March 2013
Band of highest paid Director	£110–115,000	£110–115,000
The average salary cost per employee was	£32,744	£32,307
Ratio of average cost per employee to highest paid member of staff	3.49	3.48

Analysis by contract type

SEPA employees	Number of staff at 31 March 2014	Number of staff at 31 March 2013
Permanent contract	1,188	1,132
Fixed term employees	111	109
SEPA headcount at 31 March	1,299	1,241

Average FTE supplied by agency staff in year

	To 31 March 2014	To 31 March 2013
Full time equivalent agency staff used during the year	25	20

Voluntary severance

SEPA has sought applications for voluntary redundancy in light of Scottish Government policy of no compulsory redundancies in 2010 to 2014. All applications for voluntary severance are considered against a set of criteria. These criteria are non-discriminatory (age, gender etc). For this reason the cost of staff taking their pension early is excluded when considering the payback period for each application. The Voluntary Severance (VS) Scheme offered staff pay equivalent to one year's salary, as compensation for terminating their contract of employment. The average payment per member of staff was £18,320.

The following table shows the payments made to staff and the total cost of the exit package including pension strain costs. Where employees offered VS met the criteria to take early retirement under pension scheme rules, SEPA met the pension strain cost of these employees. The pension strain costs represent the additional costs incurred by the pension scheme for paying a pension before the normal retirement age.

Band	Year to 31 March 2014		Year to 31 March 2013	
	Total number of voluntary severance payments made to individuals by band	Total number of exit packages made to individuals by band	Total number of voluntary severance payments made to individuals by band	Total number of exit packages made to individuals by band
£'000	Number	Number	Number	Number
0 – 10	1	-	2	2
10 – 25	14	12	2	2
25 – 50	2	4	5	3
50 – 100	-	1	6	3
100 – 150	-	-	-	4
150 – 200	-	-	-	1
Total Number	17	17	15	15
Total cost	£311,432	£399,829	£703,475	£1,133,853

There were no compulsory redundancies in the year (2013 – none). The figures above exclude the additional Employer NI costs and legal costs paid by SEPA.

6. Other operating charges

	Year to 31 March 2014	Year to 31 March 2013
	£'000	£'000
Supplies and services	16,073	16,040
Property costs	3,538	3,669
Transport costs	1,674	1,665
Research and development costs	300	330
Board expenses	14	14
Property and vehicle leases	2,491	1,783
External Auditor's remuneration – audit services	52	54
	24,142	23,555

7. Interest payable

	Year to 31 March 2014	Restated Year to 31 March 2013	Year to 31 March 2013
	£'000	£'000	£'000
International Accounting Standards (IAS) 19 net return on pension scheme assets and liabilities	(2,143)	(1,966)	(636)
	<u>(2,143)</u>	<u>(1,966)</u>	<u>(636)</u>

The negative net return position on pension assets at 31 March 2014 is as a result of the actual return on pension scheme assets and liabilities of £7,952,000 being significantly less than the projected return on employee assets and liabilities of £10,095,000 (note 21 refers).

8. Interest receivable and similar income

	Year to 31 March 2014	Year to 31 March 2013
	£'000	£'000
Bank interest received	4	3
	<u>4</u>	<u>3</u>

9. Taxation

SEPA is not liable to corporation tax for 2013–2014.

10. Non current assets

	Tangible assets											Intangible assets				Total
	Land	Buildings	Lease-hold buildings	Plant and machinery	Vessels	Computer equipment	Motor vehicles	Fixtures fittings tools and equipment	Assets in course of completion	Total tangible assets	Software developed in-house	Purchased software	Total intangible assets	Total		
Year to 31 March 2014	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000		
Cost or valuation																
At 1 April 2013	1,132	15,913	675	12,329	2,020	3,033	234	3,356	4,757	43,449	4,294	5,998	10,292	53,741		
Recategorised in year	-	98	-	(2)	-	1	-	(95)	-	2	1	(1)	-	2		
Restated at 1 April 2013	1,132	16,011	675	12,327	2,020	3,034	234	3,261	4,757	43,451	4,295	5,997	10,292	53,743		
Additions at cost	-	-	-	-	-	-	-	-	2,663	2,663	29	-	29	2,692		
Brought into operational use	-	-	5,272	294	-	1,306	81	(1)	(6,952)	-	-	-	-	-		
Impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Disposals	-	(96)	-	(462)	-	-	-	-	-	(558)	-	(13)	(13)	(571)		
Revaluation	(27)	87	-	57	-	-	-	-	-	117	-	-	-	117		
Transferred for sale	(150)	(850)	-	-	-	-	-	-	-	(1,000)	-	-	-	(1,000)		
At 31 March 2014	955	15,152	5,947	12,216	2,020	4,340	315	3,260	468	44,673	4,324	5,984	10,308	54,981		
Depreciation																
At 1 April 2013	-	4,902	526	6,814	669	1,084	102	1,304	-	15,401	2,725	3,056	5,781	21,182		
Recategorised	-	114	-	-	3	(2)	-	(127)	-	(12)	(5)	2	(3)	(15)		
Restated 1 April 2013	-	5,016	526	6,814	672	1,082	102	1,177	-	15,389	2,720	3,058	5,778	21,167		
Charge for year	-	287	273	782	28	461	21	176	-	2,028	453	610	1,063	3,091		
Impairments	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Disposals	-	(42)	-	(445)	-	-	-	-	-	(487)	-	(13)	(13)	(500)		
Revaluations	-	(67)	-	40	-	-	-	(132)	-	(159)	-	-	-	(159)		
Transferred for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
At 31 March 2014	-	5,194	799	7,191	700	1,543	123	1,221	-	16,771	3,173	3,655	6,828	23,599		
Net Book Value																
At 31 March 2014	955	9,958	5,148	5,025	1,320	2,797	192	2,039	468	27,902	1,151	2,329	3,480	31,382		
At 31 March 2013	1,132	11,011	149	5,515	1,351	1,949	132	2,052	4,757	28,048	1,569	2,942	4,511	32,559		

Tangible assets		Intangible assets												
Year to 31 March 2013	Land	Buildings	Lease-hold buildings	Plant and machinery	Vessels	Computer equipment	Motor vehicles	Fixtures fittings tools and equipment	Assets in course of completion	Total tangible assets	Software developed In-house	Purchased software	Total intangible assets	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation														
At 1 April 2012	1,140	15,562	709	12,719	2,032	2,598	234	3,290	2,783	41,067	4,430	4,704	9,134	50,201
Additions at cost	-	-	-	-	-	-	-	-	4,772	4,772	-	-	-	4,772
Brought into operational use	-	10	-	690	-	580	-	218	(2,798)	(1,300)	6	1,294	1,300	-
Impairment	-	11	-	(16)	1	-	-	1	-	(3)	-	-	-	(3)
Disposals	-	(84)	(34)	(1,088)	(13)	(145)	-	(153)	-	(1,517)	(142)	-	(142)	(1,659)
Revaluation	(8)	414	-	24	-	-	-	-	-	430	-	-	-	430
At 31 March 2013	1,132	15,913	675	12,329	2,020	3,033	234	3,356	4,757	43,449	4,294	5,998	10,292	53,741
Depreciation														
At 1 April 2012	-	4,851	498	7,287	545	859	58	1,272	-	15,370	2,306	2,578	4,884	20,254
Charge for year	-	251	54	873	81	370	44	185	-	1,858	504	478	982	2,840
Impairments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Disposals	-	(41)	(26)	(1035)	(7)	(145)	-	(153)	-	(1,407)	(85)	-	(85)	(1,492)
Revaluations	-	(159)	-	(311)	50	-	-	-	-	(420)	-	-	-	(420)
At 31 March 2013	0	4,902	526	6,814	669	1,084	102	1,304	-	15,401	2,725	3,056	5,781	21,182
Net Book Value														
At 31 March 2013	1,132	11,011	149	5,155	1,351	1,949	132	2,052	4,757	28,048	1,569	2,942	4,511	32,559
At 31 March 2012	1,140	10,711	211	5,432	1,487	1,739	176	2,018	2,783	25,697	2,124	2,126	4,250	29,947

The charge in the statement of comprehensive net expenditure includes depreciation and amortisation charged for the year and the net book value of impairments.

SEPA had a desk top valuation of its estate completed by Knight Frank as at 31 March 2014. The resulting valuation showed a reduction in fair values of £55,000 from the valuation at 31 March 2013. This has been reflected in this set of accounting statements

The specialised buildings assessment of replacement cost was conducted for the year 2012–2013. The exercise was conducted by a chartered surveyor working directly for SEPA to calculate what the replacement costs would be for the gauging stations based on SEPA's recent constructions. These estimated replacement costs were indexed to reflect movements in costs for 2013–2014.

Buildings category includes properties whose fair value is provided by Knight Frank and the building component of the gauging stations, whose fair value is the estimated replacement costs.

Depreciated historic cost has been used as a proxy for the current value of fixtures and fittings, boats, motor vehicles, plant and machinery, computer equipment and software. All of the assets in these categories have (a) low values and short useful economic lives which realistically reflect the life of the asset and (b) a depreciation or amortisation charge which provides a realistic reflection of consumption.

The Sir John Murray (the only large vessel) was valued by Century Marine at £1,250,000 as at 31 March 2014, this is £70,000 higher than the value put on the vessel at 31 March 2013. The impairment of £51,000 made in 2012–2013 accounts has been reversed within the depreciation and impairment charge for 2013–2014.

Intangible non-current assets are all purchased software and in house developed software with a life of more than one year and a cost of more than £5,875.

One property has been transferred into current assets – assets held for sale at 31 March 2014. This property has been vacated and is actively being marketed. The market valuation of the property was provided by Knight Frank.

The £255,000 net gain on revaluation of property plant and equipment shown below the net operating expenditure line in the Statement of Comprehensive Net Expenditure for the year, relates to the valuation movement in land and property, which has previously been impaired. Increases in the valuation of gauging stations of £48,000 have been taken to the revaluation reserve together with the reduction in value of land £27,000.

11. Current assets for sale

	Year to 31 March 2014	Year to 31 March 2013
	£'000	£'000
Current assets for sale	1,000	-
	<u>1,000</u>	<u>-</u>

SEPA currently has one property that is being marketed.

12. Cash and cash equivalents

	Year to 31 March 2014	Year to 31 March 2013
	£'000	£'000
Bank, current and deposit account and petty cash	579	717
Deposit account – EU funds	797	614
	<u>1,376</u>	<u>1,331</u>

SEPA has £713,853 in commercial accounts with Royal Bank of Scotland and £613,804 with Citibank, in accordance with Government Banking Service arrangements.

13. Trade and other receivables

	Year to 31 March 2014	Year to 31 March 2013
	£'000	£'000
Trade receivables	1,632	1,769
Less provisions for bad debts	(501)	(14)
Trade receivables net	1,131	1,755
Other trade receivables	108	59
Prepayments and accrued income	1,859	1,690
	<u>3,098</u>	<u>3,504</u>

At the year end the total bad debt provision is £501,355 (2013: £13,783). Included within the trade receivables there is £9,207 (2013 – £47,417) owing from central government bodies, £10,892 (2013: £32,404) owing from local authority bodies, £1,069 (2013: £7,832) owing from NHS Bodies and £208,108 (2013: £161,749) owing from other public bodies.

14. Trade and other payables: amounts falling due within one year

	Year to 31 March 2014	Year to 31 March 2013
	£'000	£'000
Trade payables	1,010	586
Other taxes and social security	-	-
VAT	52	30
Accruals and deferred income	3,949	3,422
	<u>5,011</u>	<u>4,038</u>

Included within the trade payables there is £0 (2013: £1,739) owing to local authority bodies, £80,462 (2013: £53,811) owing to central government bodies, £0 (2013: £1,026) owing to NHS bodies and £20,530 (2013: £32,238) owing to other public bodies.

15. Trade and other payables: amounts falling due after one year

	Year to 31 March 2014	Year to 31 March 2013
	£'000	£'000
VAT	19	34
	<u>19</u>	<u>34</u>

16. Contingent liabilities

SEPA has no known contingent liabilities at 31 March 2014, which may result in future liabilities.

SEPA occupies a number of leased properties which have dilapidations clauses in the leases. SEPA maintains these properties in excellent order, but has a potential liability to reinstate the internal layout of the building to its original floor plan at inception of the lease. These costs will be subject to future negotiation.

17. Provision for liabilities and charges

Year to 31 March 2014	Unfunded pension liabilities ³	Legal provision ⁴	Total provision for liabilities and charges
	£'000	£'000	£'000
Balance at 1 April 2013	2,316	40	2,356
Actuarial valuation changes	374	-	374
Unused amounts reversed	-	(40)	(40)
Utilised	(137)	-	(137)
As at 31 March 2014	<u>2,553</u>	<u>-</u>	<u>2,553</u>

³ The unfunded pension liabilities represent liabilities in respect of pension commitments inherited by SEPA from predecessor bodies and past Chairman. These liabilities are payable to other authorities for employees who have retired and includes one direct payment to a pensioner.

⁴ Provision for legal claims represents an estimate of the third party liability claims

Year to 31 March 2014	Unfunded pension liabilities	Legal provision	Total provision for liabilities and charges
	£'000	£'000	£'000
Liabilities due > 1 year	2,416	-	2,416
Liabilities due < 1 year	137	-	137
As at 31 March 2014	<u>2,553</u>		<u>2,553</u>

Year to 31 March 2013	Unfunded pension liabilities	Legal provision	Total provision for liabilities and charges
	£'000	£'000	£'000
Balance at 01 April 2012	2,233	61	2,294
Actuarial valuation changes	220	-	220
Increase in provision	-	(21)	(21)
Utilised	(137)	-	(137)
As at 31 March 2013	<u>2,316</u>	<u>40</u>	<u>2,356</u>

Year to 31 March 2013	Unfunded pension liabilities	Legal provision	Total provision for liabilities and charges
	£'000	£'000	£'000
Payable within 1 year	2,180	-	2,180
Later than 1 year less than 5 years	136	40	176
After 5 years	-	-	-
Total as at 31 March 2014	<u>2,316</u>	<u>40</u>	<u>2,356</u>

18. Financial commitments

The table below provides information regarding expenditure committed to in future financial years. The analysis of land and buildings, lease and rental costs are subdivided to show the total costs related to the length of the lease left to run.

Capital commitments	Year to 31 March 2014	Year to 31 March 2013
	£'000	£'000
Contracted for but not provided	<u>-</u>	<u>-</u>
Not Later than 1 year	-	-
Later than 1 year but less than 5 years	-	-
Total	<u>-</u>	<u>-</u>

Total future aggregate minimum lease payments:	Land and buildings		Other	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Year to 31 March				
Payable within 1 year	1,879	1,476	144	178
Later than 1 year but less than 5 years	7,336	8,015	57	64
After 5 years	21,187	15,839	-	-
Total	30,402	25,330	201	242

All contractual land and building leases are 'full repairing' leases and the basis of all future lease payments is as deemed at the point of agreement. All vehicle lease payments are determined at the point of agreement. It is SEPA's responsibility to ensure that all vehicles are maintained in accordance with the contractual terms.

19. Pension costs

SEPA contributes to the Falkirk Council Pension Fund. This is a Local Government Pension Scheme (LGPS) which is a defined benefit scheme and is administered by Falkirk Council. This Scheme is a multi employer scheme. Employee contributions, based on salary, are fixed by statute currently on a scale of 5.5% - 12%.

The latest formal valuation of the Fund for the purpose of setting employer's actual contributions was at 31 March 2011, with the next full formal valuation as at 31 March 2014. The Scheme actuaries have undertaken a pension expense calculation for SEPA as at 31 March 2014, and these figures form the basis of the statement of financial position and funding disclosures made in these accounts.

The pensions costs for the period represents the contributions paid by SEPA to the scheme £6,392,285 (2013 - £5,988,442). An amount outstanding at 31 March 2014 in relation to the pension contribution was £758,163 (2013 - £0).

20. IAS 19 - pension asset and liabilities

In accordance with International Accounting Standard No 19 "Employee Benefits" (IAS19), SEPA is required to account for the net pension liability of £58,286,000 (2013 - £46,500,000) for the financial year ended 31 March 2014 as valued by Hymans Robertson the actuaries to the Falkirk Council Pension Fund.

In order to assess the value of the Fund's liabilities as at 31 March 2014, the actuary has used: the bid value of fund assets at the latest available date; the actual split of fund assets at the latest available date; the fund returns at the latest available date; the latest number of employees; the latest available information on deferred and active pensioners; and the other data rolled forward from the last formal valuation at 31 March 2011. The actuary has projected the results of the March 2011 valuation forward to 31 March 2014 using approximate methods. This exercise allows for changes to the financial assumptions, additional benefit accrual, and estimated cash flows over the period and the current membership information.

The actuary has:

- Made allowance for the removal of the entitlement for new members to retire under the "Rule of 85" for new entrants from 01 December 2006.
- Projected pension expense for the year to 31 March 2014 allowing for the new LGPS benefits design implemented from 01 April 2009.
- Assumed members retiring who are now able to elect to take an additional tax-free lump sum in lieu of part of their pension. The actuaries have included an allowance for 50% of future retirees to take additional cash up to HM Revenue and Customs limits for pre April 2009 service and 75% of the maximum cash for the post April 2009 service.
- Used post retirement mortality assumptions based on Self-administered Pension Schemes (SAPS) year of birth tables and made an allowance for increased life expectancies.

- e. Calculated future liabilities using Consumer Price Index (CPI) uplift applied to future pension payments
- f. Valued the assets in the whole Fund at bid value.
- g. The asset values below are at bid value as required under IAS 19. Where asset splits were not available at the exact start and end dates, the nearest split prior to these dates has been used by the actuaries

Assets

Asset category	31 Mar 2014				31 Mar 2013			
	Quoted prices in active markets	Prices not quoted in active markets	Total	%	Quoted prices in active markets	Prices not quoted in active markets	Total	%
	£'000	£'000	£'000		£'000	£'000	£'000	
Equity securities:								
Consumer	19,199	-	19,199	10%	18,042	-	18,042	10%
Manufacturing	11,314	-	11,314	6%	10,083	-	10,083	6%
Energy and utilities	9,927	-	9,927	5%	9,005	-	9,005	5%
Financial institutions	15,967	-	15,967	8%	14,356	-	14,356	8%
Health and care	12,510	-	12,510	7%	11,453	-	11,453	7%
Information technology	5,749	-	5,749	3%	5,475	-	5,475	3%
Other	4,902	-	4,902	3%	3,835	-	3,835	2%
Debt securities:								
Corporate bonds (investment grade)	-	-	-	0%	-	-	-	0%
Corporate bonds (non-investment grade)	-	-	-	0%	-	-	-	0%
UK Government	-	-	-	0%	-	-	-	0%
Other	-	-	-	0%	-	-	-	0%
Private Equity:								
All	-	10,165	10,165	5%	-	10,287	10,287	6%
Real estate:								
UK property	-	12,696	12,696	7%	-	10,546	10,546	6%
Overseas property	-	989	989	1%	-	1,073	1,073	1%
Investment funds and unit trusts:								
Equities	42,431	-	42,431	22%	38,007	-	38,007	22%
Bonds	16,233	-	16,233	8%	16,389	-	16,389	9%
Hedge funds	-	-	-	0%	-	-	-	0%
Commodities	-	-	-	0%	-	-	-	0%
Infrastructure	-	3,878	3,878	2%	-	3,412	3,412	2%
Other	19,577	-	19,577	10%	15,356	-	15,356	9%
Derivatives:								
Inflation	-	-	-	0%	-	-	-	0%
Interest rate	-	-	-	0%	-	-	-	0%
Foreign exchange	-	-	-	0%	-	-	-	0%
Other	-	-	-	0%	-	-	-	0%
Cash and cash equivalents:								
All	5,694	-	5,694	3%	7,005	-	7,005	4%
Totals:	163,503	27,729	191,232	100%	149,006	25,319	174,325	100%

- h. As required under IAS19 the actuary has assumed an expected investment return on assets.
- i. Financial assumption used in 2013–2014 to arrive at the discount rate has been amended under IAS19 in two ways:
- It is derived from a corporate bond yield curve constructed from yields on high quality bonds. In 2012–2013 a discount rate was assumed based on the yield on Government bonds plus a measure of the credit spread.
 - The discount rate used recognises the weighted average duration (or term) of the benefit obligation.

If the same calculation had been applied in the accounts for 2012–2013 the interest payable net cost of IAS 19 assets and liabilities of £636,000 would have been £1,966,000. See note 21.

- j. This is different to the financial assumptions used for 2012–2013 valuation, which used average rate of return, including both income and changes in fair value, expected over the remaining life of the related obligation on the actual assets held by the scheme.
- k. The valuation exercise for 2012–2013 accounts assumed an estimated return based on 4.5% discount rate for 2013–2014. The actual returns earned by the fund up to 31 December 2013 of 6%, were used to estimate the return to 31 March 2014 of 6.8%. The actual return on assets was £4,147,000 greater than estimated in 2012–2013.
- l. The financial assumptions utilised by the actuary to calculate liabilities under IAS 19 were based on:

Period ended	31 March 2014 (% per annum)	31 March 2013 (% per annum)
Pension increases	2.8	2.8
Salary increases – to 31 March 2017 (2016)	1.0	1.0
Salary increases – after 31 March 2017 (2016)	5.1	5.1
Nominal discount rate	4.3	4.5

- m. The discount rate used to calculate the overall liabilities of the fund at the year end is derived from a corporate bond yield curve constructed from yields on high quality bonds that reflect the weighted average duration (or term) of the benefit obligation for SEPA's members of the scheme. The bond yield curve was constructed using iBoxx £ Corporates AA index. SEPA's membership profile is classed as medium duration (weighted average years that benefits will be payable).

	Number		Total salaries / pensions £000		Average age	Liability split	Duration
	15 February 2014	31 March 2011	31 March 2014	31 March 2011	31 March 2011	Percentage (%)	
Actives	1,192	1,140	36,847	32,533	47	56.7%	26.2
Deferred pensioners	541	443	*	1,254	45	12.0%	26.3
Pensioners	283	210	*	2,482	62	31.3%	13.3
Total						100%	22.2

*figures are not available.

Change in fair value of SEPA's pension plan assets, defined benefit obligations and net liability for the year ended 31 March 2014.

Period ended 31 March 2014	Assets £'000	Obligations £'000	Net (liability)/ asset £'000
Fair value of employer assets	174,325	-	174,325
Present value of funded liabilities	-	(220,825)	(220,825)
Opening position as at 31 March 2013	174,325	(220,825)	(46,500)
Service cost			
Current service cost*	-	(8,549)	(8,549)
Past service cost (including curtailments)	-	(72)	(72)
Effect of settlements	-	-	-
Total service cost	-	(8,621)	(8,621)
Net interest			
Interest income on plan assets	7,952	-	7,952
Interest cost on defined benefit obligation	-	(10,095)	(10,095)
Impact of asset ceiling on net interest	-	-	-
Total net interest	7,952	(10,095)	(2,143)
Total defined benefit cost recognised in Profit or (Loss)	7,952	(18,716)	(10,764)
Cashflows			
Plan participants' contributions	2,506	(2,506)	-
Employer contributions	6,344	-	6,344
Contributions in respect of unfunded benefits	-	-	-
Benefits paid	(4,042)	4,042	-
Unfunded benefits paid	-	-	-
Expected closing position	187,085	(238,005)	(50,920)
Remeasurements			
Change in demographic assumptions	-	-	-
Change in financial assumptions	-	(11,598)	(11,598)
Other experience	-	85	85
Return on assets excluding amounts included in net interest	4,147	-	4,147
Changes in asset ceiling	-	-	-
Total remeasurements recognised in Other Comprehensive Income	4,147	(11,513)	(7,366)
Effect of business combinations and disposals	-	-	-
Fair value of employer assets	191,232	-	191,232
Present value of funded liabilities	-	(249,518)	(249,518)
Present value of unfunded liabilities	-	-	-
Closing position as at 31 March 2014	191,232	(249,518)	(58,286)

* The current service cost includes an allowance for administration expenses of 0.2% of payroll.

Change in fair value of SEPA's pension plan assets, defined benefit obligations and net liability for the year ended 31 March 2013

Period ended 31 March 2013	Assets £'000	Obligations £'000	Net (liability)/ asset £'000
Fair value of employer assets	145,416	-	145,416
Present value of funded liabilities	-	(186,025)	(186,025)
Opening position as at 31 March 2012	145,416	(186,025)	(40,609)
Service cost			
Current service cost*	-	(6,595)	(6,595)
Past service cost (including curtailments)	-	(550)	(550)
Effect of settlements	-	-	-
Total service cost	-	(7,145)	(7,145)
Net interest			
Interest income on plan assets	7,094	-	7,094
Interest cost on defined benefit obligation	-	(9,060)	(9,060)
Impact of asset ceiling on net interest	-	-	-
Total net interest	7,094	(9,060)	(1,966)
Total defined benefit cost recognised in Profit or (Loss)	7,094	(16,205)	(9,111)
Cashflows			
Plan participants' contributions	2,346	(2,346)	-
Employer contributions	6,484	-	6,484
Contributions in respect of unfunded benefits	-	-	-
Benefits paid	(3,986)	3,986	-
Unfunded benefits paid	-	-	-
Expected closing position	157,354	(200,590)	(43,236)
Remeasurements			
Change in demographic assumptions	-	-	-
Change in financial assumptions	-	(20,462)	(20,462)
Other experience	-	227	227
Return on assets excluding amounts included in net interest	16,971	-	16,971
Changes in asset ceiling	-	-	-
Total remeasurements recognised in Other Comprehensive Income	16,971	(20,235)	(3,264)
Effect of business combinations and disposals	-	-	-
Fair value of employer assets	174,325	-	174,325
Present value of funded liabilities	-	(220,825)	(220,825)
Present value of unfunded liabilities	-	-	-
Closing position as at 31 March 2013	174,325	(220,825)	(46,500)

* The current service cost includes an allowance for administration expenses of 0.2% of payroll

21. IAS 19 – details of entries in the statement of comprehensive net expenditure

IAS 19 requires SEPA to analyse and disclose its pension liabilities as at 31 March 2014. There is an increase in forecast net liabilities as calculated by Hymans Robertson in their capacity as actuary to the Falkirk Council Pension Fund. This amount has been reflected in the annual accounts. IAS 19 also requires SEPA to analyse and disclose the amounts included within the Statement of Comprehensive Net Expenditure, these are detailed below.

	Restated		
	Year to 31 March 2014	Year to 31 March 2013	Year to 31 March 2013
	£'000	£'000	£'000
Statement of comprehensive net expenditure			
Charge to operating costs			
Current service cost	8,549	6,595	6,595
Past service cost	72	550	550
Total service cost	8,621	7,145	7,145
Employer contribution	(6,344)	(6,484)	(6,484)
Added to staff costs (see note 5)	<u>2,277</u>	<u>661</u>	<u>661</u>
Projected return on employers assets	(10,095)	(9,060)	(9,060)
Actual return on employer assets	7,952	7,094	8,424
Taken to interest (payable)/receivable (see notes 7-8)	<u>(2,143)</u>	<u>(1,966)</u>	<u>(636)</u>

Changes in valuation required under IAS 19 have resulted in changes to the pensions interest payable reported for 2013, which has changed from £636,000 to £1,966,000. The 2013 figures have been restated to reflect this change.

22. IAS 19 – details of entries in the statement of changes in tax payers equity

The changes in IAS 19 have resulted in the 2013 comparators being restated in note 20 above. The note below shows the information as previously reported.

Year to 31 March	2014		Restated 2013	
	£'000	% of scheme assets	£'000	% of scheme assets
Difference between the expected and actual return on scheme assets	4,147	2.2	16,971	9.7
Experience gains and losses on scheme liabilities		% of the total present value of scheme liabilities		% of the total present value of scheme liabilities
Actual gain/(loss) recognised in statement of changes in tax payers equity	<u>(11,513)</u>		<u>(20,235)</u>	
Actual return on plan assets	<u>(7,366)</u>	3.0	<u>(3,264)</u>	1.5

Year to 31 March	2013	
	£'000	% of scheme assets
Difference between the expected and actual return on scheme assets	15,641	9.0
Experience gains and losses on scheme liabilities		% of the total present value of scheme liabilities
Actual gain/(loss) recognised in statement of changes in tax payers equity	<u>(20,235)</u>	
Actual return on plan assets	<u><u>(4,594)</u></u>	2.1

23. Related party transactions

SEPA is a Non-Departmental Public Body sponsored by the Scottish Government Directorate for Environment and Forestry. The Scottish Government is regarded as a related party. During the year, SEPA has had various material transactions with the Scottish Government and with other entities for which the Scottish Government is regarded as a parent body (note 2, 13 & 14 refers). During the year, apart from their service contracts, no Board Member, key manager or other related parties have undertaken any material transactions with SEPA.

24. Fees and charges

The table below highlights the related activity costs against income received by charging schemes.

Schemes	COMAH £000	CRC £000	AVIATION £000	PPCA £000	PPCB £000	RSA £000	Waste £000	SPW £000	ETS £000	WEWS £000	TOTAL £000
Year to 31 March 2014	(156)	(290)	(27)	(4,329)	(1,218)	(2,335)	(4,891)	(1,538)	(295)	(20,764)	(35,843)
Income											
Expenditure											
Staff costs	203	95	4	3,503	735	1,134	4,700	83	200	15,126	25,784
Depreciation/cost of capital	9	4	-	194	39	47	233	4	8	1,531	2,068
Bad debts	-	-	-	10	26	-	104	-	-	-	141
Other operating charges	56	90	1	1,535	199	810	1,431	44	114	5,212	9,492
Total expenditure	268	189	5	5,242	999	1,991	6,468	131	322	21,869	37,484
Under/(Over) recovery	112	(101)	(22)	913	(219)	(344)	1,577	(1,407)	27	1,105	1,641
% Cost recovery	58%	154%	519%	83%	122%	117%	76%	1,178%	92%	95%	96%
Schemes											
Year to 31 March 2013											
Income	(203)	(166)	(8)	(4,266)	(1,237)	(2,409)	(4,646)	(1,509)	(317)	(20,388)	(35,151)
Expenditure											
Staff costs	215	106	7	3,701	707	1,181	4,020	80	254	14,868	25,139
Depreciation/cost of capital	8	6	-	187	40	40	173	3	14	1,577	2,048
Bad debts	-	-	-	23	80	9	154	3	-	14	283
Other operating charges	61	101	2	1,578	215	879	1,256	25	131	5,207	9,455
Total expenditure	284	213	10	5,489	1,042	2,108	5,603	110	399	21,666	36,925
Under/(Over) recovery	81	47	2	1,223	(196)	(300)	957	(1,399)	82	1,278	1,774
% Cost recovery	71%	78%	89%	78%	119%	114%	83%	1,368%	79%	94%	95%
Key:											
COMAH	Control of Major Accident Hazards Regulations	WM	Waste Management Licensing & Producer Responsibility	PPC	Pollution Prevention Control & Air Pollution Control						
SPW	Special Waste	ETS	EU Greenhouse Gas Emissions Trading	WEWS	Water Environment and Water Services Act						
RSA	Radioactive Substances Act	CRC	Carbon Reduction Commitment	AVIA	EU-ETS Aviation						

25. Resource limit- Outturn 2013–2014

Year to 31 March	2014			2013
	Outturn £'000	Budget £'000	Variance £'000	Variance £'000
Department expenditure limit				
Total capital resource	2,692	2,700	8	(187)
Operating resource - cash	34,155	34,142	(13)	285
Depreciation/Impairments - non-cash	3,433	3,553	120	(206)
Total operating resource	37,588	37,695	107	79
Total expenditure	40,280	40,395	115	(108)
Annually managed expenditure limit	4,402	-	(4,402)	(1,840)

There was an underspend in year against the Departmental Expenditure Limit (DEL) allocated to SEPA by Scottish Governments of £115,000. Operating DEL was £107,000 underspent and capital resource DEL was underspent by £8,000.

Additionally there was Annually Managed Expenditure (AME) of £4,402,000: SEPA has no AME budget. Scottish Government manages AME across the portfolio. The £4,402,000 consists of £4,657,000 IAS and unfunded pensions adjustments less £255,000 market value movements on properties.

26. Segmental analysis as at 31 March 2014

SEPA only operates in Scotland and is currently organised into portfolios.

Segmented Accounts Year to 31 March 2014

Extracted from Period 12 Monthly Financial Report

Portfolio	Operations	Science and Strategy	Chief Executive	Governance	Resources	Finance	Corporate	Life*	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Income:									
Charging schemes	-	-	-	-	-	-	35,843	-	35,843
Other income	-	-	-	-	-	-	4,497	426	4,923
Total income	-	-	-	-	-	-	40,340	426	40,766

Less expenditure per March 2014 Agency Management Accounts

Staff costs	24,451	20,509	198	1,554	1,408	781	107	274	49,282
Other operating charges	6,678	10,114	13	408	6,399	750	1,464	140	25,966
Depreciation, amortisation and impairment	-	-	-	-	-	-	3,236	13	3,249
Total expenditure	31,129	30,623	211	1,962	7,807	1,531	4,807	427	78,497
Net expenditure for year	(31,129)	(30,623)	(211)	(1,962)	(7,807)	(1,531)	35,533	(1)	(37,731)

Reconciliation to annual accounts

Decrease in capital charges & impairment in asset values	416
Add pensions scheme adjustment to staff costs	(2,277)
Add pensions adjustment for unfunded pensioners	(242)
Add pensions interest adjustment	(2,143)
Less late accruals	(53)
Less reduction in provision	40
Statement of comprehensive net expenditure for the year	(41,990)

*Managed as a separate project.

Segmented assets and liabilities at 31 March 2014

Portfolio	Operations	Science and Strategy	Chief Executive	Governance	Resources	Finance	Corporate	Life	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Segment Assets									
Non current Assets	250	11,232	-	-	19,901	-	-	-	31,383
Trade receivables	-	-	-	-	-	-	3,098	-	3,098
Asset for sale							1,000		1,000
Total liabilities	-	-	-	-	-	-	(65,869)	-	(65,869)
Cash	-	-	-	-	-	-	1,376	-	1,376
Total net assets	250	11,232	-	-	19,901	-	(60,395)	-	(29,012)

Restated Segmented Accounts Year to 31 March 2013

SEPA managed itself on a directorate basis

Directorate	Operations	Science and Strategy	Chief Exec.	FCS & Projects	Corporate	Life	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Income:							
Charging schemes	-	-	-	-	35,151	-	35,151
Other income	-	-	-	-	2,836	444	3,280
Total income	-	-	-	-	37,987	444	38,431

Less expenditure per March 2013 Agency Management Accounts

Staff costs	21,471	16,302	2,269	6,929	(5)	630	47,596
Other operating charges	5,735	6,508	664	11,019	1,560	(199)	25,287
Depreciation, amortisation and impairment	-	-	-	-	3,175	13	3,188
Total expenditure	27,206	22,810	2,933	17,948	4,730	444	76,071
Net expenditure for year	(27,206)	(22,810)	(2,933)	(17,948)	33,257	-	(37,640)

Reconciliation to annual accounts

Increase in capital charges & impairment in asset values	(34)
Less pensions scheme adjustment to staff costs	(661)
Less pensions adjustment for unfunded pensioners	(69)
Less pensions interest adjustment	(1,966)
Additional debt write off	(9)
Reduction in contingent liability	21
Additional accrued expenditure	(153)
East Kilbride impairment	(144)
Reduction in value of estate	(348)
Gauging stations capitalisation	74
Statement of comprehensive net expenditure for the year	(40,929)

Segmented assets and liabilities at 31 March 2013

	Operations	Science and Strategy	Chief Executive	FCS and Projects	Corporate	Life	Total
Directorates	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Segment assets							
Non current assets	140	11,232	-	21,187	-	-	32,559
Trade receivables	-	-	-	-	3,504	-	3,504
Total liabilities	-	-	-	-	(52,656)	(272)	(52,928)
Cash	-	-	-	-	717	614	1,331
Total net assets	140	11,232	-	21,187	(48,435)	342	(15,534)

Appendix 1: Scottish Government Statement of Accounts Direction



SCOTTISH ENVIRONMENT PROTECTION AGENCY

DIRECTION BY THE SCOTTISH MINISTERS

1. The Scottish Ministers, in pursuance of Section 45(2) of the Environment Act 1995, hereby give the following direction.
2. The statement of accounts for the financial year ended 31 March 2006, and subsequent years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FRM) which is in force for the year for which the statement of accounts are prepared.
3. The accounts shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial year, and of the state of affairs as at the end of the financial year.
4. This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 19 March 2001 is hereby revoked.

Richard Grant

Signed by the authority of the Scottish Ministers

Dated 9 December 2005

Appendix 2: Scottish Government Direction to SEPA 2013

ENVIRONMENT ACT 1995

The Criteria and Procedures for the Acceptance of Waste at Landfills (Mercury) (Scotland) Direction 2013

The Scottish Ministers give the following Direction to the Scottish Environment Protection Agency in exercise of the powers conferred by section 40(2)(a) of the Environment Act 1995(a).

In accordance with section 40(6) of that Act, they have consulted SEPA.

Citation and commencement

1. This Direction may be cited as the Criteria and Procedures for the Acceptance of Waste at Landfills (Mercury) (Scotland) Direction 2013 and comes into force on 1st August 2013.

Interpretation

2. In this Direction—

“the Landfill Directive” means Council Directive 1999/31/EC on the landfill of waste(b), as read with Council Decision 2003/33/EC establishing criteria and procedures for the acceptance of waste at landfills pursuant to Article 16 of and Annex II to Directive 1999/31/EC(c); and

“the 2003 Regulations” means the Landfill (Scotland) Regulations 2003(d).

Conditions to be included in landfill permits

3. SEPA must incorporate such further conditions in all landfill permits under regulation 10(3) of the 2003 Regulations for a landfill authorised to store metallic mercury(e) temporarily for more than one year so as to reflect the requirements of Section 6 of Annex II to the Landfill Directive, as set out in the Schedule to this Direction.

W. George Burgess
A member of the staff of the Scottish Ministers

Victoria Quay,
Edinburgh
30th July 2013

-
- (a) 1999 c. 25. The functions of the Secretary of State in or as regards Scotland were transferred to the Scottish Ministers by virtue of section 53 of the Scotland Act 1998.
- (b) OJ L 182, 16.7.1999, p. 1, as amended by Regulation (EC) No 1882/2003 (OJ L 284, 31.10.2003, p. 1), Regulation (EC) No 1137/2008 (OJ L 311, 21.11.2008, p. 1) and Council Directive 2011/97/EU (OJ L 328, 10.12.2011, p. 49).
- (c) OJ L 11, 16.1.2003, p. 27.
- (d) S.S.I. 2003/235, as amended by paragraph 8 of schedule 2 to the Antisocial Behaviour etc. (Scotland) Act 2004 (asp 8) and by S.I. 2011/2043 and S.S.I. 2003/343, 2009/247, 2010/60, 2011/226, 2012/148 and 360 and 2013/222.
- (e) Mercury (Hg), Chemical Abstract Services reference CAS RN 7439-97-6.