

# ANNUAL REPORT AND ACCOUNTS 2017-2018



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SG/2018/120 Laid before the Scottish Parliament by the Cabinet Secretary for the Environment, Climate Change and Land Reform 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 the Environment, Climate Change and Land Reform in pursuance of Section 22(5) of the Public Finance and Accountability (Scotland) Act 2000.

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## Introduction

Every day SEPA works to protect and enhance Scotland's environment, helping communities and businesses thrive within the resources of one planet. We call this One Planet Prosperity.

Our Annual Report and Accounts 2017-2018 tells the story of how we are changing today, creating a world-class environment protection agency fit for the challenges of tomorrow. It shows how Scotland's communities and businesses can realise benefits through our delivery of our Statutory Purpose, and how our staff produce information and evidence that underpins decision-making which supports successful innovation and the creation of new partnerships.

The report is divided into three parts:

- The Performance Report consisting of:
  - The Overview section – this summarises the whole report, explaining our purpose and strategy, our business model, our activities, our operational risks and summarises our performance.
  - Performance Analysis – this shows our progress against this year's performance measures and our financial performance.
- The Accountability Report – this consists of the Corporate Governance report, a Remuneration and Staff report and a Parliamentary Accountability and Audit report.
- The Financial Statements – these include the Directors' Report and the Annual Accounts for 2017-2018.



**Bob Downes**  
Chair

**Terry A'Hearn**  
Chief Executive Officer

### Chair and Chief Executive's foreword

It has been another year full of challenges for SEPA and we are pleased with the progress we have made during 2017-2018.

Overall, we achieved 11 of our annual targets and missed another five targets. While it was disappointing to fail to achieve full success in five of our targets, we did make significant progress in each of these areas. More importantly, we made major progress in our overall reform aims and believe we are set up to deliver powerfully in 2018-2019.

In our One Planet Prosperity regulatory strategy, we have set the highly ambitious aim of getting all businesses we regulate into compliance. We state that "compliance is non-negotiable". We were pleased that in 2017-2018, we met our twin targets of reducing the number of licences which were non-compliant for two or more years and also reducing the number of licences classified as "very poor". This continued improvement in compliance levels is essential if we are to meet our long-term goal.

At the core of One Planet Prosperity is our biggest ever reinvention of the way we regulate. We are in the middle of a three year period in which we are overhauling our strategies, culture, structures and decision-making processes. We made substantial progress on this major change programme, but missed our 2017-2018 targets for agreeing Sector Plans, Sustainable Growth Agreements and Permit simplification. We did, however, make considerable progress on these landmark initiatives and were delighted to release the first draft Sector Plans for Landfills, Scotch Whisky and Metals. We are confident we'll meet our 2018-2019 targets in these regulatory reform areas.

While we saw increases in the length of river or loch shore physical restoration and an increase in the length of river where fish movement is not restricted, we didn't quite meet our specific targets for improvement. One major achievement was returning water to a significant stretch of the River Garry in Perthshire. We also met our key flooding service targets - completing the preliminary flood risk assessment as well as ensuring that at least 2,000 additional properties are covered by new flood warning schemes.

Most importantly, we met our targets for monitoring, analysing and reporting on the state of Scotland's environment.

Overall, I was delighted with the way our staff have stepped up to work on creating an EPA fit for the scale and urgency of the challenges facing Scotland in the 21st century. We are making a huge ask of our workforce. In 2017-2018, they showed they are grasping this challenge and are positioning the organisation to deliver great results for Scotland in 2018-2019 and beyond.

A handwritten signature in blue ink, appearing to read 'B Downes'.

**Bob Downes**  
Chair

A handwritten signature in blue ink, appearing to read 'Terry A'Hearn'.

**Terry A'Hearn**  
Chief Executive Officer



**Bob Downes**  
Cathraiche

**Terry A'Hearn**  
Ceannard

### Facal-toisich a' Chathraiche agus a' Cheannaird

Is e bliadhna eile làn dùbhlain a bh' ann dhuinn aig SEPA agus tha sinn toilichte leis an adhartas a rinn sinn ann an 2017-18.

Uile gu lèir, choilean sinn 11 de na targaidean bliadhnail againn agus cha do choilean sinn 5 targaidean. Ged a tha e na bhriseadh dùil nach robh sinn làn shoirbheachail ann an còig targaidean, rinn sinn adhartas susbainteach anns a h-uile gin de na roinnean seo. Nas cudromaiche, rinn sinn adhartas mòr a thaobh ar n-àrd-amasan ath-leasachaidh agus tha sinn ullaichte gus coileanadh gu làidir ann an 2018-19.

Anns an ro-innleachd riaghlaidh againn, Bearteas Aona Phlanaid, tha sinn air amas àrd-mhiannach a stèidheachadh gus dèanamh cinnteach gu bheil a h-uile companaidh fo ar sgèith a' gèilleadh ri riaghailtean. Mar a chanas sinn, "cha ghabh gèilleadh a sheachnadh". Bha sinn toilichte gun do choinnich sinn, ann an 2017-18, ris an dà thargaid co-cheangalte: lùghdachadh san uiread cheadan a a bha neo-ghèillidh airson dà bhliadhna no barrachd, agus lùghdachadh an uiread cheadan a chaidh a mheas "glè dhona". Tha an sior leasachadh seo ann an irean gèillidh deatamach ma tha sinn dol a choinneachadh ri ar n-amas fad-ùine.

Aig cridhe Bearteas Aona Phlanaid, tha an t-ath-nuadhachadh as motha a rinn sinn riamh air dòigheanw riaghlaidh. Tha sinn ann am meadhan ùine tri-bliadhna 's a bheil sinn ag ùrachadh ar ro-innleachdan, cultar, structaran agus pròiseasan co-dhùnaidh. Rinn sinn adhartas susbainteach anns a' phrògram mòr atharrachaidh seo, ach cha d' fhuair sinn air ar targaidean 2017-18 a choileanadh airson Planaichean Roinne aontachadh, Aontaidhean Fàs Seasmhach agus dèanamh Bhileagan-ceadachd nas simplidhe. A dh'aindeoin sin, rinn sinn adhartas math air na h-ìomairtean brìgheil seo, agus tha sinn air leth toilichte a' chiad dreachd Phlanaichean Roinne a thoirt a-mach

airson Lionadh-talmhainn, Uisge-beatha na h-Alba agus Meatailtean. Tha sinn cinnteach gun coinnich sinn ri ar targaidean airson 2018-19 anns na roinnean ath-leasachadh riaghlaidh seo.

Ged a chunnaic sinn leudachadh ann an ath-stèidheachadh bhruaichean aibhne agus bhòrd-locha, agus anns an leud aibhne far nach eil gluasad èisg ga chuingealachadh, cha d' fhuair sinn buileach air ar targaidean leasachaidh sònraichte a choileanadh. B' e aon obair chudromach a thug sinn gu buil, uisge a thilleadh do phios mòr den Abhainn Ghar ann an Siorrachd Pheairt. Choinnich sinn cuideachd ri ar prìomh thargaidean seirbheis tuile – a' cur crìoch air a' ro-mheasadh cunnart tuile cho math ri dèanamh cinnteach gu bheil co-dhiù 2,000 togalach a bharrachd a' tighinn fo sgèith sgeamaichean rabhaidh tuile ùra.

Ach as cudromaiche buileach, choinnich sinn ri ar targaidean airson dearcnachadh, anailis agus aithris air staid àrainneachd na h-Alba.

Uile gu lèir, tha mi air leth toilichte leis an dòigh a tha an luchd-obrach againn a' strì gus EPA a chruthachadh a bhios freagarrach do mheud agus èiginn an dùbhlain a tha romhainn ann an Alba san 21mh linn. Tha sinn ag iarraidh tòrr mòr bhon sgioba againn. Ann an 2017-18, sheall iad gu bheil iad a' seasamh ris an dùbhlain seo agus ag ullachadh na buidhne gus soirbheachadh as leth na h-Alba ann an 2018-19 agus nas fhaide air adhart.

A handwritten signature in blue ink, appearing to read 'Bob Downes'.

**Bob Downes**  
Cathraiche

A handwritten signature in blue ink, appearing to read 'Terry A'Hearn'.

**Terry A'Hearn**  
Ceannard

# 1.0 Performance Report

## i) Overview

### 1.1 Introduction

The purpose of this Overview section is to provide a summary of SEPA, our purpose and strategy, the key risks we are facing, our budget and our performance over the year from April 2017. We hope that most readers will find enough in this section to get a good understanding of who we are and what we achieved in 2017-2018. For those who are interested, more detail can be found in the Performance Analysis and Accountability Report sections.

The Overview section shows our path to becoming a world-class environment protection agency fit for the challenges of tomorrow. It details how we have structured ourselves to focus on on-ground delivery, which allows our staff to more powerfully use their skills and abilities.

Our achievements are a testament to our position that environmental compliance is non-negotiable and our commitment to helping Scotland prepare for future increased flooding.

The scale of environmental challenge facing humanity is enormous and SEPA has built strong foundations to act with the urgency that is needed. So we are in a good position to start delivering stronger results, but to create strategies that will be successful we also need to be aware of the challenges and risks we face as an organisation.



Officers investigated flytipping in Fort William following complaints from the local community



## 1.2 Our year in numbers

<p><b>40%</b></p> <p>The percentage of licences that moved from <b>non-compliant</b> after two or more years to <b>compliant</b> this year.</p>	<p><b>112</b></p> <p>The number of major and significant <b>environmental events</b> reported to us in the year, down from 192 last year, 91% of which were responded to within 12 hours.</p>	<p><b>75%</b></p> <p>The percentage of licences classified as <b>very poor</b> that had improved compliance by the end of the year.</p>
<p><b>98.4%</b></p> <p>The proportion of the <b>9,150 licenses and registrations</b> determined within the appropriate timescales.</p>	<p><b>3.89%*</b></p> <p>SEPA's Lost time rate for the year.</p> <p>*% of total full-time equivalent working time available that has been lost through absence.</p>	<p><b>139</b></p> <p>The number of applications received for our annual VIBES – Scottish Environment Business Awards scheme, up from 111 the previous year.</p>
<p><b>3,449</b></p> <p>The number of <b>planning consultations</b> received that were completed on time or within agreed extensions, equivalent to 90%.</p>	<p><b>103,596</b></p> <p>The number of calls received by <b>SEPA Contact Centre</b> in 2017, a fall of 2% on the previous year.</p> <p><b>24,577</b></p> <p>The number of emails received by SEPA Contact Centre in 2017, a drop of 29% on the previous year.</p>	<p><b>26%</b></p> <p>The <b>reduction in energy use</b> in our buildings against the 2014-2015 baseline.</p>
<p><b>26,763</b></p> <p>The number of Floodline subscribers, an increase of over 3%.</p>	<p><b>2,233</b></p> <p>The number of additional properties covered by <b>four new flood warning schemes</b> across Scotland.</p>	<p><b>100km</b></p> <p>The length of river opened up this year to migratory fish through the regulation of dams and weirs and removal of historic fish barriers supported by the <b>Water Environment Fund</b> (SEPA manages the fund on the Scottish Government's behalf).</p>
<p><b>167 tonnes</b></p> <p>The amount of waste generated by SEPA. This is <b>down by 5.6%</b> on last year.</p>	<p><b>66%</b></p> <p>The percentage of our waste that was recycled last year.</p>	<p><b>85%</b></p> <p>The <b>Staff Engagement Index score</b> for this year's People Survey, <b>up by 6%</b> on the previous survey two years ago.</p>
<p><b>£39m</b></p> <p>Fees from <b>business and industry</b> for activities related to regulation were £39m in 2017-2018, the same as last year.</p>	<p><b>£33.4m</b></p> <p><b>Grant in Aid from the Scottish Government</b> received for 2017-2018 was £33.4m against £33.3m the previous year.</p>	<p><b>£83.7m</b></p> <p><b>Operating costs</b> of £83.7m against £83.6m the previous year.</p>

### 1.3 Our purpose and strategy

Our Statutory Purpose is to protect and improve the environment in ways that, as far as possible, also help create health and well-being benefits and sustainable economic growth. Every day we work to protect and enhance Scotland's environment, helping communities and businesses thrive within the resources of our planet. We call this One Planet Prosperity. We have only one planet but if everyone lived as we do in Scotland, we would need three planets to sustain ourselves.

Through the delivery of One Planet Prosperity we are committed to making Scotland stronger. Every Scottish business will comply with the law, and we'll work to ensure as many as possible will go even further. Our Statutory Purpose and range of enforcement tools means those that get it wrong will be held to account.

Scotland is a global leader in its commitment to tackling climate change, in protecting and enhancing our environment, in strengthening our international reputation for sustainable growth and in supporting a transition to a low carbon economy. Scottish businesses have recognised the economic opportunity, with rapid advances in renewables investment and innovation. From supporting the sustainable development of anaerobic digestion to tackling food waste and encouraging innovation in low carbon heat networks, SEPA can play a significant role in enabling not only positive outcomes, but Scotland's social and economic success.

We also help Scotland to prepare more powerfully for future increased flooding and are the national flood forecasting, flood warning and strategic flood risk management authority. We develop flood risk management strategies that set the national direction of flood risk management, helping to target investment and co-ordinate action across public bodies. We also operate Floodline, a free 24-hour advice and information service on how to prepare for, or cope with, the impacts of flooding. After registering as a customer, we can send direct messages by phone or text to give advance notice of flooding, giving communities and businesses valuable time to take action and reduce the impacts of flooding.

Our role in providing robust advice to planning authorities also contributes towards managing overall flood risk in Scotland, by ensuring planning decisions are well informed and preventing new developments being located in high flood risk areas.

Our Statutory Purpose and strategy are set out in our [Corporate Plan 2017-2022](#) and summarised in the diagrams on the following pages. The Corporate Plan includes broad measures we will use to monitor our performance. Each year we publish an Annual Operating Plan that lists the specific annual measures we will report against. The measures summarised on page 19 of this Overview section and described in more detail in the Performance analysis section were set out in the [2017-2018 Annual Operating Plan](#).



Every Scottish business will comply with the law, and we'll work to ensure as many as possible will go even further.

## Our strategy

### Purpose

To protect and improve the environment in ways that, as far as possible, also help create health and well-being benefits and sustainable economic growth.

### Strategic outcomes

#### Scotland is thriving in a low carbon world



The Scottish economy is becoming increasingly resource efficient and there is a general acceptance of the need to live within the planet's regenerative capacity. The economy is becoming increasingly resilient to the threat of scarce raw materials.

Scotland is developing innovative approaches to carbon and resource efficiency and is sharing and exporting its technologies and expertise.

#### Scottish businesses are prospering from better environmental performance



Scottish businesses recognise the benefits to them of good environmental performance and take full advantage of them.

SEPA regulated businesses secure and maintain full compliance with environmental rules and regulations. Non-compliance is not tolerated.

#### The impact of flooding is reducing



The likelihood and potential impact of flooding across Scotland is understood and strategies are developed to tackle greatest risks.

Flood warnings are provided and businesses, communities and individuals understand the steps they can take to protect themselves from the impact of flooding.

Robust advice is given to ensure planning decisions are well informed and new developments are not located in high risk areas.

#### People benefit from Scotland's improving environment



The quality of the air, water and land in Scotland is improving, providing benefits to health and local amenities and better resources for local businesses.

The impact of pollution and environmental crime is reducing.

People understand the benefits a healthy environment provides for their quality of life and take full advantage of them.

People have the information they need, when they need it, to help them make good decisions that improve the environment, society and the economy.

### Our core services

Regulation

Flood risk management

## 1.4 Our Organisational Characteristics

Our aim is to ensure that everything we do is designed to deliver our Statutory Purpose in the most effective ways possible. Six Organisational Characteristics were agreed by our Board in 2015. These are at the core of our corporate strategy and help us make day-to-day and longer-term decisions. They describe the way we work to deliver against our Statutory Purpose.

### The six Organisational Characteristics

1. Producing information and evidence that people use to make decisions.
2. Helping people implement successful innovation, not minor improvements on 'business-as-usual'.
3. Helping communities see the environment as an opportunity to create social and economic success.
4. Routinely interacting with regulated businesses through their boardrooms, executive teams and owners.
5. An organisation that people are clamouring to work for.
6. Using partnerships as our principal way of delivering outcomes.

## 1.5 Our contribution to the Scottish Government's purpose

The purpose of the Scottish Government is to focus government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth. To support its purpose, the Scottish Government has identified seven purpose targets and 16 national outcomes.

We make a contribution to nine of the national outcomes:

- We reduce the local and global environmental impact of our consumption and production.
- We live in a Scotland that is the most attractive place for doing business in Europe.
- We live longer healthier lives.
- Our public services are high quality, continually improving, efficient and responsive to local people's needs.
- We live our lives safe from crime, disorder and danger.
- We live in well-designed, sustainable places where we are able to access the amenities and services we need.
- We have strong, resilient and supportive communities where people take responsibility for their own actions and how they affect others.
- We value and enjoy our built and natural environment and protect it and enhance it for future generations.
- We take pride in a strong, fair and inclusive national identity.

More information about how we contribute to the Scottish Government's purpose can be found in our [Corporate Plan 2017-2022](#) and in the statement 'Promoting and increasing sustainable growth' on our [website](#).

## 1.6 Our business model

We are a non-departmental public body, accountable to Scottish Ministers and the Scottish Parliament. We are also an independent advisor on the environment.

We have 1,265 employees working in 22 offices across Scotland.

### Our Board

Our Board is responsible for ensuring we fulfil the aims and objectives we have agreed with Scottish Ministers.

Further detail on [Board members](#) and the role of the Audit Committee, is covered in the Governance statement in the Accountability Report section.

## Our management



The Board has delegated day-to-day management of SEPA's operations to the Chief Executive, who works with directors and the Agency Management Team. The Agency Management Team is comprised of the Chief Executive, the Executive Director Evidence and Flooding and the Chief Officers. The biographies of the members of the Agency Management Team are available on our [website](#). They are responsible for strategic planning, business management, performance management and change management, amongst other duties.

The Director of Commercial Services reports directly to the Chief Executive and is responsible for developing a full range of commercial products and services from our four core areas of work, with the primary aim of generating additional income.

The Executive Director, Calum MacDonald, reporting directly to the Chief Executive, has taken flexible retirement. In addition to his SEPA position, he is also Chair of the global INTERPOL Environmental Compliance and Enforcement Committee Advisory Board and Scotland's Environmental Crime Task Force; as well as continuing to lead on the resolution of some major compliance issues.

## Our portfolios

Our [Corporate Plan 2017-2022](#) sets out the steps we need to take to help create a society that can operate within the means of only one planet. This includes making fundamental changes to the way we work in order to build an environment protection agency fit for the 21st century. This year we have continued reforming our portfolios to make it easier for us to deliver environmental outcomes, and to provide staff with greater confidence and clarity about their roles. We reorganised our Regulatory Services portfolio into two new portfolios:

- Compliance and Beyond focuses on environmental performance, enforcement, permitting and legal services.
- Circular Economy focuses on efficient use of resources and includes our energy, radioactive substances, waste and landfill, planning and land policy, and water teams.

Our other portfolios are:

- Evidence and Flooding which focuses on evidence, flood risk management and digital services.
- People and Property which includes learning and development, human resources and management of our estate.
- Finance which manages our financial affairs and procurement activities.
- Commercial Services which generates additional income by developing global commercial opportunities from our in-house expertise, as well as seeking to maximise external grant funding.
- Performance and Innovation which includes our Communications and Marketing, Governance, Regulatory Strategy and Government Relations, Strategic Initiatives and Innovation teams.

## Moving to a new, sector-based way of working

Sector plans will be at the heart of everything we do and will shape our interactions with business. By working across whole sectors, we can systematically identify key compliance issues within each sector and encourage the businesses we regulate to move beyond compliance.

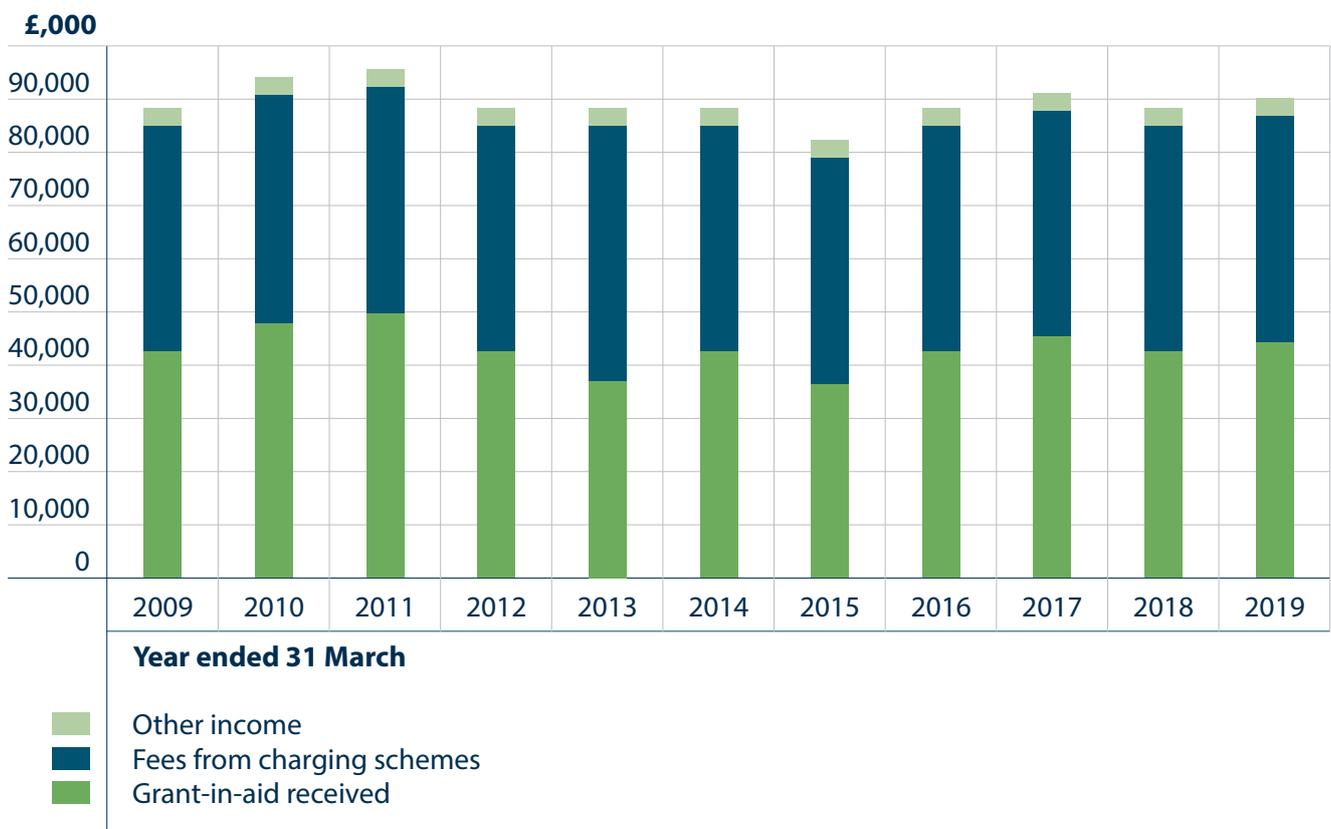
This year we have made good progress in setting up sector teams for six sectors. By the end of the year we had published draft plans for public consultation covering Landfill, Metals and Scotch Whisky. Sector plans for Oil and Gas Decommissioning, Waste Tyres and Finfish Aquaculture are due for public consultation in the first few months of the next financial year. We have also identified ten further sectors that will be developed next year.

## Our funding

Our income comes mainly from a mixture of grants from the Scottish Government and licence fees from those we regulate. In 2017-2018 the former came to £33m and the latter £39m. Additionally, we receive about £6m of other income that comes principally from administering grants under river restoration and work we do for other public bodies. This income covered our operating costs for the year of £86m and capital investment of £2m.

SEPA is committed to managing its expenditure within the income available to it year on year. The Scottish Government has allocated SEPA £33.7m cash grant for 2018-2019. We have estimated that the fees from charging schemes and other income to be £46.8m for 2018-2019. Figure 1 shows where our income has come from for the last 10 years and our predictions for 2018-2019.

**Figure 1. Income by year from 2009 to 2019**



SEPA's cash operating expenditure is estimated to be £78.9m and capital expenditure to be £1.6m for 2018-2019.

Keeping our costs covered by income produces a number of significant challenges:

- Managing rising pay costs (68% of our total operating costs) while maintaining an attractive overall pay package to ensure we can retain and attract the best people.
- Maintaining our extensive hydrology infrastructure across Scotland within available operating cost budgets.
- Managing the design and delivery of service improvements while maintaining business as usual.
- Replacing our equipment and infrastructure at the end of its useful life within the capital budgets made available by Scottish Government.

**Figure 2. Expenditure by year from 2009 to 2019**

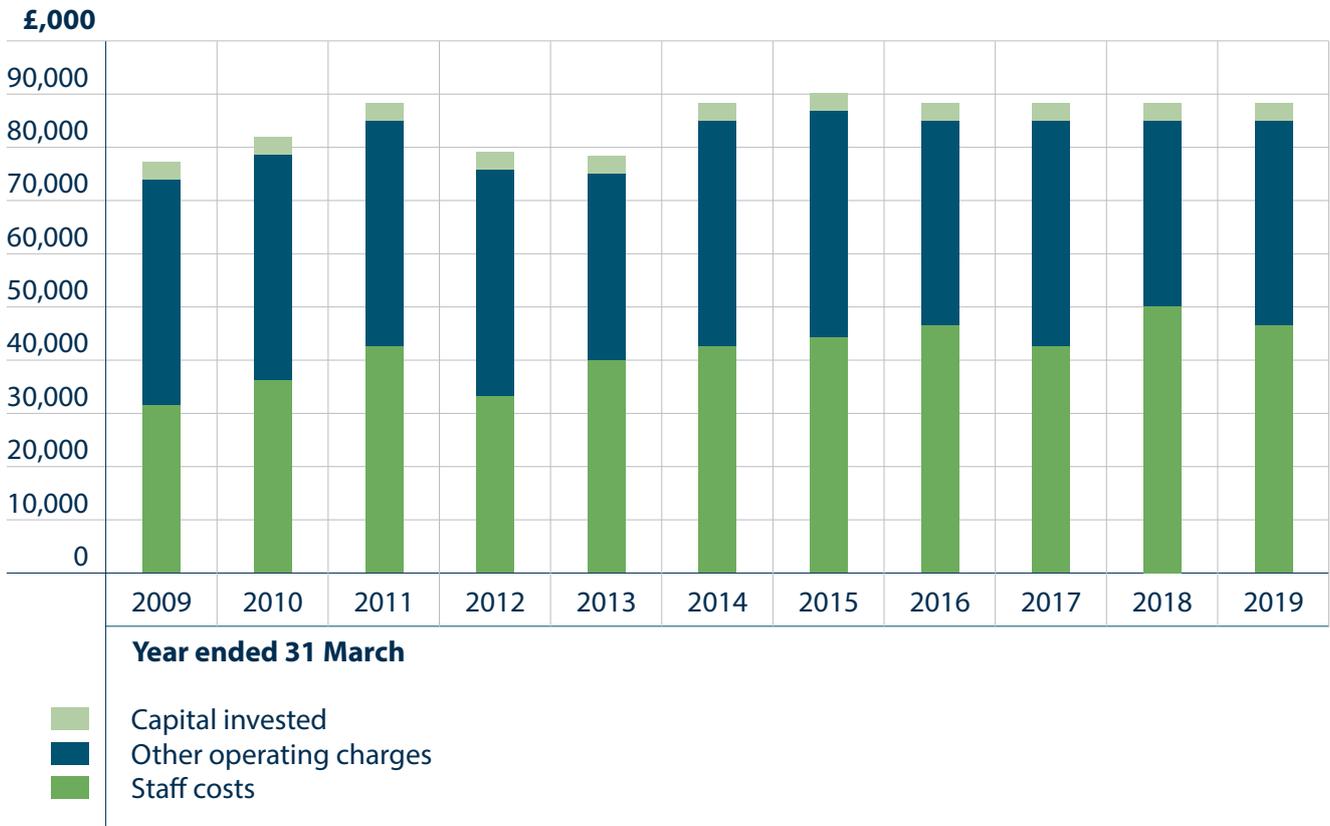


Figure 2 shows SEPA's operating and capital expenditure over the last 10 years with our budgeted expenditure for 2018-2019.



SEPA and partners celebrate the restoration of water to the River Garry in Perthshire



## Delivering One Planet Prosperity

Every day SEPA works to protect and enhance Scotland's environment, helping communities and businesses thrive within the resources of our planet. We call this One Planet Prosperity.

### The scale of environmental challenge facing humanity is enormous with a real urgency to act.

We recognise we are over-using our planet's resources. If everyone lived as we do in Scotland, we would need three planets to sustain ourselves. Businesses, societies and nations which will thrive in the 21st century are those that have developed ways to prosper within our environmental capacity.



### International events

We are implementing Scotland's vision for tackling resource use and climate change to meet committed targets by influencing global priorities. In November, two international events were held in Edinburgh, the World Forum on Natural Capital and the third [INTERPOL Environmental Compliance and Enforcement Committee conference](#), which brought together international, UK and Scottish organisations to focus on global resource use and creating environmental, social and economic success. As a key sponsor of the World Forum for Natural Capital, SEPA hosted a business leaders lunch, "Can Scotland's business leaders and investors rewire our economy", with SEPA Board member Fran van Dijk introducing the session that focused on innovation and finance. Simultaneously, the INTERPOL conference was an opportunity to align global mechanisms for intelligence sharing, analysis of criminal trends and strengthening enforcement approaches. Further global spotlight was given to the event due to the Leonardo DiCaprio Foundation winning the award for Outstanding Achievement for its environmental work on climate change, wildlife crime and illegal deforestation.



## Influencing Scottish businesses

Our influence on business continues through the award winning NetRegs, which provides free and easy to understand guidance on environmental compliance for Scotland and Northern Ireland, and VIBES Scottish Environment Business Awards. Scottish business have recognised the economic opportunity of strengthening their sustainability and lowering resource use. Those UK businesses that were represented at this year's European Business Awards for the Environment, over 90% were from Scotland and the SEPA-backed VIBES programme.



## Addressing Climate Change

Scotland has committed to being a world leader in addressing climate change, and is already taking ambitious steps to drive a low carbon economy, creating new opportunities for a stronger and more inclusive economy and society. SEPA's job is to help make this happen, including working with and supporting people and groups in Scotland who share this aim. Our Sustainable Growth Agreement with the 2050 Climate Group recognises the unique asset that Scotland has and the leading social movement it is, by educating and empowering Scotland's future leaders.



## Providing evidence on the environment

The information and evidence we share enables our businesses to make better environmental choices and shows our communities the progress being made in environmental improvement. This year, just some of the data we published includes:

- The Scottish Pollutant Release Inventory (SPRI), which showed a continuing overall decline in greenhouse gases from Scottish industry.
- [Official Statistics](#) for Scotland's management of household waste. [Recycling rates](#) for 2016 rose to 45% compared to 44% the previous year. Household waste sent to landfill was down 1.6% from 2015 and a more significant 22% since 2011. This is welcome progress but more can be done with recent research from Zero Waste Scotland showing that over half the waste householders put in their landfill bins could have been recycled through existing services. We also published Official Statistics for Scotland's overall waste for the first time. In 2016, 3.7million tonnes were sent to landfill, down 11% on 2015 and the first time Scotland sent less than 4million tonnes to [landfill](#) since our record began.

- Bathing water designations showing the majority of Scotland's bathing waters continue to meet strict environmental standards.
- Official Statistics for waste data with upwards trends being identified for recycling, composting and re-use of waste from all sources passing 60% and food recycling and anaerobic digestion increasing 20% from 2015.

**Environmental compliance is non-negotiable. Every Scottish business will comply with the law, and we'll work to ensure as many as possible will go even further.**

SEPA works every day to protect and enhance Scotland's environment, helping communities and businesses thrive within the resources of our planet. We are committed to helping Scottish businesses recognise the benefits of good environmental performance within environmental rules and regulations.



Scotland has 80 designated bathing waters that are sampled between May and September each year



### Raising compliance levels

Environmental performance amongst Scottish regulated businesses and other organisations achieved a six year high, with 91.7% of sites recorded as 'Excellent', 'Good' or 'Broadly Compliant' as noted in our [2016-2017 Enforcement Report](#). This year 40% of sites assessed as non-compliant for two or more years became compliant. This report card is encouraging and a reminder that we'll work positively with those who want to do the right things by Scotland's environment, and a wake-up call for those that don't.



### Enforcement tools

There were six successful prosecutions following reports submitted to the Crown Office by SEPA. Four of these tackled waste crime and the sentencing of the offenders included Community Payback Orders. In one of those cases there was also a confiscation order under the Proceeds of Crime legislation.



## Enforcement Undertakings



The first major Enforcement Undertaking secured more than £280,000 of environmental benefits for communities impacted by Aberdeen Western Peripheral Route pollution, showing how the enforcement tool can bring about effective and immediate solutions to environmental offences. Granted as a new enforcement power in June 2016, an Enforcement Undertaking represents acceptance by SEPA of a formal offer by an organisation or individual to make amends for an offence by improving the environment or communities affected, using their own resources. An Enforcement Undertaking not only compels those who breach the law to make amends, it instils a more positive working relationship based on understanding the duty we all share in safeguarding our natural environment.

**We help Scotland to prepare more powerfully for future increased flooding**

## Reducing the impact of flooding



Making future generations more flood aware is an essential part of Scotland's strategy. In 2017-2018 over 15,000 young people directly benefitted from flooding hazard education through SEPA's participation in Safer Communities events and our partnerships with other flood risk education initiatives.

We aim to give as much valuable notice of when and where flooding might happen to help reduce the impacts on people and properties. This year our winter flooding communications campaign used pre-planned digital, social media and radio messages to forecast potential flooding within the next 48 hours.

Further investment in Floodline, our live flooding information and advice service, was made with the opening of new flood warning schemes in Loch Lomond and the Rivers Leven, Cree and Garnock. This now enables an additional 5,500 property occupiers to benefit from free flood messages.

SEPA's regional flood alerts and local flood warnings are provided so businesses, communities and individuals can take steps to protect themselves from the impact of flooding. Recognising it is not possible to provide local and live information everywhere, we are contributing to the development of RiverTrack, a new hyper-local alerting tool being designed for use by individuals and small communities. This is being tested in small communities by the Scottish Flood Forum with our direct support.

**We're changing today, creating a world-class environment protection agency fit for the challenges of tomorrow**

## Sustainable Growth Agreements



Through our work we're committed to helping organisations achieve One Planet Prosperity. Our pioneering Sustainable Growth Agreement with Superglass celebrated its one year anniversary and saw the firm focus on environmental outcomes as an integral part of economic success. Sustainable Growth Agreements remain a key tool for SEPA to help implement successful innovation, not minor improvements on 'business as usual'.

## Partnership working



We continue to use partnerships as our principal way of delivering outcomes. In October we saw salmon in the River Garry in Perthshire for the first time in over 60 years. This followed a landmark agreement between energy company SSE, SEPA and the Tay District Fisheries Board to allow water to flow again from one of SSE's hydropower dams.



Our Chief Executive responded to a Twitter invite and visited the Island of Arran to speak with community members about how we regulate fish farms and to hear their concerns.

## Working with business and the community



Our sectoral approach to regulation builds on our commitment to routinely interact with businesses through their boardrooms, executive teams and owners. This approach is powerful in engaging with strategic leaders of businesses to drive compliance and engage them in beyond compliance activities. Throughout the year, our Agency Management Team has engaged strategically to support our site level inspections and enforcement, including with the petrochemical companies at the Mossmorran complex.

It's also important that we speak directly to the communities that we work for. In February, our Chief Executive responded to a Twitter invite and visited the Island of Arran to speak with community members of COAST about how we regulate fish farms and hear their concerns about the expansion in Lamlash Bay.

## Staff clarity and confidence



As an organisation we have developed further clarity on how we will communicate with communities and stakeholders. We have strengthened our position on violence and aggression and committed to giving our staff clarity and confidence to undertake their work.

## A diverse workforce



Our diverse workforce is a reflection of Scotland's diverse communities. We value our staff and have expanded our Young Shadowers programme to open up access to strategic leaders for all staff on lower grades.



Our first Graduate Trainees started with us in September 2017



## 1.7 Key issues and risks

The scale of the environmental challenge facing humanity is enormous, with a real urgency to act. We only have one planet but we are living as if we had three. We are tackling this challenge through our regulatory strategy [One Planet Prosperity](#).

Reductions in the quantity of waste going to landfill are a positive development, but these reductions, together with year-on-year increases in the costs of sending material to landfill, mean reducing revenues for landfill operators. We are concerned about landfill sites being abandoned and are working with operators to reduce the risk of there being inadequate financial provision in place for restoration of the sites and continuing maintenance.

We continue to monitor risks associated with Britain's exit from the European Union. Our aim is to ensure we can deliver our core services as effectively as possible, while managing a competent exit transition in those areas where an exit will affect our work. These include potential changes to environmental laws and standards, access to funding streams and our ability to attract and retain the best people.

Like all organisations, we are working hard to ensure effective governance of fast-developing technologies and are actively managing risks relating to good information governance. We are putting in place a new approach to keep our people, resources and services safe. Known as Safe SEPA, it integrates risk management, cyber security, health and safety, information governance, business continuity, physical security, emergency planning, emergency management and positive behaviours. Our new approach is simplifying and strengthening each of these activities. Over the last year we focused on business continuity and emergency management planning. This proved valuable as we were able to keep key services within the amber snow-warning area functioning during the 'Beast from the East' in March. Our current focus is on information governance, as we prepare for the introduction of the new General Data Protection Regulation; and cyber security, as we work towards gaining Cyber Essentials accreditation.

SEPA has recognised the risk of future funding reductions from government grants. We have produced a balanced budget for the first two years of the five year Corporate Plan. As we do not know the future levels of government grant funding, we cannot state categorically that we will be able to deliver all of the Corporate Plan objectives for 2017-2022. The Scottish Government has indicated continuing budgetary constraints, but not specified future funding reductions. We are managing the position by undertaking scenario planning, adopting a commercial income strategy and adopting a flexible approach to how we manage our resources. In 2017-2018 our Commercial Services generated £300k. In the medium term this income stream is expected to increase.

We have a pensions deficit and there is a risk that this will continue to grow. The actuaries have recommended an increase in the employer's contribution, up to 20% from 1 April 2018 to 31 March 2021. We believe that SEPA's future contributions to the pension scheme will be met from charging scheme income and government grants. We have no reason to believe that future government grants will not be forthcoming. On this basis we have prepared the Financial Statements in Section 3.0 on a going concern basis.

### 1.8 Performance scorecard

Our [Annual Operating Plan 2017-2018](#) identified 18 performance measures which we monitored throughout the year to assess progress towards our four outcomes (see page 8). By the end of the year 11 measures were achieved and five were not achieved. Two measures have targets due in 2020. One appears on target whilst the other is not on target. Details of our performance are included throughout this report. Further detail can also be found in our [Annual Review of Performance 2017-2018](#).

Performance measures 2017-2018 (described more fully on our <a href="#">website</a> )		Target	Status
<b>Scotland's environment</b>			
01	Increase the length of river or loch shore where physical condition is restored	9.5km	✘
02	Increase the length of river where fish movement is not restricted by man-made barriers	175km	✘
03	Achieve more than 75% uptake of required actions to alleviate diffuse pollution after first follow-up visits to non-compliant farms	75%	✓
04	Monitor, analyse and report on the state of Scotland's environment	31/03/2018	✓
<b>Our services – regulation</b>			
05	Agree at least five sector plans	5	✘
06	Agree at least six Sustainable Growth Agreements	6	✘
07	Increase, in targeted sectors, in the percentage of permits which have obligations that are clearer	31/03/2018	✘
08	Reduce the number of licences classed as very poor at the end of March 2017	31/12/2017	✓
09	Reduce the number of licences which were non-compliant for two years or more at the end of March 2017	31/12/2017	✓
10	Make the waste sector less attractive to criminals	31/03/2018	✓
<b>Our services – flood risk management</b>			
11	Complete the preliminary flood risk assessment by end December 2018	31/03/2018	✓
12	Cover at least 2,000 additional properties with new flood warning schemes	2,000	✓
<b>Our organisation</b>			
13	Consult and engage on areas of our services	31/03/2018	✓
14	Reduce energy use in our buildings by 18% from 2014-2015 baseline by 2020	31/03/2020	⏪✓⏩
15	Reduce emissions from transport and travel by 5% from 2014-2015 baseline by 2020	31/03/2020	⏪✘⏩
16	Achieve organisational efficiencies of at least 3% of our grant-in-aid funding	3%	✓
17	Recover at least 97% of our costs across our charging schemes	97%	✓
18	Achieve at least 79% Engagement Index score in People Survey results	79%	✓

<b>Key</b>	✓ Target achieved	✘ Target not achieved	⏪✓⏩/⏪✘⏩ On target / Not on target
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## ii) Performance analysis

### 1.9 Performance introduction

This review of our performance explains each of our performance measures and summarises our performance over the year. Our [Corporate Plan 2017-2022](#) sets out four key outcomes, and broad performance targets for each outcome. Our Annual Operating Plan 2017-2018 described our priorities for the year and included a list of specific performance measures we used to monitor our success in meeting these priorities. Targets were clearly defined in advance.

The Agency Management Team received quarterly updates on performance, which were also reviewed by the Board and the Scottish Government before being published on our website. The final report is the Annual Review of Performance, which is also available on our website. The content of the Annual Review is included in this section.

A fuller description of each measure is available on our website, summarising the purpose of each measure and the progress that was planned for the year.

We met 11 performance measure targets in the Annual Operating Plan 2017-2018.

We made significant progress in delivery of our core services of environmental regulation and flood risk management. Some of the highlights of the year were:

- We continue to make encouraging progress with our diffuse pollution farm visits – 88% of non-compliant farms taking up required measures before a second visit.
- Compliance measures show an improvement: the percentage drop in 'very poor' is greater than the previous year.
- We are on target to meet the completion of the National Flood Risk Assessment by December 2018.
- Over 2,200 additional properties will be covered by new flood warning schemes developed over the year, under four separate schemes.
- We achieved 97% cost recovery across all our charging schemes.
- We reduced our buildings' energy use by 4% during the year. Gas use was down 14% and electricity use down 1%.

However, we didn't meet our target on river restoration work in relation to physical condition and river barriers. There were delays in projects for a variety of reasons, such as issues with the planning application process and also work needed to ensure that robust contractual arrangements were in place.

In 2017-2018 we were also introducing new areas of work. The year has seen the successful delivery of our Commercial Services strategy with a number of international consultancy projects undertaken in countries such as Cyprus, Macedonia and Turkey.

In some other areas of new work we have made progress but didn't meet the following performance measures:

- Sector plans – three were out for public consultation at the year-end against a target of five. Three further plans are close to completing final stages in the first quarter of next year.
- We have signed three Sustainable Growth Agreements against the six planned. A further Agreement is due early in the next financial year and we are working on four others.
- We have yet to issue any 'clearer' permits – key principles were agreed and work to develop the templates for new licences has been progressed. This will ensure a consistent and efficient approach to developing simple, outcome-focused permits in the future.

We have until 2020 to reach the targets for our transport emissions and buildings' energy use measures:

- Transport emissions are down 0.3% from the 2014-2015 baseline and may not reach the 5% reduction target by 2020.
- Buildings' energy use is 26% down on the same basis and therefore looks on track to achieve the 18% fall required by 2020.

<b>Corporate Plan measure</b>	Improvement in the quality of Scotland's environment		
<b>Annual Operating Plan measure</b>	<b>1. Water environment – physical condition</b> Increase the length of river or loch shore where physical condition is restored.		
<b>Status</b>	Not achieved		
<b>Performance</b>			
<ul style="list-style-type: none"> <li>• The 7.5km of river restoration completed this year is made up of two projects: <ul style="list-style-type: none"> <li>➤ Pow Burn (South Esk Catchment, Tayside) restoring a length of 4km; and</li> <li>➤ River Nairn, Aberarder, Inverness, restoring approximately 3.5km of river.</li> </ul> </li> <li>• We were aiming to get the Lyne Burn to groundworks this year but due to delays in the local authority planning process, groundworks are unlikely to start in the immediate future.</li> </ul>			
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%; padding: 10px;"> <p style="text-align: center;">Total opened (km) 7.5</p> </td> <td style="width: 40%; padding: 10px;"> <p style="text-align: center;">Target (km) 9.5</p> </td> </tr> </table>		<p style="text-align: center;">Total opened (km) 7.5</p>	<p style="text-align: center;">Target (km) 9.5</p>
<p style="text-align: center;">Total opened (km) 7.5</p>	<p style="text-align: center;">Target (km) 9.5</p>		

<b>Annual Operating Plan measure</b>	<b>2. Water environment – river barriers</b> Increase the length of river where fish movement is not restricted by man-made barriers.		
<b>Status</b>	Not achieved		
<b>Performance</b>			
<ul style="list-style-type: none"> <li>• We have removed five barriers this year, opening up 100km of river for fish migration – against the 175km target.</li> <li>• These include: Kirkton and Fair-a-Far weirs, River Almond (72km); The Tarff Water (10km); Broad Burn (5km); and River Garry (13km).</li> <li>• The three delayed projects were: <ul style="list-style-type: none"> <li>➤ Garden Weir (Lugton Water, Irvine - 22km) - this was ready to start at the end of last summer but for technical and cost reasons it was decided to wait for lower flows this year, probably in May/June.</li> <li>➤ Sevenacres (further upstream - 47km) - faced delays in the design contract whilst we negotiated additional protection from damage claims from third parties; also delays while the main contractor negotiated a sub-contract for ground investigations. It is likely to start work in May/June.</li> <li>➤ The Garlogie Dam, Leuchar Burn, Grampian – this project was delayed for technical reasons, so resources were reallocated to another project that was ready to progress to the next stage.</li> </ul> </li> </ul>			
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; padding: 10px;"> <p style="text-align: center;">Total opened (km) 100</p> </td> <td style="width: 50%; padding: 10px;"> <p style="text-align: center;">Target (km) 175</p> </td> </tr> </table>		<p style="text-align: center;">Total opened (km) 100</p>	<p style="text-align: center;">Target (km) 175</p>
<p style="text-align: center;">Total opened (km) 100</p>	<p style="text-align: center;">Target (km) 175</p>		

<b>Annual Operating Plan measure</b>		<b>3. Water environment – diffuse pollution</b> Achieve more than 75% uptake of required actions to alleviate diffuse pollution after first follow-up visits to non-compliant farms.		
<b>Status</b>		Achieved		
<b>Performance</b>				
<b>Year</b>	2014-2015	2015-2016	2016-2017	2017-2018
<b>Percentage uptake</b>	88%	83%	86%	88%
<p>After first follow-up visits to non-compliant farms, we have maintained the uptake of required measures at 88%, well above the 75% target. These were mainly first cycle priority catchments from the 2009 - 2015 River Basin Management Plan.</p> <ul style="list-style-type: none"> <li>Staff made 1,001 initial one-to-one visits this year in 20 of the 43 second cycle priority catchments (as prescribed for 2015-2021 in the latest <a href="#">River Basin Management Plans</a>). These included: <ul style="list-style-type: none"> <li>Whiteadder, Dighty (Dundee area), Dundee coastal, Tweed, Esk Lothian, River Tyne, River Eden, East Lothian coastal, Stonehaven, Nairn, Cromarty coastal, Bervie water, River Ythan, Don, Dee (Grampian), Ken/Dee (Solway), Urr, Water of Girvan, Lochar water, Dumfries coastal and Annan catchments.</li> </ul> </li> <li>We attended 43 <a href="#">awareness-raising events</a> over the year, in partnership with Scotland’s Rural College, under the brand of “<a href="#">Farming and Water Scotland</a>” providing advice on regulations, diffuse pollution and the General Binding Rules.</li> <li>We served the first Fixed Monetary Penalty on a farmer in the South Esk priority catchment on 22 March 2018 for continually ploughing fields within two metres of the water.</li> </ul>				

<b>Corporate Plan measure</b>		Reporting of the quality of Scotland’s environment		
<b>Annual Operating Plan measure</b>		<b>4. State of the environment</b> Monitor, analyse and report on the state of Scotland’s environment.		
<b>Status</b>		Achieved		
<b>Performance</b>				
<b>Report/Data</b>	Water classification	Bathing waters – official classifications	SPRI	Waste Data
<b>Due</b>	October 2017	April 2017	September 2017	September 2017
<b>Published</b>	✓ September 2017	✓	✓	✓
<b>Results</b>	<a href="#">2016 Water summary report</a>	<a href="#">2017-2018 season classifications</a>	<a href="#">2016 SPRI data</a>	<a href="#">2016 Waste summary report</a>

<b>Corporate Plan measure</b>		Increase in the number of sector plans				
<b>Annual Operating Plan measure</b>		<b>5. Sector plans</b> Agree at least 5 sector plans.				
<b>Status</b>		Not achieved				
<b>Performance</b>						
<b>Sector</b>	Whisky Distilling	Fin-fish Aquaculture	Waste: Landfill	Oil and Gas Decommissioning	Waste: Metals recycling and reprocessing	Waste tyres
<b>Progress</b>	Draft out for public consultation	<a href="#">Engagement ongoing, plan writing initiated</a>	Draft out for public consultation	Engagement ongoing, plan writing initiated	Draft out for public consultation	Engagement ongoing, plan writing initiated

<b>Corporate Plan measure</b>		Increase in the number of Sustainable Growth Agreements			
<b>Annual Operating Plan measure</b>		<b>6. Sustainable Growth Agreements</b> Agree at least 6 Sustainable Growth Agreements.			
<b>Status</b>		Not achieved			
<b>Performance</b>					
<b>Quarter</b>	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>In progress</b>		1	5	5	
<b>Number agreed</b>	3	0	0	0	
<b>Agreements with</b>	<ul style="list-style-type: none"> <li><a href="#">Superglass Insulation Limited</a></li> <li><a href="#">Venture Trust</a></li> <li><a href="#">Climate 2050</a></li> </ul>				

<b>Corporate Plan measure</b>	All permits have obligations which are clearer
<b>Annual Operating Plan measure</b>	<b>7. Clearer permits</b> Increase, in targeted sectors, in the percentage of permits which have obligations that are clearer
<b>Status</b>	Not achieved
<b>Performance</b>	
<ul style="list-style-type: none"> <li>Although not achieved, good progress was made delivering clearer permits. Key principles were agreed and work to develop the templates for new licences has been progressed. This will ensure a consistent and efficient approach to developing simple, outcome-focused permits in the future.</li> <li>To ensure that the permits help support transformational change there was close working with the Landfill, Metals Recycling and Aquaculture sector teams to develop a regulatory approach that will deliver the objectives of One Planet Prosperity.</li> <li>We have undertaken a successful joint working project with Scottish Government to develop a fully digital permitting application and management system which will transform the permit application process for both external and internal stakeholders.</li> <li>Aquaculture - the first draft of the marine cage fish farm template has been presented to the fin-fish and marine cage industry, and reference to lessons learned from this will be used for other licences in the sector. The template should be finalised by the end of September 2018.</li> <li>Landfill - a team has been set up to develop the landfill template and is expected to have first draft approved by the end of June 2018. This will allow us to consult stakeholders with the aim of completion by the end of September 2018.</li> <li>Metals recycling - as there are many similarities between the landfill and metals recycling sectors, we will continue work on this template using lessons learned from the landfill template, once completed.</li> </ul>	

<b>Corporate Plan measure</b>	Reduction in non-compliance			
<b>Annual Operating Plan measure</b>	<b>8. Decreasing non-compliance</b> Reduce the number of licences classed as very poor at the end of March 2017.			
<b>Status</b>	Achieved			
<b>Performance</b>				
Reporting year	2016-2017		2017-2018	
Number very poor at start of year	74		59	
Number of these which are very poor at end of year	25		15*	
Percentage reduction	66%		75%*	
* Provisional figures as at 15 May 2018. Please note that appeals are ongoing so this figure is subject to change. Two licences were not assessed in 2017, one of which has been surrendered in full and the other was addressed by licensing (an additional licence was issued).				
2017-2018	Q1	Q2	Q3	Q4
Number assessed (year to date)	15	49	55	57

<b>Annual Operating Plan measure</b>		<b>9. Persistently failing sites</b> Reduce the number of licences which were non-compliant for two years or more at the end of March 2017.		
<b>Status</b>		Achieved		
<b>Performance</b>				
Reporting year		2016-2017	2017-2018	
Number of non-compliant at start of year		236	195	
Number of these which are non-compliant at end of year		123	118*	
Percentage reduction		48%	40%*	
* Provisional figures as at 15 May 2018. Please note that appeals are ongoing so this figure is subject to change. Two licences were not assessed in 2017.				
2017-2018	Q1	Q2	Q3	Q4
Number assessed (year to date)	17	183	190	193

<b>Corporate Plan measure</b>		Eradication of waste crime		
<b>Annual Operating Plan measure</b>		<b>10. Waste crime</b> Make the waste sector less attractive to criminals		
<b>Status</b>		Achieved		
<b>Performance</b>				
<ul style="list-style-type: none"> <li>We established a dedicated Waste Crime Investigations unit to lead on larger scale, more complex investigations alongside undertaking prevention and intervention activities.</li> <li>During the year the <a href="#">LIFE SMART Waste project</a> completed: <ul style="list-style-type: none"> <li>initial research into remote sensing;</li> <li>recommended legislative change around waste tracking technologies;</li> <li>launched a <a href="#">Crimestoppers campaign</a> to combat disposal of waste in warehouses and on farmland;</li> <li>initiated work to gain information and understanding around the role of waste brokers; and</li> <li>published the results of a survey into the perceptions of those within the waste sector in relation to criminality within their industry.</li> </ul> </li> <li>We undertook a high-profile campaign combatting fly-tipping in Fort William with a series of intervention activities with the local community and other regulatory agencies.</li> <li>We participated in the <a href="#">INTERPOL 30 Days of Action</a> international waste crime initiative in June, and in November hosted <a href="#">INTERPOL's Environmental Compliance and Enforcement Committee conference</a> in Edinburgh.</li> <li>We undertook intelligence gathering work assessing levels of involvement of serious and organised crime and the scale of unauthorised activities in the area of waste tyres and end of life vehicles, supporting our metals and waste tyres sector plans.</li> <li>We participated in 15 multi-agency operations through the year, targeting unregistered waste carriers and poor duty of care practices.</li> </ul>				

<b>Corporate Plan measure</b>		Achievement of milestones to deliver the next flood risk management strategies	
<b>Annual Operating Plan measure</b>		<b>11. Flood risk management strategies</b> Complete the preliminary flood risk assessment by end December 2018.	
<b>Status</b>		Achieved	
<b>Performance</b>			
Area of work	Development of the National Flood Risk Assessment (NFRA2) methodology	Automated application of the methodology	Agree definition of Potentially Vulnerable Areas (PVAs) with local authorities
Completed	✓	✓	✓
<ul style="list-style-type: none"> <li>Potentially Vulnerable Areas (PVAs) method development is complete:                             <ul style="list-style-type: none"> <li>Pre-consultation discussions with local authorities have been completed on the draft PVA outputs.</li> <li>Finalisation of PVAs will be achieved post-consultation and with Ministerial approval (2018-2019)</li> </ul> </li> <li>We are in the final stages of preparation for the formal consultation on the NFRA/PVAs on 1 May 2018.</li> </ul>			

<b>Corporate Plan measure</b>		Increase in the number of properties covered by flood warning schemes		
<b>Annual Operating Plan measure</b>		<b>12. Flood warning schemes</b> Cover at least 2,000 additional properties with new flood warning schemes		
<b>Status</b>		Achieved		
<b>Performance</b>				
Flood warning scheme	Upper Nith (Kirkconnel)	Firth of Forth in <a href="#">Airth</a> and Alloa	Orkney Coast	Aberdeenshire and Angus Coast
Number of properties covered	127	180	1,004	922
Progress	Now operational. Community launch took place in March 2018	Now operational. Community launch took place in October 2017	Now operational. Community launch is being planned for early Autumn 2018.	Now operational. Scheme will be launched during Autumn 2018.
Completed	✓	✓	✓	✓
<p>A total of 2,233 additional properties will be covered by the new flood warning schemes developed in the last year. The completion of Orkney and the Aberdeenshire and Angus coastal schemes is a major milestone for Scotland with the entire east coast now able to benefit from a flood warning service for coastal flooding.</p>				

<b>Corporate Plan measure</b>		Improvement to our services based on customer feedback		
<b>Annual Operating Plan measure</b>		<b>13. Consultation</b> Consult and engage on areas of our services.		
<b>Status</b>		<a href="#">Achieved</a>		
<b>Performance</b>				
Consultation on:	<a href="#">Integrated Authorisation Framework</a>	<a href="#">Use of Gypsum to Improve Soil Conditions</a>	<a href="#">Depositional Zone Regulation</a> (marine cage fish farms)	<a href="#">Charging Scheme 2018</a>
Due to be completed	Completed Q1	Completed Q2	Completed Quarter 2	Completed Quarter 3
Completed	✓	✓	✓	✓
Consultation on:	<a href="#">Compliance Assessment Scheme Manual</a>	<a href="#">Integrated Authorisation Framework – Draft Regulations</a>	<a href="#">Integrated Authorisation Framework – Supporting guidance</a>	<a href="#">2018 Reservoir Charging Scheme</a>
Due to be completed	Completed Quarter 3	Completed Quarter 3	Completed Quarter 3	Completed Quarter 3
Completed	✓	✓	✓	✓

<b>Corporate Plan measure</b>		Reduction in our greenhouse gas emissions		
<b>Annual Operating Plan measure</b>		<b>14. Buildings’ energy use</b> Reduce energy use in our buildings by 18% from 2014-2015 baseline by 2020		
<b>Status</b>		On target		
<b>Performance</b>				
<ul style="list-style-type: none"> <li>Provisional figures show we have reduced the (combined) building energy from gas and electricity (KWh) by 26% from our baseline of 2014-2015, against the 18% target by 2020.</li> <li>From the 2014-2015 baseline, electricity use has fallen by 21% and gas use by 40%. This equates to a fall from these sources in greenhouse gas emissions (CO2e) of 43%.</li> <li>Despite a cold winter we still managed to achieve reductions in energy use on the previous year. Gas use was down 14% and electricity down 1% on last year, giving a combined fall of 4% (electricity makes up over three-quarters of the total).</li> <li>There were no major office moves this year, though moving into Silvan House, Edinburgh at the end of Quarter Three last year (December 2016) meant last year’s figures had three quarters of gas use at Riccarton (the previous Edinburgh office) not repeated this year. Gas use would have been up 5% this year if Riccarton is subtracted from last year’s figures.</li> <li>Further energy efficiency initiatives from our facilities team achieved another reduction last year in energy usage (-3%) at Angus Smith Building - our largest office, accounting for over half our electricity.</li> </ul>				

<b>Annual Operating Plan measure</b>	<b>15. Transport emissions</b> Reduce emissions from transport and travel by 5% from 2014-2015 baseline by 2020
<b>Status</b>	Not on target
<b>Performance</b>	
<ul style="list-style-type: none"> <li>Provisional figures for the year show emissions from transport down 0.3% against the baseline year 2014-2015.</li> <li>Transport emissions have risen this year and are up 11% on the previous year.</li> <li>Since the baseline 2014-2015 business car emissions are down 14%, whilst rail emissions are up 9%.</li> <li>A rise in air travel accounts for most of the increase (86%) in emissions against last year, although air travel emissions are still only 15% of total transport emissions.</li> <li>All types of air travel have risen except domestic flights. The biggest rises were in long haul and international and represented just under half of all flight emissions.</li> <li>One contributing factor for the increase in air travel is SEPA's international consultancy. Over the last year we have delivered eight international consultancy projects. These projects have brought significant environmental benefit and have also generated income for SEPA. As part of this work, we will continue to explore alternatives to travel wherever possible.</li> </ul>	

<b>Corporate Plan measure</b>	Achievement of annual efficiency savings
<b>Annual Operating Plan measure</b>	<b>16. Organisational efficiencies</b> Achieve organisational efficiencies of at least 3% of our grant-in-aid funding.
<b>Status</b>	Achieved
<b>Performance</b>	
<ul style="list-style-type: none"> <li>In setting our budget, we identified the required savings of £1,650k to ensure a balanced budget in 2017-2018.</li> <li>Savings already removed from budget:             <ol style="list-style-type: none"> <li>£500k Supplies and services</li> <li>£868k Staff costs</li> </ol> </li> <li>Balance of savings to be identified £282k (£1,650k - £500k - £868k).</li> </ul> <p>We have generated vacancy savings to cover the 2017-2018 cost saving target. The cost savings identified above exceed 3% of the grant the Scottish Government provides to meet our operating costs.</p>	

<b>Annual Operating Plan measure</b>	<b>17. Cost recovery</b> Recover at least 97% of our costs across our charging schemes.
<b>Status</b>	Achieved
<ul style="list-style-type: none"> <li>By the year end we have achieved 97% cost recovery across our charging schemes.</li> </ul>	

<b>Corporate Plan measure</b>	Improvement in staff engagement
<b>Annual Operating Plan measure</b>	<b>18. Staff engagement</b> Achieve at least 79% Engagement Index score in People Survey results.
<b>Status</b>	Achieved

**Performance**



Note there were minor wording adjustments in 2017 to three of the questions.

- Results for our People Survey were released in the third quarter. The Staff Engagement Index rose to 85%, above the 79% achieved two years ago.
- We have been using the “Say, Stay, Strive” model for calculating the Staff Engagement Index since 2011.
- All seven of the questions used for the index showed a positive improvement in 2017.
- An alternative model (the LEVI model<sup>1</sup>) based on 15 questions in the survey showed the number of “engaged staff” rose to 42%, up from 30% in the previous survey.

<sup>1</sup> BMG Research, commissioned by SEPA to complete the People Survey, have developed this alternative model. It combines a variety of factors related to ‘Leadership, Engaging managers, Voice, and Integrity’ and is based on underlying principles from relevant research in this field (notably the [MacLeod report](#))

## 1.11 Social matters

Our statutory purpose is designed to deliver environmental, social and economic success. In addition to the performance set out in our performance report, we have also taken many steps to improve the impact we have on society and the environment through the way we conduct our business. Some examples of this include:

### Equality and Human Rights

We have continued our work to protect and promote human rights by embedding human rights in our policy development and implementation. Further information on our staff can be found in the Remuneration and staff report on page 45.

We have developed an Equality and Human Rights Handbook and action plan. This will support understanding of how we set up, deliver, review and improve on Equality and Human Rights work in SEPA.

Work on our [Equality Outcomes](#) actions has continued. We are a “Disability Confident Employer” and there has been a 2% rise in applications received from disabled people. We use the “Happy to talk flexible working” strapline, have the “Living Wage Employer Mark” and participate in the “Healthy Working Lives” Programme run by NHS Scotland. We continue to improve physical access to our buildings and making our information more accessible to users of our services.

### Supporting young people

We launched a graduate trainee scheme in September 2017. It attracted 633 applicants. We recruited nine graduates who will each gain experience across four different areas of the organisation and receive a broad range of training courses.

We received 30 applications for our Modern Apprenticeship in Elgin. We have also developed a Foundation Apprenticeship scheme and are working with three pupils in the North Lanarkshire area, as described in more detail on the next page.

Business partnerships continued with schools and to support these partnerships we have continued to increase our STEM Ambassadors. We currently have 15.

We have six employees working with Career Ready, a national charity which links local authorities and schools with employers to increase awareness of local job opportunities and ultimately try to increase the number of young people in work or on a positive pathway towards work.

### Volunteering

We currently encourage each member of staff to take one day’s paid leave to carry out a volunteering activity. This allows employees to develop new skills, build important partnerships between charities and the public sector and help to break down barriers between different sections of society.

### Social pledge

The [social impact pledge](#) is about the positive contribution we can make to the local communities in which we operate. It is a Scottish Government initiative aimed at increasing the social impact of public sector organisations across Scotland by making a public commitment to changing three aspects of their current operations or policies.

This year we have also developed our 'Foundation Apprenticeships'. These are two-year work-based learning programmes, designed for school pupils, who complete their apprenticeship at a college or with a local employer, alongside subjects like National 5s and Highers. In September 2017, three apprentices started their placements in our Information Services department. Working one day per week over eight months, they were given the task of creating a virtual 'pin-board' application. They have made a significant contribution to the software. The apprentices described their experiences as "rewarding", "the highlight of the week" and "better than anything I would have expected."

### **Human trafficking**

Human trafficking in Scotland involves the trafficking of people for employment in businesses like nail bars, car washes, barber shops, construction, agriculture, fishing, hospitality and catering. We know that people from Vietnam, Romania, Ghana, Sri Lanka, Philippines, Iraq and Syria have been targeted for this purpose. We are also aware of exploitation of labour within the travelling community. We are raising awareness of human trafficking amongst our regulatory employees. We want them to look out for signs of human trafficking or exploitation while they are visiting businesses as part of their regulatory activity and report any suspicions they have.

### **Promoting positive social outcomes**

Our regulatory strategy is focused on ensuring that every Scottish business complies with environmental law, and that as many as possible go even further. Going beyond compliance includes thinking about social as well as economic and environmental outcomes. One of the tools we have for helping businesses go beyond compliance are Sustainable Growth Agreements. When we set up Sustainable Growth Agreements we encourage businesses to look for opportunities to promote social outcomes. We also encourage them to adopt the [Scottish Business Pledge](#). One of the Sustainable Growth Agreements we have in place supports young leaders ([2050 Climate Group](#)) and another supports people who are marginalised, vulnerable and living chaotic lifestyles ([Venture Trust](#)).

### **Internal environmental performance**

As Scotland's environment protection agency, we must be an exemplar of excellence in our own environmental performance. Over the year we have been developing our Climate Change Commitment Statement, which has received Board approval and will be launched next year. It sets out ambitious targets for ourselves, and should help everyone at SEPA deliver climate change action through their work.

We continued our strong track record of success in reducing our own carbon footprint, as can be seen by figures reported under the Performance measures 14 and 15 in the above performance summary.

The reduction in buildings' energy use has been the critical factor in keeping our carbon emissions on a downward track. Last year they represented almost 60% of our emissions against a little over 40% for transport-related emissions. Overall emissions fell 7.6% last year and are now down 38% from our 2006-2007 baseline, against the target of a 42% reduction, originally by 2020, but brought forward a year in the latest [2018-2019 Annual Operating Plan](#).

The Climate Change (Duties of Public Bodies: Reporting Requirements) (Scotland) Order 2015 requires a full climate change report to be submitted to the Sustainable Scotland Network (SSN). Our latest report can be found on the [SSN website](#). It covers everything from emissions data to biodiversity and procurement.

We issue our biodiversity report every three years and the latest, covering 2015-2017 was published on our [website](#) in February 2018. It covers the full range of our efforts to improve Scotland's biodiversity, from our water environment work, under the [Water Environment Fund](#) and [River Basin Management Plans](#), to peatland restoration and local projects such as the Strathard Initiative. It also covers our own offices' efforts to encourage biodiversity, such as the transformation of a piece of 'green desert' into a colourful living space at our corporate office in Stirling. Recently, stoats have been spotted hiding in this garden.

We have made a new commitment this year to challenge our own behaviour in terms of single use plastics, by reviewing procurement contracts and joining local community initiatives. Our Greening SEPA network of volunteers, who take an interest in introducing "greening" initiatives in their respective offices, will help fulfil this commitment. The annual Greening SEPA volunteers' day, held in May 2018, will discuss various approaches to meeting this pledge.

### Scottish Regulators' Code of Practice

The [Regulatory Reform \(Scotland\) Act 2014](#) included powers for Scottish Ministers to issue a code of practice for regulators. SEPA was included on the working group consisting of representatives from regulators and business to draw up the [Scottish Regulators' Code of Practice](#). This was laid before the Scottish Parliament in January 2015 and gained approval on 18 February 2015.

We are committed to follow the five main principles of better regulation as described in the Code: regulation should be transparent, accountable, consistent, proportionate, and targeted only where needed.

This has been reflected in the extent of consultation we have consistently carried out, or are planning to carry out with our stakeholders. This year we have consulted on a wide range of policies, as can be seen in Performance measure 13 above. These range from our new charging scheme to the proposed Integrated Authorisation Framework. In March



2018 we issued the first three sector plans for [public consultation](#), with the next three due a few months later.



## 1.12 Financial performance 2017-2018

The following section provides a summary of our annual accounts, showing our income for the year and how we have used it. A more detailed explanation can be found in the financial statements section on page 57.

One year in figures	2017-2018		
	Actual £'000	Budget <sup>2</sup> £'000	Variance £'000
<b>INCOME</b>			
Income from fees and services	39,085	40,014	(929)
Other operating income	5,707	5,784	(77)
<b>Total operating income</b>	<b>44,792</b>	<b>45,798</b>	<b>(1,006)</b>
<b>EXPENDITURE</b>			
Staff costs	(60,873)	(61,121)	248
Depreciation and disposal of assets	(2,997)	(2,289)	(708)
Other operating charges	(22,394)	(23,453)	1,059
<b>Total operating expenditure</b>	<b>(86,264)</b>	<b>(86,863)</b>	<b>599</b>
<b>Net Operating Expenditure</b>	<b>(41,472)</b>	<b>(41,065)</b>	<b>(407)</b>

The Statement of net comprehensive expenditure shows net expenditure for the year of £44.4m (page 57) this includes pensions finance expenses of £2.9m, which is excluded from the table shown on page 52. The £41.5m net operating expenditure shown in the table above includes accounting entries for pensions costs and life assurance of £6.6m. If these items of expenditure are removed, net expenditure for the year is £34.9m. Under government budgeting guidance, the cash spent on unfunded pensioners for the year of £0.1m is added to this figure: this gives adjusted expenditure for the year of £35m as shown on page 52 in the parliamentary accountability section. SEPA underspent by £0.3m against its Scottish Government operating expenditure budget of £35.3m. Scottish Government used this underspend to manage other priorities across their portfolio.

SEPA can only draw cash grant in aid down from Scottish Government when it can demonstrate the need for it. The £35m operating costs noted above include £3m non cash expenditure, leaving operating cash expenditure of £32m, plus the cash needed for capital investment of £2m: SEPA funded this £34m expenditure from a mixture of grant in aid £33m and working capital movements £1m.

Under accounting standards, the grant received from Scottish Government is treated as financing income and taken directly to reserves in the taxpayer's equity section of the balance sheet (Statement of Financial Position at 31 March 2018). Grant cash drawn from

<sup>2</sup> The budget approved by the Board does not include the annual pension's adjustments shown in note 4 of the financial statements. For comparability these costs have also been included in the budget figures.

Scottish Government in 2017-2018 was £33m, this is taken directly to reserves. Grant received in 2017-2018 was £0.5m more than budgeted for the year.

We received £1m less from fees and services than budget.

Our expenditure for the year was £0.6m less than our budget. We spent £0.7m less than expected on Water Environment Fund projects, and also underspent on staff costs due to more vacancies than planned. Depreciation was higher than estimated when the budget was prepared.

The Statement of Financial Position (page 58) shows SEPA owes £66.3m more than the value of our assets at 31 March 2018. This is caused by a pensions deficit at the year-end of £97m. The Financial Statements have been prepared on a going concern basis, as the Directors believe that SEPA will be able to pay pension contributions in years to come from future income from fees and Government grants. The three-yearly formal valuation of the pension's scheme deficit was completed in 2017-2018 and sets the employer's contribution rate for the next three years. The formal deficit was estimated at £29.5m, with these liabilities being 90% funded at 31 March 2017, an improvement of 5% compared the previous formal valuation at 31 March 2014. The rate of employer's contribution agreed for the period of 2018-2021 is 20%, a 1% increase on 2017-2018 contribution rate.

We carried out a desktop market valuation of our land and buildings at 31 March 2018 and a full revaluation of our gauging stations. Estimated market values of land and buildings (excluding gauging stations) in operation increased by £0.2m in year. There was an increase of £12m in the estimated cost to replace our network of 354 gauging stations. These changes have been reflected in the assets in the Statement of Financial Position at 31 March 2018.

The last full valuation of the gauging station network was carried out in 2009. The cost of constructing the stations is estimated to have increased substantially above the rate of buildings construction inflation that we had used to complete the accounts since then. These assets have no market value and the bulk of them are on leased land. When we no longer have a use for the stations, we will be responsible for restoring the sites.

The capital investments we made in 2017-2018 were:

- |   |       |
|---|-------|
| • Replacement scientific equipment and vehicles | £1.4m |
| • Property refurbishment costs                  | £0.4m |
| • Replacement computer hardware                 | £0.2m |

### **Supplier payment policy**

It is our policy to pay all small local suppliers as soon as possible, and other suppliers within 10 days from invoice date. 94% of our 8,587 supplier invoices were paid within the 10 day target and 99% of all invoices within 30 days.

### **Anti-bribery and corruption**

SEPA has zero tolerance towards fraud, bribery and corruption. It has an employee code of conduct, whistle-blowers policy and clear policies regarding acceptable level of gifts and hospitality, both given and received. We actively encourage staff to be aware of appropriate behaviours with both customers and suppliers. We also maintain a gifts and hospitality register.

There were no frauds discovered in 2017-2018, the same as the previous year. During the 2017-2018 financial year, there were five allegations of fraud reported. All were referred to

our Fraud Response Group for investigation. There were no instances of whistleblowing reported during the year.

Approved by the Board on 24 July 2018 and signed on behalf of the Board.



10/08/2018

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**Terry A'Hearn**  
**Chief Executive and Accountable Officer**

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**Date of signature**

## 2.0 Accountability Report

### 2.1 - Corporate Governance Report

#### Directors' Report

##### Directors

The Chief Executive, Executive Director of Evidence and Flooding and Chief Officers make up the Agency's Management Team. The Chief Executive, Executive Directors, Chief Officers, Board Chair and non-executive board members details are set out in the Governance statement.

Register of Interest - Board members and the management team are asked to complete a declaration of interests, [published on our website](#).

##### Auditors

Under Section 46 of the Environment Act 1995, our accounts must be audited by an auditor appointed by the Secretary of State. Under the Public Finance and Accountability (Scotland) Act 2000, our independent auditors are appointed for the Auditor General, by Audit Scotland. Audit Scotland appointed Grant Thornton UK LLP as our independent external auditors for the five year period starting in financial year 2016-2017.

The fees paid in respect of the independent statutory audit for the financial year 2017-2018 are £51,520.

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

##### Other information

In the year to 31 March 2018, there were 71 security incidents reported and investigated, 40 of which were in relation to data breaches (broken down as follows: four near misses, 35 releases of data, and one lost notebook).

Security Incident reports are completed for all incidents and a security incident group is called where required to undertake immediate actions, introduce mitigation measures and make recommendations. There were no self-notifications to the Information Commissioner's Office during 2017-2018.

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

##### Bankers:

Royal Bank of Scotland  
30 Nicholson Street  
Edinburgh  
EH8 9DL

National Westminster Bank  
London Corporate Service Centre  
CPB Services  
2nd Floor  
280 Bishopsgate  
London EC2M 4RB

External Auditors, appointed by Audit Scotland:

Grant Thornton UK LLP  
Level 8  
110 Queen Street  
Glasgow  
G1 3BX

### Accountable Officer's responsibilities

Under Section 45(2) of the Environment Act 1995, SEPA is required to prepare annual accounts for each financial year in the form of and on the basis determined by Scottish Ministers.

The annual accounts are prepared on an accruals basis and must give:

- a true and fair view of the state of SEPA's financial affairs at the end of the financial year, and
- of the income and expenditure, and
- recognised gains and losses, and
- cash flows for the financial year.

In preparing the annual accounts, I am required as the Accountable Officer to comply with the requirements of the [Financial Reporting Manual](#) and in particular to:

- Observe the accounts direction issued by Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis.
- Make judgments 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.
- Confirm that as far as I am aware, there is no relevant audit information of which the entity's auditors are unaware.
- Confirm that as the Accountable Officer I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the entity's auditors are aware of that information.
- Confirm that the annual report and accounts as a whole is fair, balanced and understandable
- Confirm that I take personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

The Principal Accountable Officer of the Scottish Government appointed me, the Chief Executive, as the Accountable Officer for SEPA. My responsibilities as Accountable Officer are set out in the [Scottish Government Framework Document](#) issued in December 2014 and in [Managing Public Money](#), published by HM Treasury.

I am responsible to Scottish Ministers and answerable to Scottish Parliament.

**Accountable Officer's responsibilities:**

- Propriety and regularity of expenditure
- Keeping proper records
- Safeguarding assets
- Preparing the Annual Report and Accounts
- Achievement of SEPA's policies, aims and objectives

**Governance statement****Scope of responsibility**

The Scottish Public Finance Manual (SPFM) is issued by Scottish Ministers to provide guidance to relevant bodies, on the proper handling of public funds. It is designed to ensure:

- compliance with statutory and parliamentary requirements;
- value for money;
- high standards of propriety;
- effective accountability and robust systems of internal control.

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

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. We are committed to accessibility, openness and accountability and aim for the highest standards in corporate governance, and the Cabinet Office guidance on codes of practice for public bodies has been adopted.

Our Corporate Office is Strathallan House, Castle Business Park, Stirling, FK9 4TZ.

**Board composition and operation**

SEPA's Board currently comprises of the Chair, the Deputy Chair, nine 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 agreed with Scottish Ministers.

The roles of the Chair and Chief Executive are separated and clearly understood and the Board has delegated to the Chief Executive day-to-day management of SEPA's operations.

**Role of the Board:**

- Establish the overall strategic direction within the policy and resources framework agreed with Scottish Government.
- Oversee the delivery of planned results by monitoring performance against agreed objectives and targets.
- Demonstrate high standards of corporate governance at all times.
- Ensure that statutory requirements for the use of public funds are complied with.

[Board policy](#) requires 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 considered by both internal and external auditors.

### **Board members**

Agency Board members carry out non-executive engagement with customers, partners, and stakeholders. 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 arising from this activity. More information, including the biographies and interests of Board members, can be found on [our website](#).

Board members act as “Board Buddies” supporting senior managers undertaking high profile work, such as the information and evidence strategy, equalities, strategic plans and commercial services as well as providing mentoring support for a number of senior staff. Several Board members regularly speak on behalf of SEPA at conferences and stakeholder events such as the VIBES awards and external conferences.

The members attend ad hoc strategy meetings, working groups and other meetings.

The Board has appointed an audit committee.

## Meeting attendance

	Board		Strategy		Audit Committee	
	2016-2017	2017-2018	2016-2017	2017-2018	2016-2017	2017-2018
Total number of meetings in year	6	6	4	4	4	4
<b>Board member</b>	<b>Number of meetings attended</b>					
B Downes (Chair)	6	6	4	4	N/A	N/A
T A'Hearn (Chief Executive)	5	5	4	4	N/A	N/A
K Nicholson	4	3	3	2	3	1
L Sawers (Deputy Chair)	6	5	4	4	3	3
R Dixon	5	5	4	2	4	4
W McKelvey	6	6	4	2	4	2
M Francis (reappointed 1 January 2018)	6	4	4	4		N/A
J Hyland (resigned 31 December 2017)	6	5	3	3	3	3
N Martin (reappointed 1 January 2018)	6	6	4	4	4	4
M Hill (reappointed 1 January 2018)	5	5	4	3	N/A	1
F Van Dijk	5	6	4	4	N/A	N/A
T McAuley (resigned 18 April 2016)	0	N/A	0	N/A	0	N/A
N Gordon (appointed 1 February 2018)	N/A	0	N/A	1	N/A	1

## Audit Committee's 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.
- Overseeing processes for securing the efficient and effective use of resources.
- Overseeing the activities and performance of internal and external audit.
- Reviewing the integrity of the annual report and accounts before they are submitted to the Board.

The Audit Committee was established by SEPA in accordance with powers granted under Schedule 6 of the Environment Act 1995. Committee business is conducted in accordance with the SEPA Standing Orders which were approved by the Board on 24 May 2016.

The Audit Committee has delegated authority from the Board to undertake or commission work necessary to enable it to fulfil its purpose, or to take advice, including external legal advice, it considers necessary to discharge its duties.

The Chair - Lesley Sawers, and six board members are appointed by the Board. A periodic assessment of the skills of members of the Audit Committee is made by the Chair of the Audit Committee. Relevant training and development is provided for all members of the Committee. The Committee 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.

**SEPA Executive Directors, Directors, and Chief Officers 2017-2018**

Chief Executive and Accountable Officer	<ul style="list-style-type: none"> <li>• T A'Hearn</li> </ul>
Executive Directors	<ul style="list-style-type: none"> <li>• D Pirie Executive Director Evidence &amp; Flooding</li> <li>• C MacDonald Executive Director</li> </ul>
Director	<ul style="list-style-type: none"> <li>• A Reid Director of Commercial Services (appointed 25 April 2016)</li> </ul>
Chief Officers	<ul style="list-style-type: none"> <li>• F Martin Chief Officer People &amp; Property</li> <li>• S McGregor Chief Officer Finance</li> <li>• J Green Chief Officer Performance &amp; Innovation (appointed May 2016)</li> <li>• A Reid Chief Officer Governance (post dissolved 25 April 2016)</li> <li>• J Kenny Chief Officer Circular Economy (appointed October 2017)</li> <li>• A Anderson Chief Officer Compliance and Beyond (appointed October 2017)</li> </ul>

The Chief Executive, Executive Directors, Director, and Chief Officers biographies can be found on [our website](#).

The Agency Management Team is responsible for strategic planning, business management, performance management, relationships and change management. It is made up of our Chief Executive, Executive Director Evidence and Flooding and six Chief Officers.

The Director of Commercial Services reports directly to the Chief Executive and is responsible for developing a full range of commercial products and services from our four core areas of work, with the primary aim of generating additional income. The Executive Director, who has taken flexible retirement, is Chair of the global INTERPOL Environmental Compliance and Enforcement Committee Advisory Board and Scotland’s Environmental Crime Task Force; as well as continuing to lead on the resolution of some major compliance issues.

## 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 organisation's policies, aims and objectives. This responsibility was assigned to me by the Scottish Ministers.

These systems provide me reasonable assurance regarding the reliability of financial information used by the business and the safeguarding its assets. As with any similar system, there are limits to how much can be achieved. Even the most effective system can provide only reasonable, and not absolute, assurance against material misstatement or loss.

Our 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 Scottish Public Finance Manual, which compares actual results to the budgets approved by our Board. Management accounts are prepared for each portfolio and SEPA as a whole on a monthly basis. Significant variances from budget are thoroughly investigated. Cash flow and other financial forecasts are prepared regularly throughout the year to ensure that we have sufficient cash to meet our operational needs.

We have a risk management system that 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.

The systems are based on processes designed to identify and prioritise risks to the achievement of the organisation's policies, aims and objectives. They also help evaluate the likelihood of those risks being realised, and the impact that would have. Finally, they are used to manage risks efficiently, effectively and economically. The systems of internal control have been in place for the year to 31 March 2018, and are up to the date of approval of the annual report and accounts, and in accordance with the Scottish Public Finance Manual.

## The risk and control framework

All bodies subject to the requirements of the Scottish Public Finance Manual must operate in accordance with relevant guidance issued by Scottish Ministers.

At SEPA, the following processes have been established:

- We have a three year Strategic Internal Audit Plan 2015-18 and detailed Annual Internal Audit Plan that was followed in 2017-2018. Both plans are agreed with and monitored by the Audit Committee.
- The Agency Management Team considers risk at most, if not all, of its meetings, and reviews the corporate risk register at least twice a year.
- A Risk Management Group is responsible for the efficient and effective management of risk. The group meets several times a year, reports twice a year to the Agency Management Team and the Audit Committee, and annually to the Board.
- An internal corporate risk register is managed and reviewed on a quarterly basis.
- Appropriate risk awareness training is provided to line managers and more general guidance is published for all SEPA staff.
- The risk management procedures also provide for risk registers to be held and managed in each of the SEPA portfolios. The operation of each of these registers is reviewed annually by the Risk Management Group.
- An annual workshop is run with the Agency Management Team and the Agency Board, to review risks and the arrangements for managing these risks.
- Regular reports against SEPA's key performance indicators are provided to the Agency Board as well as periodic reports from the Chair of SEPA's Audit Committee.

We have established standards of information security and a set of procedures which, when followed, ensure that we comply with the mandatory requirements of the Cabinet Office Security Policy Framework. Internal performance against these procedures is overseen by the Performance and Innovation portfolio. All reported security incidents are investigated by our Security Incident Group.

A programme of internal audit is provided under contract by Scott-Moncrieff Chartered Accountants to standards defined in the government internal audit manual. Reports of all internal audits and an annual opinion on the adequacy and effectiveness of the system of internal control, together with recommendations for improvement, are provided to management and SEPA's Audit Committee.

The scope of each internal audit is approved by me and, following discussion with the internal auditors, endorsed by the Audit Committee. The Audit Committee then monitor the performance of internal audits throughout the year. All internal audit reports are presented to the Audit Committee for scrutiny together with management's response and their agreed actions. Internal auditors also complete follow up audits to ensure management actions are delivered.

Through our business management system, we aim to ensure that the work we carry out is to a high quality and meets customer requirements. The steps in place to ensure this high quality of service include:

- staff training;
- individual staff competency framework;
- documented procedures;
- proficiency testing;
- line management supervision.

To demonstrate that our key scientific analysis and sampling is well-managed and of high quality, the United Kingdom Accreditation Service (UKAS) assess the performance of nominated activities in our laboratories and in the field, against ISO 17025 (testing and calibration). In November 2016, SEPA was successfully granted Flexible Scope of Accreditation for Chemistry and Microbiology laboratory based activities. This improves our ability to respond to changing business requirements by being able to report data from our laboratory analysis as accredited where appropriate.

### **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 these systems 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 by the Audit Committee. The committee has kept me informed of plans to address any weaknesses discovered in internal control systems.

Approved by the Board on 24 July 2018 and signed on behalf of the Board.



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**Terry A'Hearn**  
Chief Executive and Accountable Officer

10/08/2018

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**Date of signature**

## 2.2 Remuneration and staff report

### Remuneration policy

The Board, Chief Executive, Executive Directors, Director, and Chief Officer's remuneration packages are agreed within the parameters set by the Scottish Government's pay policy. The Scottish Government approves the daily fee to be paid to the Chair and members, as well as approving the Chief Executive Remuneration package.

There were no major decisions taken on Directors remuneration in year. No performance payments were made in 2017-2018 in accordance with the Scottish Government pay policy.

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

The following sections provide details of the remuneration and pension interests of Board members.

The table below and supporting information is subject to audit.

**Chair, Board Members, Chief Executive, Executive Directors, and Chief Officers**

	Salary £'000		Value of pension benefits £'000		Value of benefits in kind £	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
<b>Chair</b>						
B Downes	45<50	45<50	-	-	756	630
<b>Chief Executive</b>						
T A'Hearn	115<120	115<120	40	36	-	-
<b>Directors, Executive Directors &amp; Chief Officers</b>						
C MacDonald	80<85	95<100	2 <sup>4</sup>	64	-	-
D Pirie	95<100	95<100	48	51	-	-
A Reid	80<85	75<80	49	92	-	-
F Martin	75<80	70<75	40	39	-	-
S McGregor	75<80	75<80	40	43	-	-
J Green (appointed May 2016)	75<80	60<65	35	14	-	-
J Kenny (appointed October 2017) <sup>3</sup>	35<40	-	6	-	-	-
A Anderson (appointed October 2017)	35<40	-	13	-	-	-
<b>Board Members</b>						
K Nicholson	5<10	5<10	-	-	473	893
L Sawers	10<15	10<15	-	-	154	118
R Dixon	5<10	5<10	-	-	130	162
W McKelvey	5<10	5<10	-	-	234	307
M Francis	5<10	5<10	-	-	145	184
J Hyland	5<10	5<10	-	-	397	510
N Martin	5<10	5<10	-	-	120	205
M Hill	5<10	0<5	-	-	86	247
F Van Dijk	5<10	5<10	-	-	141	137
T McAuley (resigned 18 April 2016)	-	0<5	-	-	-	-
N Gordon (appointed January 2018)	0<5	-	-	-	-	-

The Chief Executive, Executive Directors and Chief Officers are ordinary members of Falkirk Pension Scheme. SEPA pays a fixed percentage employer's pension contribution and staff pay an employee's contribution, which is based on a percentage of their pensionable salary. The employers' contribution was 19% in 2017/18 and the employees' contribution ranged from 5.5% to 10.1% of pay.

All staff including the Chief Executive, Executive Directors and Chief Officers are on incremental pay scales. An Executive Director received a payment of £5k for agreeing to change the terms and conditions of his employment to remove the right to a performance bonus.

<sup>3</sup> The banding for the full year salary for these two Chief Officers : £75k<£80k

<sup>4</sup> This Executive Director opted out of the pension scheme on 29<sup>th</sup> September 2017. His full year pension in payment from 29 September 2017 is £40k<£45k.

## Pension entitlements of Chief Executive, Executive Directors, and Chief Officers

	Accrued pension at 31 March 2018	Accrued lump sum at 31 March 2018	Real increase in annual pensions	Real increase in annual lump sum	CETV at 31 March 2018	CETV at 31 March 2017	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Chief Executive</b>							
T A'Hearn	5<10	0	2.5<5	0	86	51	22
<b>Directors, Executive Directors &amp; Chief Officers</b>							
C MacDonald <sup>5</sup>	55<60	125<130	0<2.5	2.5<5	1,240	1,247 <sup>1</sup>	(23)
D Pirie	40<45	70<75	2.5<5	0<2.5	700	640	44
A Reid	45<50	105<110	2.5<5	0<2.5	1,081	1,062	1
F Martin	30<35	55<60	0<2.5	0<2.5	503	456	34
S McGregor	30<35	55<60	0<2.5	0<2.5	606	555	38
J Green	20<25	25<30	0<2.5	0<2.5	331	301	20
J Kenny (appointed October 2017) <sup>6</sup>	25<30	50<55	0<2.5	0<2.5	448	428	8
A Anderson (appointed October 2017) <sup>7</sup>	25<30	45<50	0<2.5	0<2.5	398	381	7

	Accrued pension at 31 March 2017	Accrued lump sum at 31 March 2017	Real increase in annual pensions	Real increase in annual lump sum	CETV at 31 March 2017	CETV at 31 March 2016	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Chief Executive</b>							
T A'Hearn	2.5<5	0	0<2.5	0	51	51	16
<b>Directors, Executive Directors &amp; Chief Officers</b>							
C MacDonald	55<60	125<130	2.5<5	2.5<5	1,278	1,278	59
D Pirie	34<40	70<75	2.5<5	2.5<5	640	640	62
A Reid	45<50	100<105	2.5<5	2.5<5	1,062	1,062	140
F Martin	25<30	50<55	0<2.5	0<2.5	456	456	45
S McGregor	25<30	55<60	0<2.5	0<2.5	555	555	53
J Green	14<20	25<30	0<2.5	0<2.5	301	301	22
J Kenny (appointed October 2017)							
A Anderson (appointed October 2017)							

The highest paid person of the management team was the Chief Executive. His annual salary was within the range £115,000 to £120,000 (£115,000 to £120,000 in 2016-2017). This was 3.78 times (3.77 times in 2016-2017) the median remuneration paid to SEPA staff in 2017-2018. The median salary paid in 2017-2018 was £31,461 (£31,149 in 2016-2017).

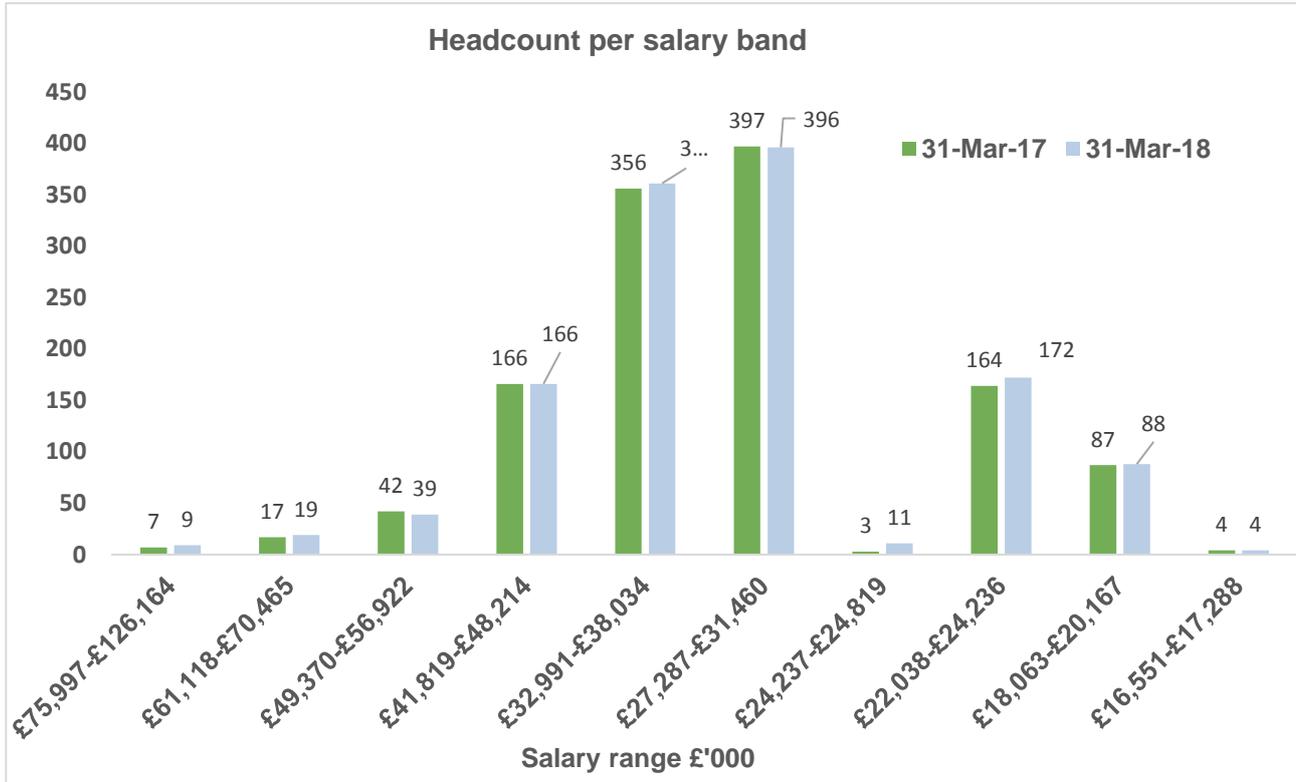
<sup>5</sup> This member took flexible retirement at 29 September 2017. The CETV calculated at 31 March 2017 has been restated to use immediate factors.

<sup>6</sup> The information shown as at 31 March 2017 for these members is at their date of becoming Chief Officers, 1 October 2017.

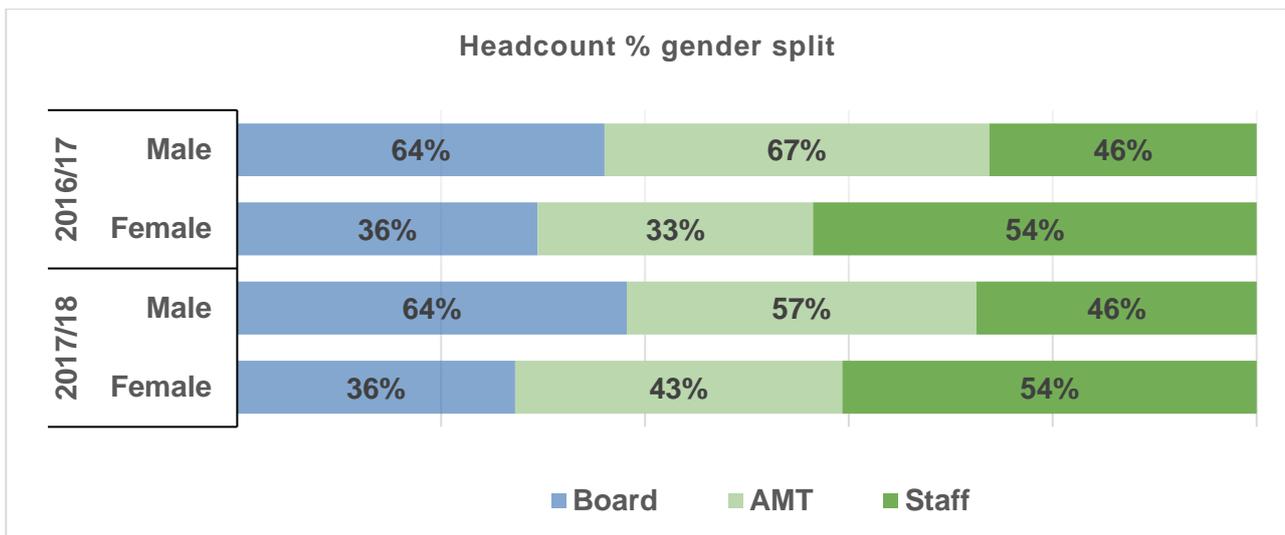
<sup>7</sup> The information shown as at 31 March 2017 for these members is at their date of becoming Chief Officers, 1 October 2017.

**Staff report**

**Staff numbers**



We had a total head count of 1,265 staff at 31 March 2018 (1,243 at 31 March 2017), which represented 1,197 FTE (1,177 FTE for 2016-2017) for the year. The headcount was split 684 (54%) female staff and 581 (46%) male staff.



Of 67 management posts, 26 (39%) were occupied by women, of which three are members of the Agency Management Team.

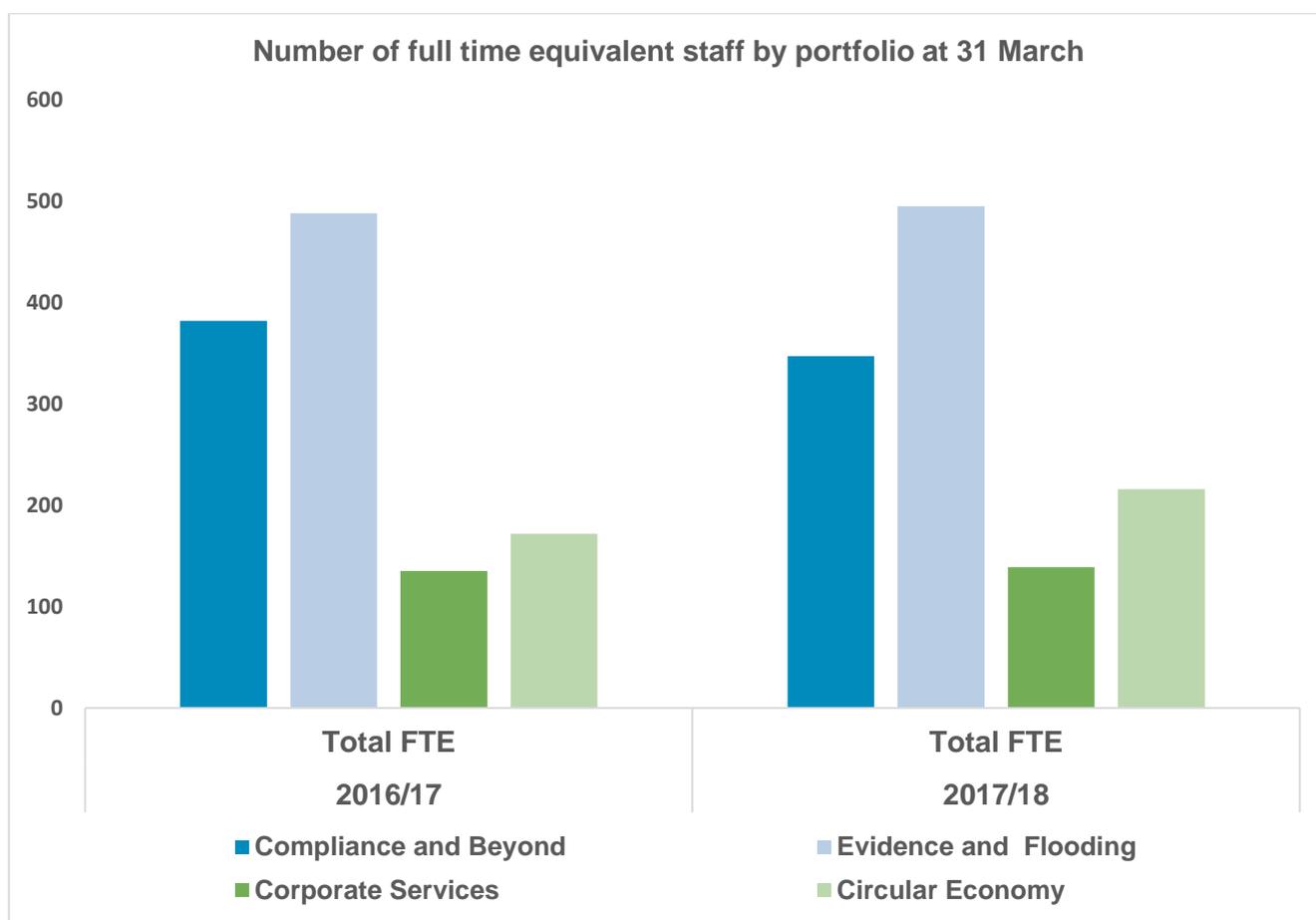
There were 399 (31.5%) employees over 50 years old. There are 57 employees aged between 60 and 64, and 11 aged 65 and over. The average age of a staff member is now 43.94 years, (42.82 for women and 45.25 for men). This continues to rise despite an intake in the 2017 Graduate Trainee Programme.

We had 28 (2.2%) disabled employees and 32 (2.5%) from Black, Asian, Mixed or other Ethnic Minority. Details relating to having a disability has been provided by 94.23% of employees, 28 employees (2.21%) consider themselves to have a disability (27 employees (2.2%) in 2016-2017). We are unable to report the numbers under the remaining protected characteristics as the data is not yet available.

As of 31 March 2018, SEPA’s headcount comprised 1,206 permanent staff (2016-2017: 1,177) and 59 fixed-term staff (2016-2017: 66).

The proportion of employees working part time is 18%.

The number of full time equivalent staff employed at 31 March 2018 was 1,197. The graph below provides the split across portfolios.



In 2017-2018 there was an average of 15 FTE employed via an agency (25, 2016-2017).

The lost working time rate for 2017-2018 is 3.89% (2016-2017: 3.76%). The calculation is based on actual FTE and takes into account all working time and sickness absence for employees who left during the financial year. It also accounts for working time for employees who joined part way through the year.

We assessed four contractors under the new HMRC IR35 rules and put one of them on our payroll and taxed them directly.

**Exit packages**

SEPA has a policy of no compulsory redundancy, in accordance with Public Sector pay policy set out by Scottish Government. There were no compulsory redundancies in 2017-2018 (none - 2016-2017).

The following table shows the payments made to individual staff and the total cost of staffs' exit package, including pension costs where the individual has been eligible for early retirement under pension scheme rules.

	Restated Year to 31 March 2017		Year to 31 March 2018	
	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	3	2	-	-
10 < 25	5	3	-	-
25 < 50	7	8	-	-
50 < 100	1	2	-	-
100 < 150	-	-	-	-
150 < 200	-	1	-	-
<b>Total</b>	<b>16</b>	<b>16</b>	-	-
<b>Total cost</b>	<b>£436,468</b>	<b>£686,344</b>	-	-

One individual's exit package was omitted from the table above last year. The table has been restated to include this omission.

### Health, safety and wellbeing

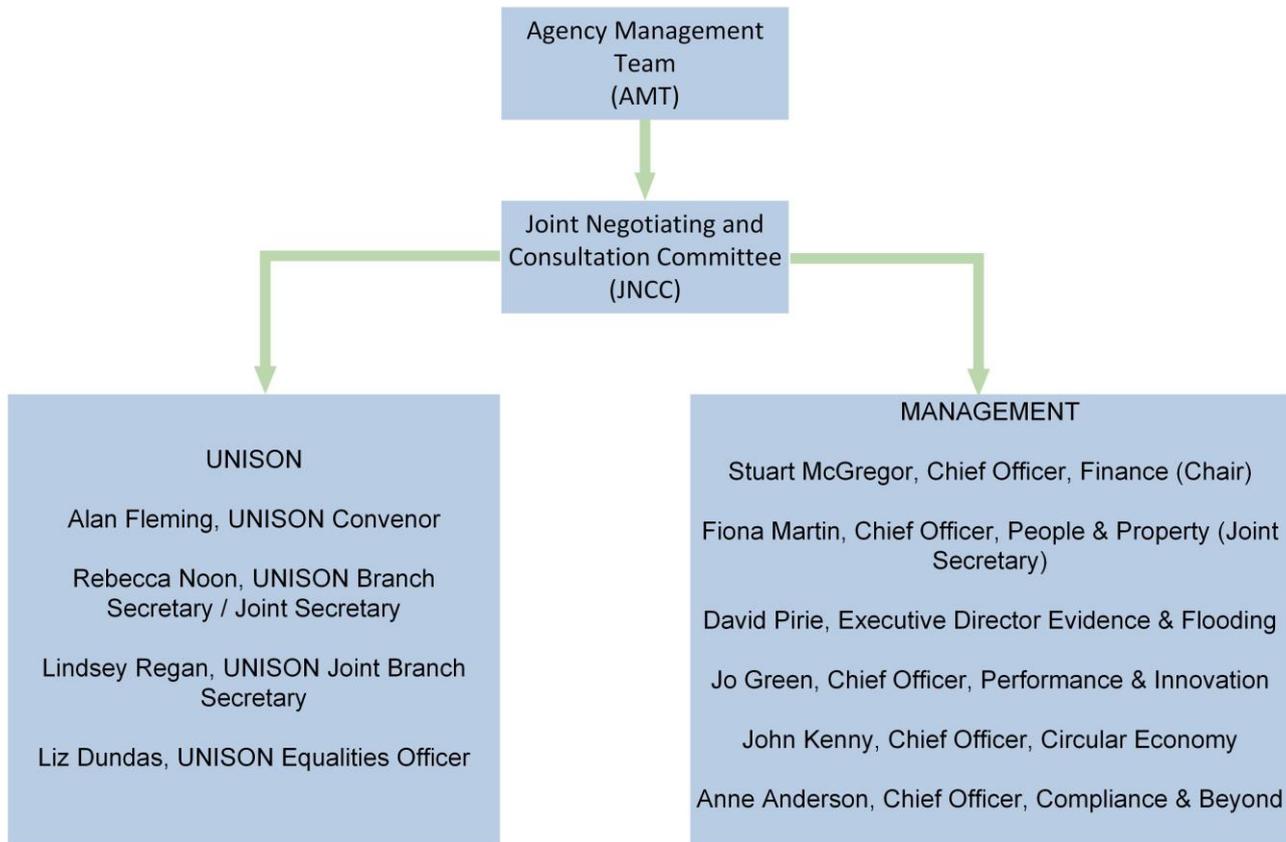
Health and safety is a responsibility of and for all staff. There are a range of systems and structures in place to support the management and review of our health and safety and wellbeing performance. These include:

- Incident reporting – easily accessible for staff to report an incident or near miss.
- Local office based Safety Fora – to raise health and safety issues which can be addressed locally.
- Portfolio Management Teams – managing issues impacting on the Portfolio.
- National Health and Safety Committee - The NHSC demonstrates positive partnership working with Portfolios, and Unison representing all staff on health and safety matters.
- Agency Management Team – reviews health and safety performance monthly.
- Agency Board - quarterly updates on performance for assurance.
- Healthy Working Lives - accreditation to Silver level.
- Safety cover provision - health and safety cover for lone working and going out of the office on site visits.
- A range of training for staff.
- Employee Assistance Programme.

The total number of incidents reported using our Incident Reporting system has decreased slightly with 132 incidents reported in 2017-2018 compared to 142 in 2016-2017. The most reported categories of incidents were minor injuries (25), failure of procedures – safety cover (20) and violence and aggression (15). There was one reportable incident to the Health and Safety Executive in 2017/18.

**Industrial relationships**

UNISON is SEPA staff’s Trade Union. It is Britain’s biggest union, representing almost 1.3 million people across the UK’s public services, including around 150,000 members delivering public services in Scotland. There are 12 (11.6 FTE) branch officers who undertake union duties. The estimated % of SEPA pay bill spent on TU facilities time is 0.09%, this represents 1639 hour’s staff time. More information is provided in appendix 3.



SEPA negotiates its staff’s pay, terms and conditions with Unison. The parameters of pay terms and conditions that SEPA can offer staff are contained within Scottish Government’s pay policy. SEPA’s pay offer for 2017/18 was rejected by Unison, as a result it was imposed on staff in March 2018.

SEPA has a joint panel consisting of Management and Trade Union representatives that oversee job evaluation in SEPA.

Trade Union supports Management in its initiatives to ensure working conditions and an overall remuneration package that staff value.

Approved by the Board on 24 July 2018 and signed on behalf of the Board.

**Terry A’Hearn**  
**Chief Executive and Accountable Officer**

10/08/2018

**Date of signature**

## 2.3 Parliamentary accountability

Scottish Government provides a budget allocation for the year, which is subsequently approved in the Budget Bill. During the year, revisions are approved in the autumn and spring budget, as agreed with Scottish Government.

The 2017-2018 operating resource budget was £37.3m (2016-2017: £38m). SEPA incurred £36.9m expenditure against this limit, underspending by £0.3m. It was agreed with Scottish Government that they would use this underspend in other areas of priority work.

SEPA also has an allocated Annually Managed Expenditure (AME) budget limit of £6.3m for 2017-2018 (2016-2017: £6.8m). The actual IAS 19 pension's adjustments, provisions movements, and market value reductions for fixed assets in year amounted to £9.2m.

The table below provides a summary of the outturn for 2017-2018 against the Scottish Government targets for the year.

Department Expenditure Limit (DEL)	Year to 31 March 2018			Year to 31 March 2017
	Outturn £'000	Budget £'000	Variance £'000	Variance £'000
Total Capital Resource (cash)	1,976	1,970	(6)	(143)
Operating Resource (cash)	31,981	32,236	255	593
Depreciation/Impairments (non- cash)	2,997	3,072	75	82
Total Operating Expenditure	34,978	35,308	330	675
Total DEL Expenditure	36,954	37,278	324	532
<b>Annually Managed Expenditure (AME)</b>	9,239	6,320	(2,919)	2,448

SEPA did not utilise all the cash available to it in 2017-2018. £0.9m was not drawn down in year and remained with the Scottish Government at 31 March 2018 (2016-2017 £1.6m was not drawn down).

### Consolidated fund receipts

SEPA now collects penalties for EU Emissions Trading Scheme (EU ETS) and Carbon Reduction Commitment (CRC) and environmental offences. During 2017-2018 there were 15 penalties applied under EU ETS and CRC with a value of £0.3m. During the year we actually received £0.2m, which was remitted to Scottish Government.

### Value for money

SEPA, like every other government body, is expected to deliver best value and achieve efficiency savings. The Scottish Government has an expectation that we will make efficiency savings for 2017-2018 of at least 3%.

To produce a balanced budget for 2017-2018, we identified savings of £1.4m that were removed from base budgets at 1 April 2017. This equated to 4.5% of cash Government grants received to cover operating costs. It is expected that we will have to identify savings of at least this magnitude each year.

## Fees and charges

In 2017-2018 SEPA earned £39m from statutory charges and £5.7m from other income SEPA has complied with the cost allocation and charging requirements set out by Scottish Public Finance Manual, HM Treasury and the Office of Public Sector Information guidance on trading funds and commercial services. Note 22 of the Financial Statements provides the details of our income, expenditure and cost recovery levels for charging schemes. Note 4 shows a breakdown of our other income.

Approved by the Board on 24 July 2018 and signed on behalf of the Board.



10/08/2018

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**Terry A'Hearn**  
**Chief Executive and Accountable Officer**

**Date of signature**

## **2.4 Independent auditor's report to the members of Scottish Environment Protection Agency, the Auditor General for Scotland and the Scottish Parliament**

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 120 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.

### **Report on the audit of the financial statements**

#### **Opinion on financial statements**

We have audited the financial statements in the annual report and accounts of Scottish Environmental Protection Agency for the year 31 March 2018 under Section 45 subsections (1) and (2) of the Environment Act 1995. The financial statements comprise the Statement of Comprehensive Net Expenditure; Statement of Financial Position; Statement of Cash Flows; Statement of Changes in Tax Payers Equity and notes to the accounts, including a summary of significant accounting policies. 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 2017/18 Government Financial Reporting Manual (the 2017/18 FReM).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with sections (1) and (2) of the Environment Act 1995 and directions made by Scottish Ministers of the body's affairs as at 31 March 2018 and of its net expenditure 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 2017/18 FReM; and
- have been prepared in accordance with the requirements of sections (1) and (2) of the Environment Act 1995 and directions made thereunder by Scottish Ministers.

#### **Basis of opinion**

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the board in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Conclusions relating to going concern basis of accounting**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the body has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## **Responsibilities of the Accountable Officer for the financial statements**

As explained more fully in the Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Accountable Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Accountable Officer is responsible for assessing the board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

## **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## **Other information in the annual report and accounts**

The Accountable Officer is responsible for the other information in the annual report and accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration and Staff Report, and our independent auditor's report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Auditor General for Scotland to the extent explicitly stated later in this report.

In connection with our audit of the financial statements, our responsibility is to read all the other information in the annual report and accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Report on regularity of expenditure and income**

### **Opinion on regularity**

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

## Responsibilities for regularity

The Accountable Officer is responsible for ensuring the regularity of expenditure and income. We are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

## Report on other requirements

### Opinions on matters prescribed by the Auditor General for Scotland

In our opinion, the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Section 45 subsections (1) and (2) of the Environment Act 1995 and directions made thereunder by Scottish Ministers.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with Section 45 subsections (1) and (2) of the Environment Act 1995 and directions made thereunder by Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with Section 45(2) of the Environment Act 1995 and directions made thereunder by Scottish Ministers.

### Matters on which we are required to report by exception

We are required by the Auditor General for Scotland to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit
- there has been a failure to achieve a prescribed financial objective.

We have nothing to report in respect of these matters.

*Joanne Brown*

Joanne Brown, for and on behalf of Grant Thornton UK LLP

Grant Thornton UK LLP  
110 Queen Street  
Glasgow  
G1 3BX

10/08/2018

Date of signature

### 3.0 Financial statements

#### 3.1 Statement of comprehensive net expenditure for the year to 31 March 2018

	Notes	Year to 31 March 2017 £'000	Year to 31 March 2018 £'000
<b>Income</b>			
Income from charging schemes	3	38,994	39,085
Other income	4	6,280	5,707
<b>Total operating income</b>		<b>45,274</b>	<b>44,792</b>
<b>Expenditure</b>			
Staff costs	5	(56,018)	(60,873)
Depreciation, amortisation and impairment of non-current assets	10	(2,990)	(2,997)
Other operating charges	6	(24,625)	(22,394)
<b>Total operating expenditure</b>		<b>(83,633)</b>	<b>(86,264)</b>
<b>Net operating expenditure</b>		<b>(38,359)</b>	<b>(41,472)</b>
Finance income	8	97	2
Finance expenses	7	(1,704)	(2,915)
<b>Net expenditure for year</b>		<b>(39,966)</b>	<b>(44,385)</b>
<b>Other comprehensive expenditure</b>			
Net (loss)/gain on revaluation of property, plant and equipment	10	(635)	170
Actuarial gain/(loss) on pension scheme	18	(54,960)	17,138
<b>Comprehensive net expenditure for the year funded by GiA</b>		<b>(95,561)</b>	<b>(27,077)</b>

The excess expenditure over income represents the cost of the Scottish Government funded activities; the cash to fund these activities has been 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 61-87.

**3.2 Statement of financial position as at 31 March 2018**

	Notes	As at 31 March 2017 £'000	As at 31 March 2018 £'000
<b>Non-current assets</b>			
Property, plant and equipment	10	22,993	34,804
Intangible assets	10	1,944	1,421
		<b>24,937</b>	<b>36,225</b>
<b>Current assets</b>			
Assets for sale	11	125	90
Trade and other receivables	13	3,064	3,515
Cash and cash equivalents	12	1,300	1,805
		<b>4,489</b>	<b>5,410</b>
<b>Total assets</b>		<b>29,426</b>	<b>41,635</b>
<b>Current liabilities</b>			
Trade and other payables < 1 year	14	(6,886)	(8,576)
Provisions for liabilities and charges <1 year	15	(133)	(134)
<b>Total current liabilities</b>		<b>(7,019)</b>	<b>(8,710)</b>
<b>Total assets less current liabilities</b>		<b>22,407</b>	<b>32,925</b>
<b>Non-current liabilities</b>			
Provisions for liabilities and charges >1 year	15	(2,005)	(2,290)
Employee retirement benefits	18	(104,950)	(96,932)
<b>Total non-current liabilities</b>		<b>(106,955)</b>	<b>(99,222)</b>
<b>Total assets less total liabilities</b>		<b>(84,548)</b>	<b>(66,297)</b>
<b>Tax payers equity</b>			
Comprehensive net expenditure reserve		(86,757)	(80,509)
Revaluation reserve		2,209	14,212
<b>Total tax payers equity</b>		<b>(84,548)</b>	<b>(66,297)</b>

The note numbers referred to above are incorporated within the notes to the accounts contained on pages 61-87.

These annual accounts were approved by the Board on 24 July 2018.



**Terry A'Hearn**  
Chief Executive and Accountable Officer

10/08/2018  
Date of signature

**3.3 Statement of cash flows for year to 31 March 2018**

		Year to 31 March 2017	Year to 31 March 2018
	Notes	£'000	£'000
<b>Net operating cost</b>		(38,359)	(41,472)
<b>Adjustments for non-cash transactions</b>			
Depreciation, amortisation and impairments	10	2,990	2,997
Pension scheme adjustment	19	1,800	6,205
<b>Movements in working capital</b>			
Decrease/(Increase) in assets held for sale	11	420	-
Decrease/(Increase) in trade and other receivables	13	268	(451)
(Decrease)/Increase in trade and other payables less than 1 year old	14	793	1,690
Increase/(Decrease) in provisions	15	219	286
<b>Net cash outflow from operating activities</b>		<b>(31,869)</b>	<b>(30,745)</b>
<b>Cash flows from investing activities</b>			
Purchase of non-current assets	10	(1,243)	(1,976)
Cash transfer to Scottish Government for property sale		(422)	-
<b>Net cash outflow from investment</b>		<b>(1,665)</b>	<b>(1,976)</b>
<b>Cash flows from financing activities</b>			
Bank interest received	8	6	2
EU exchange rate gain	8	91	-
GiA funding received in year	2	33,353	33,224
<b>Net cash inflow from financing</b>		<b>33,450</b>	<b>33,226</b>
<b>Net increase in cash and cash equivalents</b>		<b>(84)</b>	<b>505</b>
Cash and cash equivalents at start of year	12	1,384	1,300
Receipts due to the consolidated fund		223	205
Payments made to the consolidated fund		(223)	(205)
Cash and cash equivalents at end of year	12	1,300	1,805
<b>Increase in cash for the year</b>		<b>(84)</b>	<b>505</b>

The note numbers referred to above are incorporated within the notes to the accounts contained on pages 61-87. These annual accounts were approved by the Board on 24 July 2018.

**3.4 Statement of changes in tax payer's equity for the year to 31 March 2018**

	Notes	Comprehensive net expenditure reserve	Revaluation reserve	Total year to 31 March 2018
		£'000	£'000	£'000
Balance at 1 April 2017		(86,757)	2,209	(84,548)
Grant from sponsoring department	2	33,224	-	33,224
Net expenditure for the year		(44,385)	-	(44,385)
Assets disposed of		101	(101)	-
Fair value movement		33	(68)	(35)
Total of pension re-measurements	18	17,138	-	17,138
Revaluation of non-current assets	10	137	12,172	12,309
<b>As at 31 March 2018</b>		<b>(80,509)</b>	<b>14,212</b>	<b>(66,297)</b>

**Comprehensive net expenditure reserve consists of:**

Pensions deficit	18	(96,932)
Surplus arising from operating activities		16,423
<b>Balance as at 31 March 2018</b>		<b>(80,509)</b>

**Statement of changes in tax payer's equity for the year to 31 March 2017**

	Notes	Comprehensive net expenditure reserve	Revaluation reserve	Total year to 31 March 2017
		£'000	£'000	£'000
Balance at 1 April 2016		(24,240)	2,438	(21,802)
Grant from sponsoring department	2	33,353	-	33,353
Net expenditure for the year		(39,966)	-	(39,966)
Total of pension re-measurements	18	(54,960)	-	(54,960)
Disposal of assets		113	(113)	-
Asset receipt remitted to Scottish Government		(422)	-	(422)
Revaluation of non-current assets	10	(635)	(116)	(751)
<b>As at 31 March 2017</b>		<b>(86,757)</b>	<b>2,209</b>	<b>(84,548)</b>

**Comprehensive net expenditure reserve consists of:**

Pensions deficit	18	(104,950)
Surplus arising from operating activities		18,193
<b>Balance as at 31 March 2017</b>		<b>(86,757)</b>

### 3.5 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, SEPA has adopted the option that it judges to be most appropriate for the purpose of giving a true and fair view of its financial position. The accounting policies adopted have been set out below, and 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 2017 and ended on 31 March 2018.

##### 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 17, 18 and 19 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 2018. 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 2017, with the next formal valuation scheduled for 31 March 2020. In preparing the projected pension expense for the year to 31 March 2018, 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 assumptions are set out in note 18.

SEPA's pension liabilities falling due in future years are met from income derived from charging schemes and grant in aid (GiA). Future years charging scheme fees will be increased to meet the expected costs attributable to providing these services, 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 will be met by future GiA from Scottish Government Directorate for Environment and Forestry. Under the controls applying to parliamentary income and expenditure, grants may not be paid in advance of need. The Board of SEPA has no reason to believe that future support from Scottish Government will not be forthcoming. 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 valuation exercise conducted by an independent chartered surveyor at 31 March 2018 to calculate what the replacement costs would be.
- 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;
  - depreciation or amortisation charge, which provides a realistic reflection of consumption.
- Vessels have been held at historic cost, as Executive 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. A professional valuation has been obtained for the vessel (Sir John Murray) to ensure that the historic cost is not materially different from market value. At 31 March 2018 the valuation of the SJM was £6k more than the net book value reflected in these accounts.
- 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 and 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. 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.

<b>Asset category</b>	<b>Asset lives (Years)</b>
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 in operational use. The capitalisation threshold for assets is £6,000 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 £6,000, including VAT. 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 £6,000, 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 asset.

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 charged to the Statement of Comprehensive Net Expenditure. The provisions at the year-end were for: unfunded pension liabilities in respect of pension commitments inherited from SEPA's predecessor bodies and the past Chair, and for life assurance benefit provided to staff

under SEPA's terms and conditions of employment, as estimated by Hyman Robertson based on the profile of the staff employed as at 31 March 2018.

## 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 gauging stations over their historical costs.

## Value added tax

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

International Accounting Standards (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.

## Expenditure

Expenditure incurred on day to day operational activities is accounted for or charged into the Statement of Comprehensive Net Expenditure in the year that the work has been done. Staff costs are accounted for in the year that salaries are earned together with the employers costs. Other expenditure is charged or accrued into the year the services or goods were used. As part of the year end accounts process, a detailed accrual exercise is conducted to ensure expenditure is matched with income appropriately. Expenditure that relates to future accounting periods of more than £5,000 is prepaid and will be matched to income earned in future periods. All expenditure that related to services or goods received by 31 March 2018, which were invoiced in April, have been accrued.

## 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 that 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 17, 18 and 19). The contribution charges are recognised in the accounting years 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 that are met directly by SEPA - these are reflected in the unfunded pension liabilities, refer to note 15.

## 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. There is no significant liquidity or credit risk exposure due to the credit controls in place.

## 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. There is a Euro holding in petty cash of £235 at 31 March 2018.

## Notional costs

FReM has removed the need to calculate and account for cost of capital, in the form of interest on capital, from 1 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. 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.

## Contingent liabilities

SEPA occupies a number of leased properties, which have dilapidation clauses in the leases. We maintain these properties in excellent order, but have a potential liability at the end of the lease, to reinstate the internal layout of the building to its original floor plan. The level of liability will be subject to future negotiation with individual landlords.

The majority of our gauging stations are on leased sites. When we no longer require these facilities they have to be decommissioned, removing the plant and buildings, before restoring the site.

## Review of accounting policies and estimation techniques

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);
- valuation of pension liabilities (notes 17,18 and 19);
- evidence used to assess impairment in trade receivables (note 13);
- valuation of life assurance liability.

## 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 2018	Approximate % increase in employers liability	Approximate monetary amount £'000
0.5% decrease in real discount rate	12	46,350
0.5% increase in salary increase rate	3	10,732
0.5% increase in pension increase rate	9	34,712

## Changes in accounting standards

Changes being introduced under International Financial Reporting Standards (IFRS):

Implementation 2018-2019:

IFRS 9 will impact on how we value the accounts receivable balances that exceed 30 days. It is not expected to increase the overall level of bad debt write off in an accounting year, just the timing. IFRS 15 introduces changes to how and when a body recognises income. We currently recognise application fees as income when they are received; under the new IFRS we believe that income recognition should be at the point in time the application process is completed. The impact of this change in 2018-2019 will depend on the actual applications at the year end.

Implementation 2019-2020:

IFRS 16 will require all leases that run for more than 12 months to be reflected in the balance sheet. Note 16 outlines our current lease commitments of £19.5m that will appear on our balance sheet.

## Subsequent events

There are no events which have occurred since the financial year end to the date of authorisation of the accounts, that require disclosure.

**2. Grant-in-aid (GiA)**

	Year to 31 March 2017	Year to 31 March 2018
	£'000	£'000
Cash GiA received to meet expenditure	33,353	33,224

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 division.

Government Financial Reporting Manual instructs that GiA goes directly to the Comprehensive Net Expenditure Reserve in the statement of financial position, as financing.

**Grant in Aid**

	Year to 31 March 2017	Year to 31 March 2018
	£'000	£'000
Budgeted cash allocation		
Capital	1,100	1,970
Operating costs	33,853	32,236
Total cash that could be drawn down in year	34,953	34,206
Cash drawn down in year	33,353	33,224
Cash remaining with Scottish Government	1,600	982

**3. Income from charging schemes**

	Restated Year to 31 March 2017	Year to 31 March 2018
	£'000	£'000
Environmental Regulation (Scotland)	35,312	35,385
Producer Responsibility Waste Packaging	1,129	1,124
Radioactive Substances Act	1,653	1,580
Other	900	996
	<b>38,994</b>	<b>39,085</b>

'Other' represents schemes where their individual income is less than £1m. Other includes: aviation; Control of Major Accident Hazards Regulations; Carbon Reduction Commitment; EU Greenhouse Gas Emissions Trading; and Reservoirs Charging Scheme.

**4. Other income**

	Year to 31 March 2017	Year to 31 March 2018
	£'000	£'000
Water Environment Fund grants	3,903	3,318
Payments from other agencies	2,276	1,983
Other	101	406
	<b>6,280</b>	<b>5,707</b>

## 5. Information regarding employees and Board members

Staff costs during the year	Permanently employed staff	Others	Year to 31 March 2018
	£'000	£'000	£'000
Wages and salaries	39,122	1,956	41,078
Social security costs	4,008	200	4,208
Apprenticeship levy	181	9	190
Pension costs	7,322	366	7,688
<b>Subtotal of payroll costs</b>	<b>50,633</b>	<b>2,531</b>	<b>53,164</b>
Other staff related costs (principally recruitment fees, staff subsistence, training costs and hiring agency and temporary staff)			1,041
IAS19 pension charge (note 19)			6,205
Life Assurance provision (note 15)			413
Unfunded pensions charge (note 15)			50
			<b>60,873</b>

Staff costs during the year	Permanently employed staff	Others	Year to 31 March 2017
	£'000	£'000	£'000
Wages and salaries	38,746	2,173	40,919
Social security costs	3,983	223	4,206
Pension costs	7,419	416	7,835
<b>Subtotal of payroll costs</b>	<b>50,148</b>	<b>2,812</b>	<b>52,960</b>
Other staff related costs (principally recruitment fees, staff subsistence, training costs and hiring agency and temporary staff)			906
IAS19 pension charge (note 19)			1,800
Unfunded pensions charge (note 15)			352
			<b>56,018</b>

No voluntary severance agreements were made in 2017-2018.

Full time equivalent number of persons employed by portfolio	Permanently employed staff	Others	Year to 31 March 2018	Restated Year to 31 March 2017
	FTE	FTE	FTE	FTE
Compliance and Beyond	330	17	347	382
Circular Economy	207	9	216	172
Evidence and Flooding	472	23	495	488
Corporate Services <sup>8</sup>	132	7	139	135
	<b>1,141</b>	<b>56</b>	<b>1,197</b>	<b>1,177</b>

Full time equivalent number of persons employed by portfolio, as stated last year	Permanently employed staff	Others	Year to 31 March 2017
	FTE	FTE	FTE
Regulatory Services	541	19	560
Evidence & Flooding	452	30	482
Corporate Services <sup>9</sup>	121	14	135
	<b>1,114</b>	<b>63</b>	<b>1,177</b>

The above numbers derived from SEPA payroll, reflect the current portfolio structure.

There were 8.5 FTE (2016-2017: 2.5 FTE) working on EU Life projects, included in Corporate Services.

In 2017-2018, there was an average of 15 FTE employed via an agency (2016-2017: 25).

The lost working time rate for 2017-2018 is 3.89% (2016-2017: 3.76%). The calculation is based on actual FTE and takes into account all working time and sickness absence for employees who left during the financial year. It also accounts for working time for employees who joined part way through the year.

<sup>8</sup> Corporate Services includes People and Property portfolio (Estates, HR, Organisational Development, and Health & Safety), Performance and Innovation portfolio (Secretariat, Communications, Resilience, and Corporate Legal) and Finance portfolios (Finance and Procurement). Evidence and Flooding portfolio includes IT Services and Science Services.

<sup>9</sup> Corporate Services includes People and Property portfolio (Estates, HR, Organisational Development, and Health & Safety), Performance and Innovation portfolio (Secretariat, Communications, Resilience, and Corporate Legal) and Finance portfolios (Finance and Procurement). Evidence and Flooding portfolio includes IT Services and Science Services. Regulatory Services portfolio includes all regulatory staff and local office support staff.

**Headcount by grade**

<b>Description</b>	<b>Pay Range</b>	<b>Number of staff 31 March 2017</b>	<b>Number of staff 31 March 2018</b>
Chief Executive, Directors and Chief Officers	£75,997-£126,164	7	9
Band A	£61,118-£70,465	17	19
Band B	£49,370-£56,922	42	39
Band C	£41,819-£48,214	166	166
Band D	£32,991-£38,034	356	361
Band E	£27,287-£31,460	397	396
Trainee	£24,237-£24,819	3	11
Band F	£22,038-£24,236	164	172
Band G	£18,063-£20,167	87	88
Band H	£16,551-£17,288	4	4
<b>Total headcount</b>		<b>1,243</b>	<b>1,265</b>

	<b>31-Mar-17</b>			<b>31-Mar-18</b>		
	<b>Total</b>	<b>Female</b>	<b>Male</b>	<b>Total</b>	<b>Female</b>	<b>Male</b>
<b>Board</b> <sup>10</sup>	11	4	7	11	4	7
<b>AMT</b> <sup>11</sup>	6	2	4	7	3	4
<b>Staff (includes AMT)</b>	1,236	667	569	1,265	684	581

<sup>10</sup> Board number include the Chief Executive- 1 male

<sup>11</sup> AMT number includes Chief Executive – 1 male

**6. Other operating charges**

	Year to 31 March 2017	Year to 31 March 2018
	£'000	£'000
Supplies and services	16,518	15,918
Property costs	4,426	3,015
Transport costs	1,409	1,494
Research and development costs	225	237
Board expenses	17	16
Property and vehicle leases	1,980	1,662
External Auditor's remuneration – audit services	50	52
	<b>24,625</b>	<b>22,394</b>

**7. Interest payable**

	Year to 31 March 2017	Year to 31 March 2018
	£'000	£'000
International Accounting Standards (IAS) 19 net return on pension scheme assets and liabilities (note 19)	(1,704)	(2,915)
	<b>(1,704)</b>	<b>(2,915)</b>

The negative net return position on pension assets at 31 March 2018, is as a result of the actual return on pension scheme assets and liabilities of £7,575k being significantly less than the projected return on employee assets and liabilities of £10,490k (note 18 refers).

**8. Interest receivable and similar income**

	Year to 31 March 2017	Year to 31 March 2018
	£'000	£'000
Bank interest received	6	2
EU exchange rate gain	91	-
	<b>97</b>	<b>2</b>

**9. Taxation**

SEPA is not liable to corporation tax for 2017-2018 (nil for 2016-2017).

**10. Non-current assets**

	Tangible assets										Intangible assets			
Year to 31 March 2018	Land	Buildings	Lease-hold buildings	Gauging stations	Plant & machinery	Vessel	Computer equipment	Motor vehicles	Fixtures fittings, tools & equipment	Total tangible assets	Software developed in-house	Purchased software	Total intangible assets	Total
Cost or valuation	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
1 April 2017	825	4,556	7,155	12,599	9,658	2,161	4,744	336	919	42,953	4,344	6,885	11,229	54,182
Recategorisation	-	-	-	(97)	443	(346)	-	-	-	-	(388)	388	-	-
Additions	-	269	88	239	953	-	175	121	-	1,845	131	-	131	1,976
Disposals	-	-	(245)	(358)	(594)	-	-	-	-	(1,197)	(138)	(185)	(323)	(1,520)
Revaluations	2	(76)	-	3,852	-	-	-	-	27	3,805	-	-	-	3,805
<b>At 31 March 2018</b>	<b>827</b>	<b>4,749</b>	<b>6,998</b>	<b>16,235</b>	<b>10,460</b>	<b>1,815</b>	<b>4,919</b>	<b>457</b>	<b>946</b>	<b>47,406</b>	<b>3,949</b>	<b>7,088</b>	<b>11,037</b>	<b>58,443</b>
<b>Depreciation</b>														
1 April 2017	-	-	1,555	8,264	5,713	1,075	3,004	206	143	19,960	3,691	5,594	9,285	29,245
Recategorisation	-	-	-	(25)	174	(149)	-	-	-	-	(154)	154	-	-
Charge for year	-	106	478	233	700	56	421	37	94	2,125	122	532	654	2,779
Disposals	-	-	(245)	(156)	(578)	-	-	-	-	(979)	(138)	(185)	(323)	(1,302)
Revaluations	-	(106)	-	(8,316)	-	-	-	-	(82)	(8,504)	-	-	-	(8,504)
<b>At 31 March 2018</b>	<b>-</b>	<b>-</b>	<b>1,788</b>	<b>-</b>	<b>6,009</b>	<b>982</b>	<b>3,425</b>	<b>243</b>	<b>155</b>	<b>12,602</b>	<b>3,521</b>	<b>6,095</b>	<b>9,616</b>	<b>22,218</b>
<b>Net book value at 31 March 2018</b>	<b>827</b>	<b>4,749</b>	<b>5,210</b>	<b>16,235</b>	<b>4,451</b>	<b>833</b>	<b>1,494</b>	<b>214</b>	<b>791</b>	<b>34,804</b>	<b>428</b>	<b>993</b>	<b>1,421</b>	<b>36,225</b>
<b>Net book value at 31 March 2017</b>	<b>825</b>	<b>4,556</b>	<b>5,600</b>	<b>4,335</b>	<b>3,945</b>	<b>1,086</b>	<b>1,740</b>	<b>130</b>	<b>776</b>	<b>22,993</b>	<b>653</b>	<b>1,291</b>	<b>1,944</b>	<b>24,937</b>

	Tangible assets										Intangible assets			
Year to 31 March 2017	Land	Buildings	Lease-hold buildings	Gauging stations	Plant & machinery	Vessels	Computer equipment	Motor vehicles	Fixtures fittings, tools & equipment	Total tangible assets	Software developed in-house	Purchased software	Total intangible assets	Total
Cost or valuation	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
1 April 2016	1,190	13,199	6,731	-	12,838	2,161	4,858	315	1,516	42,808	4,425	6,900	11,325	54,133
Recategorisation	-	(8,227)	-	11,620	(3,393)	-	-	-	-	-	-	-	-	-
Additions	-	-	424	348	431	-	(6)	21	-	1,218	-	25	25	1,243
Impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	(113)	(218)	-	(108)	-	(178)	(617)	(81)	(40)	(121)	(738)
Revaluations	(365)	(416)	-	744	-	-	-	-	(419)	(456)	-	-	-	(456)
<b>At 31 March 2017</b>	<b>825</b>	<b>4,556</b>	<b>7,155</b>	<b>12,599</b>	<b>9,658</b>	<b>2,161</b>	<b>4,744</b>	<b>336</b>	<b>919</b>	<b>42,953</b>	<b>4,344</b>	<b>6,885</b>	<b>11,229</b>	<b>54,182</b>
<b>Depreciation</b>														
1 April 2016	-	5,123	1,134	-	7,757	992	2,611	181	309	18,107	3,609	4,997	8,606	26,713
Recategorisation	-	(5,123)	-	7,596	(2,473)	-	-	-	-	-	-	-	-	-
Charge for year	-	103	421	228	628	83	490	25	132	2,110	128	637	765	2,875
Impairments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	(64)	(199)	-	(97)	-	(178)	(538)	(46)	(40)	(86)	(624)
Revaluations	-	(103)	-	504	-	-	-	-	(120)	281	-	-	-	281
<b>At 31 March 2017</b>	<b>-</b>	<b>-</b>	<b>1,555</b>	<b>8,264</b>	<b>5,713</b>	<b>1,075</b>	<b>3,004</b>	<b>206</b>	<b>143</b>	<b>19,960</b>	<b>3,691</b>	<b>5,594</b>	<b>9,285</b>	<b>29,245</b>
<b>Net book value at 31 March 2017</b>	<b>825</b>	<b>4,556</b>	<b>5,600</b>	<b>4,335</b>	<b>3,945</b>	<b>1,086</b>	<b>1,740</b>	<b>130</b>	<b>776</b>	<b>22,993</b>	<b>653</b>	<b>1,291</b>	<b>1,944</b>	<b>24,937</b>
<b>Net book value at 31 March 2016</b>	<b>1,190</b>	<b>8,076</b>	<b>5,597</b>	<b>-</b>	<b>5,081</b>	<b>1,169</b>	<b>2,247</b>	<b>134</b>	<b>1,207</b>	<b>24,701</b>	<b>816</b>	<b>1,903</b>	<b>2,719</b>	<b>27,420</b>

The charge in the Statement of Comprehensive Net Expenditure includes depreciation and amortisation charged for the year and the net book value of impairments (£2,779k plus £1,520k less £1,302k, equals £2,997k).

Buildings category includes properties whose fair value is provided by GVA Grimley Limited (Royal Institution of Chartered Surveyors) whose fair value is equivalent to market value at 31 March 2018. This valuation showed an increase in market values of £160k from the valuation at 31 March 2017. Of this, £137k went to the net Comprehensive Expenditure accounts, as in previous years these property values had been reduced, and £13k went to revaluation reserve.

Gauging stations are specialised buildings. A full assessment of replacement cost was conducted by Cushman and Wakefield, our property services advisor, as at 31 March 2018. The valuation was derived using the depreciated replacement cost approach set out in RCIS Red Book. The net replacement cost was estimated at £14.1m for 354 gauging stations. SEPA owns the land for 25 gauging stations and 329 are on leased sites.

The vessel (Sir John Murray) is reflected at historic cost as at 31 March 2018. It was valued by Century Marine to ensure that its carrying value is a fair reflection of the market value of the asset. Century Marine valued the vessel at £840k as at 31 March 2018. The net book value at 31 March included in non-current assets was £833k.

Depreciated historic cost has been used as a proxy for the current value of fixtures and fittings, 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.

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 £6k including VAT.

The £170k 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 upward valuation movement in land and property held within non-current assets and current assets, which has previously had a downward revaluation charged to the Statement of Comprehensive Net Expenditure.

## 11. Current assets for sale

	As at 31 March 2017	As at 31 March 2018
	£'000	£'000
Current assets for sale	<u>125</u>	<u>90</u>

As at 31 March 2018, one property is held for sale. GVA Grimley Limited provided the market valuation for this property. There was a reduction in the market value of current asset held for sale of £35k that was offset against Net Comprehensive Expenditure Reserve in the financial position statement at 31 March 2018.

**12. Cash and cash equivalents**

	<b>Restated as at 31 March 2017</b>	<b>As at 31 March 2018</b>
	<b>£'000</b>	<b>£'000</b>
Balance at 1 April	1,384	1,300
Net change in cash and cash equivalent balances	(84)	505
Balance at 31 March	<b>1,300</b>	<b>1,805</b>
The following balances at 31 March were held at:		
Government banking services	1,290	1,786
Commercial banks and cash in hand	10	19
Balance at 31 March	<b>1,300</b>	<b>1,805</b>

The analysis provided in 2017 accounts was incorrect and has been restated.

**13. Trade and other receivables**

	<b>As at 31 March 2017</b>	<b>As at 31 March 2018</b>
	<b>£'000</b>	<b>£'000</b>
Trade receivables	1,204	1,517
Less provisions for bad debts	(135)	(256)
Trade receivables net	1,069	1,261
Other trade receivables	81	10
Prepayments and accrued income	1,914	2,244
	<b>3,064</b>	<b>3,515</b>

At the year end, the total bad debt provision is £256,130 (2016-2017: £134,806). Included within the trade receivables there is: £138,374 (2016-2017: £82,176) owing from central government bodies; £9,162 (2016-2017: £5,288) owing from local authority bodies; £4,225 (2016-2017: £0) owing from NHS bodies; and £315,153 (2016-2017: £231,107) owing from other public bodies.

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

	<b>As at 31 March 2017</b>	<b>As at 31 March 2018</b>
	<b>£'000</b>	<b>£'000</b>
Trade payables	1,211	1,387
Other taxes and social security	1,241	1,340
VAT	33	102
EU grant deferred income	455	1,123
Accruals and deferred income	3,946	4,624
	<b>6,886</b>	<b>8,576</b>

Included within the trade and other payables there is: £1,016,211 (2016-2017: £952,786) owing to local authority bodies; £1,339,639 (2016-2017: £1,242,174) owing to central government bodies; £7,112 (2016-2017: £0) owing to NHS bodies; and £11,930 (2016-2017: £0) owing to other public bodies.

## 15. Provision for liabilities and charges

<b>Year to 31 March 2018</b>	<b>Unfunded pension liabilities</b>	<b>Other provisions</b>	<b>Total provision for liabilities and charges</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Balance at 1 April 2017	2,096	42	2,138
Actuarial valuation changes	49	-	49
Provisions made	-	413	413
Utilised	(134)	(42)	(176)
<b>As at 31 March 2018</b>	<b>2,011</b>	<b>413</b>	<b>2,424</b>

<b>Year to 31 March 2018</b>	<b>Unfunded pension liabilities</b>	<b>Other provisions</b>	<b>Total provision for liabilities and charges</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Liabilities due > 1 year	1,877	413	2,290
Liabilities due < 1 year	134	-	134
<b>As at 31 March 2018</b>	<b>2,011</b>	<b>413</b>	<b>2,424</b>

<b>Year to 31 March 2017</b>	<b>Unfunded pension liabilities</b>	<b>Other provisions</b>	<b>Total provision for liabilities and charges</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Balance at 1 April 2016	1,877	42	1,919
Actuarial valuation changes	352	-	352
Provisions made	-	-	-
Utilised	(133)	-	(133)
<b>As at 31 March 2017</b>	<b>2,096</b>	<b>42</b>	<b>2,138</b>

<b>Year to 31 March 2017</b>	<b>Unfunded pension liabilities</b>	<b>Other provisions</b>	<b>Total provision for liabilities and charges</b>
		<b>£'000</b>	<b>£'000</b>
Liabilities due > 1 year		1,963	42
Liabilities due < 1 year		133	-
<b>As at 31 March 2017</b>		<b>2,096</b>	<b>42</b>

The unfunded pension liabilities represent liabilities in respect of pension commitments inherited by SEPA from predecessor bodies and a former SEPA Chair. These liabilities are mainly payable to other authorities for costs of former employee pensions and include one direct payment to a

pensioner. The other provision at 31 March 2018, is for the Life Assurance liability. Hymans Robertson's have estimated SEPA's liability to pay death in service benefits on all staff in post at the end of the year. The estimate provided for this liability at 31 March 2017 was £352,000.

## 16. Financial commitments

There are no capital commitments at 31 March 2018 (2016-2017: £0). 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.

### Total commitments under operating leases as at 31 March 2018

	Land and buildings		Other	
	2017 £'000	2018 £'000	2017 £'000	2018 £000
Payable within one year	1,587	1,643	220	53
Later than 1 year but less than 5 years	5,455	5,952	66	38
After 5 years	14,735	11,724	-	90
	<b>21,777</b>	<b>19,319</b>	<b>286</b>	<b>181</b>

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 also determined at the point of agreement.

## 17. 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 2017, with the next full formal valuation scheduled for 31 March 2020. The formal valuation at 31 March 2017 estimated the pension's deficit at £29.5m, or 90% funding level, an improvement of 5% on the preceding formal valuation in March 2014. The employer's contribution rate agreed for the three years 2018-2021 is 20%.

The Scheme actuaries have undertaken an accounting valuation of the pension expense calculation for SEPA as at 31 March 2018, and these figures form the basis of the statement of financial position and funding disclosures made in these accounts.

The pension costs for the year represent the contributions paid by SEPA to the scheme of £7,687,506 (2016-2017: £7,835,418). There was £1,010,275 (2016-2017: £952,786) outstanding at 31 March 2018 in relation to the pension contribution.

## 18. 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 £97m (2016-2017: £105m) for the financial year ended 31 March 2018, 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 2018, 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 2017. The actuary has projected the results of the March 2017 valuation forward to 31 March 2018 using approximate methods. This exercise allows for changes to the financial assumptions, additional benefit accrual, and estimated cash flows over the year and the current membership information.

The actuary has:

- a) 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.
- b) Projected pension expense for the year to 31 March 2018 allowing for LGPS career averaged revalued earnings (CARE) benefit design.
- c) 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 post April 2009 service.
- d) Used post retirement mortality assumptions based on Hyman's Club Vita analysis. These are a bespoke set of VitaCurves that are specifically tailored to fit the membership profile of the fund and are based on data provided for the last formal valuation. Improvements have been assumed on a long term rate in the rate of longevity at 1.25% per annum. Based on these assumptions the SEPA specific average future life expectations at age 65 are:

	<b>Males</b>	<b>Females</b>
Current pensioners	21.2 years	23.7 years
Future pensioners	22.7 years	25.5 years

- 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.

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	As at 31-March 2017				As at 31-March 2018			
	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	%
<b>Equity securities:</b>								
Consumer	28,939	-	28,939	10	29,745	-	29,745	11
Manufacturing	13,578	-	13,578	5	12,854	-	12,854	4
Energy and utilities	11,231	-	11,231	4	9,834	-	9,834	3
Financial institutions	18,776	-	18,776	7	21,961	-	21,961	8
Health and care	12,548	-	12,548	5	11,325	-	11,325	4
Information technology	19,151	-	19,151	7	17,682	-	17,682	6
Other	5,491	-	5,491	2	4,893	-	4,893	2
<b>Debt securities:</b>								
Corporate bonds (investment grade)	-	10,653	10,653	4	-	9,157	9,157	3
Corporate bonds (non-investment grade)	-	-	-	-	-	-	-	-
UK government	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
<b>Private equity:</b>								
All	-	21,343	21,343	8	-	26,026	26,026	9
<b>Real estate:</b>								
UK property	-	17,385	17,385	6	-	16,788	16,788	6
Overseas property	-	474	474	-	-	195	195	-
<b>Investment funds and unit trusts:</b>								
Equities	61,823	-	61,823	22	63,527	-	63,527	22
Bonds	-	13,390	13,390	5	-	13,412	13,412	5
Infrastructure	-	3,340	3,340	1	-	3,062	3,062	1
Other	28,846	-	28,846	10	29,091	-	29,091	10
<b>Derivatives:</b>								
Other	-	-	-	-	-	-	-	-
<b>Cash and cash equivalents:</b>								
All	11,359	-	11,359	4	16,089	-	16,089	6
<b>Totals</b>	<b>211,742</b>	<b>66,585</b>	<b>278,327</b>	<b>100</b>	<b>217,001</b>	<b>68,640</b>	<b>285,641</b>	<b>100</b>

Financial assumptions used in 2017-2018 to arrive at the discount rate were:

- A corporate bond yield curve was constructed by Hymans Robertson based on constituents of iBoxx AA corporate bond index.
- The discount rate used recognises the weighted average duration (or term) of the benefit obligation.

The employer is then categorised into a short, medium or long term – reflecting the weighted average of the duration of the benefit obligation. SEPA has been classified as long term.

The financial assumptions utilised by the actuary to calculate liabilities under IAS 19 were based on:

Year ended	31 March 2017 (% per annum)	31 March 2018 (% per annum)
Pension increases	2.4	2.4
Salary increases	2.7	2.9
Discount rate	2.7	2.7

	Number	Total salaries / pensions		Average age	Liability split	Liability split	Weighted average duration at previous formal valuation (years)
	31 Mar 2017	Salaries 2017-2018 £'000	31 Mar 2017 £'000	31 Mar 2017	31 Mar 2018 £'000	Percentage (%) at 31 March 2018	
Actives	1,230	39,518	39,735	48	228,981	59.9%	26.7
Deferred pensioners	743	-	2,355	48	62,882	16.4%	26.8
Pensioners	346	-	4,134	65	90,710	23.7%	13.3
<b>Total</b>					<b>382,573</b>	<b>100%</b>	<b>22.9</b>

As a result of these financial assumptions being applied, SEPA obligations or liabilities under the scheme have decreased by £7m (2016-2017: increased by £111.4m). Cash inflows from contributions in year are greater than cash benefits paid out by £4.8m.

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

	Year ended 31 March 2017			Year ended 31 March 2018		
	Assets	Obligations	Net (liability)/ asset	Assets	Obligations	Net (liability)/ asset
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Pensions deficit</b>						
Fair value of employer assets	225,407	-	225,407	278,327	-	278,327
Present value of funded liabilities	-	(271,893)	(271,893)	-	(383,277)	(383,277)
<b>Opening position as at 31 March</b>	<b>225,407</b>	<b>(271,893)</b>	<b>(46,486)</b>	<b>278,327</b>	<b>(383,277)</b>	<b>(104,950)</b>
<b>Service cost</b>						
Current service cost <sup>12</sup>	-	(9,218)	(9,218)	-	(13,713)	(13,713)
Past service cost (including curtailments)	-	(298)	(298)	-	-	-
<b>Total service cost</b>	<b>-</b>	<b>(9,516)</b>	<b>(9,516)</b>	<b>-</b>	<b>(13,713)</b>	<b>(13,713)</b>
<b>Net interest</b>						
Interest income on plan assets	8,195	-	8,195	7,575	-	7,575
Interest cost on defined benefit obligation	-	(9,899)	(9,899)	-	(10,490)	(10,490)
<b>Total net interest</b>	<b>8,195</b>	<b>(9,899)</b>	<b>(1,704)</b>	<b>7,575</b>	<b>(10,490)</b>	<b>(2,915)</b>
<b>Total defined benefit cost recognised in profit or (loss)</b>	<b>8,195</b>	<b>(19,415)</b>	<b>(11,220)</b>	<b>7,575</b>	<b>(24,203)</b>	<b>(16,628)</b>
<b>Cash flows</b>						
Plan participants' contributions	2,641	(2,641)	-	2,669	(2,669)	-
Employer contributions	7,716	-	7,716	7,508	-	7,508
Benefits paid	(5,536)	5,536	-	(5,295)	5,295	-
<b>Expected closing position</b>	<b>238,423</b>	<b>(288,413)</b>	<b>(49,990)</b>	<b>290,784</b>	<b>(404,854)</b>	<b>(114,070)</b>
<b>Re-measurements</b>						
Change in demographic assumptions	-	-	-	-	(1,507)	(1,507)
Change in financial assumptions	-	(94,864)	(94,864)	-	(4,156)	(4,156)
Other experience	-	-	-	-	27,944	27,944
Return on assets excluding amounts included in net interest	39,904	-	39,904	(5,143)	-	(5,143)
<b>Total re-measurements recognised in other comprehensive income</b>	<b>39,904</b>	<b>(94,864)</b>	<b>(54,960)</b>	<b>(5,143)</b>	<b>(22,281)</b>	<b>17,138</b>
Fair value of employer assets	278,327	-	278,327	285,641	-	285,641
Present value of funded liabilities	-	(383,277)	(383,277)	-	(382,573)	(382,573)
<b>Closing position as at 31 March</b>	<b>278,327</b>	<b>(383,277)</b>	<b>(104,950)</b>	<b>285,641</b>	<b>(382,573)</b>	<b>(96,932)</b>

<sup>12</sup> The current service cost includes an allowance for administration expenses of 0.2% of payroll.

**19. 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 2018. There is a decrease in forecast net liabilities of £8m 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.

<b>Statement of comprehensive net expenditure</b>	<b>Year to 31 March 2017</b>	<b>Year to 31 March 2018</b>
	<b>£'000</b>	<b>£'000</b>
<b>Charge to operating costs</b>		
Current service cost	9,218	13,713
Past service cost	298	-
Total service cost	9,516	13,713
Employer contribution	(7,716)	(7,508)
<b>Added to staff costs</b> (see note 5)	<b>1,800</b>	<b>6,205</b>
Projected return on employers assets	(9,899)	(10,490)
Actual return on employer assets	8,195	7,575
<b>Taken to interest</b> (payable)/receivable, see note 7)	<b>(1,704)</b>	<b>(2,915)</b>

Hyman's have estimated SEPA's employer's contributions for the period to 31 March 2019 at approximately £7.9m.

**20. 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, and 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. Board Member Declarations of Registered Interests is published on the SEPA website ([www.sepa.org.uk/about-us/how-we-work/our-board/members/](http://www.sepa.org.uk/about-us/how-we-work/our-board/members/)).



**Segmented assets and liabilities at 31 March 2018**

Portfolio	Regulatory Services	Evidence & Flooding	Chief Exec.	Performance & Innovation	People & Property	Finance	Commercial Services	Compliance & Beyond	Circular Economy	Corporate	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Segment assets</b>											
Non-current assets	-	24,411	-	-	11,814	-	-	-	-	-	36,225
Assets for sale	-	-	-	-	-	-	-	-	-	90	90
Trade receivables	-	-	-	-	-	-	-	-	-	3,515	3,515
Cash	-	-	-	-	-	-	-	-	-	1,805	1,805
Total liabilities	-	-	-	-	-	-	-	-	-	(107,932)	(107,932)
<b>Total net assets</b>	-	<b>24,411</b>	-	-	<b>11,814</b>	-	-	-	-	<b>(102,522)</b>	<b>(66,297)</b>

## Segmental analysis for year to 31 March 2017

Portfolios <sup>13</sup>	Regulatory Services	Evidence & Flooding	Chief Exec	Performance & Innovation	People & Property	Finance	Commercial Services	Corporate	Total
<b>Extracted from period 12 Monthly Financial Report</b>									
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Income:</b>									
Revenue from Charging Schemes	-	-	-	-	-	-	-	38,996	38,996
Other income	-	-	-	-	-	-	-	6,388	6,388
<b>Total income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>45,384</b>	<b>45,384</b>
<b>Less expenditure</b>									
Staff costs	24,909	19,826	389	4,625	1,370	1,080	151	608	52,958
Other operating charges	6,822	9,993	118	1,397	6,567	297	9	507	25,710
Depreciation and impairment	-	-	-	-	-	-	-	2,989	2,989
<b>Total expenditure</b>	<b>31,731</b>	<b>29,819</b>	<b>507</b>	<b>6,022</b>	<b>7,937</b>	<b>1,377</b>	<b>160</b>	<b>4,104</b>	<b>81,657</b>
<b>Net expenditure for year</b>	<b>(31,731)</b>	<b>(29,819)</b>	<b>(507)</b>	<b>(6,022)</b>	<b>(7,937)</b>	<b>(1,377)</b>	<b>(160)</b>	<b>41,280</b>	<b>(36,273)</b>

**Reconciliation to annual accounts**

Increase in capital charges & impairment in asset values	(1)
Add pension scheme adjustment to staff costs	(2,152)
Less cash spend on unfunded pensioners that has transferred to the balance sheet	139
Add pensions interest adjustment	(1,704)
Less late accruals	25
<b>Net expenditure for the year</b>	<b>(39,966)</b>

13 New portfolio structure created 2016-2017

**Segmented assets and liabilities at 31 March 2017**

Portfolio	Regulatory Services	Evidence and Flooding	Chief Exec.	Performance & Innovation	People and Property	Finance	Commercial Services	Corporate	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Segment assets</b>									
Non-current assets	130	9,670	-	-	15,137	-	-	-	24,937
Assets for sale	-	-	-	-	-	-	-	125	125
Trade receivables	-	-	-	-	-	-	-	3,064	3,064
Cash	-	-	-	-	-	-	-	1,300	1,300
Total liabilities	-	-	-	-	-	-	-	(113,974)	(113,974)
<b>Total net assets</b>	<b>130</b>	<b>9,670</b>	<b>-</b>	<b>-</b>	<b>15,137</b>	<b>-</b>	<b>-</b>	<b>(109,485)</b>	<b>(84,548)</b>

**22. Trading Accounts**

Schemes	ERS	PRW	RSA Band A	Other	Total
<b>Year to 31 March 2018</b>					
	£'000	£'000	£'000	£'000	£'000
<b>Income</b>	35,385	1,124	1,580	996	39,085
<b>Expenditure</b>					
Staff costs	26,585	565	913	864	28,927
Depreciation / cost of capital	1,939	30	36	32	2,037
Bad debts	84	-	29	-	113
Other operating charges	7,986	272	616	281	9,155
<b>Total expenditure</b>	<b>36,594</b>	<b>867</b>	<b>1,594</b>	<b>1,177</b>	<b>40,232</b>
<b>(Under)/Over recovery</b>	<b>(1,209)</b>	<b>257</b>	<b>(14)</b>	<b>(181)</b>	<b>(1,147)</b>
<b>% Cost recovery</b>	<b>97%</b>	<b>130%</b>	<b>99%</b>	<b>55%-240%</b>	<b>97%</b>

Other individual schemes each with fees of less than £1m	Scheme fees each over £1m
AVIA – Aviation	ERS – Environmental Regulation (Scotland)
COMAH – Control of Major Accident Hazards Regulations	RSA – Radioactive Substances Act
CRC – Carbon Reduction Commitment	PRW – Producer Responsibility Waste Packaging
ETS – EU Greenhouse Gas Emissions Trading	
RES – Reservoirs Charging Scheme	

<b>Schemes</b>	<b>ERS</b>	<b>PRW</b>	<b>RSA Band A</b>	<b>Other</b>	<b>Total</b>
<b>Year to 31 March 2017</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Income</b>	35,312	1,129	1,653	900	38,994
Expenditure					
Staff costs	25,911	534	937	725	28,107
Depreciation / cost of capital	2,029	30	34	36	2,129
Bad debts	41	-	-	-	41
Other operating charges	8,222	294	717	251	9,484
<b>Total expenditure</b>	<b>36,203</b>	<b>858</b>	<b>1,688</b>	<b>1,012</b>	<b>39,761</b>
<b>(Under)/Over recovery</b>	<b>(891)</b>	<b>271</b>	<b>(35)</b>	<b>(112)</b>	<b>(767)</b>
<b>% Cost recovery</b>	<b>98%</b>	<b>132%</b>	<b>98%</b>	<b>65% -255%</b>	<b>98%</b>

**Appendix 1****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 directions to SEPA in 2017-2018

Direction	Description	Date coming into force
<a href="#">The Reservoirs (Disclosure of Information) (Scotland) Directions 2017</a>	Exercise of the powers conferred by section 104 of the Reservoirs (Scotland) Act 2011	1 April 2017
<a href="#">The Delegation of Functions (Regional Marine Plan for the Scottish Marine Region for the Clyde) Direction 2017</a>	Exercise of the powers conferred by sections 12 and 13 of the Marine (Scotland) Act 2010(a) and all other powers enabling them to do so.	20 March 2017 16 January 2018 SEPA consented to be party to the direction.

### Appendix 3

#### Trade Union facilities time<sup>14</sup>

In accordance with SEPA's statutory responsibility under Trade Union (TU) (Facility Time Publication Requirements) Regulations 2017, the schedule below provides the required data relating to SEPA's Trade Union Representatives for the period 2017 – 2018.

#### Relevant union officials

Number of employees who were relevant union officials during 2017/18	Full-time equivalent employee number
12	11.6

#### Percentage of time spent on facility time<sup>15</sup>

Percentage time spent on facilities time as a percentage of total working hours for each Union representative

Percentage of time	Number of employees
0%	1
1 – 50%	11
51% - 99%	0
100%	0

#### Percentage of pay bill spent on facility time<sup>16</sup>

Percentage of total pay bill spent on paying employees for facility time during 2018/19

Total cost of facility time	£45,665
Total pay bill	£52,974,000
Percentage of total pay bill on facility time	0.09%

#### Paid trade union activities<sup>17</sup>

Percentage of time spent on union activities as a percentage of total paid facilities time.

Time spent on paid trade union activities as a percentage of total paid facility time (hours)	40%
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<sup>14</sup> All footnotes on this page refer to information taken from HM government Supporting Guidance for the Trade Union (Facility Time Publication Requirements) Regulations 2017.

<sup>15</sup> TU activities – means time taken off under section 170(1)(b) of the 1992 Act. TULR(C)A section 170. There is no statutory entitlement to paid time off to undertake TU activities. However, TU representatives are entitled to be granted reasonable unpaid time off to participate in TU activities.

<sup>16</sup> Total paid facility time hours – total number of hours spent on facility time by TU representatives during a relevant period. Does not include hours attributable to time taken off under section 170(1)(b) of the 1992 Act in respect of which a TU representative does not receive wages.

<sup>17</sup> Paid TU activities – time taken off for TU activities under section 170 (1) (b) of the 1992 Act in respect of which a TU representative receives wages from the relevant public sector employer. There is no statutory entitlement to paid time off to undertake activities.

For information on accessing this document in an alternative format or language please either contact SEPA by telephone on 03000 99 66 99 or by email to [equalities@sepa.org.uk](mailto:equalities@sepa.org.uk)

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