

ANNUAL REPORT AND ACCOUNTS 2018-2019



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SG/2019/130 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 2018/19 tells the story of how we are 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 2018/19



Bob Downes
Chair

Terry A'Hearn
Chief Executive Officer

Welcome to SEPA's 2018-19 Annual Report.

Under SEPA's One Planet Prosperity strategy, we have set out to change the way we do our work. We're determined to deliver our regulatory and flooding services in even more powerful ways. In our regulatory work, our aim is to get all businesses more quickly into compliance with environmental laws and help as many as possible to voluntarily surpass the standards. This is essential if Scotland is to rise to the challenges of climate change, biodiversity threats, marine plastics and many other major problems. We are bringing the same focus to our flooding work where we are aiming to help Scotland tackle the increased flooding risks that are associated with climate change.

Our performance in 2018-19 was an important step in this direction. In 2018-19, we achieved 10 of our 15 performance measures. Not fully meeting 5 measures is disappointing. For future years we will ensure that our performance measures are aligned with developing strategy.

Across the reporting period, environmental performance amongst Scottish regulated businesses remained high, with 90.97% of Scottish regulated businesses recorded as 'Excellent', 'Good' or 'Broadly Compliant' in our annual Compliance Assessment Scheme. We took a major step forward with our new 'Sector Plan' approach and we consulted on another 12 plans this year, meaning we now have 16 plans either published or nearly completed. We believe this gives SEPA a more strategic and focused way of regulating than we've ever had before. We will continue to develop and consult on plans until we have published a plan for every sector by the end of March 2021.

Of particular note is that, in November 2018, SEPA announced firm, evidence-based proposals for a revised aquaculture regulatory regime that sought to strengthen the regulation of the Scottish finfish aquaculture sector. The proposals followed sixteen months of work by the agency and recognising the diverse range of views of finfish aquaculture, SEPA engaged in its largest public engagement exercise to date. In total, 275 people and 31 stakeholder groups participated in nine engagement events across Scotland, informing our new regime introduced in June 2019.

During the year, SEPA supported the Scottish Government, NHS Scotland and health boards as part of contingency

arrangements to ensure that clinical waste across all NHS boards in Scotland was stored, collected and disposed of appropriately following the loss of contracts by Healthcare Environmental Services (HES). Working in partnership with the other public bodies, we ensured that all contingency measures appropriately protected the environment and human health.

In 2018, we helped Scotland mitigate against the impacts of extreme weather. Although generally considered a wet country, Scotland can be vulnerable to periods of dry weather. Last summer, Scotland experienced its third driest period for 40 years and some rivers in the North East reached their lowest levels on record. SEPA worked in partnership with Scottish Water, Scottish Government and others by providing farm managers and regulated water users in Scotland with practical advice on using river and ground water sources sensibly and efficiently.

As Scotland's strategic flood management authority, following extensive consultation, we published the 2018 National Flood Risk Assessment, a powerful tool that supports the development and prioritisation of actions to reduce overall flood risk. We enhanced resilience against the impact of flood events with the addition of new coastal flood warning schemes covering 19 priority areas across the Orkney Islands, Aberdeenshire and Angus and an additional 2,589 properties were included in schemes that cover almost the whole of the east coast of Scotland.

Moreover, reflecting our own responsibilities, we achieved our own long-term greenhouse gas reduction target of 42% by March 2019, a year earlier than planned. Our electricity emission conversion factor dropped by 20% from 2017-2018 whilst greenhouse gas emissions from buildings also dropped by 20%.

It was a year in which we made significant strides in the work we deliver for Scotland and provides a solid basis for further implementing One Planet Prosperity in 2019-20.

Bob Downes
Chair

Terry A'Hearn
Chief Executive Officer



Bob Downes
Cathraiche

Terry A'Hearn
Ceannard

Fàilte gu Aithisg Bhliadhna SEPA airson 2018-19

A rèir ro-innleachd Soirbheachas Aon Phlanaid aig SEPA, tha sinn air cur romhainn atharrachadh mar a nì sinn ar cuid obrach. Tha sinn deimhinnte às a bhith a' libhrigeadh ar seirbheisean riaghlaidh is tuileachaidh ann an dòighean fiù 's nas cumhachdaile. San obair riaghlaidh againn, 's e ar rùn a bhith a' toirt air gach gnòthachas gèilleadh ri laghan na h-àrainneachd nas luaithe agus a bhith a' cuideachadh uiread 's a ghabhas a dhol seachad air na bun-tomhasan gu saor-thoileach. Tha seo riatanach ma dh'fheumas Alba coinneachadh ris na dùbhlain ann an atharrachadh na gnàth-shìde, bagairtean bith-iomadachd, plastaigean sa chuan agus iomadh trioblaid mhòr eile. Tha sinn a' cuimseachadh air ar n-obair thuileachaidh leis an aon dìcheall agus sinn ag amas air a bhith a' cuideachadh Alba a' dèiligeadh ris na cunnartan tuileachaidh a tha a' fàs mar thoradh air atharrachadh na gnàth-shìde.

Bha ar coileanadh ann an 2018-19 na cheum cudromach a dh'ionnsaigh seo. Ann an 2018-19, shoirbhich leinn ann an 10 às na 15 slatan-tomhais choileanadh againn. 'S e briseadh-dùil a tha nach deach leinn gu h-iomlan ann an 5 de na slatan-tomhais. Sna bliadhnaichean a tha romhainn, nì sinn cinnteach gum bi na slatan-tomhais choileanadh againn co-thaobhach leis an ro-innleachd mar a leasaichear i.

Ri linn an tràtha aithrisidh, bha coileanadh àrainneachd fhathast àrd am measg nan gnòthachasan Albannach a tha air an riaghladh, agus comharra de 'Shàr-mhath', 'Math' no 'Gèilleadh sa Mhòr-chuid' aig 90.97% de na gnòthachasan Albannach riaghlaidh san Sgeama Mheasadh Ghèilleadh bhliadhna againn. Ghabh sinn ceum mòr air adhart leis an dòigh-obrach 'Plana Roinn' ùr againn agus ghabh sinn beachdan air 12 plana eile am-bliadhna, a' fàgail gu bheil 16 planaichean foillsichte no gu bhith deiseil againn a-nis. Tha sinn a' creidsinn gu bheil dòigh riaghlaidh nas ro-innleachdail is nas cuimsichte aig SEPA leis an seo na bha againn riamh roimhe. Leanaidh sinn oirnn a' leasachadh agus a' gabhail bheachdan air planaichean gus am foillsich sinn plana airson gach roinn ro dheireadh a' Mhàirt 2021.

'S e rud as fhiach comharradh gu h-àraidh gun do dh'fhoillsich SEPA molaidhean stèidhte air fianais airson dòigh-riaghlaidh tuathanais uisge ath-leasaichte anns an t-Samhain 2018, a bha airson riaghladh a neartachadh ann an roinn tuathanais uisge iasg ite na h-Alba. Lean na molaidhean air obair na buidhne a mhair sia mìosan deug agus, leis gu bheil SEPA ag aithneachadh gu bheil raon farsaing de bheachdan air tuathanas uisge iasg ite, chaidh sinn an sàs sa cho-chomhairleachadh phoblach as motha againn thuige seo. Uile-gu-lèir, ghabh 275 daoine agus 31 buidhean le ùidh sa chùis pàirt ann an tachartasan co-chomhairleachaidh air feadh Alba, a' toirt dhuinn an fhiosrachaidh air an stèidhicheadh ar dòigh-riaghlaidh ùr a chuireadh an gnìomh anns an Ògmhios 2019.

Rè na bliadhna, chum SEPA taic ri Riaghaltas na h-Alba, NHS Alba agus bùird shlàinte mar phàirt de dh'ullachaidhean tuiteamais gus dèanamh cinnteach gun robhar a' cumail, a' cruinneachadh agus a' faighinn cuidhteas de sgudal clionaigeach gu h-iomchaidh ann an gach bòrd NHS ann an Alba an dèidh call nan cùmhnantan le Seirbheisean Àrainneachd Cùram-slàinte (HES). Ag obair ann an com-pàirteachas leis na buidhnean poblach eile, rinn sinn cinnteach gun robh na h-ullachaidhean tuiteamais uile a' dìon na h-àrainneachd agus slàinte nan daoine ann an dòighean iomchaidh.

Ann an 2018, chuidich sinn Alba le bhith a' maothachadh buaidhean side nan seachd sian. Ged a thathar a' measadh san fharsaingeachd gu bheil i na dùthaich fhliuch, bidh Alba fo bhuaidh tràthan de shìde thioram bho àm gu àm. As t-samhradh seo chaidh, bha an treas tràth bu tioram ann an Alba sna 40 bliadhna a dh'fhalbh agus lùghdaich cuid de na h-aibhnichean san Ear-thuath dhan ìrean a b' isle clàraichte. Bha SEPA ag obair ann an com-pàirteachas le Uisge Alba, Riaghaltas na h-Alba agus buidhnean eile a' toirt seachad comhairle phragtaigeach gu manaidsearan tuathanas agus luchd-cleachdaidh riaghalaidh ann an Alba air mar a chleachdadh iad tùsan uisge nan aibhnichean is san talamh gu ciallach is gu h-èifeachdach.

Mar ùghdarras làimhseachadh tuileachadh ro-innleachdach na h-Alba, agus an dèidh co-chomhairleachadh fad is farsaing, dh'fhoillsich sinn am Measadh Cunnart Tuileachaidh Nàiseanta 2018, innleachd chumachdach a tha a' cumail taic ri leasachadh is prìomhachasachd de ghniomhan airson cunnart tuileachaidh a lùghdachadh san fharsaingeachd. Leasaich sinn calmachd an aghaidh buaidh nan tachartasan tuileachaidh le bhith a' cur air dòigh sgeamaichean rabhadh tuileachaidh ùra air a' chosta, a' còmhachadh 19 sgìrean de phrìomhachas air feadh Arcaibh, Siorrachd Obar Dheathain agus Aonghas, agus thugadh 2,589 togalach a-steach ann an sgeamaichean a chòmhaicheas costa an ear na h-Alba air fad, cha mhòr.

A bharrachd, a' coimhead ris na dleastanasan againn fhèin, ràinig sinn an targaid fhad-ùineach againn air lùghdachadh gasan seòmar-glainne de 42% ron Mhàrt 2019, bliadhna na bu tràithe na bhathar an dùil. Thuit factar eimisean an dealain againn 20% bho 2017-2018 agus thuit eimiseanan gasan seòmar-glainne bho thogalaichean 20% cuideachd.

'S e bliadhna a bha ann san d' rinn sinn adhartas nach beag san obair a libhrigeas sinn airson Alba agus tha i gar fàgail le bunait ghrundail airson Soirbheachas Aon Phlanaid a thoirt am buil fiù 's nas motha ann an 2019-20.

Bob Downes
Cathraiche

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 2018. 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 2018/19. 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 re-structured 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 more powerfully 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. We are in a strong position to start delivering 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.



SEPA site visit to Veolia Environmental Services (VES), a contracting partner in decommissioning, which operates the decommissioning facility within the Greenhead Base in Shetland



1.2 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 aren't complying 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 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 environmental 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. Customers who register for this service receive phone or text messages letting them know when there is a risk of flooding. This gives 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.

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

1.3 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.

1.4 Our contribution to the Scottish Government 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 11 national outcomes in relation to the National Performance Framework. We make the most significant contribution to the outcomes listed below:

- We value, enjoy, protect and enhance our environment
- We have a globally competitive, entrepreneurial, inclusive and sustainable economy
- We live in communities that are inclusive, empowered, resilient and safe
- We respect, protect and fulfil human rights and live free from discrimination
- We are open, connected and make a positive contribution internationally

More information about how we contribute to the Scottish Government's purpose can be found in our [Corporate Plan 2017-2022](#)¹ and in the statement 'Promoting and increasing sustainable growth' on our [website](#)²

1.5 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 1281 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](#)³ and the role of the Audit Committee, is covered in the Governance statement in the Accountability Report section.

1. <https://www.sepa.org.uk/about-us/our-performance/>

2. <https://www.sepa.org.uk/>

3. <https://www.sepa.org.uk/about-us/how-we-work/our-board/>

Our management

Details of our management team are included on page 37. 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](#)⁴. They are responsible for strategic planning, business management, performance management and change management, amongst other duties.

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 sector-based way of working

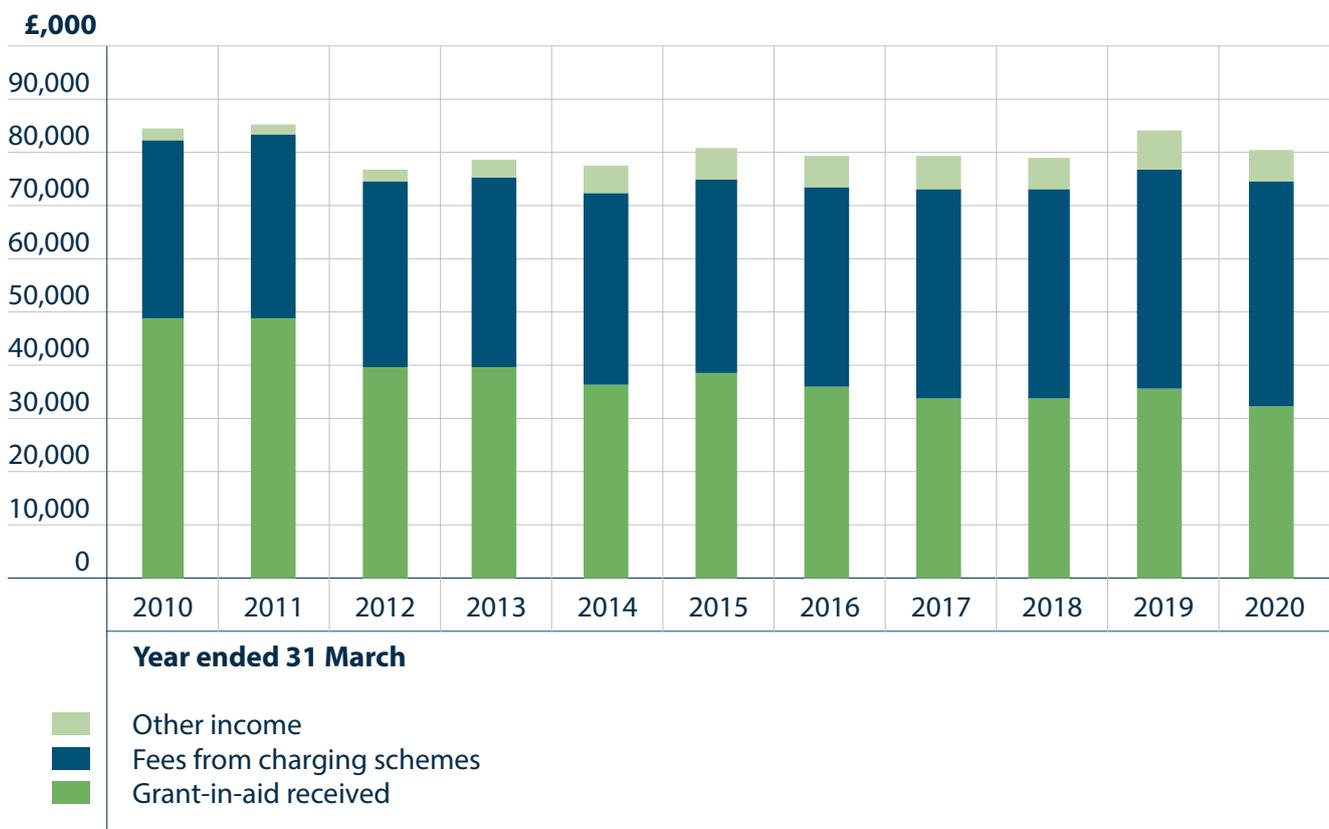
By grounding our regulation and activities across whole sectors, we will shape our interactions with every sector and the businesses in them.

Bringing partners together through sector planning - we are developing sector plans with key partners in every sector we regulate. Through these plans we will understand the growth ambitions of the sector and find ways to facilitate this in ways that provides for effective environmental protection and improvement. Sector plans will identify ways to tackle outstanding compliance issues and will where there are opportunities for innovation enabling better environmental outcomes as the sector develops. This will include social issues such as recognising the importance of creating local jobs in rural communities and any issues that non-compliance is creating in the communities the sector is operating in. We published the Scotch Whisky plan and consulted on twelve more plans this year:

1. Chemicals manufacturing
2. Crop production
3. Dairy processing
4. Dairy production
5. Finfish aquaculture
6. Housing
7. Leather
8. Nuclear power generation and decommissioning
9. Strategic infrastructure (transport and utilities)
10. Water supply and waste water
11. Oil and gas decommissioning
12. Tyres

4. <http://media.sepa.org.uk/biographies/>

Figure 1. Income by year to 31 March 2010 to 2020



Our funding

Our income comes mainly from a mixture of grants from the Scottish Government (cash £35.1m) and licence fees from those we regulate (£40.8m). We also receive £6.8m 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 £81.3m and capital investment of £1.7m.

SEPA is committed to managing its expenditure within the income available to it year on year. The Scottish Government has allocated SEPA £31.8m cash grant for 2019/20 operating costs and £2m for capital investment. We have estimated that the fees from charging schemes and other income to be £47.9m for 2019/20. Figure 1 shows where our income has come from for the last 10 years and our predictions for 2019/20.

Figure 2. Expenditure by year to 31 March 2010 to 2020

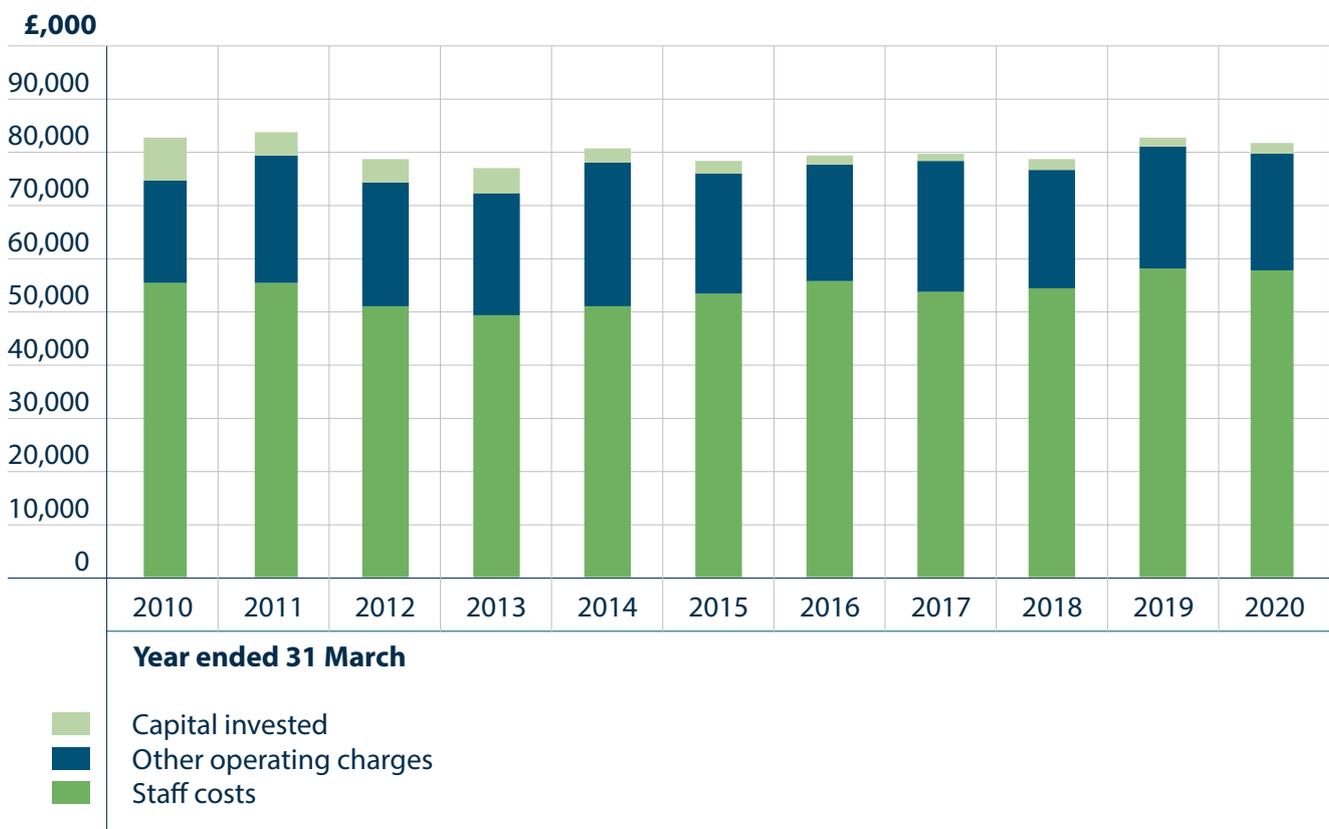


Figure 2 charts how we have spent funds received in the last ten years and how we plan to spend the funds we anticipate in 2019/20.

The figures above exclude non-cash budget resource provided by Scottish Government each year and the annual depreciation charge. Grant in aid received equals the cash drawn down from Scottish Government in year. The non-cash resource for 2018/19 shown in the parliamentary accountability section for 2018/19 was £3m. The non-cash expenditure for 2018/19 was depreciation and loss on asset disposals shown in the statement of comprehensive net expenditure of £2.95m, plus the IAS 19 pension adjustments and Life Assurance provision reflected in staff costs in note 5.

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.

The science on climate change is unequivocal. Across the reporting period, the world's leading climate scientists warned that we only have 12 years to avert a climate change disaster. Unless global warming can be limited to one and a half degrees Celsius by 2030, the risk of drought, floods, extreme heat and poverty will be significantly worsened for hundreds of millions of people.

The UN Intergovernmental Panel on Climate Change (IPCC) warned that the two degrees upper limit agreed in the 2015 Paris climate talks was too high and that unprecedented changes were needed to reach the one and half degrees target. At two degrees, the IPCC found that 50 per cent more people would be exposed to water stress. Food scarcity would affect hundreds of millions more people, with poor countries at risk of climate-related poverty. Heat-related deaths and forest fires would increase as extremely hot days became more common and severe. Nature would be worst affected. Insects and plants are almost twice as likely to lose half their habitat at 2 degrees, compared with one and half degrees. 99% of corals would be lost. Rising sea levels would affect 10 million more people. And marine fisheries would lose 3m tonnes of fish at 2 degrees, twice the decline at one and a half degrees.

Here in Scotland, we already have some of the most ambitious greenhouse gas reduction targets in the world and the Scottish Government has introduced a new Climate Change Bill that will stretch that ambition further. SEPA wants to play as powerful a role as possible to help Scotland deliver this world leading climate change action. We have published our Climate Change Commitment Statement⁵ which sets out this ambition and the targets we are setting ourselves.

Managing water scarcity

Although generally considered a wet country, Scotland can be vulnerable to periods of dry weather, which can result in pressure upon the environment and water users in some areas. In addition, climate change is likely to bring uncertainty and may exert pressure in areas that have not yet experienced water scarcity.

Last summer, Scotland experienced its third driest period for 40 years and some rivers in the North East reached their lowest on record. SEPA, working in partnership with Scottish Water, Scottish Government and others, provided farm managers and regulated water users in Scotland with practical advice on using river and ground water sources sensibly and efficiently. We encouraged people to contact their local office and undertook scheduled visits to offer guidance on simple, site specific steps that could be taken to reduce water usage and encouraged best practice for irrigation and water abstractions.

Working with licence holders and sharing information proactively through social media and a dedicated website hub, helped to avoid any unnecessary restrictions on supplies.

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.

5. <https://www.sepa.org.uk/>

Sustained compliance from Scottish businesses

Environmental performance amongst Scottish regulated businesses and other organisations across the reporting period remained high, with 90.4% of Scottish regulated businesses recorded as 'Excellent', 'Good' or 'Broadly Compliant'.

A key part of SEPA's Regulatory Strategy, One Planet Prosperity, is to drive all businesses not yet meeting standards into full compliance with the environmental laws in Scotland. SEPA's Compliance Assessment Scheme (CAS) rates an operator's environmental performance against their licence conditions. The annual results enable SEPA to take a targeted approach which focuses on high risk operations and under-performing sites more frequently than compliant or low risk activities.

90.4%⁶ of Scottish regulated business sites assessed were compliant:

- Scotch whisky distillers in particular achieved over 90%⁷ compliance for the fourth year in a row.
- Across Scottish business, 97 sites which were assessed as non-compliant for the last two years became compliant. 21 licenses classified as 'Very Poor' in 2017 improved their compliance rating in 2018.



SEPA officer on the Sir John Murray (SEPA survey vessel) at the finfish aquaculture sector plan consultation launch



Firm, evidence-based proposals for a revised Scottish finfish aquaculture regulatory regime

On 7 November 2018, SEPA announced firm, evidence-based proposals for a revised aquaculture regulatory regime that seeks to strengthen the regulation of the Scottish finfish aquaculture sector. The proposals and accompanying draft sector plan recognised that Scotland is the largest Atlantic salmon aquaculture producer in the European Union and third in the world after Norway and Chile. They further recognised that a contributing factor to this position is Scotland's reputation for a high quality environment and abundant freshwater resources.

SEPA's draft finfish aquaculture sector plan is ambitious in its aspirations for an industry where:

- The Scottish finfish aquaculture sector recognises that protecting the environment is fundamental to its success and is foremost in all its plans and operations.
- The sector is a world-leading innovator of ways to minimise the environmental footprint of food production and supply.
- The sector has a strong and positive relationship with neighbouring users of the environment and the communities in which it operates. It is valued nationally for its contribution to achieving global food security.

6. <https://www.sepa.org.uk/>
7. Based on 2018 CAS data

The plan sets out SEPA's twin general aims for all sectors we regulate:

- All operators in the sector will reach and maintain full compliance with Scotland's environmental protection laws, and
- SEPA will work to help as many operators as possible to move beyond compliance.

The proposals followed sixteen months of work including a consultation in 2017.

Recognising the diverse range of views of finfish aquaculture, SEPA announced a seven-week public consultation and held a series of nine events across Scotland. In total, 275 people and 31 stakeholder groups participated and informed our proposals. Recognising the diverse range of views on finfish aquaculture, we were keen to hear directly from individuals, interest groups, NGOs, communities, companies and others with a view on the regulatory proposals. Across November and December 2018 we gathered feedback to shape the future of how we regulate the sector.

Campaigning against waste crime

In tandem with police forces across Britain and the English, Welsh and Northern Irish environment agencies, SEPA continued its campaign against waste crime. SEPA's Drive out waste crime initiative involved a series of interventions across the year including road stops, site visits and awareness-raising activity.

Waste crime is estimated to cost the UK economy around £600m a year.

SEPA is also leading a collaborative Smart LIFE Waste project to identify and test innovative ways of understanding, tackling and reducing waste-related crime. These include: developing a financial assessment toolkit to better identify where waste crime may be occurring, using remote sensing and satellites, greater co-ordination and co-operation with partners and improving our understanding of the waste stream flows and the economics of waste. SEPA also introduced a new "fit and proper person" test for all authorisations which will prevent those known to be criminals or with a history of serious non-compliance from gaining environmental authorisations.

Clinical waste contingency

SEPA has supported the Scottish Government, NHS Scotland and health boards as part of contingency arrangements to ensure that clinical waste across all NHS boards in Scotland is stored, collected and disposed of appropriately following the loss of contracts by Healthcare Environmental Services (HES). Working in partnership with the other public bodies, we have ensured that all contingency measures appropriately protect environment and human health.

SEPA previously served enforcements notices to the business in September and December in 2018 and subsequently found through inspections that HES were not fully complying with the requirements set out in the enforcement notice. Breaching environmental legislation is a criminal offence and in January 2019 we launched an investigation to establish whether criminal offences had been committed.

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.

As Scotland continues to focus on improving its environmental performance, the VIBES – Scottish Environmental Business Awards is celebrating its 20th anniversary, continuing to drive systemic change in environmental performance. Those UK businesses that were represented at this year's European Business Awards for the Environment included those from the SEPA-backed VIBES programme.

We help Scotland prepare more powerfully for future increased flooding.

There is new evidence that the frequency of flooding will increase significantly in the coming decades. We need a radical new approach if we are to face this challenge whilst also contributing to sustainable economic growth.

This year we are focussing on developing a dynamic flooding strategy with extensive consultation with partners. Whilst this new strategy is being developed, we will continue our core work of reducing the impact of flooding via avoidance, protection and warning. We will focus improvements this year on consolidation - improving the reliability of our flood warning service, and the accessibility of information and advice to communities and businesses.

Avoid the risk of flooding to new developments

Avoiding risk to new developments is by far the most effective way to protect people from flooding and support sustainable economic development. Our main mechanism for this is to provide specialist land use planning advice to local authorities and to provide national flood risk maps. As our sector approach develops we will work with the housing, strategic infrastructure and water supply and waste water sectors to ensure that new developments are safe from flooding now and resilient to future flooding.

We will also begin a longer-term shift to a more proactive focus, helping policy makers and industry sectors plan years ahead to design more sustainable new places.

Protect communities and businesses to reduce the risk of flooding.

The [2018 National Flood Risk Assessment](#)⁸ shows that many communities are currently at risk of flooding, and that Scotland's flood risk will increase in future as a result of climate change. This risk cannot be avoided completely, so it is essential that people and places adapt. Examples of adaptation can include flood protection schemes and works, improved urban drainage, blue-green infrastructure, managed realignment, property level protection, catchment restoration and nature-based solutions. It is our duty to ensure that the most sustainable measures are identified and included within flood risk management strategies. We coordinate these strategies but they are developed in close partnership with Local Authorities, Scottish Water and other stakeholders.



Warn communities and business to help them prepare for flooding

In the face of rising sea levels and the promise of more frequent extreme weather events, the impact of climate change on Scotland's most flood prone communities is projected to place over 169,000 homes and businesses at risk of flooding by 2080.

The estimated cost to the Scottish economy is £53 million annually from coastal flood damage. National resilience against the impact of flood events has been significantly enhanced with the addition of new coastal flood warning schemes, covering 19 priority areas across the Orkney Islands, Aberdeenshire and Angus.

We are Scotland's flood warning authority. Where it is not possible to completely avoid or eliminate the risk of flooding then we must give communities and emergency responders advance notice of flooding and help them to be prepared and protect themselves. We provide Scotland's vital flood warning service; 24/7, 365 days a year, direct to communities and businesses to help them prepare in advance of flooding. This includes working in close partnership with the Met Office and ensuring the continuous flow of rainfall and water level data from our hydrometric network.

The new flood warning areas, launched in September 2018 will extend SEPA Floodline service to include almost the whole of the east coast of Scotland. This includes an additional 2589 properties and provide accurate, advanced warning to prepare communities against the impact of coastal flood events. The new warning areas for Orkney and the Northeast coast represents a significant investment and enhancement of Scotland's overall resilience to the impact of climate change and extreme weather.

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



Orkney coastal flood warning scheme launch

8. <https://www.sepa.org.uk/data-visualisation/nfra2018/>

A sector planning approach to our work

By moving away from the traditional site by site regulation to grounding our regulation and activities across whole sectors, we will shape our interactions with every sector and the businesses in them. Over the last two years we have developed plans for 16 sectors. We will continue to develop and consult on plans for the remaining sectors we regulate. We will have published a plan for every sector by the end of March 2021.

Those that demonstrate a commitment to good environmental performance and deliver solid outcomes will receive powerful support through guidance and advice. Those that demonstrate behaviour which leads to significant or chronic non-compliance can expect SEPA to use the most appropriate enforcement tools to bring them into compliance.

Engaging in the boardroom

We are moving many of our interactions to the most senior parts of many of the businesses we regulate. This is where the most important business decisions are made and where we can work most effectively to help businesses to align growth plans with good environmental stewardship. In the future, the environment will increasingly become a major business issue, not a 'sideline' issue, with environmental and social issues a market driver of business success.

Innovation through Sustainable Growth Agreements

Across the reporting period, SEPA pioneered the further development of Sustainable Growth Agreements. Sustainable Growth Agreements are shared agreements that enable regulated businesses and other organisations to set their own beyond compliance actions and targets that also improve profitability, for example by driving reductions in water, energy and material use and waste.

A Sustainable Growth Agreement with Scottish Water provided a focus for priority areas for both Scottish Water and SEPA on the environmental and economic opportunities of a circular economy and builds on the organisation's work to recycle over 115 thousand tonnes of organic material from waste water for use as a fuel, soil conditioner or fertiliser.

The partnership will contribute to the Scottish Government's [Energy Strategy](#)⁹ core objective of decarbonisation of energy by 2050, and will also help towards achieving the carbon emissions reduction target of 80% by 2050 set out by the Scottish Government's Climate Change Plan.

Scottish Land Commission and SEPA target new uses for derelict and vacant land

The Scottish Land Commission and SEPA set their sights on transforming Scotland's approach to vacant and derelict land, finding ways to bring thousands of acres of derelict and vacant land back into productive use. It will see the two organisations:

- Go beyond regulatory and planning compliance, to develop innovative approaches that will drive transformative - not piecemeal - change
- Challenge and change the way that Scotland deals with the issue of vacant and derelict land
- Work with local authorities, other public agencies and organisations in the private and social enterprise sectors to identify the causes and consequences of long-term land vacancy and dereliction
- Develop a 10 year strategy for eradicating the problem, setting ambitious targets supported at a local and national level.

The Scottish Vacant and Derelict Land Survey (SVDLS) was first set up 30 years ago, yet the amount of registered land has remained virtually static. There are currently around 11,600 hectares, two times the size of the City of Dundee, of derelict and urban vacant land in Scotland.

A new taskforce has been created, chaired by Steve Dunlop, Chief Executive Scottish Enterprise, to bring together leaders from the public, private and social enterprise sectors. The taskforce will challenge and reshape the approach to bringing sites back into use which will have both economic and social benefits for all of Scotland. Supported by the Land Commission and SEPA, the taskforce has the ambitious goal of halving the amount of Scotland's derelict land by 2025.

9. <https://www.gov.scot/publications/scottish-energy-strategy-future-energy-scotland-9781788515276/>



Scottish Land Commission and SEPA launch taskforce to tackle derelict land

Streamlining our regulatory systems

We have been working, in partnership with the Scottish Government, to create a new integrated authorisation framework. We currently authorise over 150,000 activities across Scotland using 12 different types of authorisation. The new framework will simplify this to 4 tiers of authorisation, with common procedures for application, authorisation and enforcement.

When fully operative, the framework will bring in a risk based approach that adopts a level of control proportionate to the risks posed by regulated activities and establish measures that provide a more level playing field for business by ensuring that disreputable operators or criminals are not able to obtain authorisations. The framework aims to make it quicker, easier and more cost effective for businesses to comply with environmental legislation, releasing them and SEPA staff to spend more time on exploring opportunities to go beyond compliance in ways that also grow the business.



SEPA officer on site at Torness Nuclear Power Station

Enabling innovation through changes to permitting

As part of the changes we are making to our permitting service, many environmental permits will become outcome based, giving operators the freedom to explore and invest in innovative ways to meet the environmental standards we set. Through this, we can secure compliance with the highest environmental standards while creating the space for progressive businesses to find innovative solutions that protect the environment in ways that also grow their business. We are aiming to simplify our approach to permitting and make it easier for customers to purchase their permits.

Planning for delivery

SEPA is a key agency in the planning process. We have shifted our focus towards early engagement, enabling issues and opportunities to be discussed and addressed while proposals are still being shaped. SEPA is currently working with partners to exploit an opportunity arising from the co-location of a large mixed use development in south east Edinburgh (Shawfair) with the Millerhill Energy from Waste facility - enabling surplus heat to be used to supply the development. Other energy efficiency innovations are also being considered including a pilot to use mineshafts for heat storage. Through this SEPA is helping to drive innovative "one planet" initiatives into the development as well as smoothing its delivery through planning and environmental licensing processes.



1.6 Key issues and risks

The scale of the environmental challenge facing humanity is enormous, with a real urgency to act. Environmental risks dominate the results of the World Economic Forum's annual Global Risks Perception Survey. This year, they accounted for three of the top five risks by likelihood and four by impact. The business, government, civil society and thought leaders who input to the survey identified extreme weather, natural disasters, water crises and climate change policy failure as key challenges across the world today. This underlines the importance of our One Planet Prosperity Strategy and our commitment to play as powerful a role as possible to help Scotland deliver the world leading climate change action set out in the Climate Change Bill.

The most successful countries in the 21st century will be resource efficient, circular economies, which do not produce significant quantities of waste. At the moment Scotland's landfill sites collect around 4 million tonnes of waste each year, but over the next three years we expect to see this reduce by between 1.3 to 2 million tonnes of waste each year. The change will be brought about by greater quantities of waste being recycled, reduced packing and legislation like the 2021 ban on biodegradable municipal waste being landfilled. This decline in waste going to landfill will have long term positive consequences for our society but the financial pressures it will put on landfill operators could result in some landfill sites being abandoned. We have been working to identify sites most at risk of abandonment and to ensure that landfill operators maintain and demonstrate adequate financial provision to meet their obligations throughout the life of their permit including closure and aftercare phases.

On 13 June 2018, the operators of Tarbolton Landfill Limited in South Ayrshire had an application to voluntarily liquidate the company granted by The Companies Court in London. An Official Receiver was appointed. The operator had an obligation to assess and classify that the waste they accepted was appropriate for the Tarbolton site. The company treated the material as non-hazardous. We think it is likely that some of the material they have accepted has some hazardous properties and the site is the subject of a live regulatory investigation. We continue to actively monitor the environmental status of the site, reporting directly to Scottish Government and publishing the results on our website.

As EU Exit has remained high on the political and media agendas, we have proactively planned for all potential outcomes, including a no-deal exit, and set up a dedicated website to provide information for the businesses we regulate. The Scottish Government has been clear in its commitment to maintain or enhance Scotland's environmental commitments. We are equally clear that we expect all regulated businesses to continue to comply with Scotland's environmental laws.

We are actively working with Scottish businesses and have encouraged those who are concerned about how EU exit may affect the way in which they comply with environmental regulations to get in touch.

The Scottish Government has been clear in its recognition of the contribution made by EU nationals who have chosen to make Scotland their home, including in public services such as SEPA. We have reassured colleagues from EU partner nations that their contribution, like that of all our colleagues, remains both highly valued and critical to the delivery of our work for the people of Scotland. One way we have provided support is by setting up an informal network for staff members who are EU nationals.

We continue to look for opportunities to improve our information governance and strengthen our cyber resilience to minimise the risks of data compromise. This year we met the requirements for Cyber Essentials Plus and strengthened our business continuity plans.

As with any business we have to manage financial risks of our income falling and our costs rising. We take a proactive approach to managing our expenditure within income available year on year. Looking forward we will need to continue to manage and develop our charging schemes to ensure our fees cover the costs of delivering services. Additionally there will be growing pressure on the largest element of our operating expenditure, staff costs, both from pay inflation and employer pension contributions. We will continue to take a robust approach to cost control and how we align our resources to deliver our corporate plan outcomes.

SEPA is committed to providing a final salary pension scheme for its staff. This is a core component of the reward package offered to staff and staff feedback shows how valued it is as a benefit. SEPA has to manage the financial consequences of the scheme's valuation fluctuations. The pension deficit shown in our statement of financial position is significantly higher than the last formal valuation deficit, as it is based on accounting assumptions dictated by international accounting standards. SEPA has an agreement with Falkirk Pension scheme to cover the cost of the formal valuation deficit (£29.5m) over the period to 2037. We believe that we will be able to meet our future employer's pension contribution costs from the income we get from charging and grant in aid.



SEPA officer on site at Low Ballees Farm, West Kilbride



1.7 Performance scorecard

Our Annual Operating Plan 2018-2019 identified 15 performance measures which we monitored throughout the year. We achieved ten of the measures. More information on these measures is included in the Performance Analysis section of this report.

Performance measures 2018-2019		Target	Status
01	Increase the length of river or loch shore where physical condition is restored	2.5km	✘
02	Increase the length of river where fish movement is not restricted by man-made barriers	50km	✔
03	Achieve more than 75% uptake of required actions to alleviate diffuse pollution after first follow-up visits to non-compliant farms	75%	✔
04	Deliver the evidence we need to help us develop our next sector plans and simplified permits.	31/03/2019	✔
05	Increase the number of finalised sector plans to at least 16	16	✘
06	Develop at least five new Sustainable Growth Agreements that focus on regulated businesses.	5	✘
07	Increase, in targeted sectors, the percentage of permits which have obligations that are clearer. The sectors targeted are Operational Non-Hazardous Landfills, Metal Processing facilities, and Whisky Distilleries.	80% of each sector	✘
08	Reduce the number of licences classed as very poor at the end of March 2018	31/03/2019	✔
09	Reduce the number of licences which were non-compliant for two years or more at the end of March 2018.	31/03/2019	✔
10	Make the waste sector less attractive to criminals	31/03/2019	✘
11	Complete the preliminary flood risk assessment by end December 2018	31/12/2018	✔
12	Consult and engage on areas of our services	31/03/2019	✔
13	Reduce emissions of carbon dioxide by 42% compared to a 2006-2007 baseline	42%	✔
14	Achieve organisational efficiencies of at least 3% of our grant-in-aid funding.	3%	✔
15	Recover at least 97% of our costs across our charging schemes.	97%	✔

Key	✔ Target achieved	✘ Target not achieved

ii) Performance analysis

1.8 Performance Introduction

Our [Annual Operating Plan 2018-2019](#) identified 15 performance measures which we monitored throughout the year. We achieved ten of the measures and missed five of the targets we had set.

Scotland's natural environment supports an extensive range of world renowned fishing opportunities attracting angler communities from across Scotland and further afield. We are increasing the lengths of habitat accessible to native fish, helping to improve endangered populations and creating new opportunities for angling, tourism and recreation, bringing economic benefits and recreational opportunities to river communities. This year we successfully opened up over 100kms of water to fish, by removing man-made barriers. This exceeded the target we had set of opening up 50km.

We had also set a target to work with partners to restore the physical condition of 2.5kms of rivers in urban areas. Repairing damaged urban rivers enhances the environment for the communities that live there. Unfortunately, both the projects we had planned were postponed as the preparatory work took longer than expected. However, both projects are expected to be delivered this year.

Tackling diffuse pollution is another key part of our work to improve the quality of our water environment. We are engaging with land managers to encourage them to improve their compliance with environmental regulations. By the end of the year, 83% of farmers were undertaking the required improvements when we re-visited them. This exceeded our target of 75%.

We are committed to ensuring that every Scottish business complies with the law. At the start of the year environmental performance amongst Scottish regulated businesses was high, with 90.4% of them recorded as 'Excellent', 'Good' or 'Broadly Compliant'. We focused our efforts on licences which had been assessed as 'Very Poor' and those which had been assessed as 'Non-Compliant' for two years or more. This year 53% of the licences that were classed as 'very poor' improved over the year and 37% of licences which had been non-compliant for two years or more improved.

SEPA is changing today, creating a world-class environment protection agency fit for the challenges of tomorrow. We are grounding our regulation and activities across whole sectors, developing plans for each sector we regulate which will shape our interactions with the sector and the businesses in it. Although we fell short of the target we set ourselves to have 16 sector plans published by the end of March, we made significant progress. By the end of March we had developed 16 sector plans, consulted on 15 of them and published five. We will continue this work next year and aim to have plans in place for every sector we regulate by 2021.

Another of the changes we are making is to focus on producing information and evidence that people use to make decisions. This year we were working to ensure that the people developing our sector plans had the information they needed to produce well-researched sector plans, backed up by solid evidence. We developed tools and put in place expert support to meet this target.

We are transforming our approach to permitting to provide businesses with permits which are outcome based, giving operators the freedom to explore and invest in innovative ways to meet the environmental standards we set. This year we had hoped to have simplified 80% of the permits for operational, non-hazardous landfill sites, metal processing facilities and whisky distilleries. We did not achieve this target as we had under-estimated the challenges involved in simplifying permits and the time it would take to reorganise our resources to create our new Permitting Function. We also decided to re-prioritise a substantial amount of the resource available to develop a permit template for Marine Cage Fish Farms, which is a key part of the new regulatory approach in the Finfish Aquaculture sector.

Sustainable Growth Agreements are shared agreements that enable regulated businesses and other organisations to set their own beyond compliance actions and targets that also improve profitability, for example by driving reductions in water, energy and material use and waste. We pioneered the use of Sustainable Growth Agreements in 2017 and we had set ourselves the target of agreeing another five with regulated industry this year. We narrowly missed this target. We signed four new Sustainable Growth Agreements, bringing the total to seven, and have another six under development.

Waste crime is estimated to cost the UK economy around £600m a year. This year we aimed to increase understanding of duty of care in the Metals Recycling and Reprocessing, and North Sea Oil and Gas Decommissioning sectors. We also planned two general awareness campaigns on what Duty of Care means for everyone. We delivered a general Duty of Care awareness campaign through the award winning NetRegs website, which provides free and easy to understand guidance on environmental compliance for Scotland and Northern Ireland. We prepared the Duty of Care campaigns planned for two of our sectors, but we have not carried them out yet.

As Scotland's 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. This year we completed the preliminary national flood risk assessment and published it before the statutory deadline of 22 December 2018. This assessment improves our understanding of the locations which are potentially vulnerable to flooding.

Many of the decisions we make are wide-ranging and have the potential to affect a range of individuals, communities, businesses and organisations. We want to strengthen our services by consulting our stakeholders before we introduce any significant regulatory or policy changes. This year we carried out a number of consultations, including consultations on our sector plans. We also asked people to provide us with feedback on the proposed changes to the areas potentially at risk of flooding which were identified as part of the national flood risk assessment.

Scotland is a global leader in its commitment to tackling climate change, with some of the most ambitious greenhouse gas reduction targets in the world. We want to play as powerful a role as possible to help Scotland deliver this world leading climate change action. In 2014 we set ourselves a challenging target to reduce our own greenhouse gas reduction emissions by 42% from a baseline set in 2006. We achieved this target a year earlier than planned.

The Scottish Government sets efficiency savings targets for public bodies each year. We must identify how to make these savings in order to achieve a balanced budget in future years. This year we met our target of identifying organisational efficiencies of at least 3% of our grant-in-aid funding.

In order to balance our budget we also need to ensure that all relevant costs of regulatory activities are recovered through charges. This year we met our target of recovering at least 97% of our costs across our charging schemes.

1.9 Performance Report

1. Increase the length of river or loch shore where physical condition is restored

Not achieved

We did not achieve our target to restore the physical condition of 2.5km of rivers in urban areas with partners.

Restoring physical condition of rivers typically involves improving the condition of the river’s bed and banks, and its connection with the floodplain to mitigate impacts caused by urban and rural land uses.

The two projects we had planned for this year, which are funded by the Water Environment Fund, have been postponed.

- The Tollcross Burn river corridor groundworks were postponed as the Local Authority needs more time to consider planning permission and produce a waste management strategy.
- The River Nith (New Cumnock to Sanquhar) groundworks were postponed to reduce environmental risk and ensure correct contractual procedures are in place.



Work done this year will ensure that the 2km of delayed river corridor restoration will be delivered next year. We have also developed partnerships with Local Authorities on new projects to improve urban river corridors in seven communities, for delivery in the coming years.

2. Increase the length of river where fish movement is not restricted by man-made barriers.

Target exceeded

We have exceeded our target of opening 50km of river for fish migration by removing man-made barriers through several projects. These projects are funded by the Water Environment Fund.

- In total, we opened 111.5km to migratory fish this year, more than double our target.
- One fish barrier project was delivered in Q1, opening up 21.8km for fish passage.
- A project to install a fish passage on the Lugton Water was completed in Q3, opening up a further 47km for fish passage.
- In Q3, a fish bypass channel was completed at Rugby Club Weir, opening access to 1.5km of the River Almond.
- In Q4, a further 41.1 km of the River Almond was made accessible after a rock ramp was installed at Howden Bridge weir.



3. Achieve more than 75% uptake of required actions to alleviate diffuse pollution after first follow-up visits to non-compliant farms	Achieved
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Tackling diffuse pollution is a key part of our work to improve the quality of Scotland’s water environments. This can be done by improving farmland practices, engaging with land managers and encouraging behavioural change to achieve compliance with regulations. By the time of our first follow-up visit to farms we have found to be non-compliant, our target was for more than 75% of them to have started work on our recommended measures. We have exceeded this target with an 83% uptake achieved for the year.

Year		2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Percentage uptake		88%	83%	86%	88%	83%

4. Deliver the evidence we need to help us develop our next sector plans and simplified permits.	Achieved
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We delivered this work which aimed to demonstrate that sector leads and those re-writing our permits received all of the information necessary to produce well-researched sector plans and permits, backed up by solid evidence. Over the past year:

- We completed a discovery project in early in the year. Its aim was to develop tools to assist the collection of information and evidence for writing sector plans. The resultant aide memoir, or template, was made available to all sector leads and helped them collate the evidence required for the next ten sector plans.
- We have created Spottfire tools to provide sector leads with the best available information on their sector. This facilitated the development of the last round of sector plans. We have also created a tool that allows Sector Leads to manage which licences should be covered by their plan.
- We now have operational catchment-scale models which will allow us to set licence conditions for discharges to rivers in a way that protects the whole river. We have agreed an approach to using these models with Scottish Water to develop their future investment objective.
- We are developing leading-edge technology to provide sectors with relevant information in real time. We have developed a tool for the metal sector and will be applying it to new sectors in 2019.
- We have made good progress in developing the data structure that will allow us to move towards reporting on a sector-plan basis.

5. Increase the number of finalised sector plans to at least 16

Not achieved

We did not meet this target. Five plans have been published and a further ten plans are in their final stages. However, they were not all finalised by 31 March 2019. The Agency Management Team took the decision that meeting the target would not have allowed the proper engagement with stakeholders during these final stages and before publication.

Sector	
Landfill	These plans were published before the 31 March target date.
Metals	
Scotch Whisky	
Tyre	These plans were published on 24 April, after the target date.
Oil and Gas Decommissioning	
Leather	These sector plans have been approved by the Agency Management Team and have begun the design phase. They will be published on our website in late April.
Nuclear Power Generation and Decommissioning	
Water and Waste Water Treatment (public and private)	
Crop Production	We also aim to publish these sector plans in late April. They have been approved by the Agency Management Team and are entering design phase but further targeted stakeholder engagement is being carried out.
Dairy Processing	
Dairy Production (e.g. milk, cheese)	
Chemicals Manufacturing	We plan to publish these sector plans on our website in early May.
Housing	
Strategic Infrastructure (Transport and Utilities)	
Finfish aquaculture	We are aiming to launch this sector plan at the end of May alongside the new Aquaculture Regulatory Framework.
Forestry and Timber Production and Processing	We are currently continuing our pre-consultation engagement with the Confederation of Forest Industries (Confor), the main trade association for forestry, before we go out for consultation. We aim to publish the consultation at the end June.

6. Develop at least five new Sustainable Growth Agreements that focus on regulated businesses					Not achieved
<p>This target was not quite achieved, because we wanted to take the time needed to work with the businesses and get the commitments right. This year we agreed four Sustainable Growth Agreements and began developing six new ones.</p> <p>It is likely that some of the agreements under development will be signed in the first quarter of 2019-2020.</p>					
Quarter	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
In progress	2	2	6	6	
Number agreed	1	3	0	0	
Agreements with	Scottish Water	Stirling Council Scottish Land Commission Entrepreneurial Scotland			

7. Increase, in targeted sectors, in the percentage of permits which have obligations that are clearer					Not achieved
<p>We did not achieve this target. Our ambition was to have simplified permits for 80% of operational non-hazardous landfills, metal processing facilities and whisky distilleries. The reasons we did not succeed are:</p> <ul style="list-style-type: none"> • The complexity of developing simple, outcome-focused templates for challenging sectors, some of which are governed by complex legislation; • the need for each sector to develop its regulatory approach before any template can be designed to reflect it; • the above development work being needed before work can begin to move permit holders to new templates and the extent of this change requiring significant resource; • the substantial amount of resource committed to Marine Cage Fish Farm Template, which is not included in this target but is a key part of the new Regulatory approach to this sector. <p>A significant amount of work has gone into developing principals around key areas common across the majority of licences which will lead to longer term efficiencies around the development of the templates.</p> <p>We are on schedule to launch the online services for septic tank registrations and radioactive substance notifications, with restricted access to allow testing with users, by end of March 2019.</p>					

8. Reduce the number of licences classed as very poor at the end of March 2018			Achieved
We achieved this target with a 53% reduction in the number of licences classed as very poor at the end of March 2019.			
Reporting year	2016-2017	2017-2018	2018-2019
Number very poor at start of year	74	59	40
Number of these which are very poor at end of period	25	15	18*
Percentage reduction	66%	75%	52.5%*
* 18 licences remained very poor in 2018, 21 licences improved their rating in 2018 and 1 was not assessed.			

9. Reduce the number of licences which were non-compliant for two years or more at the end of March 2018				Achieved
We achieved this target with a 37% reduction in the number licences which were non-compliant for two years or more at the end of March 2018.				
Reporting year	2015-2016	2016-2017	2017-2018	2018-2019
Number non-compliant at start of year	154	236	195	182
Number of these which are non-compliant at end of period	86	129	118	108
Percentage reduction	44%	45%	40%	36.8%*
* 107 licences remained non-compliant:67 returned to a satisfactory rating. 4 licences were not assessed, 3 revoked and 1 surrendered in 2018.				

10. Make the waste sector less attractive to criminals	Not achieved
<p>We did not achieve targets we had set ourselves in this area. We had planned to deliver a range of Duty of Care campaigns to highlight that, by law, all transfers of waste must be appropriately recorded in order to assist in tracking movements of waste. The regulations also place further obligations on waste producers, carriers and anyone handling waste to consider the way they deal with waste.</p> <p>We designed, prepared and approved Duty of Care campaigns for the Metals Recycling and Reprocessing and North Sea Oil and Gas Decommissioning sectors, but we did not deliver the campaigns this year.</p> <p>However, we delivered a general Duty of Care awareness campaign through NetReg with a mailshot sent out to 4,658 NetRegs newsletter subscribers This included information and a link to our Duty of Care leaflet. We will continue to use NetRegs to provide Duty of Care updates to subscribers. (NetRegs is a partnership between the Northern Ireland Environment Agency and SEPA. It provides free environmental guidance for small and medium-sized businesses throughout Northern Ireland and Scotland.)</p> <p>In addition, we have developed a Duty of Care training package which is part of internal training for staff. We have also created new materials like Waste Transfer Notes templates and checklists, and are putting focus on Duty of Care in work related to our Integrated Authorisation Framework project which aims to simplify, streamline and standardise our system of environmental authorisations.</p>	

11. Complete the preliminary flood risk assessment by 22 December 2018	Achieved				
<p>We met this target.</p> <table border="1" data-bbox="108 1111 1469 1503"> <tr> <td data-bbox="108 1111 448 1323">Consult on the National (preliminary) Flood Risk Assessment and proposed Potentially Vulnerable Areas</td> <td data-bbox="448 1111 1469 1323">Achieved. The consultation closed on 31 July 2018.</td> </tr> <tr> <td data-bbox="108 1323 448 1503">Publish the National (preliminary) Flood Risk Assessment and Potentially Vulnerable Areas</td> <td data-bbox="448 1323 1469 1503">Achieved. The 2018 National (preliminary) Flood Risk Assessment was published on our website on 21 December 2018.</td> </tr> </table>		Consult on the National (preliminary) Flood Risk Assessment and proposed Potentially Vulnerable Areas	Achieved. The consultation closed on 31 July 2018.	Publish the National (preliminary) Flood Risk Assessment and Potentially Vulnerable Areas	Achieved. The 2018 National (preliminary) Flood Risk Assessment was published on our website on 21 December 2018.
Consult on the National (preliminary) Flood Risk Assessment and proposed Potentially Vulnerable Areas	Achieved. The consultation closed on 31 July 2018.				
Publish the National (preliminary) Flood Risk Assessment and Potentially Vulnerable Areas	Achieved. The 2018 National (preliminary) Flood Risk Assessment was published on our website on 21 December 2018.				

12. Consult and engage on areas of our services

Achieved

We achieved this target. We are continuously trying to improve our services by seeking customer feedback and consulting our stakeholders before introducing any significant regulatory or policy changes. For this measure, we reported on the progress of consultations taking place over the year.

Consultation on	Due to be	Completed
Scotch Whisky, Landfill and Metals Sector Plans	Quarter 1	✓
Draft Standard Conditions for radioactive substances authorisations	Quarter 1	✓
Charges for Radioactive Substances Activities under the new Environmental Authorisations (Scotland) Regulations	Quarter 2	✓
Flood Risk Management in Scotland- 2018 Potentially Vulnerable Areas	Quarter 2	✓
River basin management planning in Scotland: statement of consultation	Quarter 3	✓
Working together - Statement of consultation steps for the Solway Tweed	Quarter 3	✓
Tyre and Oil and Gas Decommissioning Sector Plan	Quarter 3	✓
Finfish Aquaculture Sector Plan	Quarter 3	✓
Dairy Processing, Dairy Production, Crop Production, Strategic Infrastructure (Transport and Utilities), Housing, Chemicals Manufacturing, Leather, Nuclear Power Generation and Decommissioning and Water Supply & Waste Water Treatment Sector Plan	Quarter 4	✓

In addition, on 22 June, we published a [statement](#) of how we are going to consult on the development of Scotland's third river basin management plans. The consultation marks the start of work required to update the river basin management plans for the Scotland and Solway Tweed River Basin Districts.

13. Reduce emissions of carbon dioxide by 42% compared to a 2006-2007 baseline		Achieved
<p>We achieved our long-term greenhouse gas reduction target of 42% by March 2019, a year earlier than planned. While our current performance has not yet been independently validated, our preliminary assessment is that SEPA achieved a reduction of 44% compared to the 2006-2007 baseline. One major factor for this is the decarbonisation of the UK electricity grid. The electricity emission conversion factor has dropped by 20% from 2017-2018.</p> <p>This year greenhouse gas emissions from buildings dropped by 20% while overall emissions from transport (detailed in the table below) rose by 4.6%. The anticipated rise of 7% in the fuel used by the Sir John Murray did not occur, and emissions arising from use of the survey vessel remained very similar to last year's emissions.</p>		
Source of emissions	Share of Emissions 2017-2018	Change in Emissions 2018-2019
Building energy	58%	Emissions from electricity - fall of 25%, Emissions from gas - fall of 5%
Transport	38%	Emissions from car mileage – up 7.2%, Emissions from pool vehicles – up 7%, Emissions from air mileage – Up 0.6%, Increase of 4.6% overall
Sir John Murray	4%	Emissions from marine diesel increased by 0.5% against 2017-2018 to complete the 2018-2019 survey programme.

14. Achieve organisational efficiencies of at least 3% of our grant-in-aid funding	Achieved
<p>We achieved this target, which is based on the efficiency savings targets the Scottish Government sets for public bodies each year. We must identify how to make these savings in order to achieve a balanced budget in future years.</p> <ul style="list-style-type: none"> The 2018-2019 budget was balanced using non-recurring staff vacancy savings (one-off savings which will not necessarily carry over into next year). Subject to external audit verification, annual expenditure is forecast to be within the budget set. In setting the 2019-2020 budget, we have identified £1.9 of recurrent savings (savings we will benefit from year-on-year) through £0.9m of staff cost reductions and £1.0m of non-staff cost reductions. 	

15. Recover at least 97% of our costs across our charging schemes	Achieved
<p>We achieved this target which focuses on our responsibility to ensure that relevant costs of regulatory activities are recovered through our charging schemes.</p> <p>At the end of this financial year, subject to external audit verification, we forecast we have recovered 98% of our costs across our charging schemes.</p>	

1.10 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 Diversity in our workplace

We have a range of policies, procedures and guidance in place to promote equality and diversity in our workplace. SEPA is a fair work employer, contributing to Scotland becoming a “Fair Work” Nation.

All our posts are graded using a job evaluation scheme to ensure the grading is free from bias or discrimination. The scheme is operated with our recognised trade union, UNISON. As the scheme has been in place for a number of years, we have committed to review it this year. We follow the Scottish Government’s Pay Policy. This has prioritised protecting those on low pay through a progressive approach delivered through the application of tiered pay increases.

We provide a number of schemes which give staff flexibility to manage a good work-life balance whilst also meeting their work objectives. *To promote our commitment to flexible working we advertise all our posts with the ‘Happy to Talk Flexible Working’ logo.* Flexible options for staff include a flexi-time scheme, flexible working patterns including part-time or compressed hours, and flexible retirement.



In 2018, we became a level two disability confident employer and advertise this on our recruitment website to encourage applications from people with disabilities. To achieve this accreditation we self-assess our approach in the following two areas: (i) getting the right people for our business and (ii) keeping and developing our people. We are currently working towards becoming a Disability Confident Leader and hope to achieve this over the next year.



We are proud to be one of Scotland’s Living Wage Employers and we actively promote the scheme when we advertise posts.



promote the

We offer a free, confidential Employee Assistance Programme to all our staff. This service provides counselling, signposting and information to help staff with personal or work-related problems that may be affecting their health, wellbeing or performance. It is accessed either online or through a 24-hour Freephone service.

Through our work, we have many opportunities to influence others, identify areas where human rights might be being breached and to foster good relations between different communities. Here are some examples.

Human trafficking

As demonstrated in Scottish Government [research and policy](#), human trafficking in Scotland involves the trafficking of people for employment in businesses like nail bars, car washes, construction, agriculture, fishing and hospitality. We know that people from Vietnam, Romania, Ghana, Sri Lanka, Philippines, Iraq and Syria have been targeted for this purpose and we are also aware of exploitation of labour within the travelling community. We are raising awareness of human trafficking to enable our staff to look out for signs of it while they are visiting businesses as part of our regulatory activity and report any suspicions they have. We are working in partnership with Police Scotland to provide e-learning for our staff.

Sustainable Growth Agreements

One of the tools we have for helping businesses go beyond compliance are Sustainable Growth Agreements. These are voluntary, formal agreements SEPA makes with individual organisations. They focus on practical action to deliver environmental outcomes and help achieve [One Planet Prosperity](#). Our guidance encourages

businesses to look for opportunities to promote social outcomes and to adopt the [Scottish Business Pledge](#). Through these agreements, we can help organisations collaborate with experts, innovators and stakeholders on different approaches that could improve environmental performance while also helping create commercial and social success.



A recent example is the [Sustainable Growth Agreement](#) we signed with Scottish Water in 2018 focused on finding new ways to recover more resources from the wastes Scottish Water manages and generates. The agreement aims to contribute to ten of the UN Sustainable Development Goals.

This photograph shows Douglas Millican, Chief Executive of Scottish Water, Roseanna Cunningham, and Cabinet Secretary for Environment, Climate Change and Land Reform and Terry A'Hearn, our Chief Executive, at the launch of the agreement.

Supporting water resource management in Malawi

We have embarked on [a programme of work](#) to assist the Government of Malawi to set up the National Water Resources Authority. By helping them to address water quality and scarcity issues and meet the food security, nutrition and environmental needs of the country's rapidly growing population, we are helping to tackle inequality on a global scale. Providing peer to peer support is at the core of our partnership with the Authority, helping them gain the capacity to regulate their water resources - ensuring they are managed in a way which protects the environment while realising the social and economic benefits that come with good water stewardship

Volunteering

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

Career Ready

Career Ready is a national charity which links school pupils with employers to open up the world of work to young people and increase their awareness of local job opportunities. This is aimed at young people from lower income backgrounds so that their success as working adults is not limited by their socio-economic background. In 2018 we provided five Career Ready mentees and in 2019 we provided another five.

Our own environmental performance

Climate change is one of the biggest challenges that the world is facing. Here in Scotland, we already have some of the most ambitious greenhouse gas reduction targets in the world. We want to play as powerful a role as possible to help Scotland deliver this world leading climate change action. Our Climate Change Commitment Statement sets out our six climate change commitments.

In 2014 we set a challenging target to reduce our own carbon dioxide emissions by 42% by 2020. We are very pleased to announce that we achieved that goal one year early. We are now developing new targets to continue to improve our environmental performance.

To fulfil our duty under the Climate Change (Duties of Public Bodies: Reporting Requirements) (Scotland) Order 2015 we submit a full climate change report to the Sustainable Scotland Network each year. Our report covers everything from emissions data to biodiversity and procurement.

We have a duty under the Wildlife and Natural Environment (Scotland) Act (2011) to publish a report, every three years on the actions we have taken to meet the biodiversity duty set out in Nature Conservation (Scotland) Act (2004). Our latest Biodiversity Duty Report, 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.

Single use plastics

We have reviewed our use of single use plastics in our laboratories and have identified areas where we can use an alternative product or improve our recycling. For example gloves are essential to protect staff working in the laboratory and until recently no recycling route was available. We recently identified and implemented a glove recycling scheme which will mean approximately 48,000 gloves per year will be recycled and not sent to landfill.

Scottish Regulators' Code of Practice

This code of practice recognises that good regulators seek to understand those they regulate, including taking economic and business factors appropriately into account in carrying out their regulatory activities.

We are now organising our work around sectors and developing a plan for each sector we regulate. This helps us get a better understanding of the businesses we regulate, the challenges they face and the opportunities for them to prosper from better environmental performance. Moving our regulation from individual sites to a sectoral approach supports the aim that all regulated businesses fully meet their compliance objectives and as many as possible go further. Providing a clear and coordinated approach to regulation and engagement, sector plans will be at the heart of everything we do and will help businesses to operate successfully within the means of one planet. We have already published three sector plans and this year we consulted on a further 12 sector plans.

1.11 Financial performance 2018/19

The following section provides a summary of our financial performance for the year against our Annual Operating Plan. Additional income of £3.7m was received in year. Scottish Government provided £2.3m: £1.4m for additional services and support we provided in year and £0.9m additional budget cover for depreciation costs. We also generated an additional £1.4m income from other sources. Our operating expenditure for the year was £2.8m more than budgeted, as a consequence of the additional services we provided in year.

One year in figures	2018/19		
	Annual Operating Plan ¹ £'000	Outturn £'000	Variance £'000
INCOME			
Grant in Aid	35,813	38,152	2,339
Income from fees and services	40,683	40,820	137
Other operating income	6,084	7,343	1,259
Total operating income	82,580	86,315	3,735
EXPENDITURE			
Staff costs	(55,206)	(55,902)	(696)
Depreciation and disposal of assets	(2,100)	(2,950)	(850)
Other operating charges	(23,654)	(24,957)	(1,303)
Total operating expenditure	(80,960)	(83,809)	(2,849)
Net Operating Expenditure	1,620	2,506	886
Capital Investment	1,620	1,756	136

[1] The budget approved by the Board does not include the annual pension's adjustments shown in note 5 of the financial statements. The total operating expenditure outturn above also excludes pension adjustments and EU funded expenditure. The grant in aid reflects the total operating expenditure (DEL) referred to in the parliamentary accountability section (page 50).

More detail regarding SEPA's income and expenditure can be found in the financial statements section starting on page 56.

The Statement of net comprehensive expenditure shows net expenditure for the year of £49m (page 56) including pensions and life assurance costs of £12.9m, which are excluded from the table above. Additionally

it also excludes Grant in Aid income of £38.1m: under international accounting standards this income is assumed as financing and taken directly to the general reserves.

SEPA only draws down cash grant in aid from Scottish Government when it needs it. The £38.1m noted above includes £3m non-cash expenditure. SEPA received £35.1m cash in year.

The Statement of Financial Position (page 57) shows SEPA owes £102m more than the value of its assets at 31 March 2019. This is caused by a pensions deficit at the year-end of £133m. The Financial Statements have been prepared on a going concern basis, as Board believe that SEPA will be able to pay its pension contributions in years to come from future income and Government grants. The three-yearly formal valuation of the pension's scheme deficit was completed in 2017/18 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%.

We carried out a desktop market valuation of our land and buildings at 31 March 2019 (£6.3m). We indexed gauging stations valuations as at 31 March 2018, to provide the valuation at 31 March 2019 of £17.2m.

The capital investments we made in 2018/19 were:

- | | |
|---|-------|
| • Replacement scientific equipment and vehicles | £1.4m |
| • Property refurbishment costs | £0.1m |
| • 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. 96% of our 10,231 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 2018/19, the same as the previous year.

Approved by the Board on 30 July 2019 and signed on behalf of the Board.



Terry A'Hearn
Chief Executive and Accountable Officer

19/08/19

Date of signature

2.0 Accountability Report

2.1 Corporate Governance Report

Directors' Report

Board

Our Board is responsible for the overall direction and performance of our organisation, including our efficiency and effectiveness as a public body. Members come from a variety of business, environmental and health backgrounds, and bring with them a wealth of knowledge and expertise, as well as passion for environmental issues, all of which helps us to deliver our statutory purpose and One Planet Prosperity approach to regulation.

Our Board currently comprises the Chair, B Downes, and the Deputy Chair, L Sawers, eight non-executive members and the Chief Executive, T A'Hearn. Appointments are made by Scottish Ministers and are regulated by the Commissioner for Public Appointments in Scotland. Appointments are normally for a four-year term with the possibility of a further term, subject to evidence of effective performance and satisfying the skills, knowledge and personal qualities required on the Board at the time of re-appointment.

Board members are asked to complete a [declaration of interest](#), which is published on our website alongside their biography.

Agency Management Team

Our Agency Management Team is responsible for strategic planning, business management, performance management, relationships and change management.



The biographies of members of our Agency Management Team can be found on [our website](#).

In addition to the Agency Management Team, we also have a

- Director of Commercial Services, (A Reid) who reports directly to the Chief Executive and is responsible for raising additional revenue for the Agency through the development and provision of new products and services.
- An Executive Director, (C MacDonald) who reports directly to the Chief Executive. Having taken flexible retirement, the Executive Director 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.

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 to Audit Scotland in respect of the independent statutory audit for the financial year 2018-2019 are £52,550.

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 2019, we did not have any notifications of data breaches to the Information Commissioner's Office.

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

Royal Bank of Scotland
European Operations Centre
Brampton Road
Newcastle-under-Lyme,
Staffordshire
ST5 0QX

External Auditors, appointed by Audit Scotland:

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

Statement of 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 accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of SEPA's financial affairs, of the income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, I am required as the Accountable Officer to comply with the requirements of the Government 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
- ensure that SEPA has in place appropriate and reliable systems and procedures to carry out the consolidation process
- make judgements and estimates on a reasonable basis

- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts
- prepare the accounts on a going concern basis
- confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable
- take personal responsibility for the Annual Report and Accounts and the judgements 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 [Framework Document](#) issued by the Scottish Government in December 2014 and in *Managing Public Money* published by HM Treasury. They include responsibility for the propriety and regularity of the SEPA's finances, keeping proper records and safeguarding assets.

As the Accounting 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 SEPA's auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.

Governance statement

Governance Framework

SEPA is a non-departmental public body. The broad framework in which we operate is set out in a [framework document](#), which also defines key roles and responsibilities which underpin the relationship between SEPA and the Scottish Government. While this document does not confer any legal powers or responsibilities, it forms a key part of SEPA's accountability and governance framework.

Non-departmental public bodies' are directed by Scottish Ministers to comply with Scottish Public Finance Manual. Scottish Public Finance Manual provides guidance on the proper handling of public funds 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, while safeguarding public funds and assets for which I am personally responsible.

As a public body SEPA operates in an open and accountable manner, providing high quality public services. We are committed to accessibility, openness and accountability and aim for the highest standards in corporate governance.

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

Board Operation

Role of the Board:

- Establishing the overall strategic direction of the organisation within the policy and resources framework agreed with the Scottish Government.
- Overseeing the delivery of planned results by monitoring performance of the organisation against agreed objectives and targets.
- Ensuring that we operate sound environmental policies in relation to our own operations.
- Demonstrating high standards of corporate governance at all times.
- Ensuring that statutory requirements for the use of public funds are complied with.

Board members meeting attendance	Board		Strategy		Audit Committee	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
Total number of meetings in year	6	6	4	4	4	4
Board member	Number of meetings attended					
B Downes (Chair)	6	6	4	4	N/A	N/A
T A'Hearn (Chief Executive)	5	6	4	4	N/A	N/A
K Nicholson	3	3	2	0	1	1
L Sawers (Deputy Chair)	5	6	4	4	3	4
R Dixon	5	6	2	3	4	3
W McKelvey	6	6	2	3	2	3
M Francis	4	6	4	4	N/A	N/A
N Martin	6	4	4	4	4	3
M Hill	5	5	3	3	1	4
F Van Dijk	6	4	4	4	N/A	N/A
N Gordon (appointed 01/02/18)	0	5	1	4	1	3

A full description of our Board's role and responsibilities is detailed within its [Standing Orders](#). Additionally, Board members are required to comply with the [Code of Conduct for Members of the Scottish Environment Protection Agency](#). Board members discharge their duties in accordance with the guidance set out in appointment letters and in [On Board – A Guide for Board Members of Statutory Boards](#).

The Board has appointed an Audit Committee to monitor and review risk, control and corporate governance. Members are appointed to the Committee by the Board. The Committee is governed by its [Terms of Reference and remit](#).

The Audit Committee meets to receive reports from internal and external auditors and SEPA staff. The Internal Auditors and External Auditors may attend all meetings of the Committee. In addition, they may contact the Chair of the Committee at any time to express specific concerns identified during audit work.

Board activity this year

As well as attending Board meetings and strategy meetings, our 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 arising from this activity.

Board members also meet with SEPA staff to discuss key strategic issues and attend relevant seminars and events that we, or our partners, run.

More information, including the biographies and interests of Board members, can be found on [our website](#)

Corporate Governance

Our strategy is set out in a five-year [Corporate Plan](#), supported by [Annual Operating Plans](#). We set out the measures we will use to monitor our performance in each Annual Operating Plan. Performance is reported quarterly to the Agency Management Team and Board and performance reports are published on our website. I produce a written report about the activity of the agency for each Board meeting. These reports are also published on our website.

We are making changes to the way we work to help us deliver our regulatory strategy [One Planet Prosperity](#). One of the key changes is moving regulation from individual sites to a sectoral approach. This is to support the aim that all regulated businesses fully meet their compliance objectives and as many as possible go further. We are producing sector plans to provide a clear and co-ordinated approach to regulation and engagement across the sector. As we move forward, sector plans will be at the heart of everything we do and will help businesses to operate successfully within the means of one planet. This year we have published plans for three sectors and consulted on a further 12.

Our organisational structure has clear lines of delegated responsibility for both operational and financial management. We are currently reorganising our internal structures to support the new ways of working strategy needed so that we can deliver [One Planet Prosperity](#). Over the next year we will be revising our schemes of delegation to support our new decision-making processes.

We have 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.

Internal Audit has been provided by Scott-Moncrieff since 2015. In 2018, we took up the option to extend their Internal Audit contract for an additional year. In 2018 we also carried out a tender exercise to appoint Internal Auditors for a three-year term from 1 April 2019. Scott-Moncrieff was the successful bidder for the new contract.

We have a three-year Internal Audit Plan to provide assurance that key risks are being managed effectively and value for money is being achieved. It is a risk-based plan, taking into account our risk management framework, our strategic objectives and priorities, and the views of senior managers and the members of the Audit Committee. The last plan was produced in 2015 and, as the contract with Scott-Moncrieff was extended for one year, the plan was extended for another year.

Before each audit, the scope is approved by the Agency Management Team and Audit Committee. The Internal Auditors produce a report following each audit for the Audit Committee. We produce a quarterly report for the Audit Committee explaining progress with management actions. The Internal Auditors supplement this with an annual report reviewing progress of management actions.

Areas that have been audited this year are: charging schemes; commercial services strategy; legislative compliance; enforcement powers; flood warning schemes; sector plans; people strategy; and sustainable growth agreements.

Safe SEPA is the new approach we are using to make sure that staff are competent at keeping our people safe, our resources secure and our services operating even when there is a disruption. Safe SEPA integrates the activities relating to risk management, business continuity, emergency management, emergency planning, information governance, cyber security, physical security, health and safety and positive behaviours. Information about these activities. We have developed handbooks for these activities to explain how we are managing them in line with legislative requirements and good practice. A dedicated section of the intranet makes it easy for staff to find the Safe SEPA information and guidance they need.

We have established procedures for reporting and responding to incidents and near misses, including health and safety; security; information security; cyber security and fraud. We have developed a quarterly Safe SEPA Digest to report incidents, near misses and Safe SEPA activity to the Agency Management Team, Audit Committee and Board. Our whistleblowing procedure was used once over the period of this report.

We are accredited to the ISO 17025 standard for some of our sampling and laboratory testing activities. We are assessed annually by the UK Accreditation Service (UKAS) to ensure ongoing compliance with the standard. This includes a major re-assessment visit every four years. The visit in 2018 was a re-assessment, and was carried out between May and July in both SEPA laboratories, as well as two of the Science Support Centres and multiple sampling locations. Following this visit our accreditation to ISO 17025 was renewed for another four years. The next routine surveillance visit is in June 2019.

Risk management

We have a risk management framework to identify things which might prevent us from delivering our statutory purpose and identify appropriate controls to manage the risk to a tolerable level. The risk management framework seeks to (i) understand the threats, (ii) identify and prioritise risks (iii) identify controls to reduce or mitigate the risk and (iv) monitor the risk until it has been reduced to a tolerable level.

Risks are assessed in terms of the likelihood of them occurring, the impact they would have if they did occur and their proximity, which is how soon they are likely to occur.

We capture corporate risks in a risk register which is reviewed quarterly by our Risk Management Group, twice a year by the Agency Management Team and Audit Committee and annually by the Board.

Risk is frequently discussed at Agency Management Team meetings as well as at meetings of the Audit Committee and Board. The Risk Management Group meets regularly to consider ways to strengthen our approach to risk management. It reviews external analysis of key risks impacting UK organisations; it considers potential risks raised by staff or Board members; it ensures risks are being managed across the organisation and it considers the adequacy of existing controls.

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 30 July 2019 and signed on behalf of the Board.



19/08/19

Terry A'Hearn
Chief Executive and Accountable Officer

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 2018/19 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	2018/19	2017/18	2018/19	2017/18	2018/19
Chair						
B Downes	45<50	45<50	-	-	756	271
Chief Executive						
T A'Hearn	115<120	120<125	40	34	-	-
Directors, Executive Directors & Chief Officers						
C MacDonald	80<85	55<60	2 ²	-	-	-
D Pirie	95<100	100<105	48	48	-	-
A Reid	80<85	85<90	49	34	-	-
F Martin	75<80	80<85	40	30	-	-
S McGregor	75<80	80<85	40	30	-	-
J Green	75<80	80<85	35	27	-	-
J Kenny (appointed October 2017) ¹	35<40	75<80	6	29	-	-
A Anderson (appointed October 17, resigned October 2018)	35<40	45<50	13	(3)	-	-
I Buchanan (appointed November 2018)	-	20<25	-	(14)	-	-
Board Members						
K Nicholson	5<10	5<10	-	-	473	1282
L Sawers	10<15	10<15	-	-	154	130
R Dixon	5<10	5<10	-	-	130	39
W McKelvey	5<10	5<10	-	-	234	366
M Francis	5<10	5<10	-	-	145	327
J Hyland (resigned December 2017)	5<10	-	-	-	397	-
N Martin	5<10	5<10	-	-	120	205
M Hill	5<10	5<10	-	-	86	115
F Van Dijk	5<10	5<10	-	-	141	150
N Gordon (appointed January 2018)	0<5	5<10	-	-	-	-

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 20% in 2018/19 (19% in 2017/18) and the employees' contribution ranged from 5.5% to 10.2% of pay.

All staff including the Chief Executive, Executive Directors and Chief Officers are on incremental pay scales.

¹ The banding for the full year salary in 2017/18 of these two Chief Officers was £75k<£80k

² This Executive Director opted out of the pension scheme on 29th September 2017, when he flexibly retired.

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

	Accrued pension at 31 March 2019 £'000	Accrued lump sum at 31 March 2019 £'000	Real increase in annual pensions 2018/19 £'000	Real increase in annual lump sum 2018/19 £'000	CETV at 31 March 2019 £'000	CETV at 31 March 2018 £'000	Real increase in CETV 2018/19 £'000
Chief Executive							
T A'Hearn	5<10	-	0<2.5	-	119	86	19
Directors, Executive Directors & Chief Officers							
C MacDonald ²	-	-	-	-	-	-	-
D Pirie	40<45	75<80	0<2.5	0<2.5	769	700	37
A Reid	50<55	110<115	0<2.5	0<2.5	1,133	1,081	11
F Martin	30<35	55<60	0<2.5	0<2.5	529	502	4
S McGregor	30<35	60<65	0<2.5	0<2.5	672	606	40
J Green	20<25	25<30	0<2.5	0<2.5	378	331	31
J Kenny (appointed October 2017)	30<35	50<55	0<2.5	0<2.5	494	448	26
A Anderson (appointed October 2017)	25<30	50<55	0<2.5	(2.5)<0	408	399	(6)
I Buchanan (appointed November 2018)	35<40	60<65	(2.5)<0	(2.5)<0	559	539	(3)

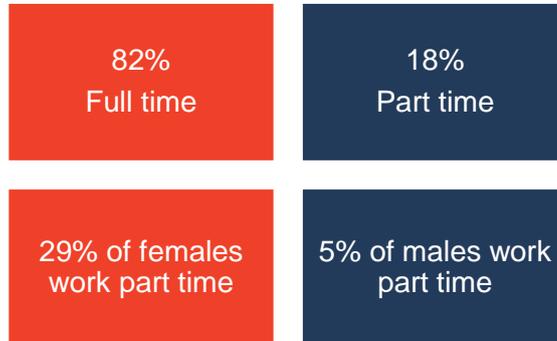
	Accrued pension at 31 March 2018 £'000	Accrued lump sum at 31 March 2018 £'000	Real increase in annual pensions 2017/18 £'000	Real increase in annual lump sum 2017/18 £'000	CETV at 31 March 2018 £'000	CETV at 31 March 2017 £'000	Real increase in CETV 2017/18 £'000
Chief Executive							
T A'Hearn	5<10	-	2.5<5	-	86	51	22
Directors, Executive Directors & Chief Officers							
C MacDonald	55<60	125<130	0<2.5	2.5<5	1,240	1,247	(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)	25<30	50<55	0<2.5	0<2.5	448	448	8
A Anderson (appointed October 2017)	25<30	45<50	0<2.5	0<2.5	398	381	7

The highest paid person of the management team was the Chief Executive. His annual salary was within the range £120,000 to £125,000 (£115,000 to £120,000 in 2017/18). This was 3.77 times (3.78 times in 2017/18) the median remuneration paid to SEPA staff in 2018/19. The median salary paid in 2018/19 was £32,405 (£31,461 in 2017/18).

Staff report

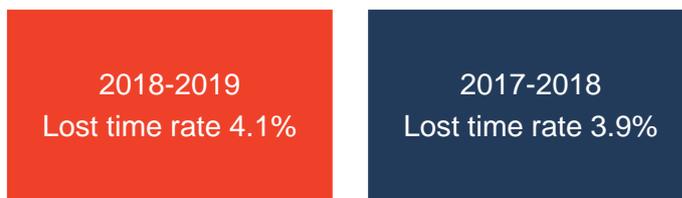
Headcount

We had a total head count of 1,281 staff at 31 March 2019, an increase of 16 staff since 31 March 2018. This head count represented 1,180 Full Time Equivalent (FTE) (1,197 FTE for 2017/18) for the year.



Lost time rate

The lost-time rate shows the total amount of time lost through all employee absence as a percentage of the total number of potential working days over the year.



Age (not subject to audit)

The average age for a staff member at SEPA continues to increase year on year. Almost two thirds of SEPA staff are between the age of 35 and 54 while fewer than 2% are under the age of 24.



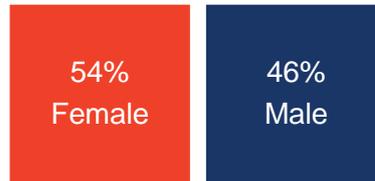
Disability (not subject to audit)

The mean hourly wage of staff who declared a disability is 8.2% higher than staff who declared no disability.

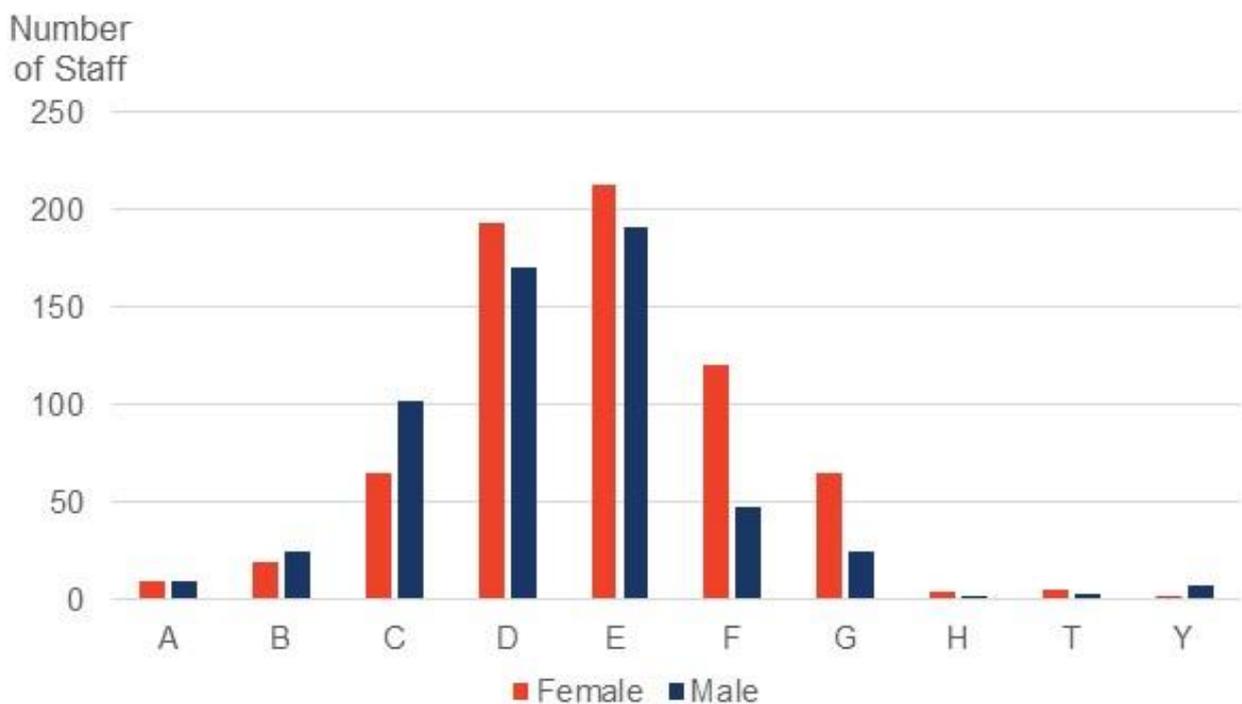


Gender

Our Gender split remains unchanged from 31 March 2018.



In our top three grades (Y, A and B), there has been a 4% increase in the percentage of female staff in since 31 March 2018. There are now 57% male staff to 43% female staff in these grades while women are the majority in every band from Band D and below.



This occupational segregation contributes to our overall mean gender pay gap of 10.3% and median pay gap of 6.9% (not subject to audit).

Exit packages below are subject to audit. Health, safety and wellbeing and industrial relationships below are not subject to audit.

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 2018/19 (none – 2017/18). 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 2018		Year to 31 March 2019	
	Total number of voluntary severance payments made to individuals by band	Total number of exit packages made to individuals by band	Total number of voluntary severance payments made to individuals by band	Total number of exit packages made to individuals by band
£'000	Number	Number	Number	Number
0 < 10		1		
10 < 25				
25 < 50				
50 < 100				
100 < 150				1
150 < 200				
Total				
Total cost		7,074		133,379

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

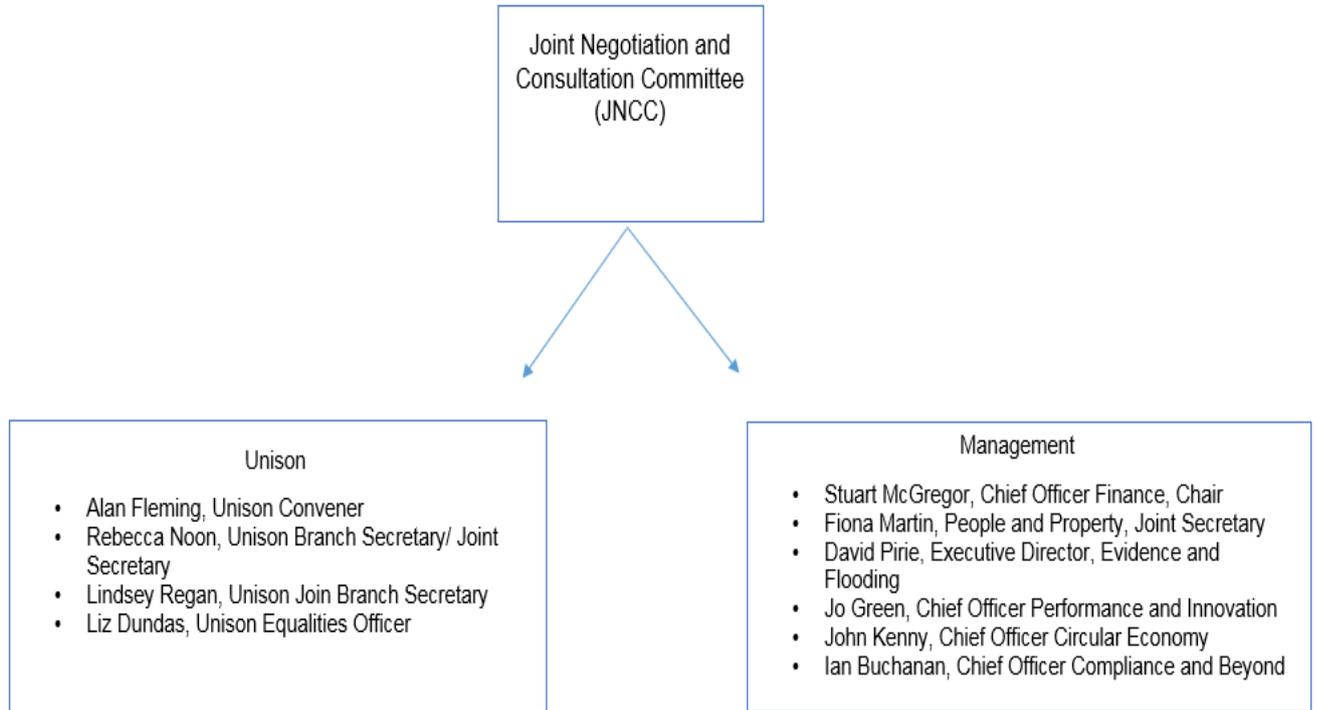
Health and safety is a responsibility of and for all staff. There are a range of systems and structures in place to support the management and review of our health and safety and wellbeing performance. These include:

- Incident reporting – easily accessible for staff to report an incident or near miss.
- Corporate business plan and associated action plan.
- 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 – updated on 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 remained consistent with 135 incidents reported in 2018/19 compared to 132 in 2017/18. The number of hazards spotted was 29. There was one reportable incident to the Health and Safety Executive in 2018/19.

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.



The TU representatives noted in the table above were those active in 2018/19. New representatives were appointed on 24 March 2019. The new trade union representatives are Zia Hussain and Louise Giblin as Co-Chairs and Adrian Moore as the new branch secretary.

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 2018/19 was accepted by Unison.

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 30 July 2019 and signed on behalf of the Board.

Terry A’Hearn
Chief Executive and Accountable Officer

19/08/19

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 2018/19 operating resource budget was £38.1m (2017/18: £37.3m). SEPA incurred £37.9m expenditure against this limit, underspending by £0.3m. It was agreed with Scottish Government sponsor that they would use this underspend in other priority areas across their portfolio.

SEPA also has an allocated Annually Managed Expenditure (AME) budget limit of £7.2m for 2018/19 (2017/18: £6.3m). The actual IAS 19 pension's adjustments, provisions movements, and market value reductions for fixed assets in year amounted to £13.4m (note 24).

The table below provides a summary of the outturn for 2018/19 against the Scottish Government targets for the year.

Department Expenditure Limit (DEL)	Year to 31 March 2019			Year to 31 March 2018
	Expenditure Outturn £'000	Budget £'000	Variance £'000	Variance £'000
Total Capital Resource (cash)	(1,756)	(1,682)	(74)	(6)
Operating Resource (cash) Note 23	(33,189)	(33,459)	270	255
Depreciation/Impairments (non- cash)	(2,948)	(3,011)	63	75
Total Operating Expenditure	(36,137)	(36,470)	333	330
Total DEL Expenditure	(37,893)	(38,152)	259	324
Total Annually Managed Expenditure (AME)	(13,353)	(7,166)	(6,187)	(2,919)

Consolidated fund receipts

SEPA now collects penalties for EU Emissions Trading Scheme (EU ETS) and Carbon Reduction Commitment (CRC) and environmental offences. During 2018/19 penalties of £0.3m (2017/18 - £0.3m). During the year we actually received £0.3m, 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 2018/19 of at least 3%.

To produce a balanced budget for 2018/19, we assumed savings from vacant posts of £1.6m, which was deducted from budgets at 1 April 2018. This equated to 4.7% 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 2018/19 SEPA earned £40.8m from statutory charges and £7.3m 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 30 July 2019 and signed on behalf of the Board.



19/08/19

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

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 Environment Protection Agency for the year ended 31 March 2019 under the Public Finance and Accountability (Scotland) Act 2000. The financial statements comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and notes to the financial statements, 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 2018/19 Government Financial Reporting Manual (the 2018/19 FReM).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance sections (1) and (2) of the Environment Act 1995 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2019 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 2018/19 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 the Scottish Ministers.

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Auditor General for Scotland. 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 were appointed by the Auditor General on 31 May 2016. The period of total uninterrupted appointment is three years. We are independent of the body 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. Non-audit services prohibited by the Ethical Standard were not provided to the body. 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.

Risks of material misstatement

We have reported in a separate Annual Audit Report, which is available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that we identified and our conclusions thereon.

Responsibilities of the Accountable Officer for the financial statements

As explained more fully in the Statement of the Accountable Officer 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 body'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 obtain 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.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. We therefore design and perform audit procedures which respond to the assessed risks of material misstatement due to fraud.

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. 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 auditor's report thereon. 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 sections (1) and (2) of the Environment Act 1995 and directions made thereunder by the 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 sections (1) and (2) of the Environment Act 1995 and directions made thereunder by the 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 sections (1) and (2) of the Environment Act 1995 and directions made thereunder by the 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.

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual report and accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in our Annual Audit Report.

Use of our report

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, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.



Joanne Brown (for and on behalf of Grant Thornton UK LLP)

29/08/19

Date of signature

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

3.0 Financial statements

3.1 Statement of comprehensive net expenditure for the year to 31 March 2019

	Notes	Year to 31 March 2019 £'000	Restated Year to 31 March 2018 £'000
Income			
Income from contracts	3,22	42,646	40,665 ³
Other income	4	5,515	4,127
Total operating income		48,161	44,792
Expenditure			
Staff costs	5	(68,409)	(60,873)
Depreciation, loss on sale and impairment of non-current assets	10	(2,957)	(2,997)
Other operating charges	6	(23,110)	(22,394)
Total operating expenditure		(94,476)	(86,264)
Net operating expenditure		(46,315)	(41,472)
Finance income	8	12	2
Finance expenses	7	(2,751)	(2,915)
Net expenditure for year		(49,054)	(44,385)
Other comprehensive expenditure			
Net (loss)/gain on revaluation of property, plant and equipment	10	(436)	170
Actuarial gain/(loss) on pension scheme	18	(22,883)	17,138
Comprehensive net expenditure for the year funded by GiA		(72,373)	(27,077)

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 60-88.

³ Income has been reclassified under IFRS 15 note 4 and 5 provide further information

3.2 Statement of financial position as at 31 March 2019

	Notes	As at 31 March 2019 £'000	As at 31 March 2018 £'000
Non-current assets			
Property, plant and equipment	10	34,680	34,804
Intangible assets	10	1,122	1,421
		35,802	36,225
Trade and other receivables	13	268	78
Current assets			
Assets for sale	11	-	90
Trade and other receivables	13	3,933	3,437
Cash and cash equivalents	12	1,142	1,805
		5,075	5,332
Total assets		41,145	41,635
Current liabilities			
Trade and other payables < 1 year	14	(8,372)	(8,576)
Provisions for liabilities and charges <1 year	15	(138)	(134)
Total current liabilities		(8,510)	(8,710)
Total assets less current liabilities		32,635	32,925
Non-current liabilities			
Provisions for liabilities and charges >1 year	15	(2,341)	(2,290)
Employee retirement benefits	18	(132,677)	(96,932)
Total non-current liabilities		(135,018)	(99,222)
Total assets less total liabilities		(102,383)	(66,297)
Tax payers equity			
Comprehensive net expenditure reserve		(117,769)	(80,509)
Revaluation reserve		15,386	14,212
Total tax payers equity		(102,383)	(66,297)

The note numbers referred to above are incorporated within the notes to the accounts contained on pages 60-88.

These annual accounts were approved by the Board on 30 July 2019.



Terry A'Hearn
Chief Executive and Accountable Officer

19/08/19

Date of signature

3.3 Statement of cash flows for year to 31 March 2019

	Notes	Year to 31 March 2019 £'000	Year to 31 March 2018 £'000
Net operating expenditure		(46,315)	(41,472)
Adjustments for non-cash transactions			
Depreciation, amortisation and impairments	10	2,957	2,997
Pension scheme adjustment	19	10,111	6,205
Movements in working capital			
Decrease/(Increase) in trade and other receivables	13	(686)	(451)
(Decrease)/Increase in trade and other payables less than 1 year old	14	(204)	1,690
Increase/(Decrease) in provisions	15	55	286
Net cash outflow from operating activities		(34,082)	(30,745)
Cash flows from investing activities			
Purchase of non-current assets	10	(1,756)	(1,976)
Proceeds from sale of non-current asset		80	-
Net cash outflow from investment		(1,676)	(1,976)
Cash flows from financing activities			
Bank interest received	8	12	2
GiA funding received in year	2	35,083	33,224
Net cash inflow from financing		35,095	33,226
Net (decrease) / increase in cash and cash equivalents		(663)	505
Cash and cash equivalents at start of year	12	(1,805)	(1,300)
Receipts due to the consolidated fund		338	205
Payments made to the consolidated fund		(338)	(205)
Cash and cash equivalents at end of year	12	1,142	1,805
(Decrease) / increase in cash for the year		(663)	505

The note numbers referred to above are incorporated within the notes to the accounts contained on pages 60-88. These annual accounts were approved by the Board on 30 July 2019.

3.4 Statement of changes in tax payer's equity for the year to 31 March 2019

	Notes	Comprehensive net expenditure reserve	Revaluation reserve	Total year to 31 March 2019
		£'000	£'000	£'000
Balance at 1 April 2018		(80,509)	14,212	(66,297)
Grant from sponsoring department	2	35,083	-	35,083
Net expenditure for the year		(49,054)	-	(49,054)
Assets disposed of		30	(30)	-
Total of pension re-measurements	18	(22,883)	-	(22,883)
Revaluation of non-current assets	10	(436)	1,204	768
As at 31 March 2019		(117,769)	15,386	(102,383)

Comprehensive net expenditure reserve consists of:				
Pensions deficit	18	(132,677)		
Surplus arising from operating activities		14,908		
Balance as at 31 March 2019		(117,769)		

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 2017
		£'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)
Disposal of Assets		101	(101)	-
Fair value amount		33	(68)	(35)
Total of pension re-measurements	18	17,138	-	17,138
Revaluation of non-current assets	10	137	12,172	12,309
As at 31 March 2018		(80,509)	14,212	(66,297)

Comprehensive net expenditure reserve consists of:				
Pensions deficit	18	(96,932)		
Surplus arising from operating activities		16,423		
Balance as at 31 March 2017		(80,509)		

The note numbers referred to above are incorporated within the notes to the accounts contained on pages 60-88. These annual accounts were approved by the Board on 30 July 2019.

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 (FReM). 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 FReM 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 2018 and ended on 31 March 2019.

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 2019. 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 2019, 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 and AMT believe that SEPA will continue to receive support from Scottish Government, accordingly they consider it 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. In 2018/19 this valuation was indexed to reflect inflationary increases for the year, to produce the valuation at 31 March 2019 reflected in these accounts.
- 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 the Board 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 2019 the valuation of the SJM was £13k 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.

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

Assets in course of completion

Assets in course of completion are valued at cost. On completion they are transferred from the project account into the appropriate asset category. No depreciation or amortisation is charged until the asset is 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 2019.

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 Revenue Contracts as per IFRS 15 and other operating income. Revenue from contracts includes income from SEPA specific and UK wide charging schemes, application fees and annual subsistence charges. SEPA also earned income to recover the costs of specific services provided to other organisations. This income has been further split between statutory and non-statutory income.

Statutory income is defined as income which SEPA receives in its regulatory role and for which the basis for charging is defined within statute.

Non statutory income covers a range of income primarily for the recharge of staff time or services provided to other organisations.

SEPA recognises income on delivery of performance obligations as per IFRS 15.

Other operating income relates primarily to grant income which SEPA recognises in line with IAS20.

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 2019, 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 transaction price, which is assumed to be their fair value. Robust annual reviews are undertaken of all outstanding debtors to determine the likelihood of payment. If it is assessed/ known that a debt will not be paid it is write off to the Statement of Comprehensive Net Expenditure. 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.

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 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.

The level of these potential future liabilities will be subject to negotiation with individual landlords.

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.

This year saw the implementation of IFRS of two international accounting standards. We reviewed our accounting policies in the area of contract income recognition and the impairment of accounts receivable balances and believe that their requirements are substantially met by the accounting policies that SEPA has as set out in note 1. We have amended the presentation of the financial information to meet these standards.

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 2019	Approximate % increase in employers liability	Approximate monetary amount £'000
0.5% decrease in real discount rate	12	55,632
0.5% increase in salary increase rate	3	12,054
0.5% increase in pension increase rate	9	42,328

Future changes in accounting standards

Changes are being introduced under International Financial Reporting Standards (IFRS) 16 for Implementation 2019-2020. This 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 £17.8m that will appear on our balance sheet.

Subsequent events

There are no events which have occurred since the statement of financial position at 31 March 2019 was prepared, that require disclosure.

2. Grant-in-aid (GiA)

	Year to 31 March 2019	Year to 31 March 2018
	£'000	£'000
Cash GiA received to meet expenditure	35,083	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 2019	Year to 31 March 2018
		£'000	£'000
Budgeted cash allocation	Capital	1,682	1,970
	Operating costs	33,459	32,236
Total cash that could be drawn down in year		35,141	34,206
Cash drawn down in year		(35,083)	(33,224)
Cash remaining with Scottish Government		58	982

3. Income from contracts

	Year to 31 March 2019	Restated. Year to 31 March 2018
	£'000	£'000
Statutory Income		
Charging Scheme Fees & Charges (note 22)	40,820	39,085
Scottish Landfill Tax	617	572
Scottish Landfill Communities Fund	149	143
Supporting Enforcement Undertakings	64	62
Non Statutory Income		
Provision of Services	996	803
	42,646	40,665

Following the introduction of IFRS 15 income for 2017/18 has been restated.

	Year to 31 March 2018
	£'000
Environmental Regulation (Scotland)	35,385
Producer Responsibility Waste Packaging	1,124
Radioactive Substances Act	1,580
Other (schemes where their individual income is less than £1m)	996
	39,085

Other: 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 2019 £'000	Restated Year to 31 March 2018 £'000
Grants	5,451	4,098
Other	64	29
	5,515	4,127

Following the introduction of IFRS 15, income for 2017/18 has been restated in accordance with the new standard. This has resulted in a £1,580,000 adjustment between Other Income and Income from contracts (Note 3) for the financial year end 31 March 2018. This does not impact on overall operating income.

	Year to 31 March 2018 £'000
Water Environment Fund grants	3,318
Payments from other agencies	1,983
Other	406
	5,707

5. Information regarding employees and Board members

Staff costs during the year	Permanently employed staff £'000	Others £'000	Year to 31 March 2019 £'000
Wages and salaries	40,901	2,059	42,960
Social security costs	4,129	208	4,337
Apprenticeship levy	188	9	197
Pension costs	8,188	412	8,600
Subtotal of payroll costs	53,406	2,688	56,094
Other staff related costs (principally recruitment fees, staff subsistence, training costs and hiring agency and temporary staff)			1,946
IAS19 pension charge (note 19)			10,111
Life Assurance provision (note 15)			95
Unfunded IAS 19 Pension charge (note 15)			163
			68,409

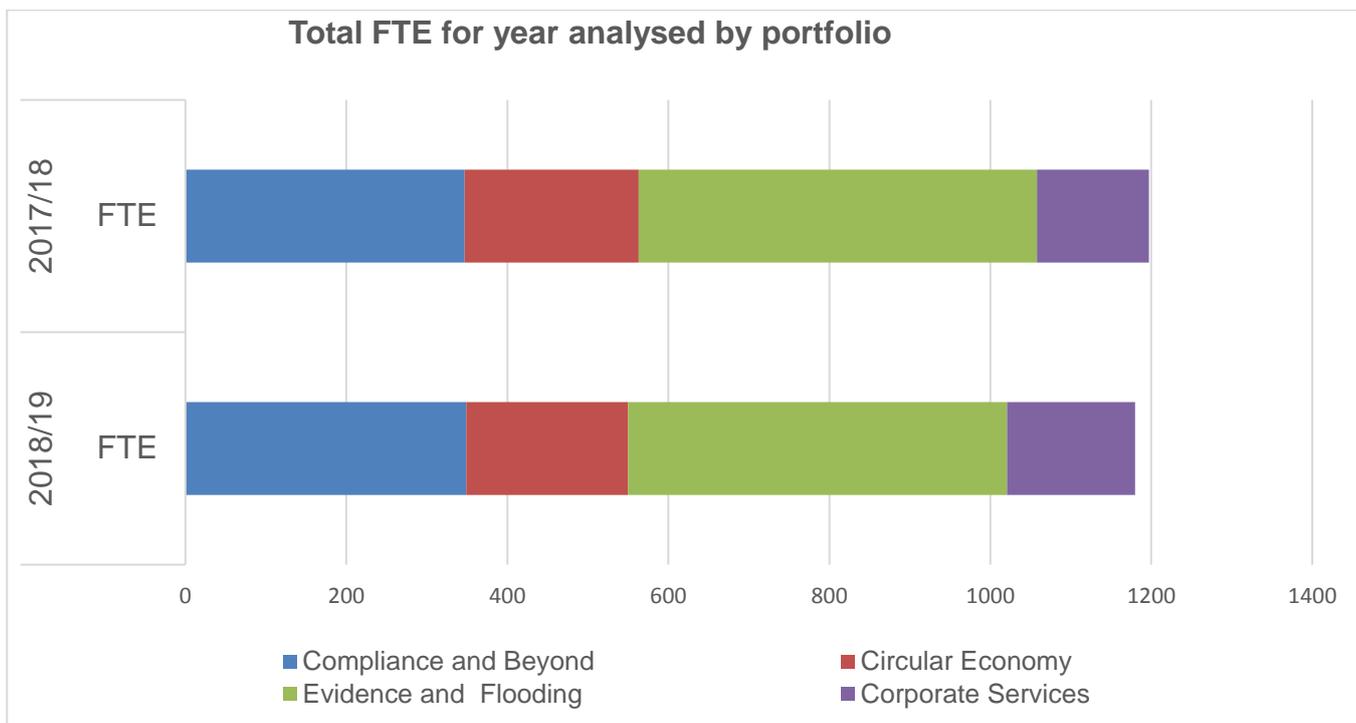
Staff costs during the year	Permanently employed staff	Others	Year to 31 March 2018
	£'000	£'000	£'000
Wages and salaries	39,122	1,956	41,078
Social security costs	4,008	200	4,208
Apprenticeship levy	181	9	190
Pension costs	7,322	366	7,688
Subtotal of payroll costs	50,633	2,531	53,164

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
			60,873

Full time equivalent number of persons employed by portfolio	Permanently employed staff	Others	Year to 31 March 2019	Year to 31 March 2018 Restated
	FTE	FTE	FTE	FTE
Compliance and Beyond	332	17	349	360
Circular Economy	191	10	201	188
Evidence and Flooding	448	23	471	495
Corporate Services ⁴	151	8	159	154
	1,122	58	1,180	1,197

The above numbers derived from SEPA payroll, reflect the current portfolio structure. The 2017/18 numbers have been restated to reflect the current portfolio structure

⁴ 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.



There were 7.1 FTE (2017/18 - 8.5 FTE) working on EU Life projects, included in Corporate Services.

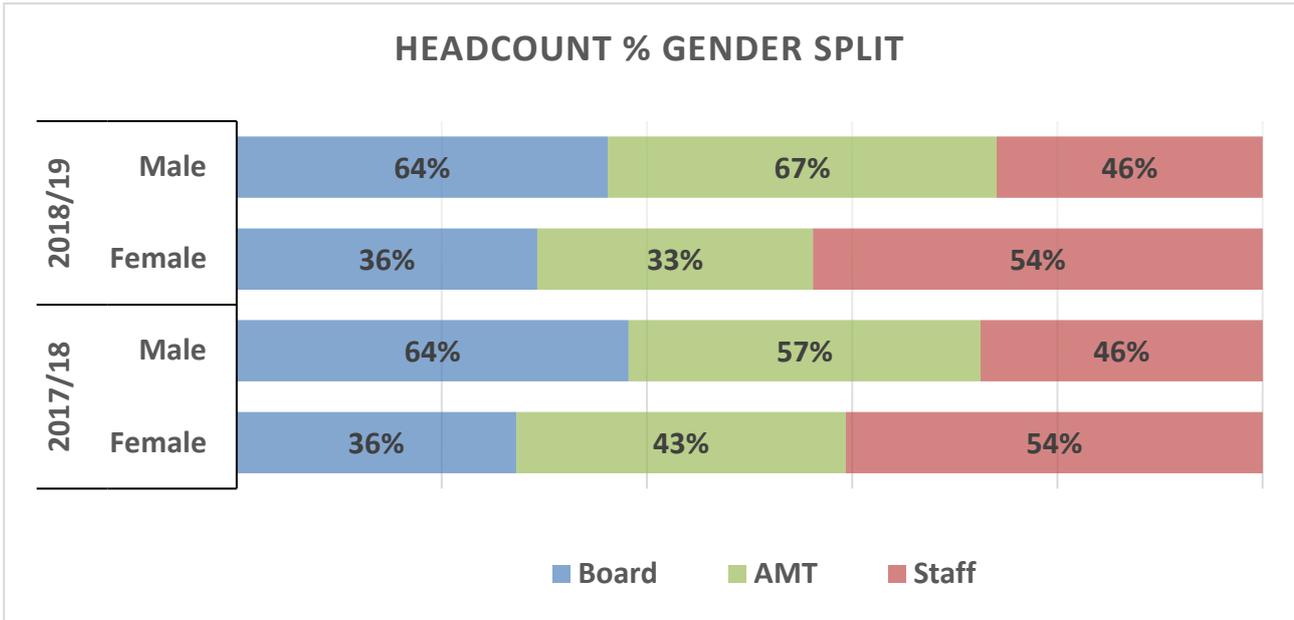
In 2018/19, there was an average of 31 FTE employed via an agency (2017/8 - 15).

The lost working time rate for 2018/19 is 4.11% (2017/18 - 3.89%). 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.

Headcount by grade

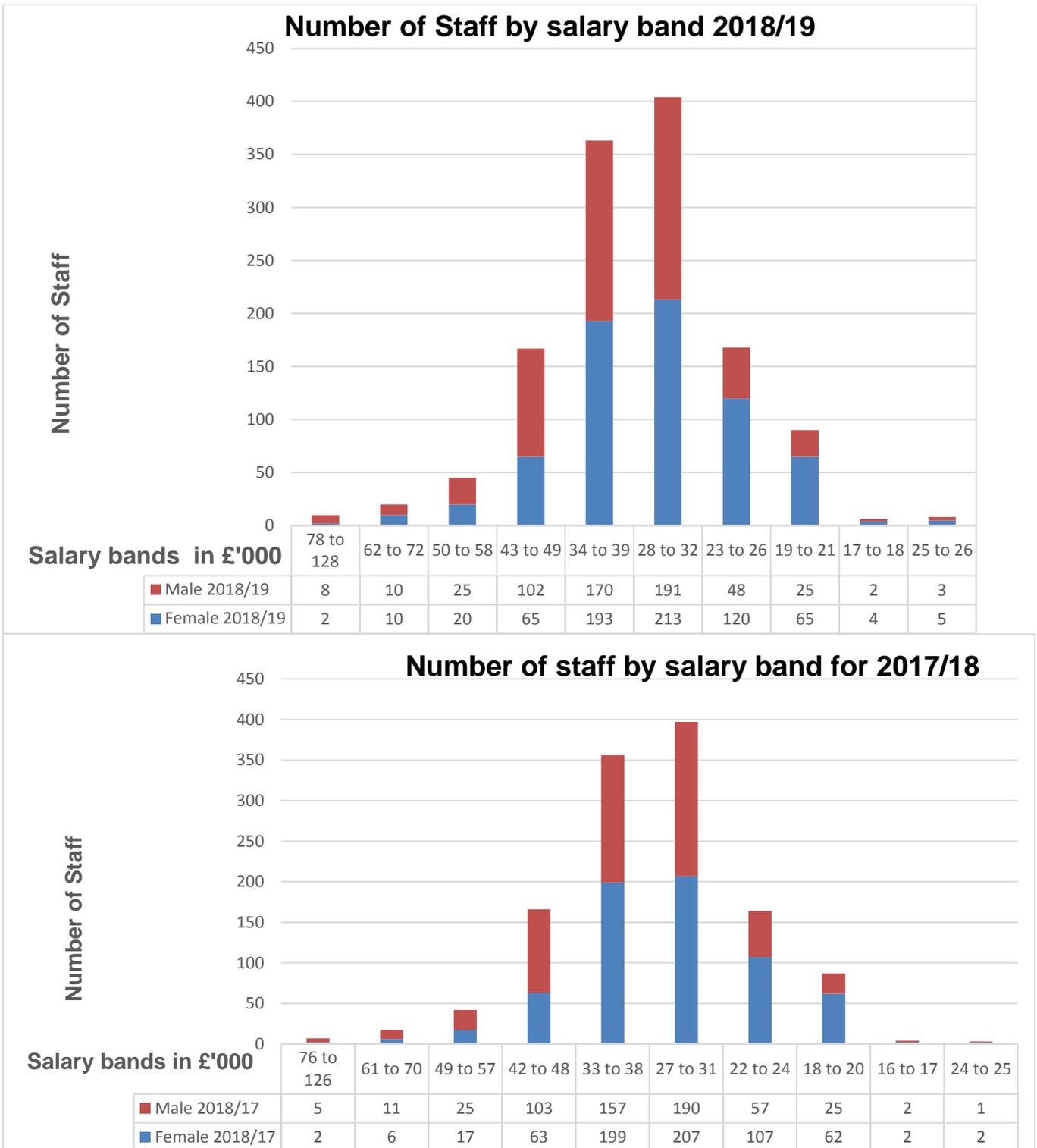
Description	Pay Range	Number of staff 31 March 2019	Number of staff 31 March 2018
Chief Executive, Directors and Chief Officers	£77,517-£127,764	10	9
Band A	£62,341-£71,874	20	19
Band B	£50,358-£58,060	45	39
Band C	£42,655-£49,178	167	166
Band D	£33,980-£39,175	363	361
Band E	£28,106-£32,405	404	396
Trainee	£25,558-£26,171	8	11
Band F	£22,699-£25,557	168	172
Band G	£18,605-£20,947	90	88
Band H	£17,048-£17,876	6	4
Total headcount		1,281	1,265

Gender Analysis	31-Mar-19			31-Mar-18		
	Total	Female	Male	Total	Female	Male
Board ⁵	11	4	7	11	4	7
AMT ⁶	7	2	5	7	3	4
Staff (includes AMT)	1,281	697	584	1,265	684	581



⁵ Board number includes the Chief Executive- 1 male

⁶ AMT number includes Chief Executive – 1 male



6. Other operating charges

	Year to 31 March 2019 £'000	Year to 31 March 2018 £'000
Supplies and services	16,651	15,918
Property costs	2,759	3,015
Transport costs	1,655	1,494
Research and development costs	329	237
Board expenses	13	16
Property and vehicle leases	1,650	1,662
External Auditor's remuneration – audit services	53	52
	23,110	22,394

7. Interest payable

	Year to 31 March 2019 £'000	Year to 31 March 2018 £'000
International Accounting Standards (IAS) 19 net return on pension scheme assets and liabilities (note 19)	2,751	2,915

The negative net return position on pension assets at 31 March 2019, is as a result of the actual interest on assets of £7,782k being significantly less than the interest on liabilities of £10,533k (note 18 refers).

8. Interest receivable and similar income

	Year to 31 March 2019 £'000	Year to 31 March 2018 £'000
Bank interest received	12	2

9. Taxation

SEPA is not liable to corporation tax for 2018/19 (nil for 2017/18).

10. Non-current assets

	Tangible assets										Intangible assets			31 March 2019
Year to 31 March 2019	Land	Buildings	Lease-hold buildings fit out	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 2018	827	4,749	6,998	16,235	10,460	1,815	4,919	457	946	47,406	3,949	7,088	11,037	58,443
Recategorise	-	676	-	-	-	-	-	-	(676)	-	-	-	-	-
Additions	-	135	24	364	840	-	166	116	-	1645	-	111	111	1,756
Disposals	-	-	-	-	(223)	-	(1,808)	(13)	-	(2,044)	(2,788)	(3,385)	(6,173)	(8,217)
Revaluations	25	(65)	-	618	-	-	-	-	-	578	-	-	-	578
At 31 March 2019	852	5,495	7,022	17,217	11,077	1,815	3,277	560	270	47,585	1,161	3,814	4,975	52,560
Depreciation														
1 April 2018	-	-	1,788	-	6,009	982	3,425	243	155	12,602	3,521	6,095	9,616	22,218
Recategorise	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Charge for year	-	213	487	582	766	56	336	54	12	2,506	86	324	410	2,916
Disposals	-	-	-	-	(194)	-	(1,808)	(10)	-	(2,012)	(2,788)	(3,385)	(6,173)	(8,185)
Revaluations	-	(213)	-	22	-	-	-	-	-	(191)	-	-	-	(191)
At 31 March 2019	-	-	2,275	604	6,581	1,038	1,953	287	167	12,905	819	3,034	3,853	16,758
Net book value at 31 March 2019	852	5,495	4,747	16,613	4,496	777	1,324	273	103	34,680	342	780	1,122	35,802
Net book value at 31 March 2018	827	4,749	5,210	16,235	4,451	833	1,494	214	791	34,804	428	993	1,421	36,225

Year to 31 March 2018	Land	Buildings	Lease-hold buildings fit out	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
At 31 March 2018	827	4,749	6,998	16,235	10,460	1,815	4,919	457	946	47,406	3,949	7,088	11,037	58,443
Depreciation														
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)
At 31 March 2018	-	-	1,788	-	6,009	982	3,425	243	155	12,602	3,521	6,095	9,616	22,218
Net book value at 31 March 2018	827	4,749	5,210	16,235	4,451	833	1,494	214	791	34,804	428	993	1,421	36,225
Net book value at 31 March 2017	825	4,556	5,600	4,335	3,945	1,086	1,740	130	776	22,993	653	1,291	1,944	24,937

The charge in the Statement of Comprehensive Net Expenditure includes depreciation charged for the year and the net book value of impairments £2,957, (£2,916k plus £8,217k less £8,185k, equals £2,948k plus the loss on current asset sold in year £9k).

Buildings category includes properties whose fair value (market value equivalent) was provided by Avison Young (Royal Institution of Chartered Surveyors) at £5.5m on 31 March 2019 (£5.5m at 31 March 2018)

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. Indexation has been applied to these values to produce a valuation as at 31 March 2019.

The vessel (Sir John Murray) is reflected at historic cost as at 31 March 2019. 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 £790k as at 31 March 2019. The net book value at 31 March included in non-current assets was £777k.

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 value of property, plant and equipment increased by £769k in-year (£578k revaluation plus depreciation write back of £191k) of which £613k was credited to reserves and £156k to other net comprehensive expenditure.

The £436k net loss on revaluation of property plant and equipment, shown in other comprehensive expenditure relates to valuation movements in gauging stations of £592k offset by the increase in current year valuations of £156k. This has resulted in an in-year transfer from other comprehensive expenditure to reserves.

11. Current assets for sale

	As at 31 March 2019	As at 31 March 2018
	£'000	£'000
Current assets for sale	-	90

12. Cash and cash equivalents

	As at 31 March 2019	As at 31 March 2018
	£'000	£'000
Balance at 1 April 2018	1,805	1,300
Net change in cash and cash equivalent balances	(663)	505
Balance at 31 March 2019	1,142	1,805
The following balances at 31 March 2018 were held at:		
Government banking services	1,126	1,786
Commercial banks and cash in hand	16	19
Balance at 31 March 2019	1,142	1,805

13. Trade and other receivables

	As at 31 March 2019	As at 31 March 2018
	£'000	£'000
Amounts falling due within one year		
Trade receivables	1,652	1,517
Less provisions for bad debts	(181)	(256)
Trade receivables net	1,471	1,261
Other trade receivables	11	10
Prepayments and accrued income	2,372	2,149
Sub total	3,854	3,420
Amounts falling due after one year		
Prepayments	347	95
	4,201	3,515

At the year end, the total bad debt provision is £181,431 (2017/18 - £256,130). Included within the trade receivables there is: £16,623 (2017/18 - £138,374) owing from central government bodies; £9,884 (2017/18: £9,162) owing from local authority bodies; £4,652 (2017/18 - £4,225) owing from NHS bodies; and £598,027 (2017/18 - £315,153) owing from other public bodies.

14. Trade and other payables

	As at 31 March 2019	As at 31 March 2018
	£'000	£'000
Amounts falling due within one year		
Trade payables	1,995	1,387
Other taxes and social security	1,723	1,340
VAT	164	102
EU grant deferred income	670	1,123
Accruals and deferred income	3,820	4,624
	8,372	8,576

Included within the trade and other payables there is: £1,548,896 (2017/18 - £1,016,211) owing to local authority bodies; £1,722,853 (2017/18 - £1,339,639) owing to central government bodies; £nil (2017/18 - £7,112) owing to NHS bodies; and £5,713 (2017/18 - £11,930) owing to other public bodies.

15. Provision for liabilities and charges

Year to 31 March 2019	Unfunded pension liabilities	Other provisions	Total provision for liabilities and charges
	£'000	£'000	£'000
Balance at 1 April 2018	2,011	413	2,424
Actuarial valuation changes	163	95	258
Utilised in year	(138)	(65)	(203)
As at 31 March 2019	2,036	443	2,479

Year to 31 March 2019	Unfunded pension liabilities	Other provisions	Total provision for liabilities and charges
	£'000	£'000	£'000
Liabilities due > 1 year	1,898	443	2,341
Liabilities due < 1 year	138	-	138
As at 31 March 2019	2,036	443	2,479

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

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

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 2019, 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.

16. Financial commitments

There are capital commitments at 31 March 2019 of £59,742 (2017/18 - £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 2019

	Land and buildings		Other	
	2019 £'000	2018 £'000	2019 £'000	2018 £000
Payable within one year	1,641	1,643	119	53
Later than 1 year but less than 5 years	6,605	5,952	11	38
After 5 years	9,488	11,724	-	90
	17,734	19,319	130	181

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% - 11.2%.

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 2019, 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 £8,466,438 (2017/18 - £7,687,506). There was £1,247,477 (2017/18 - £1,010,725) outstanding at 31 March 2019 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 £133m (2017/18 - £97m) for the financial year ended 31 March 2019, as valued by Hymans Robertson, the actuaries to the Falkirk Council Pension Fund. The actuary uses a number of factors to estimate SEPA's net liability, these include discount rates, salary increases, mortality, retirement age and expected returns on pension fund assets. In 2018/19 the pension fund deficit increased by £36m this was mainly due to an increase in liabilities as a result of lower discount rate applied to expected future benefits paid by the scheme. The discount rate applied by the actuaries is based on corporate bond yields, which fell during 2018/19. Additionally the actuaries have made an estimate for the McCloud judgement of £2m and an allowance for the impact of Guaranteed Minimum Pension costs that are expected to fall on the scheme of £0.6m, shown as past service costs. These increases have been partially offset by investment returns of 8.5% being greater than expected for 2018/19.

The key assumptions used by the actuary include.

Financial Assumptions

Year ended	31 March 2019 (% per annum)	31 March 2018 (% per annum)
Pension increases	2.5	2.4
Salary increases	3.0	2.9
Discount rate	2.4	2.7

Mortality

The average future life expectancies at age 65 are:

	Males	Females
Current pensioners	21.2 years	23.7 years
Future pensioners	22.7 years	25.5 years

Defined Benefit Obligation

	Number	Total salaries / pensions		Average age	Liability split	Liability split	Weighted average duration at previous formal valuation (years)
	31 Mar 2017	Pensionable Payroll 2018/19 £'000	31 Mar 2017 £'000	31 Mar 2017	31 Mar 2019 £'000	Percentage (%) at 31 March 2019	
Actives	1,230	42,135	39,735	48	281,452	62.7%	26.7
Deferred pensioners	743	-	2,355	48	71,711	16.0%	26.8
Pensioners	346	-	4,134	65	95,368	21.3%	13.3
Total					448,531	100%	22.9

Sensitivities

The following table shows the sensitivity of the results to the changes in the principal assumptions used to measure the scheme liabilities:

Year ended 31 March 2019	Approximate % increase to Defined Benefit Obligation	Approximate monetary amount £'000
0.5% decrease in real discount rate	12%	55,776
0.5% increase in the salary increase rate	3%	12,054
0.5% increase in the pension increase rate (CPI)	9%	42,471

Assets

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.

Asset category	As at 31-March 2019				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	%
Equity securities:								
Consumer	25,203	-	25,203	8	29,745	-	29,745	11
Manufacturing	19,119	-	19,119	6	12,854	-	12,854	4
Energy and utilities	11,910	-	11,910	4	9,834	-	9,834	3
Financial institutions	23,548	-	23,548	7	21,961	-	21,961	8
Health and care	10,457	-	10,457	3	11,325	-	11,325	4
Information technology	27,969	-	27,969	9	17,682	-	17,682	6
Other	112	-	112	-	4,893	-	4,893	2
Debt securities:								
Corporate bonds (investment grade)	-	-	-		-	9,157	9,157	3
Private equity:								
All	-	8,212	8,212	3	-	26,026	26,026	9
Real estate:								
UK property	-	18,588	18,588	6	-	16,788	16,788	6
Overseas property	-	2,759	2,759	1	-	195	195	-
Investment funds and unit trusts:								
Equities	66,175	-	66,175	21	63,527	-	63,527	22
Bonds	23,567	-	23,567	8	-	13,412	13,412	5
Infrastructure	-	26,352	26,352	8	-	3,062	3,062	1
Other	30,644	1,806	32,450	10	29,091	-	29,091	10
Cash and cash equivalents:								
All	19,433	-	19,433	6	16,089	-	16,089	6
Totals	258,137	57,717	315,854	100	217,001	68,640	285,641	100

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 2019			Year ended 31 March 2018		
	Assets	Obligations	Net (liability)/ asset	Assets	Obligations	Net (liability)/ asset
	£'000	£'000	£'000	£'000	£'000	£'000
Pensions deficit						
Fair value of employer assets	285,641	-	285,641	278,327	-	278,327
Present value of funded liabilities	-	(382,573)	(382,573)	-	(383,277)	(383,277)
Opening position as at 31 March	285,641	(382,573)	(96,932)	278,327	(383,277)	(104,950)
Service cost						
Current service cost ⁷	-	(15,927)	(15,927)	-	(13,713)	(13,713)
Past Service cost	-	(2,611)	(2,611)	-	-	-
Total service cost	-	(18,538)	(18,538)	-	(13,713)	(13,713)
Net interest						
Interest income on plan assets	7,782	-	7,782	7,575	-	7,575
Interest cost on defined benefit obligation	-	(10,533)	(10,533)	-	(10,490)	(10,490)
Total net interest	7,782	(10,533)	(2,751)	7,575	(10,490)	(2,915)
Total defined benefit cost recognised in profit or (loss)	7,782	(29,071)	(21,289)	7,575	(24,203)	(16,628)
Cash flows						
Plan participants' contributions	2,802	(2,802)	-	2,669	(2,669)	-
Employer contributions	8,427	-	8,427	7,508	-	7,508
Benefits paid	(5,640)	5,640	-	(5,295)	5,295	-
Expected closing position	299,012	(408,806)	(109,794)	290,784	(404,854)	(114,070)
Re-measurements						
Change in demographic assumptions	-	-	-	-	(1,507)	(1,507)
Change in financial assumptions	-	(39,725)	(39,725)	-	(4,156)	(4,156)
Other experience	-	-	-	-	27,944	27,944
Return on assets excluding amounts included in net interest	16,842	-	16,842	(5,143)	-	(5,143)
Total re-measurements recognised in other comprehensive income	16,842	(39,725)	(22,883)	(5,143)	(22,281)	17,138
Fair value of employer assets	315,854	-	315,854	285,641	-	285,641
Present value of funded liabilities	-	(448,531)	(448,531)	-	(382,573)	(382,573)
Closing position as at 31 March	315,854	(448,531)	(132,677)	285,641	(382,573)	(96,932)

⁷ 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 2019. There is an increase in forecast net liabilities of £31m 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.

Statement of comprehensive net expenditure	Year to 31 March 2019 £'000	Year to 31 March 2018 £'000
Charge to operating costs		
Current service cost	15,927	13,713
Past service cost	2,611	-
Total service cost	18,538	13,713
Employer contribution	(8,427)	(7,508)
Added to staff costs (see note 5)	10,111	6,205
Projected return on employers assets	(10,533)	(10,490)
Actual return on employer assets	7,782	7,575
	(2,751)	(2,915)

Hyman's have estimated SEPA's employer's contributions for the period to 31 March 2020 at approximately £8.4m.

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](#).

21. Segmental analysis for year to 31 March 2019

SEPA mainly operates in Scotland and is currently organised into portfolios. This year SEPA set out its aims and objectives for the next five years in its Corporate Plan 2017- 2022.

	Evidence and Flooding	Chief Exec	Performance and Innovation	People and Property	Finance	Commercial Services	Compliance & Beyond	Circular Economy	Corporate	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Income:										
Revenue from Charging Schemes	-	-	-	-	-	-	-	-	40,820	40,820
Other income	-	-	-	-	-	-	-	-	6,851	6,851
Total income	-	-	-	-	-	-	-	-	47,671	47,671
Staff costs	21,911	309	3,783	1,938	1,089	236	16,421	9,834	243	55,764
Other operating charges	10,779	72	979	4,807	341	277	1,054	6,377	402	25,088
Depreciation and impairment	-	-	-	-	-	-	-	-	2,959	2,959
Total expenditure	32,690	381	4,762	6,745	1,430	513	17,475	16,211	3,604	83,811
Net expenditure for year	(32,690)	(381)	(4,762)	(6,745)	(1,430)	(513)	(17,475)	(16,211)	44,067	(36,140)
Adjustment to disposal of Assets										2
Add unfunded pension additional provision										(24)
Add life assurance additional provision										(30)
Add Pension scheme adjustments to staff costs										(12,862)
										(49,054)

SEPA's contribution to EU projects is included in the expenditure above. Over and above this there was £0.5m direct EU funded expenditure included in the Statement of net comprehensive expenditure for the year. The associated income has been included in other income for the year in the Statement of net comprehensive expenditure (£47.7m above plus £0.5m is £48.2m).

As at 31 March 2019 Portfolio	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
Segment assets										
Non-current assets	24,285	-	-	11,473	-	-	-	44	-	35,802
Assets for sale	-	-	-	-	-	-	-	-	-	-
Trade receivables	-	-	-	-	-	-	-	-	4,201	4,201
Cash	-	-	-	-	-	-	-	-	1,142	1,142
Total liabilities	-	-	-	-	-	-	-	-	(143,528)	(143,528)
Total net assets	24,285	-	-	11,473	-	-	-	44	(138,185)	(102,383)

As at 31 March 2018 Portfolio	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
Segment assets										
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)
Total net assets	24,411	-	-	11,814	-	-	-	-	(102,522)	(66,297)

22. Trading Accounts

Schemes	ERS	PRW	RSA Band A	Other	Total
Year to 31 March 2019					
	£'000	£'000	£'000	£'000	£'000
Income	36,936	1,129	1,793	962	40,820
Expenditure					
Staff costs	(27,891)	(702)	(1,024)	(907)	(30,524)
Depreciation / cost of capital	(2,013)	(31)	(39)	(32)	(2,115)
Bad debts	(117)	-	(41)	-	(158)
Other operating charges	(7,467)	(281)	(771)	(282)	(8,801)
Total expenditure	(37,488)	(1,014)	(1,875)	(1,221)	(41,598)
(Under)/Over recovery	(552)	115	(82)	(259)	(778)
% Cost recovery	99%	111%	96%	79%	98%
Year to 31 March 2018					
	£'000	£'000	£'000	£'000	£'000
Income	35,385	1,124	1,580	996	39,085
Expenditure					
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
Total expenditure	36,594	867	1,594	1,177	40,232
(Under)/Over recovery	(1,209)	257	(14)	(181)	(1,147)
% Cost recovery	97%	130%	99%	55%-240%	97%

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	

23. Operating Resource Reconciliation (DEL)

	Note	Year to 31 March 2019 £'000
Net Operating expenditure, Statement of comprehensive net expenditure		(46,315)
Add back pensions adjustments	5	10,111
Add back Life Assurance	5	95
Add back Unfunded Pensions	5	163
Add back depreciation and impairments	10	2,948
Less cash paid out on unfunded pensions	15	(138)
Less cash paid out on Life Assurance	15	(65)
Add interest received	8	12
Section 2.3 Parliamentary accountability expenditure outturn		(33,189)

24. Annually Managed Expenditure (AME)

	Note	Year to 31 March 2019 Budget £'000	Year to 31 March 2019 Actual £'000	Variance £'000
IAS 19 Pension Charge	5	4,000	10,111	(6,111)
Unfunded Pension Charge	5	50	163	(113)
Unfunded Pension Payments taken against DEL	5	(134)	(138)	4
Interest Payable IAS 19 Assets & Liabilities	7, 19	2,500	2,751	(251)
Death in Service Provision	15	50	95	(45)
Death in Service Payments taken against DEL	15	-	(65)	65
Movement in market value of Fixed Assets	10	700	436	264
Section 2.3 Parliamentary accountability expenditure outturn		7,166	13,353	(6,187)

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 2018/19

Direction	Description	Date coming into force
The Reservoirs (Disclosure of Information) (Scotland) Directions 2018	Exercise of the powers conferred by section 104 of the Reservoirs (Scotland) Act 2011	1 April 2018

Appendix 3

Trade Union facilities time⁸

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 2018/19.

Relevant union officials

Number of employees who were relevant union officials during 2018/19	Full-time equivalent employee number
15	14.8

Percentage of time spent on facility time⁹

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

Percentage of time	Number of employees
0%	11
1 – 50%	4
51% - 99%	0
100%	0

Percentage of pay bill spent on facility time¹⁰

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

Total cost of facility time	£36,713
Total pay bill	£55,961,101
Percentage of total pay bill on facility time	0.07%

Paid trade union activities¹¹

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)	53%
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⁸ All footnotes on this page refer to information taken from HM government Supporting Guidance for the Trade Union (Facility Time Publication Requirements) Regulations 2017.

⁹ 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.

¹⁰ 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.

¹¹ 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

If you are a user of British Sign Language (BSL) the Contact Scotland BSL service gives you access to an online interpreter enabling you to communicate with us using sign language.

<http://contactscotland-bsl.org>