Scottish Environment Protection Agency
Buidheann Dìon Àrainneachd na h-Alba

For the future of our environment

Annual Report and Accounts
2022-2023

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The Annual Report and Accounts 2022-2023 are being laid before the Scottish Parliament by the Minister for the Environment and Land Reform in pursuance of Section 22(5) of the Public Finance and Accountability (Scotland) Act 2000.

Contents

Introduction

Foreword: For the future of our environment

Nicole Paterson
Chief Executive

Bob Downes
Chairman

For over a quarter of a century, Scotland's Environment Protection Agency has been at the forefront of protecting and enhancing Scotland's environment.

Our people, in every corner of our country, are passionate about protecting our places and communities, about working in partnership, and the impact our shared outcomes have on our country and on our planet.

Working together, we have made strong progress since our inception, improving Scotland's air, land and water for future generations, in decarbonising energy, building a more circular economy and stronger, more resilient communities.

But Scotland's climate is changing. We are living in a global climate emergency and in March 2023 the United Nations gave the clearest indication yet of the need for urgent collective action – globally, nationally and through our individual choices. The report[1] talked to the realism of how climate change is impacting our planet, but also with optimism on the steps we can take to secure a sustainable future.

In Scotland, we are experiencing today, the impacts of our changing climate. We have an unenviable pattern of increasingly severe weather, record warming, flash flooding and extreme water scarcity impacting our economy, our society and communities.

At SEPA, we are on the front line of climate change and biodiversity loss and we are committed to maximising our impact. Across the last year, our people continued that strong legacy of delivery, helping Scotland avoid flood risk, protecting communities by tackling poor environmental performance, disrupting waste crime and helping adapt to our tenth driest summer on record.

But at SEPA, we're changing too – to be fit for the challenges of tomorrow.

1 Climate Change 2023: Synthesis Report

In October 2022, we appointed Nicole Paterson as our new Chief Executive, with a focus on reform, innovation, and partnership action to accelerate delivery. We strengthened our leadership and refocused our priorities around five areas:

Avoid

Protect

Adapt

Improve

Warn

As we reset SEPA, we are taking the best from the past as we look to the future. We are committed to public sector reform, to partnerships that maximise our effectiveness and, where possible, to target our fixed resources on prevention, rather than cure. To outcomes, not inputs.

We are supporting innovation and digital transformation, creating modern, accessible and responsive public services. We are playing our role in addressing the systemic challenges, but never losing focus on the local issues that matter most to our communities.

The year past was seminal - for SEPA, for Scotland and for our environment.

Together, with our people and partners, we are proud of our past and focused on the future of our environment.

Nicole Paterson

12 December 2023

Bob Downes

12 December 2023

Ro-ràdh: Airson àm ri teachd na h-àrainneachd againn

Nicole Paterson
Ceannard

Bob Downes
Cathraiche

Airson còrr air cairteal de cheud bliadhna, tha Buidheann Dìon Àrainneachd na h-Alba air a bhith aig fìor thoiseach dìon agus àrdachadh àrainneachd na h-Alba.

Tha na daoine againn, anns gach ceàrnaidh den dùthaich againn, dealasach mu bhith a' dìon ar n-àiteachan agus coimhearsnachdan, mu bhith ag obair ann an com-pàirteachas, agus a' bhuaidh a tha aig ar builean coitcheann air an dùthaich agus air a' phlanaid againn.

Ag obair còmhla, tha sinn air adhartas làidir a dhèanamh bhon a thòisich sinn, a' leasachadh adhar, fearann agus uisge na h-Alba airson nan ginealaichean ri teachd, ann a bhith a' dì-charbonachadh lùtha, a' togail eaconamaidh nas cruinne agus coimhearsnachdan a tha nas làidire agus nas seasmhaiche.

Ach tha gnàth-shìde na h-Alba ag atharrachadh. Tha sinn beò ann an èiginn gnàth-shìde chruinneil agus sa Mhàrt 2023 thug na Dùthchannan Aonaichte an comharra as soilleire fhathast air an fheum air gnìomh coitcheann èiginneach - gu cruinneil, gu nàiseanta agus tro ar roghainnean fa-leth. Bhruidhinn an aithisg* ri fìorachas air mar a tha atharrachadh na gnàth-shìde a' toirt buaidh air a' phlanaid againn, ach cuideachd le dòchas mu na ceumannan as urrainn dhuinn a ghabhail gus àm ri teachd seasmhach a dhèanamh tèarainte.

Ann an Alba an latha an-diugh, tha sinn a' faicinn buaidh na gnàth-shide againn is i ag atharrachadh. Tha pàtran do-chreidsinneach againn de shìde a tha a' sìor-fhàs cruaidh, blàthachadh as àirde, grad-thuiltean agus fìor ghainnead uisge a' toirt buaidh air an eaconamaidh, comann-sòisealta agus coimhearsnachdan againn.

Atharrachadh Gnàth-shìde 2023: Aithisg Co-Chur www.unep.org/resources/report/climate-change-2023-synthesis-report

Aig SEPA, tha sinn air thoiseach air atharrachadh na gnàth-shìde agus call bith-iomadachd agus tha sinn an geall air ar buaidh a làn-mhheudachadh. Thairis air a' bhliadhna a dh'fhalbh, lean na daoine againn orra leis an dìleab làidir sin a thaobh lìbhrigeadh, a' cuideachadh na h-Alba gus cunnart bho thuiltean a sheachnadh, a' dìon choimhearsnachdan le bhith a' dèiligeadh ri droch choileanadh àrainneachdail, a' cur bacadh air eucoir sgudail, agus a' cuideachadh le bhith ag atharrachadh a rèir an deicheamh samhraidh as tiorma a chaidh a chlàradh a-riamh.

Ach aig SEPA tha sinn ag atharrachadh cuideachd - gu bhith deiseil airson nan dùbhlan a tha romhainn.

Anns an Dàmhair 2022, chuir sinn Nicole Paterson an dreuchd mar an Ceannard ùr againn, le fòcas air ath-leasachadh, ùr-ghnàthachadh, agus gnìomh com-pàirteachais gus lìbhrigeadh a luathachadh. Neartaich sinn an ceannardas againn agus chuir sinn fòcas as ùr air ar prìomhachasan timcheall air còig raointean:

Seachain

Dìon

Freagarraich

Leasaich

Thoir Rabhadh

Fhad 's a tha sinn ag ath-shuidheachadh SEPA, tha sinn airson a' chuid as fheàrr a thoirt bhon àm a dh'fhalbh agus sinn a' coimhead air adhart ris an àm ri teachd. Tha sinn an geall air ath-leasachadh san roinn phoblaich, com-pàirteachasan a tha a' meudachadh ar n-èifeachdais agus, far a bheil e comasach, ar goireasan suidhichte a chuimseachadh air casg, seach leigheas. Air toraidhean, an àite ion-chur.

Tha sinn a' toirt taic do ùr-ghnàthachadh agus cruth-atharrachadh didseatach, a' cruthachadh sheirbheisean poblach ùr-nodha, ruigsinneach agus freagairteach. Tha sinn a' cluich ar pàirt ann a bhith a' dèiligeadh ris na dùbhlain siostamach, ach gun a bhith a' call fòcas air na cùisean ionadail as cudromaiche do ar coimhearsnachdan.

Bha a' bhliadhna a dh' fhalbh air leth cudromach – airson SEPA, airson Alba agus airson ar n-àrainneachd.

Còmhla ris na daoine agus com-pàirtichean againn, tha sinn moiteil às an àm a dh'fhalbh agus tha fòcas againn air na tha an dàn don àrainneachd againn.

Nicole Paterson

12 December 2023

Bob Downes

12 December 2023

The story of 2022-2023

Delivering for Scotland

Avoid

- **Avoiding flood risk** through the land use planning system.
- **Stopping the illegal export of oil rigs**, authorising responsible dismantling.

Protect

- **Supporting Scotland's pandemic recovery** through COVID-19 ribonucleic acid (RNA) waste-water testing.
- Protecting communities by **tackling environmental performance** at sites across Scotland.
- **Disrupting waste crime**, supporting a significant prosecution on an industrial scale fly-tipping.
- Served our first **Variable Monetary Penalty.**
- **Protecting the environment** from development pressures by permitting new activities.

Adapt

- Leading Scotland's response to its **tenth driest summer** and helping Scotland to adapt to water scarcity.
- VIBES-Scottish Environment Business Awards **supporting Scottish business to adapt.**
- Working with Scotland's 2050 Climate Group and Tennent's, **engaging Scots on adaptation.**
- **New tidal model for the Clyde** in partnership with Glasgow City Council to better inform flood risk management.

Improve

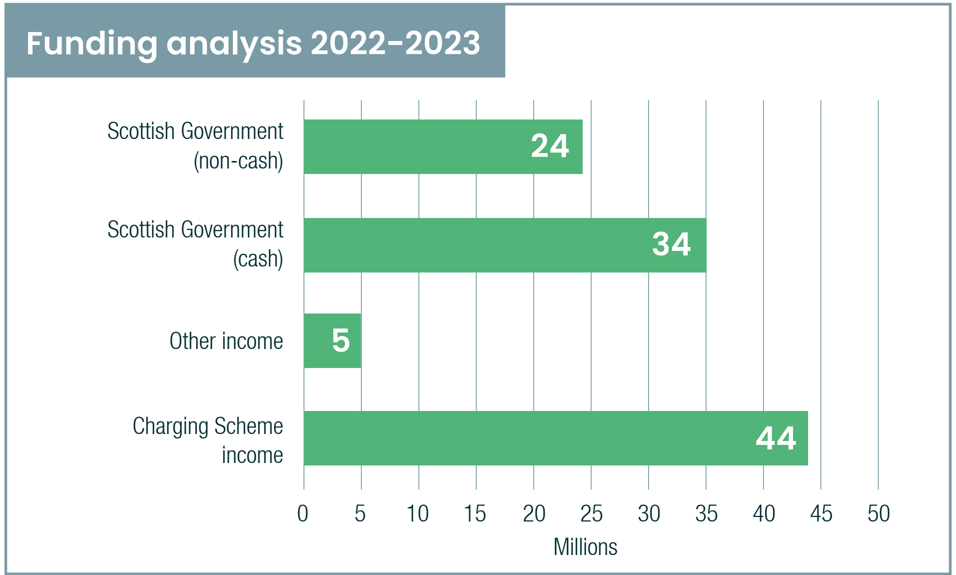
- Two new bathing water designations and our highest ever number achieving the **top excellent classification.**
- Tackling fish barriers across Scotland and **helping salmon return to the Garrell Burn** in Kilsyth for the first time in 100 years.
- **Supporting the next steps** for Scotland's low emission zones.
- Supporting Scotland's **Circular Economy.**
- Reviewing permits to require **environmental improvement.**

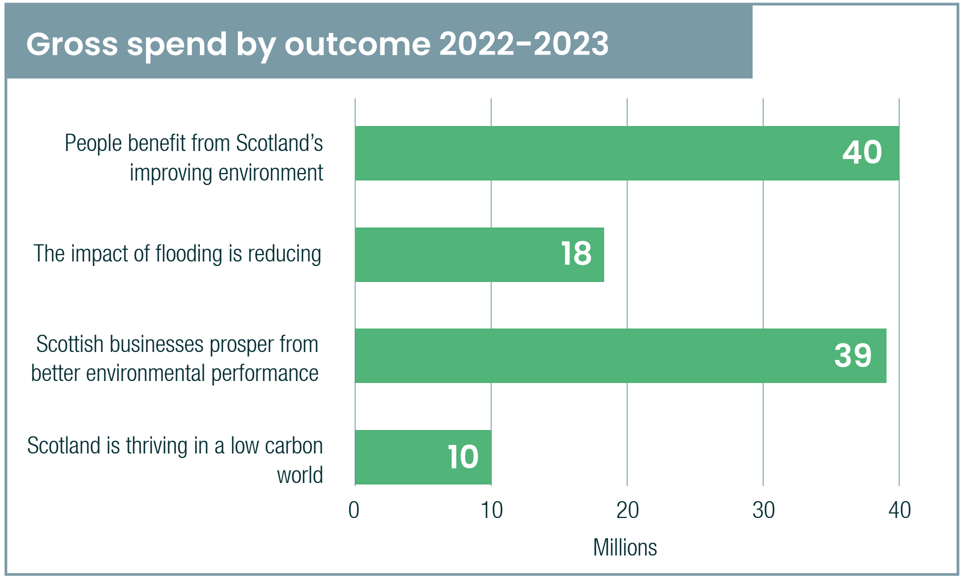
Warn

- Providing critical **warnings of flooding** to communities and businesses and piloting an innovative new three-day flood forecast.
- Developed a new **flood warning scheme** in Falkirk.

Financial highlights

Our funding 2022-2023





Our funding comprises: £34m (cash) and £24m (non-cash) grant-in-aid from Scottish Government; plus income from our charging regimes of £44m to recover the relevant costs of our regulatory activities (see note 2 income from contracts); and other income of £5m mainly in relation to grants and recharges (see note 2 income from contracts and note 3 other income). The non-cash funding from Scottish Government includes funds to cover year end accounting adjustments for pensions and provisions. Together, this provides us with funds to invest in protecting and improving Scotland's environment. This investment is split across the four outcomes (see graph above) which achieve our Corporate Plan objectives.

In 2022-2023 we also received £4m in capital grant-in-aid to fund our capital programme.

The financial performance and use of resources section on pages 40 to 45 provides further information on the breakdown of our Scottish Government funding and our performance against budget.

Protect

Our highlights:

New regulatory powers

In December 2022, we used our regulatory powers to protect communities, tackling non-compliance and offensive odours at a Glasgow landfill site.

The Variable Monetary Penalty (VMP) is an important element of our regulatory toolkit.

The operator was served with a VMP of £6,200 for a breach of its environmental permit resulting in an offensive odour that affected local communities for eight days in June 2021 and 138 complaints. The company was also required to pay £1,156.35 of our costs.

As a result of further odour issues at the site, the company's Pollution Prevention and Control (PPC) permit was partially suspended on 25 January 2023. Following action taken by the operator, the suspension was then withdrawn on 23 February 2023.

Improve

Our highlights:

Water Environment Fund

Salmon fry have returned to the Garrell Burn in Kilsyth for the first time in 100 years, as a result of a river restoration project by SEPA and North Lanarkshire Council.

Work at Dumbreck Local Nature Reserve saw the re-naturalisation of 600 meters of the Garrell Burn with two new fish passes created, improvements to the wetland habitat, new paths created, two bridges replaced and a new one installed, and two boardwalks upgraded. The space can now be better enjoyed by local communities, visitors, and children from nearby schools, with access routes catering for a mix of abilities.

Monitoring by Clyde River Foundation has identified salmon fry upstream from the fish passes at Burngreen Park. The substantial work has also helped improve the river habitat from 'poor' to 'good' under Scotland's River Basin Management Plan.

The project has also improved the nature reserve to conserve the wetland habitat and species such as invertebrates, water voles and wetland birds, and the two new fish passes are designed to allow migration of salmon as well as sea trout and eels.

The project received £3.2 million of funding from SEPA's Water Environment Fund and £900,000 from North Lanarkshire Council.

Warn

Our highlights:

Three-day flood forecast

Communities across Scotland are able to prepare and take action sooner to protect themselves from flooding using a new three-day Scottish Flood Forecast.

Developed by SEPA and the Met Office, the Scottish Flood Forecast provides the earliest indication possible of when and where flooding is expected over the next three days, and whether the source is from rivers, surface water or the sea.

In addition, the colour coded map on our website describes the potential impacts on communities and provides links to advice and information on what protective action people can take if required. It offers reassurance when significant flooding is not expected.

The Scottish Flood Forecast was developed following research involving the public, community flood groups, emergency responders, partner organisations and both SEPA and Met Office employees. Feedback from more than 200 users was gathered during a trial phase from May last year.

The forecast is produced every morning, 365 days a year, and published on our website. It is an additional tool for the public which complements our Floodline service which issues alerts and warnings to those signed up 24 hours a day seven days a week.

Performance

Strategic outcomes

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.

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 prosper 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.

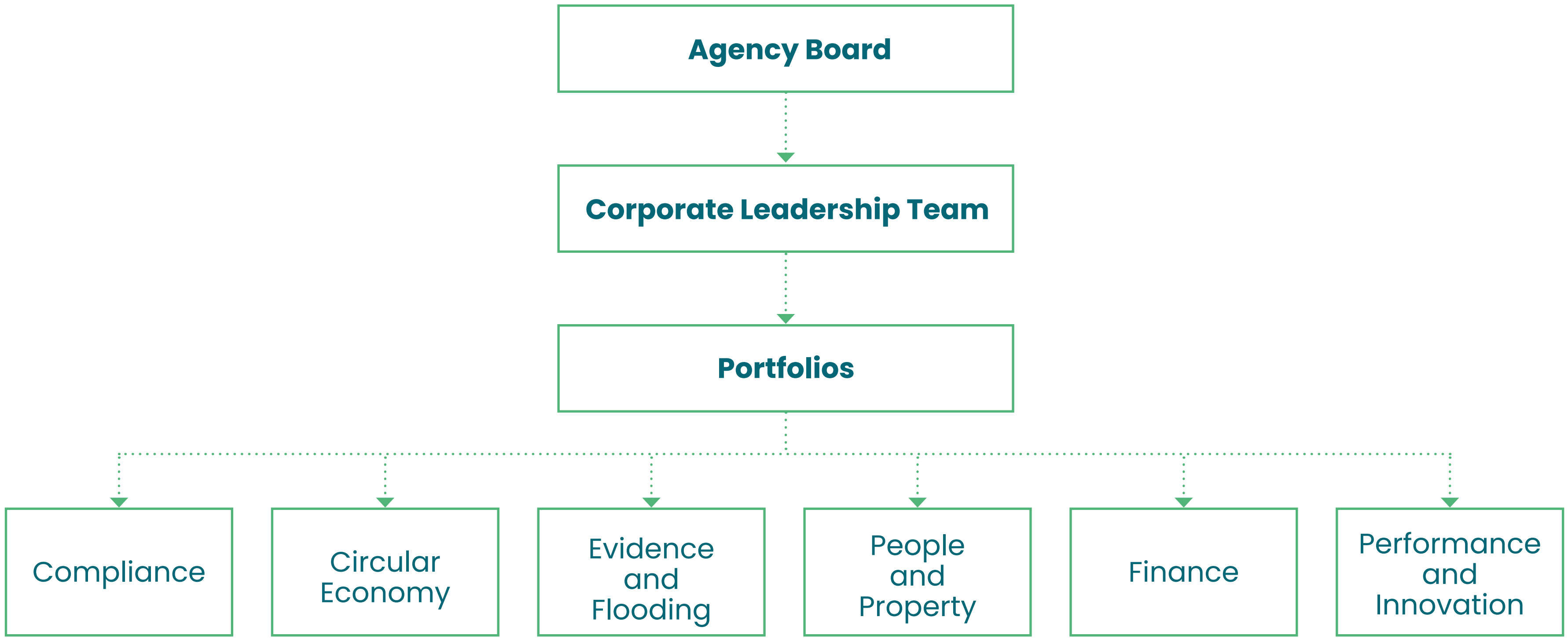
The impact of pollution and environmental crime is reducing.

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 business model

We are a non-departmental public body, accountable to Scottish Ministers and the Scottish Parliament, and an independent advisor on the environment. With locations across Scotland our 1,187 employees have adopted a hybrid approach to work.



Our key risks and challenges

Our key risks and challenges relate to our arrangements to ensure the effective delivery of our key services, as well as our Annual Operating Plan and Corporate Plan objectives.

We take a detailed and comprehensive approach to risk, including an annual review of global risk including the World Economic Forum Global Risk Report. Reflecting the importance of our regulatory and climate resilience work, the report which notes that 'climate and environmental risks are the core focus of global risks perceptions over the next decade – and are the risks for which we are seen to be the least prepared.'

More information on our approach to risk management is contained in our Governance Statement (see pages 53 to 59).

Key risks:

Climate change

Key risk	Mitigating actions
Our influence among partners and regulated businesses risks being diminished if we are unable to be recognised as a leader in taking climate action. This may in turn risk our credibility and influence in other areas of environmental protection.	• Within this decade we aim to reduce all of our emissions and impacts to zero or net zero, while at the same time taking actions that repair the environment. We call this 'Regenerative SEPA'. • We have set out a Regenerative SEPA route map for 2024-2026 with actions. We are delivering actions that contribute towards the Regenerative SEPA Programme.

Resourcing and well-being

Key risk	Mitigating actions
Our people are integral to our success. Like many organisations we may face talent and well-being risks due to the shortage of skilled workers, the impact of the pandemic, business disruption and the attrition of employees. If realised this may have an impact in meeting our Annual Operating Plan and Corporate Plan objectives.	We have set out a workforce strategy and action plan, where we will: • Identify the skills we need to deliver our future ambitions. • Deliver tangible actions which demonstrate our commitment to skills development and building capabilities to deliver our future ambitions. • Encourage and support a diverse workforce. • Align our resources to meet current and future priorities. • Attract and retain talent.

Key risks:

Budgets and outcomes

Key risk	Mitigating actions
Unexpected events or changes in the economic, social, political, or environmental conditions may have an impact on our income. In turn this could affect our ability to meet our Annual Operating Plan and Corporate Plan objectives, and deliver our services within available budget.	• We have agreed detailed budgets to deliver organisational priorities. The outcomes and the finances are monitored on a monthly basis at a portfolio level internally and externally. • We will deliver outcomes in line with the funding available to ensure delivery of a balanced budget.

Key risks:

Cyber and information

Key risk	Mitigating actions
We may suffer disruption, potential harm, or loss as a result of cyber-attacks or the inadvertent disclosure of information that we need to protect. This may have serious legal, operational, and reputational consequences for us.	• We are investing in safeguarding our information and systems to minimise cyber and information management risks. • We have and will continue to adopt a heightened security posture by investing in our systems, policies, procedures, accreditation and review arrangements. • We have and will continue to train our people and exercise our processes. • We will continue to monitor threats and respond to incidents.
The provision of business and environmental information to requestors could be impacted as a result of the COVID-19 pandemic and 2020 cyber-attack, which may result in us failing to meet our legislative and statutory requirements to provide information.	• We have increased our investment in and prioritised our response to Freedom of Information and Environmental Information requests, resulting in improved performance. • We have developed an action plan and are introducing a number of improvements to our systems, procedures and tools that will result in further improvements to performance. • We are increasing the volume of information that will be proactively published.

Key risks:

Infrastructure

Key risk	Mitigating actions
Our gauging stations, and their availability, is a critical component of our monitoring network and contribute to us meeting our flood warning, environmental monitoring and regulatory responsibilities. There is a risk if we are unable to access the stations in order to manage and operate them.	• We have put in place robust and consistent lease agreements for new and existing sites and prioritised the sites most in need of maintenance work. • We will continue to invest in our monitoring network.

Landfill abandonment

Key risk	Mitigating actions
We will continue to seek to support the transition of the landfill sector to a circular economy, reducing the risk of environmental liabilities resulting from potential landfill site abandonment.	• We have conducted detailed assessments of each high-risk landfill site. • We have agreed action plans with the operators of each high-risk sites. • We are working with operators to ensure delivery of each action plan. • We will develop action plans with the remaining non high-risk sites.

Avoid
Protect
Adapt
Improve
Warn

What we do

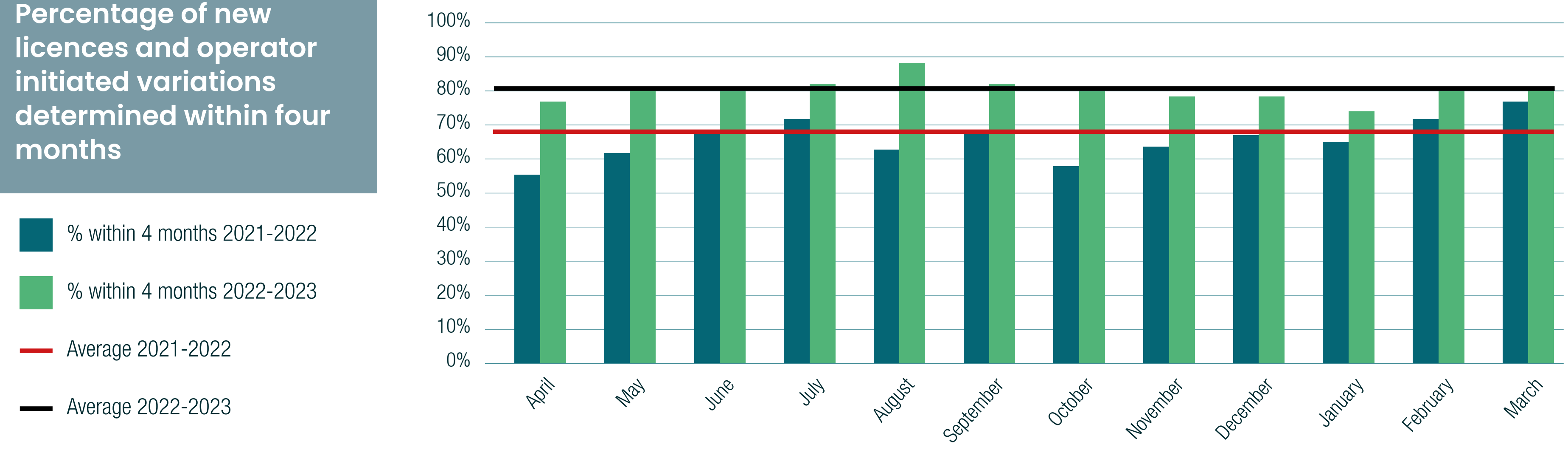
Our Annual Operating Plan sets out our delivery priorities across the key areas of our work, supporting Corporate Plan outcomes.

Maintain or improve the length of time it takes to determine applications	Our plans to review and modify authorisations are on track	We have significantly increased monitoring to improve our understanding of the environment	An improvement in compliance at prioritised, non-compliant sites	We implemented a registration system to support the Deposit Return Scheme by 1 January 2023
Warnings and alerts issued for all significant flooding events	Our new flood warning information system is operational	We developed a new flood warning scheme in Falkirk	Health and well-being levels among our people have improved from average prior year levels	Reduction in our direct greenhouse gas emissions by 70% from our 2006-2007 baseline

Objective one

Our plan was to:	What we achieved:
Maintain or improve the length of time it takes to determine applications.	We manage environmental risk with businesses who carry out activities that could harm the environment applying to us for authorisation. This year we wanted our people to continue improving our authorisation systems and processes, while still maintaining a good level of service for our customers. We exceeded our goal, because we were able to improve the level of service for our customers

Percentage of new licences and operator initiated variations determined within four months



Objective two

Our plan was to:	What we achieved:
Ensure our work to review and modify authorisations remained on track.	We reviewed a number of authorisations and revised the conditions set in them so that they provide better environmental protection. The authorisations we focused on related to: the review of industrial activities Best Available Techniques reference documents (also referred to as BREF); the River Basin Management Plan; and our new regulatory framework for marine pen fish farms. Over the year, we made progress on activities in each of these areas. Our end of year target was to have reviewed and modified authorisations in seven out of the nine planned activities. We exceeded that by completing the work for eight activities.

Area	Activity	Achieved status
Best Available Techniques reference documents review	Intensive rearing of poultry or pigs	yes
	Large volume organic chemicals	yes
	Large combustion plants	yes
	Waste treatment	no
River Basin Management Plan 2021-2027	Hydroelectric licences	yes
	Fish barriers	yes
	Discharge authorisations	yes
	Scottish Water abstraction authorisations	yes
Marine pen fish farms	Marine pen fish farms	yes

Objective three

Our plan was to:

Significantly increase monitoring to improve our understanding of the environment.

What we achieved:

State of the environment reporting helps us to understand the threats to, and how our regulation helps improve, Scotland's environment.

We have achieved this objective by implementing our plans to increase monitoring activities. We have prioritised the monitoring of licensed discharges to surface waters as part of our compliance verification work, whilst increasing our wider environmental surveillance work.

What we achieved (continued):

Bathing waters: We successfully completed the Bathing waters monitoring programme. As well as an increase in sampling frequency at sites in the upstream catchments, we monitored two more bathing beaches (Largo and Barassie) and one additional non-bathing water beach (Wardie). That meant that we classified the highest number ever of bathing water beaches (87). Our monitoring highlighted sustained improvements in bathing water quality, achieved through partnership projects. 38 out of 87 beaches (44%) were rated as 'excellent.' Overall, bathing water quality has seen ongoing improvements since 2015, when tighter standards first came into force.

Long-term water quality monitoring: We completed the spring and autumn sampling for ecology as planned. We also implemented our chemistry sampling programme as planned and will provide monitoring data for the full year in 2023.

Monitoring to assess the effectiveness of River Basin Management Planning improvement measures: We completed our spring, summer and autumn sampling for ecology as planned. We also completed the implementation of the long-term water quality monitoring programme. We continue to increase our chemistry monitoring throughout the year.

Monitoring to assess the environmental impact of high priority wastewater treatment sites: We have instigated a monitoring plan at 15 high risk wastewater treatment sites. We completed our spring, summer and autumn ecology monitoring as planned.

Objective four

Our plan was to:

Drive an improvement in compliance at prioritised, non-compliant sites.

What we achieved:

Tackling environmental non-compliance matters to communities and to compliant businesses.

We have achieved this objective by bringing about improvements in compliance in both authorised and illegal sites.

Improving compliance at high priority illegal sites

At the start of the year, we were monitoring 296 illegal sites. We categorised 53 of them as high priority, which means they are at the most significant end of the scale in terms of criminality and impact to the environment and communities. They include activities like the large-scale, coordinated treatment, deposit or disposal of waste discharge to the water environment and multiple end-of-life vehicle treatment sites. For these sites, successful intervention often relies on multi-agency disruption and intervention work coupled with criminal investigation. Each generate significant resource demands in order to effectively tackle and disrupt the ongoing criminality and environmental impact.

We started the year with 53 prioritised illegal sites. We have concluded investigation and enforcement action at nine of them. Enforcement action included:

- Provision of advice which resulted in the illegal activity ceasing.
- Remediation through negotiation which resulted in site clearance.
- Partnership working with the Local Authority's Planning Department which resulted in compliant waste removal and site clearance.
- Partnership working including road stops to disrupt localised fly tipping and duty of care checks to prevent use of illegal sites.
- A report to Crown Office and Procurator Fiscal Service.
- The issue of final warning letters.

Following investigation and assessment of risk and harm, we were able to downgrade two sites which were previously high risk.

Priority illegal sites	Q1	Q2	Q3	Q4
Number of priority sites at end of quarter	53	55	56	54
New sites added	9	3	1	1
Impact of risk reduced or resolved during quarter	7	1	2	1
Sites downgraded after investigation	0	1	1	0
Number of priority sites at end of quarter	55	56	54	54

What we achieved (continued):

Improving compliance at priority authorised sites

Priority authorised sites are those which present the most significant impacts or risk to the environment or communities. It may take a few years for the issues at priority sites to be resolved and significant investment might be needed.

This year, priority sites covered a range of sectors including landfill and waste management, waste-water treatment, fish farming, construction and chemical manufacturing. For successful intervention, we often rely on the use of our formal enforcement powers and take action to successfully remove or reduce the impact or risk.

We started the year with 18 priority sites and identified a further 31 during the year. The impact or risk has reduced at 21 of them over the year. To achieve this we have varied permits to apply tighter controls, served enforcement notices to require corrective actions to be taken within a specific timescale, or suspended authorised activities until a non-compliance is addressed. In addition, we served our first Variable Monetary Penalty in October 2022 in relation to permit breaches during the previous business year.

At the end of the year, we have 29 priority authorised sites. Through increasing our compliance activity this year, we have improved our compliance information.

Priority authorised sites baseline	Q1	Q2	Q3	Q4
Number of priority sites at start of quarter	18	18	21	25
New sites added	0	6	10	16
Impact or risk reduced or resolved during quarter	0	3	6	12
Number of priority sites at end of the quarter	18	21	25	29

Objective five

Our plan was to:	What we achieved:
Implement a registration system to support the Deposit Return Scheme by 1 January 2023.	We are focused on supporting Scotland's circular economy and tackling litter, including via Scotland's Deposit Return Scheme (DRS). Whilst the DRS was not launched, we achieved this objective as the DRS registration system was live by 1 January 2023 and performed well. The service allowed producers to register directly with SEPA. It also supported the flow of producer registrations received through the scheme administrator, for final SEPA approval. We also completed work to build a producer register; published guidance for producers on our website; and launched a targeted communications campaign.

Objective six

Our plan was to:	What we achieved:
Issue warnings and alerts for all significant flooding events.	Our flood warning service covers the whole of Scotland. This includes 19 regional flood alert areas and 326 locations where customers can receive more specific flood warnings. We met this target as we issued flood alerts and warnings ahead of all significant events. There were five significant events this year: • Two in Quarter 2: 14-15 August and 8 September. • Two in Quarter 3: 18-19 November and 30 December. • One in Quarter 4: 20-24 March. **Flood Guidance Statements - full year** All daily Flood Guidance Statements were issued on time. These highlighted: • 300 days all green. • 61 days: Risk elevated to yellow on at least one of the five days ahead. • Two days: Risk elevated to amber on at least one of the five days ahead. • Two days: Risk elevated to red on at least one of the five days ahead. We issued a total of 238 Regional Flood Alerts, 330 Local Flood Warnings and 8 Local Severe Flood Warnings (1,523 messages in total including initial updates and 'No Longer In Force') during the whole year. Our services continue to operate with interim emergency systems, which have performed well over the year. We continue to rebuild long term resilient telemetry, hydrometry archive and flood forecasting systems, and this work will continue in 2023-2024.

Objective seven

Our plan was to:	What we achieved:
Operationalise our new flood warning information system.	Our new flood warning information system was operational by 31 March 2023. Following a tendering process, a major new contract was awarded to the incumbent provider BT, which meant there was continuity to service delivery. We have started to make a number of changes to the system to improve our customer's experience. We have delivered new features such as the integration of flood warning messages to our 'SEPAFlood' X channel. This went live in February alongside the formal launch of the Scottish Flood Forecast, our new flood forecast product providing up to three days advance notice of flooding to the public. A number of planned improvements to the Floodline service have been progressed. These include automation of Local Flood Warnings, changes to our Business Continuity Messaging Service and a new customer account registration page. A water scarcity alert will also be added to the service. These are planned to become operational in 2023-2024, after completion of technological developments and accessibility testing as recommended by an audit of the project by Scottish Government. The Scottish Government's recent Technology Assurance Framework health check gave very positive feedback for a project of this scope.

Objective eight

Our plan was to:	What we achieved:
Launch the new Carron Flood Warning Scheme.	The Carron Flood Warning Scheme is now live. It will be marketed and officially launched to the public later in 2023 to encourage people to sign up ahead of winter. The scheme includes six new flood warning areas and will benefit over 1,500 properties and businesses. This includes 66 which were part of the existing Grangemouth (coastal) flood warning area, which will be transferred to the Carronshore flood warning area. This means they will benefit from improved forecasting with the integration of tidal and fluvial interactions in the new Carron model. The new forecasting model successfully highlighted when the water in the River Carron reached the top of its banks in Carronshore on 23 March 2023 during a period of high spring tide and surge. Fortunately, the levels remained below flood warning thresholds.

Objective nine

Our plan was to:	What we achieved:
Improve health and well-being levels among our people from the average prior year levels.	Staff well-being has been, and will continue to be, a priority for SEPA because our people are our most important asset. There are a range of issues that impact well-being (global, personal, professional etc), some of which are out with our control. As a result, we did not fully achieve this objective, however, during 2022-2023 we have supported physical health and well-being in a variety of ways including: • Promoting flexibility and a positive work life balance through our flexible working, hybrid working, flexi-time and additional annual leave purchase schemes. • Improved the support available to our people through a refreshed and enhanced Employee Assistance Programme. • Responded to financial pressures by prioritising pay-in-the-pocket in our pay offer, launching a new cost of living hub and a new staff benefits hub to signpost people to advice and support. • Provided a paid well-being day during 2023 to support a well-being activity of choice. • Launched a dedicated employee discounts and savings platform. • Launched a 'Work and Save' Initiative enabling our people to make regular savings via payroll with credit unions and access not-for-profit loans and mortgages. • Improved management and administration for staff of shared cost additional voluntary pension contributions. • Implemented workplace personal resilience training. • Launched a new progressive policy on Menopause and Periods and developed Transgender and Gender Based Violence policies for implementation during 2023. It remains important to understand how our people are feeling and what work factors we can address to assist their well-being. We want to ensure engagement and understand what we can do to better support our people so that they can thrive at SEPA. Moving forward, we will use a range of information and feedback to better understand well-being and engagement levels and what work issues are impacting our people the most.

Objective ten

Our plan was to:	What we achieved:
Reduce our direct greenhouse gas emissions by 70% from our 2006-2007 baseline.	In 2022-2023 our emissions were 1,725 tonnes of carbon dioxide equivalents[2]. We have therefore reduced our emissions by about 52% compared to our baseline and have not achieved this objective. Our emissions have increased due to regulatory and field activity post COVID-19 and due to the addition in our inventory of emissions associated with hybrid working. Our strategic approach to workspaces will create permanent, long term solutions to address this by forming regional and local hub environments which are flexible and efficient.

Emission source:	2022-2023				
	Q1 tCO_2e	Q2 tCO_2e	Q3 tCO_2e	Q4 tCO_2e	Total year tCO_2e
Total buildings	290.85	275.93	324.64	331.44	1,222.86
Total travel	168.46	132.39	97.3	104.45	502.6
2022-2023 total combined emissions					**1725.46**

[2] Carbon dioxide equivalent is a standard unit of measurement that expresses the impact of each different greenhouse gas in terms of the amount of carbon dioxide that would cause the same level of warming.

Financial performance and use of resources

Our financials

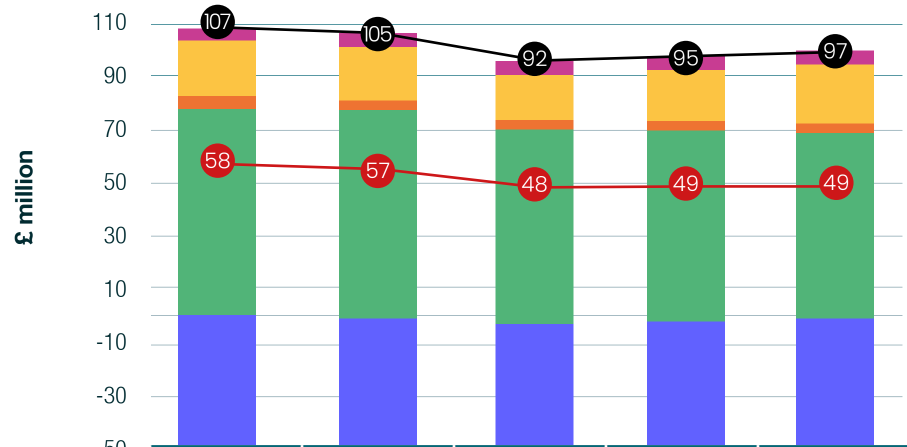
The financial statements for the year ended 31 March 2023 have been prepared in accordance with the Accounts Direction given by the Scottish Ministers in pursuance of the Public Finance and Accountability (Scotland) Act 2000, and in accordance with The HM Treasury Financial Reporting Manual (FReM). The financial statements are consolidated within the Scottish Government Consolidated Resource Accounts.

The Accountable Officer authorised these financial statements for issue on 12 December 2023.

Financial overview

As per the Statement of Comprehensive Expenditure on page 78 our total gross expenditure for the financial year ended 31 March 2023 was £107 million, higher than the £105 million in the previous year. These figures include pension costs of £17m and £19.9m respectively. Of our total funding, £49.6m (prior year £47.7m) came from fees and charges with the balance of £57.8m (prior year £57.2m) funded by Scottish Government.

Five year summary of net expenditure as reported in the financial statements



	2022-2023	2021-2022	2020-2021	2019-2020	2018-2019
Financing costs	3	4	3	3	3
Other operating costs	20	21	17	19	23
Depreciation/ impairments	6	3	3	3	3
Staff costs	78	77	69	69	68
Income from fees and charges	-49	-48	-44	-46	-48
Net expenditure	58	57	48	49	49
Grand total	**107**	**105**	**92**	**94**	**97**

Our funding

In 2022-2023, our budgeted income to cover our operational costs comprised of Departmental Expenditure Limit (DEL) grant-in-aid of £42.5m, charging schemes income of £43.9m to cover the relevant costs of our regulatory activities, and other income of £5.2m in grants and recharges. This provided us with £91.6m to invest in protecting and improving Scotland's environment and contribute to delivering services across a range of government priorities.

Each year we are allocated a budget by Scottish Government, a Departmental Expenditure Limit (DEL), this is approved at the start of the financial year and can be amended in October and January through the spring and autumn budget revision process. The budget covers staff and operating and depreciation/impairment costs incurred during the year net of income from other sources. The initial budget allocation and subsequent revisions are set out in the table below.

Budget category	Per Budget Act £'000	In year budget revisions £'000	Final budget 2022-2023 £'000
Resource DEL	32,006	3,304	35,310
Non-cash resource DEL	5,300	1,851	7,151
Total resource DEL	**37,306**	**5,155**	**42,461**

Our baseline allocation for 2022-2023 for resource cash grant-in-aid was £32m. We received additional resource DEL of £3.3m. An increase of £4.9m to fund several key deliverables including Flood Warning Improvement and Flood Forecasting, Deposit Return Scheme, Water Environment Fund and COVID-19 Waste Water testing was offset by a decrease of £1.6m to reflect the implementation of International Financial Reporting Standards (IFRS) 16 and the movement of lease payments to the balance sheet.

Non-cash resource DEL was increased by £1.9m to cover the additional depreciation cost associated with the creation of right of use assets following the implementation of IFRS 16. In addition, the Scottish Government also allocated a capital grant-in-aid budget of £4.2m to fund our capital programme and an Annually Managed Expenditure (AME) budget of £14.7m was approved within the financial year.

We are required to manage the outturn within Scottish Government budget limits. A comparison of our outturn compared to the final budget from the Scottish Government is detailed below.

Financial performance against Departmental Expenditure Limit

Resource DEL - overall expenditure was £2.5m lower than the resource limit of £46.9m.

	Year to 31 March 2023		
Budget category	**Expenditure outturn £'000**	**Budget £'000**	**Variance £'000**
Resource DEL (cash)	33,746	35,310	1,564
Resource DEL (non-cash)	6,205	7,151	946
Total resource DEL	**39,951**	**42,461**	**2,510**
Capital DEL	**4,397**	**4,400**	**3**
Total DEL expenditure	**44,348**	**46,861**	**2,513**

Operating costs (net saving £1.1m) – net savings generated from a higher than budgeted level of vacancies and the recovery of debt written off post cyber-attack were used to offset the increased costs associated with the pay settlement, temporary staff costs, increased utility and property maintenance costs as well as allowing additional investment in priority projects and initiatives.

Operating income (net saving £0.5m) - Charging Scheme income was £44.5m, which was £0.6m more than budget due. This was mainly due to an increase in our nuclear inspection monitoring activity. Other income was £5.1m which was £0.1m less than budget due to a reduction in income from Revenue Scotland for our work in relation to the Scottish Landfill Tax. Most of our other income is from grants (£3.3m) to cover projects and initiatives including £2.8m from the Scottish Government to restore Scotland's rivers.

Depreciation and impairments (net saving £0.9m) - the baseline budget was increased by £1.9m in year to cover the additional depreciation cost associated with the creation of right of use assets following the implementation of IFRS 16. As the baseline budget had already been adjusted, the overall budget allocation was too high. The additional budget was offset by a higher than anticipated level of asset disposals which reduced the overall saving to £0.9m.

Capital Departmental Expenditure Limit (DEL) expenditure for the year was in line with the budget allocation of £4.4m. Spend mainly covered our digital transformation, upgrade to our hydrometric network, and the replacement of end-of-life plant and equipment (note 9 provides further information).

More detail regarding our income and expenditure can be found in the financial statements section.

Reconciliation of resource outturn to Statement of Comprehensive Expenditure

	Note	31 March 2023
Net operating expenditure, Statement of Comprehensive Net Expenditure		**(54,341)**
Add back pensions adjustments	18	13,765
Add back life assurance	14	78
Add back unfunded pensions	14	(82)
Add back dilapidation provision	14	395
Add back depreciation and impairments	9	6,205
Less cash paid out on unfunded pensions	14	(146)
Less cash paid out on life assurance	14	(85)
Add interest recieved	6	45
Add back expected credit loss	11	420
Resource outturn DEL cash		**(33,746)**

Financial performance against budget (AME)

The AME (Annually Managed Expenditure) budget is allocated to cover spend which cannot be controlled by us, namely, pensions, provisions, and revaluation of assets. Details of outturn against budget is provided opposite.

		Year to 31 March 2023		
AME budget 2022-2023	**Note**	**Expenditure outturn £'000**	**Budget £'000**	**Variance £'000**
Pension charges	18	17,214	13,957	(3,257)
Changes in provisions	14	446	281	(165)
Expected credit loss	11	420	0	(420)
Changes in asset market values	9	3,736	446	(3,290)
Total AME expenditure		**21,816**	**14,684**	**(7,132)**

Overall expenditure was £7.1m more than budget. This was mainly due to higher than budgeted International Accounting Standard (IAS) 19 pension costs of £2.8m with current service costs for funded schemes being £3m higher and unfunded pension schemes being £0.2m lower. In addition, market valuations by Cushman and Wakefield, chartered surveyors (Royal Institute of Chartered Surveyors (RICS) regulated) reduced the carrying value of our property and land assets by £5.2m, £3.7m of which scored against other Comprehensive Net Expenditure, and the balance of £1.5m was funded from reserves, (note 9 provides further information).

Statement of Financial Position

The Statement of Financial Position shows we have net assets of £28m at 31 March 2023 compared to net liabilities of £84m at March 2022. This is primarily caused by a significant change in the estimated pension scheme valuation from a net liability of £121m in March 2022 to a net surplus of £1.5m in March 2023. High UK corporate bond yields have resulted in high accounting discount rates which place a significantly lower value on the pension obligations compared to last year's accounts. Further information on pensions can be found in note 17.

Non-current assets increased by £5.2m compared to March 2022 (refer to note 9). The increase includes:

- Recognition of right of use assets under IFRS 16 Leases (£10.4m).
- Investment in and the revaluation of capital asset net of disposals, depreciation and impairment (£6.5m).
- Recognition of net pension surplus £1.5m.

The reported value of our property, plant and equipment as at 31 March 2023 was £42.9m.

We carried out a full revaluation of our gauging stations as at March 2023. Gauging stations are classed as specialised buildings and the governments Financial Reporting Manual (FReM) requires these assets to be valued at the depreciated replacement cost. A full assessment was conducted by RICS regulated surveyors Cushman and Wakefield in line with the depreciated replacement cost approach set out in the RICS Red Book. The net replacement cost was estimated at £18.8m, a reduction of £2.4m from March 2022.

IFRS 16 Leases, as adapted and interpreted by the FReM, has been applied with the initial application date of 1 April 2022. Subsequently, we recognised assets where they consider they have exclusive right to use the asset (right of use assets) and the lease liability for most leases on the balance sheet as at 1 April 2022. Exemptions have been applied for short-term and low-value leases. At transition, lease liabilities have been measured at £10.4m based on the discounted value of the remaining lease payments excluding VAT. Right of use assets are measured at an amount equal to the lease liability. As at 31 March 2023, the net book value after allowing for depreciation was £8.9m. To check this was representative of fair value at 31 March 2023, we requested a right of use asset valuation from Cushman and Wakefield. This resulted in a reduction in the value of the asset by £3.5m to £5.3m (note 16 provides further details).

Financial sustainability

We are committed to managing expenditure within the income available year on year. The Scottish Government has allocated us £42.8m Resource DEL grant for 2023-2024 to fund operating costs and £6.2m for capital investment and we have estimated that the fees from charging schemes and other income to be £50.6m.

Sustainability

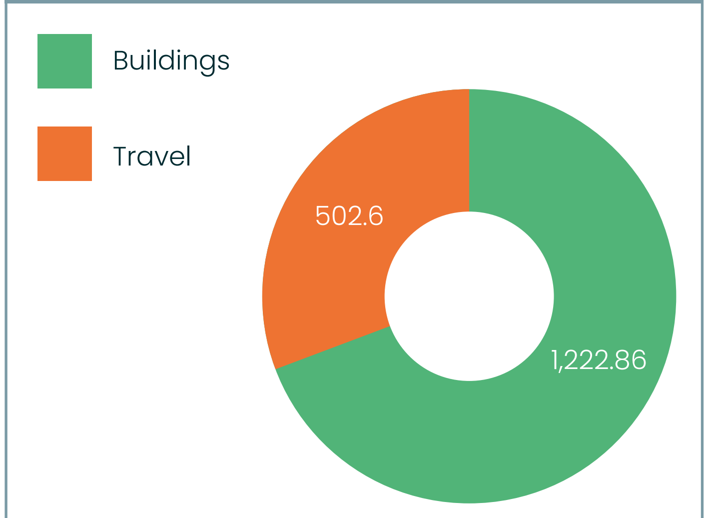
Regenerative SEPA

We have set ourselves an incredibly ambitious target to become a regenerative organisation. By 2030 we aim to reduce all of our emissions and environmental impacts to zero or net zero, while, at the same time, taking action that repairs the environment. We have developed a two-year Regenerative SEPA routemap to start us on this journey.

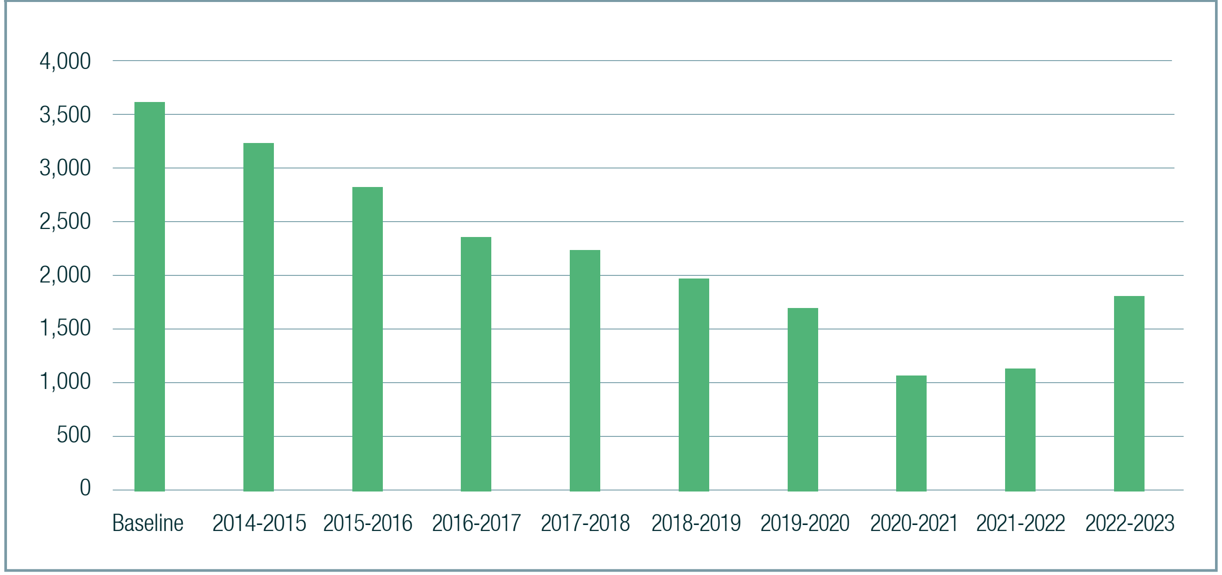
By March 2023, we had reduced our greenhouse gas emissions by 52% from 2006-2007.

A fundamental component of our routemap is to involve our people in helping us meet our target. We have started to roll out a bespoke Carbon Literacy training course for our staff which is accredited by the Carbon Literacy Project and enables them to achieve certification. This will be a key part of our work to become a regenerative organisation.

Sources of SEPA greenhouse gas emissions 2022-2023 (tonnes CO_2e)



SEPA greenhouse gas emissions 2014-2015 to 2022-2023 (tonnes CO_2e)



Our contribution to Sustainable Development Goals

The 2030 Agenda for Sustainable Development, adopted by all United Nations member states in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 sustainable development goals. The Scottish Government's National Performance Framework is Scotland's way to localise the sustainable development goals.

The National Performance Framework sets out 11 national outcomes and explains which sustainable development goals each outcome contributes to. The examples below show how our work helps deliver five of the national outcomes and ten sustainable development goals.

National Performance Framework

Sustainable Development Goals and how we live them

National outcome	SDG	How we live it	SDG	How we live it
We live in communities that are inclusive, empowered, resilient and safe	11 SUSTAINABLE CITIES AND COMMUNITIES	We provide advice to avoid development in areas of flood risk so that we are not increasing risk to people. We warn people so they can take action when flood is likely.	10 REDUCED INEQUALITIES	We regulate activities that could pollute water, air or land to keep communities safe. We apply the polluter pays principle to ensure that the costs are borne by those that impact our environment most.
We have a globally competitive, entrepreneurial, inclusive and sustainable economy	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	We adopt Best Available Techniques when regulating industry to protect the environment in the best way possible. We are working with regulators and industry in Grangemouth to enable competitive strength to grow whilst transitioning to net zero.	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	We are working with partners to deliver digital tracking of waste. This supports more efficient use of resources. We regulate waste management activities to protect communities and encourage recycling.
We are healthy and active	3 GOOD HEALTH AND WELL-BEING	As Scotland's principal environmental regulator, we regulate activities that could pollute water, air or land.	15 LIFE ON LAND	We administer the Water Environment Fund, to restore rivers. We create new green river corridors in urban areas which can be used for active travel and recreation.
We value, enjoy, protect and enhance our environment	13 CLIMATE ACTION	We monitor, forecast and report water scarcity and provide advice to water users to protect the water environment. We reduce our own greenhouse gas emissions and aim to become a regenerative organisation by 2030.	14 LIFE BELOW WATER	We monitor and report water quality at Scotland's 89 bathing waters so people can enjoy them safely. We deliver River Basin Management Plans to protect and improve our rivers, lochs, estuaries, coastal areas and groundwater.
We are open, connected and make a positive contribution internationally	17 PARTNERSHIPS FOR THE GOALS	We undertake work with international partners so that we can help them to build their capacity to protect and improve the environment.	6 CLEAN WATER AND SANITATION	We provide regulator-to-regulator capacity building with Malawi's key environmental institutions to help them to develop more resilient environmental systems.

Approved by the Board on 12 December 2023 and signed on behalf of the Board

Nicole Paterson, *Chief Executive and Accountable Officer.* Nicole Paterson **Date:** 12 December 2023

Accountability Report

Corporate Governance Report

In this section we explain our governance structures and how they help us deliver our statutory purpose.

Our Corporate Governance Report is divided into three sections: the Directors' Report, the Statement of Accountable Officer's Responsibilities, and the Governance Statement.

Director's Report

Board

At the end of March 2023 the Board comprised of nine non-executive members including the Chair, B Downes and one Executive member, the Chief Executive, N Paterson. 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 of the Board at the time of re-appointment.

Register of interests

Board members are asked to complete a declaration of interest, which is published on our website alongside their biography (click on each Board member image to view).

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 is our independent external auditors for the five-year period starting in financial year 2023-2024. The fee paid to Audit Scotland in respect of the independent statutory audit for the financial year 2022-2023 is £72,630.

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.

Statement of Accountable Officer's responsibilities

Under Section 45(2) of the Environment Act 1995, we are 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 our financial affairs and of its income and expenditure, Statement of Financial Position, and cash flows for the financial year.

In preparing the accounts, I am required 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.

- 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 has appointed me, the Chief Executive, as Accounting Officer of SEPA. My responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the public finances for which I am answerable, for keeping proper records and for safeguarding SEPA's assets, are set out in the framework document issued by the Scottish Government in November 2021 and in Managing Public Money published by the HM Treasury. 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

We are a non-departmental public body. The broad framework in which we operate is set out in the 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 our accountability and governance framework.

Non-departmental public bodies are directed by Scottish Ministers to comply with the Scottish Public Finance Manual.

Our Corporate Office is: Strathallan House, Castle Business Park, Stirling, FK9 4TZ. As this office has been closed over the last year while repairs have been undertaken, our temporary Corporate Office and principal place of business has been Angus Smith Building, 6 Parklands Avenue, Eurocentral, Holytown, North Lanarkshire, ML1 4WQ.

Our governance framework is a set of processes and controls which are designed to set the organisation up to deliver its statutory purpose, plans and objectives, and to identify and manage risks and issues effectively. Our framework, which is described on the following pages, has been in place for the year ended 31 March 2023 and up to the date of approval of the Annual Report and Accounts. We can provide assurance that the processes have been running effectively during that period. We are constantly improving our processes and learning from best practice, so at any time we can provide reasonable and not absolute assurance of its effectiveness.

Agency Board operation

The Agency Board's role and responsibilities are set out in the Agency Board standing orders. Our Agency Board members attend a range of meetings including formal Agency Board meetings, ad-hoc meetings, working groups and meetings with staff to discuss key strategic issues. They also attend seminars and events run by SEPA or partner organisations.

We publish the public papers and minutes of formal Agency Board meetings on our website, as well as the minutes for Strategy Board meetings.

The Agency Board has appointed an Audit and Risk Committee to monitor and review risk, control, and corporate governance. N Gordon currently chairs this Committee. The Agency Board appoints members to the Committee and it is governed by its Terms of Reference and Remit.

The Audit and Risk Committee receives reports from internal and external auditors and SEPA staff. The internal and external auditors may attend all Committee meetings and they can contact the Chair of the

Committee at any time to express specific concerns identified during audit work.

In January 2022, the Agency Board established a People Committee to focus on the oversight and support of our most important people policies and the development of an organisational culture that can drive transformational change. The Chair of the Committee is M Hill. The Agency Board appoints members to the Committee and it is governed by its Terms of Reference.

Attendance at ordinary meetings by Agency Board members 2022-2023

		Agency Board	Strategy	Audit and Risk Committee	People Committee
Total number of meetings in year		6	4	4	5
B Downes	Chair	6	4	N/A	N/A
N Paterson	Chief Exec	2	3	2	1
J Green	Acting Chief Exec	4	2	2	2
F Van Dijk	Deputy Chair	5	4	N/A	N/A
N Gordon	Board Member	6	4	4	5
M Hill	Board Member	6	3	3	5
N Chambers	Board Member	6	1	N/A	4
C Hume	Board Member	5	4	N/A	N/A
J Hutchison	Board Member	6	2	4	N/A
H Kohli	Board Member	5	3	4	N/A
P Matthews	Board Member	5	3	N/A	3
V Mulgundmath	Board Member	4	1	N/A	N/A

N Paterson was appointed to the role of Chief Executive in October 2022, J Green resigned as acting Chief Executive in November 2022 and V Mulgundmath resigned as a Board Member in February 2023. It should be noted that Board members, who are not official members of the Audit and Risk Committee and People Committee, for example the Chair and Chief Executive, can attend as observers or as terms of reference require.

Corporate Leadership Team

The Corporate Leadership Team, previously referred to as the Agency Management Team (to January 2023), is responsible for the day-to-day running of the organisation. Its purpose is to drive the high-level strategy of the organisation, as set by the Agency Board, and provide the leadership we need to ensure continuing success, strengthening our delivery of important environmental, regulatory, and flooding priorities and organisational change. The Corporate Leadership Team reports directly to the Agency Board. The Corporate Leadership Team comprised the Chief Executive, one Executive Director, and six Chief Officers.

- N Paterson, Chief Executive and Accountable Officer (Chief Executive from 24 October 2022 and Accountable Officer from 7 November 2022). J Green, Acting Chief Executive and Accountable Officer (to 6 November 2022).
- D Pirie, Executive Director, Evidence and Flooding.
- D Harley, Acting Chief Officer, Circular Economy.
- L Bunten, Acting Chief Officer, Compliance and Beyond (from 1 July 2022). I Buchanan, Chief Officer, Compliance and Beyond (to 30 June 2022).
- A Milloy, Chief Officer, Finance (from 1 November 2022). S McGregor (to 11 November 2022).
- J Russell, Acting Chief Officer, People and Property (from 5 December 2022). Previously J Kenny.
- B Marshall, Acting Chief Officer, Performance and Innovation.
- I Buchanan, Chief Officer, Regulatory Reform and Build (from 1 July 2022).

In addition to the Corporate Leadership Team, we also had:

- A Reid, Director of International Services (to 24 April 2022), who reported directly to the Chief Executive and was responsible for raising additional revenue for the Agency through the development and provision of new products and services.
- C MacDonald, Executive Director, who reported directly to the Chief Executive. Having taken flexible retirement, the Executive Director was the Chair of the INTERPOL Environmental Compliance and Enforcement Committee Advisory Board, as well as continuing to lead on the resolution of some major compliance issues.

Anti-bribery and corruption

We have zero tolerance towards fraud, bribery and corruption. We have an employee code of conduct, whistle-blowing policy and clear policies regarding acceptable level of gifts and hospitality, both given and received. We actively encourage our people to be aware of appropriate behaviours with both customers and suppliers and we maintain a gifts and hospitality register.

During the 2022-2023 financial year there were 10 allegations considered by our Fraud Response Group (in 2021-2022 there were four). There was no direct financial value attributed to any of them, and they were investigated as appropriate in respect of seven of the instances. All seven were subsequently closed with appropriate action taken, recommendations made and/or lessons learnt captured. The remaining three instances were not investigated as insufficient evidence was provided in respect of the allegations made to warrant further investigation.

We have a Risk Management Group and a Fraud Response Group - both groups are chaired by a member of the Corporate Leadership Team. Risk issues, including fraud, are escalated through these groups to the Corporate Leadership Team. The Audit and Risk Committee and the Chair of the Board are made aware of significant issues by the Chief Executive or the Clerk to the Board. The Clerk to the Board is also the Corporate Solicitor and a member of the Fraud Response Group.

Planning and performance reporting

Our strategy is set out in our Corporate Plan, supported by our Annual Operating Plan. Our Corporate Plan was published in 2017, initially for five years, and has been extended until 2024.

We set out the measures we will use to track our performance in each Annual Operating Plan and produce quarterly performance reports which are published on our website. Our end of year performance and analysis is summarised in the Performance Report section of this report (see pages 17 to 48).

Budgeting and financial management

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. We produce management accounting reports to each portfolio and the Corporate Leadership Team on a monthly basis and to Audit and Risk Committee and Board on a quarterly basis. Significant variances from budget are thoroughly investigated. Budget holders have online access to up to date spend, commitments and forecasts at cost centre level using Enterprise Resource Planning accounting software. Cash flow and other financial forecasts are prepared monthly to ensure that we have sufficient cash to meet our operational needs. On a monthly basis we submit a budget monitoring return, including forecasts and a cash report, to the Scottish Government.

Internal audit and internal control

As Accountable Officer, I have responsibility for maintaining sound systems of internal control. These support the achievement of our policies, duties and objectives. They also safeguard the public funds and assets for which I am personally responsible.

This year we asked Azets (our internal auditors) to undertake several audits to provide assurance that we are managing key risks well and achieving value for money. The audits were:

- Our approach to establishing the regulatory function of Scotland's Deposit Return Scheme.
- Our processes for monitoring and responding to water scarcity.
- The implementation of a voluntary severance scheme.
- Our financial systems and controls.
- The actions implemented in response to the lessons learned from the cyber-attack in 2020.
- The adequacy of our processes for implementing digital services.
- Our policies, processes, and procedures for responding to incidents involving violence and aggression directed at our people.

The Public Sector Internal Audit Standards state that:

"The Chief Audit Executive must deliver an annual internal audit opinion and a report that can be used by the organisation to inform its Governance Statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management, and control."

In the Internal Audit Annual Report 2022-2023, produced by our internal auditors, Azets, the Chief Audit Executive concluded that:

"In our opinion SEPA has a framework of controls in place that provides reasonable assurance regarding the organisation's governance framework, internal controls, effective and efficient achievement of objectives and the management of key risks."

Risk management and resilience

We have a robust risk management framework in place where we have clearly set out the responsibilities of the Agency Board, Audit and Risk Committee, Corporate Leadership team and all levels of management and staff below this. We seek to (i) understand threats; (ii) identify and prioritise risks; (iii) put in place controls to reduce or mitigate risks; and (iv) monitor risks until they have reached a tolerable level. We assess risks 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 could occur.

Our corporate risk register is scrutinised quarterly by our Risk Management Group and Corporate Leadership Team and twice a year by the Audit and Risk Committee. We provide an Annual Review of Risk report to the Agency Board.

Risk is frequently discussed at Corporate Leadership Team and Board meetings and informs our internal audit programme. The Risk Management Group reviews external analysis of key risks impacting UK organisations; considers potential risks raised by our people or Board members; ensures risks are being managed across the organisation and considers the adequacy of existing controls. The group also sets annual goals to strengthen our approach to risk management. Progress with these goals is reported through regular risk reports.

This year, we updated our risk management training for managers. It is now available to all managers, at any time, through our digital learning platform and is refreshed annually.

Our risk management arrangements comply with the five main principles and several of the supporting principles of risk management that are set out in the Orange Book[3]. We continue to review and improve our risk management process to incorporate more of the supporting principles.

As a Category 1 responder under the Civil Contingencies Act 2004, we work with multi-agency resilience partnerships to plan and respond to emergencies where there is an environmental impact. We also ensure that we have our own emergency and business continuity plans in place.

Information governance

During the year 2022-2023 we did not report any data breaches to the Information Commissioner's Office (ICO). One complaint was submitted to the ICO by a Data Subject. The ICO confirmed that SEPA had fully addressed the complainant's concern and no further action was needed.

Our ability to respond to formal requests for information was impacted by COVID-19 and the cyber-attack we experienced in 2020. We provided more information about both of these areas in the Performance Overview section of this report (see page 23).

[3] *'The Orange Book: Management of Risk - Principles and Concepts'* provides guidance to government organisations on the development and implementation of risk management processes.

Written authorities provided to the Accountable Officer

The Permanent Secretary to the Scottish Government designated the Chief Executive, N Paterson, as the Accountable Officer for SEPA with effect from 7 November 2022.

Review of effectiveness

As Accountable Officer, I have responsibility for reviewing the effectiveness of the systems of internal control. Our internal control systems include delegation and accountability; a code of conduct all staff must follow; procedures, standing financial instructions, guidance and training; internal checks and balances; regular reviews of management information, including financial, performance and risk information; peer reviews; external accreditation and; internal and external audit. My review of the effectiveness of these systems is informed by:

- The views of the Audit and Risk Committee on the assurance arrangements in place.
- The work of the internal auditors and the opinion of the Chief Audit Executive.
- Reviews of the corporate risk register and risk management processes by the Risk Management Group, the Corporate Leadership Team and the Audit and Risk Committee.
- Reviews of regular performance and financial reports by the Corporate Leadership Team and the Board.
- Feedback from Senior Leaders about delivery of our duties and objectives, response to risks, budget management and use of resources.
- Comments made by the external auditors in their management letter and other reports.

Based on the above, I am satisfied that the corporate governance arrangements in place are appropriate and that there are no significant issues.

Approved by the Board on 12 December 2023 and signed on behalf of the Board.

Nicole Paterson,
Chief Executive and Accountable Officer:

Nicole Paterson
....

Date: 12 December 2023

Remuneration and Staff Report

Remuneration Report

Remuneration policy

The Board, Chief Executive, Executive Directors, Director and Chief Officers' 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 2022-2023 in accordance with the Scottish Government pay policy.

Chair and Board members

All appointments to the Board are on a non-pensionable part time basis. Board members contribute at least two days per month in support of our activities. The Chair devotes, at a minimum, 12 days per month in support of our activities, and the Deputy Chair devotes three days per month.

The Board members did not receive any benefits in kind in 2022-2023, the table opposite which is subject to audit provides details of the remuneration of Board members.

		Remuneration £'000	
	Post	2022-2023	2021-2022
B Downes	Chair	50 to 55	45 to 50
F Van Dijk	Deputy Chair	10 to 15	5 to 10
M Francis	Board Member		5 to 10
N Martin	Board Member		5 to 10
M Hill	Board Member	5 to 10	5 to 10
N Gordon	Board Member	10 to 15	5 to 10
C Hume	Board Member	5 to 10	5 to 10
J Hutchison	Board Member	5 to 10	5 to 10
H Kohli	Board Member	5 to 10	5 to 10
P Matthews	Board Member	5 to 10	5 to 10
N Chambers	Board Member	5 to 10	0 to 5
V Mulgundmath	Board Member	5 to 10	0 to 5

N Gordon is Chair of the Audit and Risk Committee and this is reflected in her remuneration. N Martin and M Francis reached their end of tenure as Board members in December 2021, V Mulgunmath resigned in February 2023 and N Chambers resigned in July 2023.

Corporate Leadership Team pensions and salary benefits

Members of the Corporate Leadership Team did not receive any benefits in kind in 2022-2023. T A'Hearn resigned as Chief Executive on 19 January 2022. Nicole Paterson was appointed to the position of Chief Executive in October 2022 and J Green resigned as Acting Chief Executive in November 2022. S McGregor retired in November 2022 and J Green resigned from her substantive Chief Officer role in January 2023. A Milloy was appointed in November 2022, L Bunten in July 2022 and J Russell December in 2022.

The table below which is subject to audit provides details of the remuneration and pension benefits of the Corporate Leadership Team.

		2022-2023				2021-2022		
	Post	FTE equivalent	Remuneration	Pension Benefits[4]	Total	Remuneration	Pension Benefits	Total
N Paterson	Chief Executive	120 to 125	50 to 55	-	50 to 55	-	-	-
T'Ahearn	Chief Executive to 19.01.22	-	-	-	-	110 to 115	-	110 to 115
J Green	Acting Chief Executive	120 to 125	70 to 75	-	70 to 75	15 to 20	158	175 to 180
D Pirie	Executive Director	110 to 115	110 to 115	3	115 to 120	105 to 110	-	105 to 110
F Martin	Chief Officer	-	-	-	-	60 to 65	-	60 to 65
S McGregor	Chief Officer	95 to 100	60 to 65	-	60 to 65	90 to 95	1	90 to 95
A Milloy	Chief Officer	85 to 90	35 to 40	-	35 to 40	-	-	-
J Green	Chief Officer	95 to 100	15 to 20	-	15 to 20	70 to 75	-	70 to 75
J Kenny	Chief Officer	90 to 95	90 to 95	18	105 to 110	85 to 90	2	85 to 90
I Buchanan	Chief Officer	90 to 95	90 to 95	15	105 to 110	85 to90	-	85 to90
J Russell	Acting Chief Officer	85 to 90	25 to 30	-	25 to 30	-	-	-
D Harley	Acting Chief Officer	85 to 90	85 to 90	14	95 to 100	10 to 15	-	10 to 15
L Bunten	Acting Chief Officer	85 to 90	60 to 65	-	60 to 65	-	-	-
B Marshall	Acting Chief Officer	85 to 90	85 to 90	26	110 to 115	10 to 15	-	10 to 15

[4] The value of pension benefits accrued during the year is calculated as the real increase in pensions and applying the HMRC methodology multiplier of 20 plus the real increase in any lump sum. The real increases exclude increases due to inflation and are net of contributions made by the individual. If the figure is negative a nil change is recorded

Pension entitlements of Chief Executive, Executive Director and Chief Officers' 2022-2023 (Audited)

	Accrued pension March 2023 £'000	Accrued lump sum March 2023 £'000	Real increase in pension £'000	Real increase in lump sum £'000	CETV March 2023[5] £'000	CETV March 2022 £'000	Real increase in CETV £'000
D Pirie	55 to 60	80 to 85	0 to 0.25	-	1,128	1,012	14
J Kenny	45 to 50	60 to 65	0 to 0.25	-	789	697	22
I Buchanan	45 to 50	70 to 75	0 to 0.25	-	859	762	21
D Harley	40 to 45	55 to 60	0 to 0.25	-	735	-	-
B Marshall	30 to 35	40 to 45	0 to 0.25	-	509	-	-
N Paterson	0 to 5	-	-	-	14	-	-
A Milloy	0 to 5	-	-	-	65	-	-
L Bunten	30 to 35	30 to 35	-	-	528	-	-
J Russell	25 to 30	30 to 35	-	-	371	-	-

[5] A cash equivalent transfer (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued because of their total membership of the scheme including any benefit transferred from another scheme and not just their service in a senior capacity to which the disclosure applies. The real increase in CETV reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension benefits due to inflation, contributions paid by the employee and uses common market valuation factors for the start and end of the period.

Fair pay disclosure (subject to audit)

We are required to disclose pay information in relation to the highest paid member of the management team and how it compares to remuneration paid to staff and agency workers at the 25th, 50th and 75th percentile. These have been calculated on the annualised salaries.

	2022-2023	2021-2022
Remuneration band highest paid individual	£120,000 - £125,000	£130,000 - £135,000
Percentage change from previous financial year	0.39%	0.64%
Average percentage ratio change from previous financial year	5.9%	2.48%
25th quartile remuneration	£35,026	£33,557
25th quartile ratio	3.50	3.95
50th quartile remuneration	£40,236	£38,123
50th quartile ratio	3.04	3.47
75th quartile remuneration	£45,918	£43,620
75th quartile ratio	2.67	3.04
Remuneration range	£20,686-£132,664	£18,448-£132,164

The percentage increase in the remuneration of the highest paid individual and the average change for employees reflects changes in personnel, the impact of incremental progression and the cost of living pay award. All staff including the Chief Executive, Executive Director and Chief Officers are on incremental pay scales.

Staff Report

Staff relations and well-being

Our people are our most valued resource. We want to support them to thrive, be engaged, effective, and productive at work. We have a wide range of policies and practices to support and develop our people and maintain a healthy workforce and a good work-life balance.

The aim of our policies, procedures and guidance is to:

- Support people positively and constructively.
- Promote good behaviours and fair and consistent treatment for all.
- Explain employee entitlements, roles and responsibilities.
- Make it simple and easy for our people to know what is expected of them and stay at work.

We encourage our people to feedback via our dedicated intranet pages, pulse surveys, workshops and biennial people survey. Responses from our people help us understand the issues which matter most and help us to identify and develop actions and improvements. We keep our people updated on progress against actions via our Annual Operating Plan and internal communications channels.

The well-being of our people continues to be a priority for us. We support this via the delivery of specific learning events, such as Developing Personal Resilience workshops and Mental Health at Work e-learning. We monitor sickness absence and work closely with our occupational health provider and the provider of our employee assistance programme to monitor take up and identify issues and areas for review.

Equality and diversity

In April 2023, we published our Equality Mainstreaming and Outcomes Report 2023. The report demonstrates the progress we have made towards delivering the equality outcomes we set in 2017. It also set out our new equality outcomes, covering 2022-2026. The table below represents the gender split within SEPA as at 31 March 2023 - this table is not subject to audit.

	2022-2023	2021-2022
Headcount [6] **Full Time Equivalent (FTE)**	1,187 1,130 Female - 56% Male - 44%	1,222 1,156 Female - 56% Male - 44%
Agency Board [7]	Female - 50% Male - 50%	Female - 45% Male - 55%
Corporate Leadership Team	Female - 63% Male - 38%	Female - 29% Male - 71%

[6] Total excludes Agency Board but includes the Corporate Leadership Team

[7] Includes the Chief Executive

Health and safety

We are committed to achieving the highest standards of health, safety and well-being for our people, and our National Health and Safety Committee (NHSC) is responsible for leading on the delivery and promotion of a positive health and safety culture across the organisation. Our dedicated Health and Safety Team support, maintain, and promote incident reporting and ensure robust health and safety reporting systems are in place to support the ongoing management and review of our health and safety performance. They also ensure continuous compliance and improvement through providing and sourcing role specific and compulsory health and safety training and e-learning.

The total number of incidents reported using our Incident Reporting system was:

- 83 incidents reported in 2022-2023 (compared to 29 incidents in 2021-2022, not including five COVID-19 related incidents).
- Nine hazards spotted in 2022-2023 (compared to one in 2021-2022). Please note that the number of hazards reported are also included in the total number of health and safety incidents reported above.
- One incident reported to Health and Safety Executive in 2022-2023 (compared to none in 2021-2022).

Trade Union relationship [8]

UNISON is the recognised trade union by our people. Our Join Negotiation and Consultation Committee (JNCC) comprising representatives from our management and UNISON meet regularly to discuss information and conduct meaningful consultation and/or negotiation between management representatives and UNISON.

UNISON supports us in our initiatives to ensure working conditions and an overall remuneration package that our people value. We negotiate our people's pay, terms, and working conditions with UNISON. The parameters of pay terms and conditions that we can offer are contained within Scottish Government's public sector pay policy. Our pay offer for 2022-2023 was accepted by UNISON in June 2023.

We have a joint panel consisting of management and trade union representatives that oversee job evaluation in SEPA.

In accordance with our statutory responsibility under Trade Union (TU) (Facility Time Publication Requirements) Regulations 2017, the schedule below provides the required data relating to our trade union representatives for the period 2022-2023.

[8] Industrial relations are not subject to audit

Trade union facilities time [9]

Relevant union officials during 2022-2023

Number of employees who were relevant union officials during 2022-2023	Full-time equivalent employee number
24	23.6

Percentage of time spent on facility time during 2022-2023 [10]

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

Percentage of time	Number of employees
0-1%	6
1-50%	18

Percentage of pay bill spent on facility time during 2022-2023 [11]

Total cost of facility time	**£102,036**
Total pay bill	£63.1m
Percentage of total pay bill on facility time	0.16%

Paid trade union activities [12]

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)	55.3%

[9] All footnotes on trade union facilities time refer to information taken from *HM Government Supporting Guidance for the Trade Union (Facility Time Publication Requirements) Regulations 2017.*

[10] Trade Union 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 Trade Union activities. However, Trade Union representatives are entitled to be granted reasonable unpaid time off to participate in TU activities.

[11] Total paid facility time hours - total number of hours spent on facility time by Trade Union representatives during 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 Trade Union representative does not receive wages

[12] Paid Trade Union activities - time taken off for Trade Union activities under *section 170 (1) (b) of the 1992 Act* in respect of which a Trade Union representative receives wages from the relevant public sector employer. There is no statutory entitlement to paid time off to undertake activities

Pension Scheme

We contribute 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. All staff are eligible to enter the Falkirk Pension Scheme, the Local Government Superannuation Scheme managed by Falkirk Council. We pay a fixed percentage employers' pension contribution and staff pay an employee contribution, which is based on a percentage of their pensionable salary. The employers' contribution rate was 20% in 2022-2023, which increased to 20.5% in 2023-2024. It is a multi-employer scheme and employee contributions, based on salary, are fixed by statute currently on a scale of 5.5% - 11.2%.

Staff costs (subject to audit)

We incurred £63m in staff costs in the year 2022-2023 (2021-2022 £60m) in relation to staff who have an employment contract with the agency. Of this, £62m was in relation to staff who had a permanent contract and £1m in relation to staff who had a fixed term contract. The average FTE employed in the year was 1,152 (1,140 permanent and 12 fixed term). This compared to average of 1,161 in 2021-2022 (1,155 permanent and 6 fixed term). The staff turnover rate was 9.09% in 2022-2023 compared to 5.8% in 2021-2022.

Other staff related costs includes spend on recruitment, training and agency staff. We spent £0.49m on agency staff to provide cover for vacant positions in the organisation. Further information on pension and provision costs can be found in the notes referenced in the table below. The staff absence rate was 3.51% in 2022-2023 compared to 1.99% in 2021-2022.

Staff costs during the year to March 2023 (subject to audit)				
	Permanent staff £'000	Temporary staff £'000	Year to 31 March 2023 £'000	Year to 31 March 2022 £'000
Wages and salaries	47,082	762	47,844	46,069
Social security costs	5,134	83	5,217	4,694
Apprenticeship levy	220	4	224	216
Pension costs	9,580	155	9,735	9,007
Subtotal of payroll costs	**62,016**	**1,004**	**63,020**	**59,986**
Other staff related costs			850	393
IAS 19 pension charge (note 18)			13,765	16,023
Life assurance provision (note 14)			(82)	22
Unfunded IAS 19 pension charge (note 14)			78	82
			77,631	**76,506**

The above table excludes £0.68m on agency staff engaged in capital projects and £0.5m on consultancy of which £0.27m was charged to capital projects and £0.23m is included in other operating costs (see note 5).

Exit packages (subject to audit)

We have a policy of no compulsory redundancy, in accordance with Public Sector Pay Policy set out by Scottish Government. In 2022-2023 we conducted a voluntary severance scheme which resulted in eight members of staff receiving an exit package.

The total cost of the package includes payments made to the Falkirk Pension Fund to meet the costs of staff entitled to early access to pension as part of the voluntary severance agreement.

	Number of packages	
Exit package cost band	**2022-2023**	**2021-2022**
Less than £10,000	-	-
£10,000 - £25,000	2	-
£25,000 - £50,000	3	-
£50,000 - £100,000	2	-
£100,000 - £150,000	1	-
Total number of packages	**8**	**-**
Total costs disclosed in the financial statements £'000	**448**	**-**

Parliamentary disclosures (subject to audit)

Fees and charges

The financial statements provide a breakdown of our £46.1m income from contracts (see note 2) of which £44.5m relate to charging scheme fees and charges.

Our fees and charges have been set to comply 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. The table opposite provides the detail of our income, expenditure, and cost recovery levels for charging schemes. The financial objective for charging schemes is full cost recovery taking one year with another, based on all costs including current cost depreciation and a rate of return on relevant assets.

Trading accounts schemes year to 31 March 2023

Schemes	ERS	PRW	RSA Nuclear	Other	Total
Year to 31 March 2023	£'000	£'000	£'000	£'000	£'000
Income	40,440	1,468	2,193	411	44,512
Expenditure	41,170	1,011	2,227	466	44,874
(Under)/Over recovery	(730)	458	(34)	(56)	(362)
% Cost recovery	98%	145%	98%	88%	99%

ERS – Environmental Regulation (Scotland)
RSA – Radioactive Substances Act
PRW – Producer Responsibility Waste Packaging
Other - Total of charging schemes which generate income of less than £1m

Consolidated fund receipts

We collect penalties for EU Emissions Trading Scheme (EU ETS) and environmental offences. During 2022-2023, penalty notices of £4.2m (2021-2022 - £12.9m) were raised and payments of £4.7m were received and remitted to Scottish Government. As at 31 March 2023, there was an outstanding balance of £11.7m in our current assets and liabilities. As we are acting as an agent on behalf of Scottish Government these balances are not reflected in the accounts.

Value for money

SEPA, like every other government body, are expected to deliver best value and achieve efficiency savings of at least 3% in year. To produce a balanced budget for 2022-2023, we assumed savings from staff turnover of £2.7m and £0.4m in operating costs both of which equate to 3.3%.

Contingent liabilities

We occupy several leased properties, which have dilapidation clauses in the leases. We maintain these properties in excellent order. Some properties have a potential liability at the end of the lease to reinstate the internal layout of the building to their original floor plan. A provision is in place for properties where the estimated costs are considered to be significant.

Most of our gauging stations are on leased sites. When we no longer require these facilities, they must be decommissioned, removing the plant, buildings and restoring the site. The level of these potential future liabilities will be subject to negotiation with individual landlords.

Approved by the Board on 12 December 2023 and signed on behalf of the Board.

Nicole Paterson,
Chief Executive and Accountable Officer.

Nicole Paterson

Date: 12 December 2023

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

Reporting on the audit of the financial statements

Opinion on financial statements

I have audited the financial statements in the Annual Report and Accounts of Scottish Environment Protection Agency for the year ended 31 March 2023 under Section 46 of the Environment Act 1995. 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 significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the 2022-2023 Government Financial Reporting Manual (the 2022-2023 FReM).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of the body's affairs as at 31 March 2023 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2022-2023 FReM; and
- have been prepared in accordance with the requirements of Section 45(2) of the Environment Act 1995 and directions made thereunder by the Scottish Ministers.

Basis for opinion

I conducted my 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. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Auditor General on 5 June 2023. My period of appointment is five years, covering 2022-2023 to 2026-2027. I am independent of the body in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the body. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the body's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the body's current or future financial sustainability. However, I report on the body's arrangements for financial sustainability in a separate Annual Audit Report available from the Audit Scotland website.

Risks of material misstatement

I report in my separate Annual Audit Report the most significant assessed risks of material misstatement that I identified and my judgements thereon.

Responsibilities of the Accountable Officer for the financial statements

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

In preparing the financial statements, the Accountable Officer is responsible for assessing the 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 there is an intention to discontinue the body's operations.

Auditor's responsibilities for the audit of the financial statements

My 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 my 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 decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- using my understanding of the central government sector to identify that Section 45(2) of the Environment Act 1995 and directions made thereunder by the Scottish Ministers are significant in the context of the body;
- inquiring of the Accountable Officer as to other laws or regulations that may be expected to have a fundamental effect on the operations of the body;
- inquiring of the Accountable Officer concerning the body's policies and procedures regarding compliance with the applicable legal and regulatory framework;
- discussions among my audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the body's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result 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.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website. This description forms part of my auditor's report.

Reporting on regularity of expenditure and income

Opinion on regularity

In my 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. In addition to my responsibilities in respect of irregularities explained in the audit of the financial statements section of my report, I am responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Reporting on other requirements

Opinion prescribed by the Auditor General for Scotland on audited parts of the Remuneration and Staff Report

I have audited the parts of the Remuneration and Staff Report described as audited. In my opinion, the audited parts of the Remuneration and Staff Report have been properly prepared in accordance with Section 45(2) of the Environment Act 1995 and directions made thereunder by the Scottish Ministers.

Other information

The Accountable Officer is responsible for the other information in the Annual Report and Accounts. The other information comprises the Performance Report and the Accountability Report excluding the audited parts of the Remuneration and Staff Report.

My responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on the Performance Report and Governance Statement to the extent explicitly stated in the following opinions prescribed by the Auditor General for Scotland.

Opinions prescribed by the Auditor General for Scotland on Performance Report and Governance Statement

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

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

Matters on which I am required to report by exception

I am required by the Auditor General for Scotland to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited parts of the Remuneration and Staff Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of my 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 108 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Liz Maconachie, CPFA
Senior Audit Manager

Liz Maconachie

....

Date: 12 December 2023

Audit Scotland
4th Floor
Athenaeum Building
8 Nelson Mandela Place
Glasgow
G2 1BT

Annual Accounts

Statement of Comprehensive Net Expenditure for the year to 31 March 2023

		Year to 31 March 2023	Year to 31 March 2022
	Notes	£'000	£'000
Income			
Income from contracts	2	46,078	44,219
Other income	3	3,509	3,493
Total operating income		**49,587**	**47,712**
Expenditure			
Staff costs	4	(77,631)	(76,508)
Depreciation, loss on sale, and impairment of non-current assets	9	(6,205)	(3,334)
Profit/(loss) on disposal of assets	9	29	-
Other operating charges	5	(20,121)	(21,144)
Total operating expenditure		**(103,928)**	**(100,986)**
Net operating expenditure		**(54,341)**	**(53,274)**
Finance income	6	45	1
Finance expenses	7	(3,449)	(3,949)
Net expenditure for year		**(57,745)**	**(57,222)**
Other comprehensive expenditure			
Net (loss)/gain on revaluation of property, plant, and equipment	9	(3,736)	283
Actuarial gain/(loss) on pension scheme	17	139,682	88,659
Comprehensive Net (Expenditure)/Income for the year		**78,201**	**31,720**

The note numbers referred to above are incorporated within the notes to the accounts (see pages 83-113).

Statement of Financial Position at 31 March 2023

	Notes	Year to 31 March 2023 £'000	Year to 31 March 2022 £'000
Non-current assets			
Property, plant and, equipment	9	42,962	40,212
Intangible assets	9	2,390	1,299
Assets under construction	9	1,167	1,304
Employee retirement benefits	17	1,501	-
		48,020	**42,815**
Current assets			
Trade and other receivables	11	3,806	7,068
Cash and cash equivalents	10	829	2,146
		4,635	**9,214**
Total assets		**52,655**	**52,029**
Current liabilities			
Trade and other payables < 1 year	12	(10,069)	(9,477)
Provisions for liabilities and charges <1 year	14	(555)	(224)
Total current liabilities		**(10,624)**	**(9,701)**
Total assets less current liabilities		**42,031**	**42,328**
Non-current liabilities			
Provisions for liabilities and charges >1 year	14	(5,325)	(5,210)
Employee retirement benefits	17	-	(120,967)
Future lease payments	16	(8,928)	-
Total non-current liabilities		**(14,253)**	**(126,177)**
Total assets less total liabilities		**27,778**	**(83,849)**
Taxpayers' Equity			
Comprehensive Net Expenditure Reserve		9,359	(104,473)
Revaluation Reserve		18,419	20,624
Total Taxpayers' Equity		**27,778**	**(83,849)**

Approved by the Board on 12 December 2023 and signed on behalf of the Board.

Nicole Paterson,
Chief Executive and Accountable Officer.

Nicole Paterson
....

12 December 2023
Date: ....

The note numbers referred to on the left are incorporated within the notes to the accounts. These annual accounts were approved by the Board on 12 December 2023.

Statement of Cash Flows for year to 31 March 2023

	Notes	Year to 31 March 2023 £'000	Year to 31 March 2022 £'000
Net operating expenditure		(54,341)	(53,274)
Adjustments for non-cash transactions			
Depreciation, amortisation, and impairments	9	5,235	3,317
Loss/(gain) on disposal of assets	9	970	20
Pension scheme adjustment	18	13,765	16,023
Movement in provisions	14	160	(120)
Interest on leases		90	-
Movements in working capital			
Decrease/(Increase) in trade and other receivables	11	3,153	(3,399)
(Decrease)/Increase in trade and other payables	12	506	1,123
Net cash outflow from operating activities		**(30,462)**	**(38,556)**
Cash flows from investing activities			
Purchase of non-current assets		(4,398)	(5,845)
Proceeds from disposal of non-current assets		29	-
Net cash outflow from investing activities		**(4,369)**	**(5,845)**
Cash flows from financing activities			
Bank interest received	6	45	1
Lease liability payments	16	(1,458)	-
GiA revenue funding received in year	19	31,227	35,815
GiA capital funding received in year	19	3,700	6,000
Net cash inflow from financing		**33,514**	**41,816**
Net (decrease)/increase in cash and cash equivalents		**(1,317)**	**(2,585)**
Less cash and cash equivalents at start of year	10	2,146	4,731
Cash and cash equivalents at end of year	10	829	2,146
(Decrease)/increase in cash for the year		**(1,317)**	**(2,585)**

Statement of Changes in Taxpayers' Equity for the year to 31 March 2023

		Comprehensive Net Expenditure Reserve	Revaluation Reserve	Total year to 31 March 2023
	Notes	£'000	£'000	£'000
Balance at 1 April 2022	-	(104,473)	20,624	(83,849)
Grant from sponsoring department	19	34,927	-	34,927
Net expenditure for the year	-	(57,745)	-	(57,745)
Total of pension re-measurements	17	139,682	-	139,682
Disposal of assets	9	704	(704)	-
Revaluation of non-current assets	9	(3,736)	(1,501)	(5,237)
At 31 March 2023		**9,359**	**18,419**	**27,778**

Statement of Changes in Taxpayers’ Equity for the year to 31 March 2022

	Notes	Comprehensive Net Expenditure Reserve	Revaluation Reserve	Total year to 31 March 2022
		£’000	£’000	£’000
Balance at 1 April 2021	-	(178,036)	16,488	(161,548)
Grant from sponsoring department	19	41,815	-	41,815
Net expenditure for the year	-	(57,222)	-	(57,222)
Total of pension re-measurements	17	88,659	-	88,659
Disposal of assets	9	21	(21)	-
Assets opening balance adjustment		7	(7)	-
Revaluation of non-current assets	9	283	4,164	4,447
At 31 March 2022		**(104,473)**	**20,624**	**(83,849)**

The note numbers referred to above are incorporated within the notes to the accounts. These annual accounts were approved by the Board on 12 December 2023.

Notes to the accounts

Note 1
Accounting policies

The annual 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, we have 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 current value as determined by the relevant accounting standard.

Accounting period

The accounting period commenced on 1 April 2022 and ended on 31 March 2023.

Going concern

The future financing of SEPA's 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. The Board and accountable officer has no reason to expect this process to change in the future. In addition, they 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

Initial recognition of all non-current assets purchased are at cost. Subsequent valuations of non-current assets are recognised in the accounts as follows:

- Title of operational properties are included in our accounts based on the actual ownership and management of the assets concerned.
- Operational land and buildings current 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, current value is assumed to be equal to open market value for existing use.

- For specialised properties (gauging stations), 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 Cushman and Wakefield (Royal Institute of Chartered Surveyors (RICS) regulated) at 31 March 2023 to determine the depreciated replacement cost.
- 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 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.
- Only the large vessel (Sir John Murray) is reported at market value. A professional market valuation was obtained for the vessel as at March 2023 to check for impairment. As there was less than a 10% variance between the net book value and the market value no adjustment was made.
- Depreciated historic cost is used as a proxy for current value of plant and equipment that has a medium-term economic life and where deprecation charge provides a realistic reflection of consumption.
- Right of use assets at transition to IFRS 16 on 1 April 2022 - we recognised qualifying leases as right of use assets. In line with the requirements of the standard, the assets were initially measured at cost which equated to the discounted value of future lease payments less incentives. The right of use assets are depreciated on a straight line basis over the term of the lease. All of the right of use assets relate to property leases and in line with policy applied to our owned buildings. The right of use assets valuation based on market rent was provided by an independent chartered surveyor (Cushman and Wakefield) at 31 March 2023.

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.

Assets separated into categories and their lives

Asset category	Asset lives (Years)
Buildings (including gauging stations)	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 £10,000 including VAT. The actual salary costs including national insurance and superannuation of our 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 depreciated historical cost, as a proxy for market value. These are licences to use software purchased from third parties with a life of more than one year and a cost of more than £10,000, 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 £10,000, including VAT. The actual salary costs, including national insurance and superannuation of our 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. There is no active market for this software, and it is not income generating. Depreciated historical cost is used as a proxy for current market value.

Impairment

The carrying value of our 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. The provisions at the year-end were for:

- Unfunded pension liabilities in respect of pension commitments inherited from our predecessor bodies and the past Chair.
- Life assurance benefit provided to staff under our terms and conditions of employment as estimated by Hymans Robertson based on the profile of the staff employed at 31 March 2023.
- Decommissioning costs for leased properties. These were estimated by RICS regulated surveyors Cushman and Wakefield at 31 March 2020 and subsequently indexed for the inflationary change in construction costs.

Reserves

The Comprehensive Net Expenditure Reserve represents the excess of income over expenditure 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

We have a small number of operating lease rentals which do not qualify as right of use assets. The costs are charged to expenditure in equal annual amounts over the lease term. We do 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 International Financial Reporting Standard (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. We 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 we receive 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 and shared facilities, in addition to services provided to other organisations. We recognise income on delivery of performance obligations as per IFRS 15. Other operating income relates primarily to grant income which we recognise in line with IAS 20.

International Accounting Standards (IAS) 1 requires line items for income to be grouped into:

a. Will not be reclassified subsequently to profit or loss.
b. Will be reclassified subsequently to profit or loss when specific conditions are met.

All of our 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 2023 has been accrued.

Pension costs

We participate 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 we have always implemented the contributions recommended (notes 17 and 18). The contribution charges are recognised in the accounting years in which they arise.

We provide 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 us - these are reflected in the unfunded pension liabilities (note 14).

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

Our financial instruments comprise trade and other receivables, trade and other payables, and cash and liquid resources (note 13). 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 written 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

Financial Reporting Manual (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.

Review of accounting policies

We have reviewed all its accounting policies to ensure their continued relevance.

Civil penalties

Through its enforcement of certain breaches of legislation, we receive payment of penalties, for example, where fixed or monetary penalties are imposed under the Environmental Regulation (Enforcement Measures) (Scotland) Order 2015 or where civil penalties are served under the various climate change regimes, such as The Greenhouse Gas Emissions Trading Scheme Order 2020. In such cases, we are required to pass the funds received to Scottish Ministers and the funds are then put to the Scottish Consolidated Fund. As at 31 March 2023, there was an outstanding balance of £11.7m in our current assets and liabilities. However, as we are acting as an agent on behalf of Scottish Ministers these balances are not reflected in the accounts.

Judgements and estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates, assumptions and judgements that have a risk of adjustment to the carrying amount of assets and liabilities within the financial statements within the next financial year are:

- Provisions have been made where it has been determined that a financial liability of uncertain timing or amount exists (see note 14).
- Estimation of the net pension liability or asset is based on several complex judgements including the discount rate, salary increase rate, retirement ages, mortality rates, and expected returns on pension fund assets, following work carried out by our actuaries. Further estimates considering the extent to which the IAS 19 and IFRIC 14 asset ceiling limits on defined benefit schemes are applied based on

the estimated present values of future service costs and minimum funding contributions. These estimates project that future service costs will be in excess of minimum funding contributions and, in accordance with IFRIC 14, an asset ceiling has been applied which restricts the defined benefit net asset to £1.5m and a pension asset of this value has been recognised. The actuary has calculated that the present value of employers contributions, in accordance with IFRIC 14 to be an economic benefit and the asset ceiling of £1.5m has been applied (note 17 provides more detail on the movement in the net pension provision).

- Estimated cost of decommissioning (note 9 and 14). The property decommissioning provision is the potential cost of reinstating leased properties to their original floorplan. An estimate of the costs for two of our larger buildings was provided by Cushman and Wakefield at 31 March 2020, and subsequently indexed for the increase in construction costs. As at March 2023 provision was also made for buildings we intend to exit in the year 2023-2024.

Future changes in accounting standards

We disclose accounting standards not yet applied and assess the possible impact that initial application would have on the financial statements. There are no new standards not yet effective that will have an impact on our accounts.

Subsequent events

There are no events which have occurred since the Statement of Financial Position at 31 March 2023 was prepared that require disclosure.

Note 2
Income from contracts

	Year to 31 March 2023	Year to 31 March 2022
	£'000	£'000
Statutory income		
Charging Scheme fees & charges	44,512	42,703
Scottish Landfill Tax	450	474
Scottish Landfill Communities Fund	167	149
Supporting enforcement undertakings	22	3
Non-statutory income		
Provision of services	927	890
	46,078	**44,219**

Note 3
Other income

	Year to 31 March 2023	Year to 31 March 2022
	£'000	£'000
Grants	3,339	3,415
Other	170	78
	3,509	**3,493**

Note 4
Information regarding employees and Board members

Staff costs during the year to March 2023

	Permanently employed staff	Others	Year to 31 March 2023	Year to 31 March 2022
	£'000	£'000	£'000	£'000
Staff costs				
Wages and salaries	47,082	762	47,844	46,069
Social security costs	5,134	83	5,217	4,694
Apprenticeship levy	220	4	224	216
Pension costs	9,580	155	9,735	9,007
Subtotal of payroll costs	**62,016**	**1,004**	**63,020**	**59,986**
Other staff related costs (principally recruitment fees, staff subsistence, training costs, and hiring agency and temporary staff)			850	393
IAS 19 pension charge (note 18)			13,765	16,023
Life Assurance provision (note 14)			78	82
Unfunded IAS 19 Pension charge (note 14)			(82)	22
			77,631	**76,506**

More information on our staff can be found in the Remuneration and Staff Report.

Note 5
Other operating charges

	Year to 31 March 2023	Year to 31 March 2022
	£'000	£'000
Operating charges categorised		
Supplies and services	14,451	15,220
Property costs	4,050	3,151
Transport costs	1,015	789
Research and development costs	40	16
Board expenses	3	-
Property and vehicle leases	399	1,901
Interest on leases	90	-
External Auditor's remuneration - audit services	73	67
	20,121	**21,144**

Note 6
Interest receivable and similar income

	Year to 31 March 2023	Year to 31 March 2022
	£'000	£'000
Bank interest received	**45**	**1**

Note 7
Interest payable

	Year to 31 March 2023	Year to 31 March 2022
	£'000	£'000
International Accounting Standards (IAS) 19 net return on pension scheme assets and liabilities (note 18)	**(3,449)**	**(3,949)**

The negative net return position on pension assets at 31 March 2023, is as a result of the actual interest on assets of £11.5m being significantly less than the interest on liabilities of £15m (note 18 refers).

Note 8
Taxation

We are not liable to corporation tax for 2022-2023 (nil for 2021-2022).

Note 9
Non-current assets to March 2023

Property, plant and equipment (PPE)											
Year to 31 March 2023	**Land**	**Buildings**	**Leasehold buildings**	**Right to use assets**	**Gauging stations**	**Plant & machinery**	**Vessel**	**Computer equipment**	**Motor vehicles**	**Fixtures, fittings, tools & equipment**	**Total PPE**
Cost or valuation	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
1 April 2022	847	3,970	10,614	–	24,575	13,326	735	4,526	752	270	59,615
Recategorisation	-	-	-	-	376	(376)	-	-	-	-	-
Purchases	-	14	6	-	487	1,135	-	1,525	-	-	3,167
Brought into operational use	-	-	-	10,470	-	-	-	-	-	-	10,470 –
Decommission provision	-	-	286	-	-	-	-	-	-	-	286
Disposals / impairments	-	-	-	-	(838)	(1,028)	-	(790)	(99)	(24)	(2,779)
Revaluations	(24)	(304)	-	(5,184)	11,047	-	-	-	-	-	5,535
At 31 March 2023	**823**	**3,680**	**10,906**	**5,286**	**35,647**	**13,057**	**735**	**5,261**	**653**	**246**	**76,294**
Depreciation											
1 April 2022	0	0	4,291	0	3,320	8,762	61	2,267	497	205	19,403
Recategorisation	-	-	-	-	146	(146)	-	-	-	-	-
Charge for year	-	257	760	1,649	868	784	61	595	41	13	5,028
Disposals / impairments	-	-	-	-	(183)	(990)	-	(599)	(99)	-	(1,871)
Revaluations	-	(257)	-	(1,649)	12,678	-	-	-	-	-	10,772
At 31 March 2023	**0**	**0**	**5,051**	**0**	**16,829**	**8,410**	**122**	**2,263**	**439**	**218**	**33,332**
Net book value at 31 March 2023	**823**	**3,680**	**5,855**	**5,286**	**18,818**	**4,647**	**613**	**2,998**	**214**	**28**	**42,962**
Net book value at 31 March 2022	**847**	**3,970**	**6,323**	**0**	**21,255**	**4,564**	**674**	**2,259**	**255**	**65**	**40,212**

	Intangible assets			Assets
Year to 31 March 2023	**Software developed in-house**	**Purchased software**	**Total intangible assets**	**Under construction**
Cost or valuation	**£'000**	**£'000**	**£'000**	**£'000**
1 April 2022	1,077	4,891	5,968	1,304
Recategorisation	-	-	-	-
Purchases	-	489	489	741
Brought into operational use	878	-	878	(878)
Decomission provision	-	-	-	-
Disposal / impairments	-	(119)	(119)	0
Revaluations	-	-	-	-
At 31 March 2023	**1,955**	**5,261**	**7,216**	**1,167**
Depreciation				
1 April 2022	987	3,682	4,669	-
Recategorisation	-	-	-	-
Charge for year	36	176	212	-
Disposal / impairments	-	(55)	(55)	-
Revaluations	-	-	-	-
At 31 March 2023	**1,023**	**3,803**	**4,826**	**-**
Net book value at 31 March 2023	**932**	**1,458**	**2,390**	**1,167**
Net book value at 31 March 2022	**90**	**1,209**	**1,299**	**1,304**

Non-current assets to March 2022

Property, plant and equipment (PPE)										
Year to 31 March 2022	**Land**	**Buildings**	**Leasehold buildings**	**Gauging stations**	**Plant & machinery**	**Vessel**	**Computer equipment**	**Motor vehicles**	**Fixtures, fittings, tools & equipment**	**Total PPE**
Cost or valuation	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
1 April 2021	832	3,935	9,892	19,203	11,884	735	3,303	770	270	50,824
Opening balance adjustment	-	-	-	17	-	-	-	-	-	17
Purchases	-	-	75	539	1,442	-	1,337	-	-	3,393
Brought into operational use	-	-	-	-	-	-	-	-	-	-
Decommission provision	-	-	647	-	-	-	-	-	-	647
Disposals / impairments	-	-	-	(24)	-	-	(114)	(18)	-	(156)
Revaluations	15	35	-	4,840	-	-	-	-	-	4,890
At 31 March 2022	**847**	**3,970**	**10,614**	**24,575**	**13,326**	**735**	**4,526**	**752**	**270**	**59,615**
Depreciation										
1 April 2021	-	-	3,527	1,964	7,977	-	1,883	438	193	15,982
Opening balance adjustment	-	-	-	17	-	-	-	-	-	17
Charge for year	-	211	764	688	785	61	498	77	12	3,096
Disposals / impairments	-	-	-	(3)	-	-	(114)	(18)	-	(135)
Revaluations	-	(211)	-	654	-	-	-	-	-	443
At 31 March 2022	**-**	**-**	**4,291**	**3,320**	**8,762**	**61**	**2,267**	**497**	**205**	**19,403**
Net book value at 31 March 2022	**847**	**3,970**	**6,323**	**21,255**	**4,564**	**674**	**2,259**	**255**	**65**	**40,212**
Net book value at 31 March 2021	**832**	**3,935**	**6,365**	**17,239**	**3,907**	**735**	**1,420**	**332**	**77**	**34,842**

	Intangible assets			Assets
Year to 31 March 2022	**Software developed in-house**	**Purchased software**	**Total intangible assets**	**Under construction**
Cost or valuation	**£'000**	**£'000**	**£'000**	**£'000**
1 April 2021	1,077	3,965	5,042	384
Opening balance adjustment	-	-	-	-
Purchases	-	809	809	1,037
Brought into operational use	-	117	117	(117)
Decommission provision	-	-	-	-
Disposals / impairments	-	-	-	-
Revaluations	-	-	-	-
At 31 March 2022	**1,077**	**4,891**	**5,968**	**1,304**
Depreciation				
1 April 2021	914	3,531	4,445	-
Opening balance adjustment	-	-	-	-
Charge for year	73	151	224	-
Disposals / impairments	-	-	-	-
Revaluations	-	-	-	-
At 31 March 2022	**987**	**3,682**	**4,669**	**-**
Net book value at 31 March 2022	**90**	**1,209**	**1,299**	**1,304**
Net book value at 31 March 2021	**163**	**434**	**597**	**384**

The charge in the Statement of Comprehensive Net Expenditure includes depreciation charged for the year and the net book value of disposals of £6.2m. The total carrying value of property, plant, and equipment as at 31 March 2023 was £42.9m. Intangible assets were £2.4m and assets under construction £1.2m.

The land and building's category includes properties whose current value (market value equivalent) was provided by Cushman and Wakefield at £4.5m on 31 March 2023 (£4.8m at 31 March 2022).

The Right to Use Value of leased properties, based on the discounted market rent as at 31 March 2023 was provided by Cushman and Wakefield at £5.8m.

The estimated costs of leasehold buildings decommissioning costs, which is the estimated increase in cost of returning the internal layout to the original form, were supplied by Cushman and Wakefield as at 31 March 2020. The value has subsequently been indexed to reflect the costs of construction works of £0.3m in 2022-2023 (£0.6m in 2021-2022).

Gauging stations are specialised buildings. A full assessment of replacement cost was conducted by Cushman and Wakefield at 31 March 2023. Their valuation was made using the depreciated replacement cost approach set out in the Royal Institution of Chartered Surveyors (RCIS) Red Book[13]. The net replacement cost was estimated at £18.8m, a reduction of £2.4m. The last full valuation was in March 2018; in between full valuations we indexed gauging stations annually in line with costs of construction works.

The vessel (Sir John Murray) is checked for impairment on an annual basis, and it is valued by Century Marine. The valuation provided by Century Marine as at March 2023 was £0.66m. As this is less than 10% more than the carrying value of £0.61m, we have not revalued the asset.

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 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 £10,000 including VAT.

The revaluation movements of £5.2m have been offset by the movements on Revaluation Reserve held in Taxpayers' Equity of £1.5m and the Comprehensive Net Expenditure £3.7m.

[13] 'Red Book' Valuations are those that meet the criteria set out by the Royal Institution of Chartered Surveyors (RICS). It sets out the mandatory rules and standard guidelines for RICS Registered valuers to follow when they are undertaking valuations.

Note 10
Cash and cash equivalents

	At 31 March 2023	At 31 March 2022
	£'000	£'000
Balance at 1 April 2022	2,146	4,731
Net change in cash and cash equivalent balances	(1,317)	(2,585)
Balance at 31 March 2023	**829**	**2,146**
The following balances were held in:		
Government banking services	810	2,128
Commercial banks and cash in hand	19	18
Balance at 31 March 2023	**829**	**2,146**

Note 11
Trade and other receivables

	At 31 March 2023	At 31 March 2022
Amounts falling due within one year	£'000	£'000
Trade receivables	2,782	7,860
Bad debt impairment	(979)	(2,879)
Net trade receivables	1,803	4,981
Other trade receivables	30	2
Prepayments and accrued income	1,973	2,085
Total	**3,806**	**7,068**

Included in the outstanding balances are £130k outstanding from other central government bodies, £100k from local authorities and £3k from NHS bodies. In year we recovered £1.9m of previously impaired debt. As at March 2023 the bad debt impairment balance included a provision for expected credit losses of £0.4m.

Note 12
Trade and other payables

	At 31 March 2023	At 31 March 2022
Amounts falling due within one year	**£'000**	**£'000**
Trade payables	(2,401)	(1,866)
Other taxes and social security	(2,251)	(1,238)
VAT	(131)	(126)
Accruals and deferred income	(5,286)	(6,247)
Total	**(10,069)**	**(9,477)**

Included in the outstanding balances are £1,621k payable to local authorities, £24k to other central government bodies, and £8k to NHS bodies.

Note 13
Financial instruments

Our resource requirements are met from Scottish Government via the annual grant-in-aid provision and from other income generated from charging schemes and other activities. We have no power to borrow funds and all surplus funds are held in interest bearing deposit accounts. Other than financial assets and liabilities which are generated by day-to-day operational activities, we hold no financial instruments. The financial instruments shown below exclude any statutory amounts imposed by government (e.g. taxes) or where there is no entitlement to cash (e.g. prepayments and deferred income).

	Floating interest rate (linked to base rate)	Non-interest bearing	Total
	£'000	£'000	£'000
Trade and other receivables	-	4,785	4,785
Cash at bank and in hand	829	-	829
Total financial assets	**829**	**4,785**	**5,614**
Trade and other payables	-	(8,892)	(8,892)
Total financial liabilities	-	**(8,892)**	**(8,892)**

Note 14
Provision for liabilities and charges to March 2023

	Unfunded pension liabilities	Provision for leased property decommissioning	Life assurance provision	Total provision for liabilities and charges
Year to 31 March 2023	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 April 2022	1,731	3,286	417	5,434
Actuarial valuation changes	(82)	-	78	(4)
Decommissioning revaluation	-	286	-	286
New	-	395	-	395
Utilised in year	(146)	-	(85)	(231)
At 31 March 2023	**1,503**	**3,967**	**410**	**5,880**
Liabilities due > 1 year	1,343	3,572	410	5,325
Liabilities due < 1 year	160	395	-	555
At 31 March 2023	**1,503**	**3,967**	**410**	**5,880**

Provision for liabilities and charges to March 2022

	Unfunded pension liabilities	Provision for leased property decommissioning	Life assurance provision	Total provision for liabilities and charges
Year to 31 March 2022	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 April 2021	1,850	2,639	418	4,907
Actuarial valuation changes	22	-	82	104
Decommissioning revaluation	-	647	-	647
Utilised in year	(141)	-	(83)	(224)
At 31 March 2022	**1,731**	**3,286**	**417**	**5,434**
Liabilities due > 1 year	1,590	3,286	334	5,210
Liabilities due < 1 year	141	-	83	224
At 31 March 2022	**1,731**	**3,286**	**417**	**5,434**

The unfunded pension liabilities represent liabilities in respect of pension commitments inherited by us from predecessor bodies and a former SEPA Chair. These liabilities are mainly payable to other authorities for the costs of former employee pensions and include one direct payment to a pensioner. There is also a provision at 31 March 2023 for the life assurance liability. Hymans Robertson have estimated our liability to pay death in service benefits on all staff in post at the end of the year. The property decommissioning provision is the potential cost of reinstating leased properties to their original floorplan.

Note 15
Financial commitments

There are capital commitments at 31 March 2023 of £0.9m (2021-2022 - £1.0m). The commitments at 31 March 2023 relate to the national pluvial flood hazard mapping project and information systems infrastructure.

	At 31 March 2023	At 31 March 2022
	£'000	£'000
Assets under construction	893	989
	893	**989**

Note 16
Leases

Right of use assets

At transition to IFRS 16 on 1 April 2022, we recognised qualifying leases as right of use assets. In line with the requirements of the standard, the assets were initially measured at cost which equated to the discounted value of future lease payments less incentives. The right of use assets are depreciated on a straight line basis over the term of the lease. All of the right of use assets relate to property leases, and in line with policy, are applied to our own buildings. Cushman and Wakefield, RICS regulated surveyors, were asked to provide a right of use valuation based on market rental as at 31 March 2023.

Land and buildings

	At 31 March 2023
	£'000
Cost	
Initial recognition 1 April 2022	10,470
Additions in year	0
Revaluation 31 March 2023	(5,184)
At 31 March 2023	**5,286**
Depreciation	
Charge for the year	1,649
Revaluation write back	(1,649)
At 31 March 2023	**0**
Net book value 31 March 2023	**5,286**

Obligation under leases

On transition to IFRS 16, lease liabilities have been measured at the discounted cost of the remaining lease payments at 1 April 2022. The discount rates have been applied in line with treasury guidance 0.95% on transition and 3.51% on revaluation.

Land and buildings

	At 31 March 2023
Cost	**£'000**
Initial recognition	10,470
Payments	(1,632)
Discount unwinding	90
As at 31 March 2023	8,928
Less than 1 year	1,384
1 to 5 years	4,508
Greater than 5 years	3,036
	8,928

Note 17
IAS 19 – Pension asset and liabilities

In accordance with International Accounting Standard 19 (IAS 19) Employee Benefits, we are required to account for the net pension position for the financial year ended 31 March 2023, as valued by Hymans Robertson, the actuaries to the Falkirk Council Pension Fund. The actuary uses several factors to estimate our net position, these include discount rates, salary increases, mortality, retirement age, and expected returns on pension fund assets.

The key assumptions used by the actuary include:

Financial assumptions

Year ended	31 March 2023 (% per annum)	31 March 2022 (% per annum)
Pension increases	2.95	3.20
Salary increases	3.55	3.80
Discount rate	4.75	2.70

Demographic assumptions

The average future life expectancies at age 65 are summarised below.

Average life expectancy 2023	Males	Females
Current pensioners	20.0 years	22.7 years
Future pensioners	21.2 years	24.7 years

Data - employer membership statistics

	Number	Total salaries / pensions	Average age
	31 March 2020	31 March 2020 £'000	31 March 2020
Actives	1,266	42,270	50
Deferred pensioners	816	2,951	50
Pensioners	421	5,198	66

The membership data summarised in the table above is at the most recent funding valuation date of 31 March 2020.

Payroll for the period 1 April 2022 to 31 March 2023 was £47.9m and the return on the fund in market value terms for the period to 31 March 2023 was 0.9%.

The movement in the funded part of the net position for the year to 31 March 2023 is as follows

	Year ended 31 March 2023			
Pensions deficit	**Assets £'000**	**Obligations £'000**	**IFRIC 14 adjustment £'000**	**Net (liability) / asset £'000**
Fair value of employer assets	424,695	-	-	424,695
Present value of funded liabilities	-	545,662	-	(545,662)
Opening position at 31 March	**424,695**	**545,662**	-	**(120,967)**
Service cost				
Current service cost [14]	-	23,098	-	(23,098)
Past service cost	-	494	-	(494)
Total service cost	-	**23,592**	-	**(23,592)**
Net interest				
Interest income on plan assets	11,535	-	-	11,535
Interest cost on defined benefit obligation	-	14,984	-	(14,984)
Total net interest	**11,535**	**14,984**	-	**(3,449)**
Total defined benefit cost recognised in profit or (loss)	**11,535**	**38,576**	**-**	**(27,041)**
Cash flows				
Plan participants' contributions	3,278	3,278	-	-
Employer contributions	9,827	-	-	9,827
Benefits paid	(7,400)	(7,400)	-	-
Expected closing position	**441,395**	**580,116**	**-**	**(138,181)**
Re-measurements				
Change in demographic assumptions	-	(3,210)	-	3,210
Change in financial assumptions	-	(245,170)	-	245,170
Other experience	-	25,748	-	(25,748)
Return on assets excluding amounts included in net interest	(7,797)	-	-	(7,797)
Adjustment for IFRIC 14 net asset reduction	-	-	(75,153)	(75,153)
Total re-measurements recognised in other comprehensive income	**(7,797)**	**(222,632)**	**(75,153)**	**139,682**
Fair value of employer assets	434,138	-	-	434,138
Present value of funded liabilities	-	357,484	-	(357,484)
Net asset restriction applied	-	-	(75,153)	(75,153)
Expected closing position	**434,138**	**357,484**	**(75,153)**	**1,501**

[14] The current service cost includes an allowance for administrative expenses of 0.3% of payroll.

IAS 19 limits the measurement of a net defined benefit asset to the lower of the surplus in the defined benefit plan and the asset ceiling. The asset ceiling is defined as the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. As there is no unconditional right to a refund, the actuaries have calculated whether there are economic benefits in the form of reductions in future contributions, in accordance with IFRIC 14. The estimated present value of minimum funding contributions is lower than the estimated present value of future service costs, there is deemed to be an economic benefit and an asset ceiling has been applied which restricts the defined benefit net asset to £1.5m. An adjustment to the defined benefit plan asset has been made in accordance with IAS 19 and IFRIC 14.

The significant changes in the valuation are detailed below.

- Pension increase rate – market derived consumer price index (CPI) inflation has fallen over the period, which has led to a 0.25% reduction in this assumption. This has served to decrease the employer's obligations and led to a gain of around £28m on the balance sheet.
- Salary increase rate – the salary increase assumption has fallen over the period by 0.25%. This has served to decrease the employer's obligations and led to a gain of around £4m on the balance sheet.
- Discount rate – the corporate bond yield (upon which the discount rate is derived) has risen over the period, which has led to a 2.05% increase in this assumption. This has served to reduce the employer's obligations and led to a gain of around £213m on the balance sheet.
- Changes in demographic assumptions (c.£3m gain on the balance sheet).
- Other experience (c.£26m loss on the balance sheet), the actual increase pension order for April 2022 was 10.1%. This was higher than the pension increase rate assumption of 3.2% built into the obligations at the start of the accounting period. The impact of applying the higher increase assumption for this year serves to increase the obligations by less than 4-5%.
- The total investment return achieved by the fund over the accounting period was 0.9% compared to an expected investment return of 2.7%. This lead to a loss on the balance sheet of £8m.

Change in fair value of SEPA's pension plan assets, defined benefit obligations, and net liability for the year ended 31 March 2022

	Year ended 31 March 2022		
Pensions deficit	**Assets £'000**	**Obligations £'000**	**Net (liability) / asset £'000**
Fair value of employer assets	370,455	-	370,455
Present value of funded liabilities	-	560,109	(560,109)
Opening position at 31 March	**370,455**	**560,109**	**(189,654)**
Service cost			
Current service cost [15]	-	25,313	(25,313)
Past service cost	-	-	-
Total service cost	-	**25,313**	**(25,313)**
Net interest			
Interest income on plan assets	7,459	**-**	7,459
Interest cost on defined benefit obligation	-	**11,408**	(11,408)
Total net interest	**7,459**	**11,408**	**(3,949)**
Total defined benefit cost recognised in profit or (loss)	**7,459**	**36,721**	**(29,262)**
Cash flows			
Plan participants' contributions	3,179	3,179	-
Employer contributions	9,290	-	9,290
Benefits paid	(6,986)	(6,986)	-
Expected closing position	**383,397**	**593,023**	**(209,626)**
Re-measurements			
Change in demographic assumptions	-	(2,869)	2,869
Change in financial assumptions	-	(45,425)	45,425
Other experience	-	933	(933)
Return on assets excluding amounts included in net interest	41,298	-	41,298
Total re-measurements recognised in other comprehensive income	**41,298**	**(47,361)**	**88,659**
Fair value of employer assets	424,695	-	424,695
Present value of funded liabilities	-	545,662	(545,662)
Closing position at 31 March 2022	**424,695**	**545,662**	**(120,967)**

[15] The current service cost includes an allowance for administrative expenses of 0.3% of payroll.

Assets – asset value at 31 March 2023 and 31 March 2022

The asset values below are at bid value as required under IAS 19. Our fair value of fund assets is approximately 14% of the total assets of the fund.

	At 31 March 2023				At 31 March 2022			
Asset category	Quoted prices in active markets £'000	Prices not quoted in active markets £'000	Total £'000	%	Quoted prices in active markets £'000	Prices not quoted in active markets £'000	Total £'000	%
Equity securities:								
Consumer	26,510	-	26,510	6	25,933	-	25,933	6
Manufacturing	23,252	-	23,252	6	22,747	-	22,747	6
Energy and utilities	15,120	-	15,120	3	14,791	-	14,791	3
Financial institutions	31,576	-	31,576	8	30,889	-	30,889	7
Health and care	14,207	-	14,207	3	13,898	-	13,898	3
Information technology	35,179	-	35,179	8	34,413	-	34,413	8
Other	4,242	-	4,242	1	4,150	-	4,150	1
Debt securities:								
UK Government	17,772	-	17,772	4	17,386	-	17,386	4
Other	8,100	-	8,100	2	7,924	-	7,924	2
Private equity:								
All	-	5,230	5,230	1	-	5,116	5,116	1
Real estate:								
UK property	-	26,890	26,890	6	-	26,305	26,305	6
Overseas property	-	36	36	0	-	35	35	0
Investment funds and unit trusts:								
Equities	112,085	-	112,085	26	109,647	-	109,647	27
Bonds	23,072	-	23,072	5	22,571	-	22,571	5
Infrastructure	-	47,210	47,210	11	-	46,184	46,184	11
Other	16,821	8,944	25,765	6	16,455	8,749	25,204	6
Cash and cash equivalents:								
All	17,892	-	17,892	4	17,502	-	17,502	4
Totals	**345,828**	**88,310**	**434,138**	**100**	**338,306**	**86,389**	**424,695**	**100**

Sensitivities

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 deficit. The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

	Approximate % increase in employers' liability	Approximate monetary amount
Change in assumption at 31 March 2023		**£'000**
0.1% decrease in real discount rate	2	7,873
0.1% increase in salary increase rate	0	1,091
0.1% increase in pension increase rate	2	6,892
1 year increase in member life expectancy	4	14,299

Note 18

IAS 19: Details of entries in the Statement of Comprehensive Net Expenditure

International Accounting Standard (IAS) 19 requires us 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 2023	Year to 31 March 2022
	£'000	£'000
Charge to operating costs		
Current service cost	23,098	25,313
Past service cost	494	-
Total service cost	23,592	25,313
Employer contribution	(9,827)	(9,290)
Added to staff costs (see note 4)	**13,765**	**16,023**
Projected return on employers' assets	(14,984)	(11,408)
Actual return on employer assets	11,535	7,459
Interest payable (note 7)	**(3,449)**	**(3,949)**

Hymans Robertson have estimated our employer's contributions for the period to 31 March 2023 at approximately £9.8m.

Note 19

Grant-in-aid funding (GiA)

	Year to 31 March 2023	Year to 31 March 2022
	£'000	£'000
Cash GiA received to meet expenditure	34,927	41,815

The amount of GiA provided to us 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 (Scottish Government Directorate for Environment and Forestry). Government Financial Reporting Manual instructs that GiA goes directly to the Comprehensive Net Expenditure Reserve in the Statement of Financial Position, as financing.

Reconciliation of budgeted cash allocation

		Year to 31 March 2023	Year to 31 March 2022
		£'000	£'000
Budgeted cash allocation	Capital	4,400	6,200
Budgeted cash allocation	Operating costs	35,310	37,815
Total cash that could be drawn down in year		39,710	44,015
Cash drawn down in year		(34,927)	(41,815)
Cash remaining with Scottish Government		**4,783**	**2,200**

The 2022-2023 cash draw down was reduced to reflect the actual underspend in 2021-2022 and the forecast underspend in 2022-2023. This was offset by a working capital draw down as a result of a reduction in the cash budget following the implementation of IFRS 16 and the movement of rental payments for leases to the balance sheet.

Note 20
Related party transactions

We are 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, we have had various material transactions mainly in relation to the drawdown of grant-in -aid and grant funding to support the Water Environment Fund.

	Year to 31 March 2023	Year to 31 March 2022
Funding received from Scottish Government	£'000	£'000
Cash GiA received	34,927	41,815
Water Environment Fund	2,753	2,353
Air quality work worthy cause payments	129	-
Total	**37,809**	**44,168**

We also have material transactions with other entities for which the Scottish Government is regarded as a parent body, these transactions are mainly in relation to income received for applications and licences, charges for the provision of services, leased properties, and partnership contributions. The most significant transactions include payments of £2m in grants to Fife Council for River Leven and Back Burn restoration projects, £0.23m to North Lanarkshire Council for the Garrel Burn project, and £12.7m received in charges from Scottish Water.

During the year, apart from their service contracts, no Board Member, key manager, or other related parties have undertaken any material transactions with us. Board Member Declarations of Registered Interests is published on the our website. One non-executive member of the Board also sat as Chair on the Board of NHS Lanarkshire. NHS Lanarkshire are deemed to be a related party. We had a small number of transactions with NHS Lanarkshire during the year in relation to income for licence fees, however these were not considered to be material.

The Chief Executive declared a related party interest with Scottish Canals in May 2023 following the appointment of a close family member to the position of Chief Executive. We had a small number of transactions with Scottish Canals in relation to income for licence fees, however these were not considered to be material.

Note 21
Segmental analysis for 2022-2023

International Financial Reporting Standard (IFRS) 8 requires operating segments to be identified on the basis of internal reports about components of SEPA that are regularly reviewed in order to allocate resources to the segment and to assess its performance. We report segmental information based on the organisations' portfolios. The table presents management information, produced on an IFRS basis, on income, expenditure and net operating cost as at 31 March 2023.

	Evidence & Flooding £'000	Chief Executive Office £'000	Performance & Innovation £'000	People & Property £'000	Finance £'000	Compliance & Beyond £'000	Circular Economy £'000	Corporate £'000	Total £'000
Charging schemes	-	-	-	-	-	-	-	44,512	44,512
Other income	-	-	-	-	-	-	-	5,120	5,120
Total income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**49,632**	**49,632**
Staff costs	24,422	237	4,987	2,309	1,380	19,615	10,485	13,349	76,784
Other operating costs	9,986	26	761	4,952	581	888	5,078	2,145	24,417
Depreciation, sale, and impairment of assets	-	-	-	-	-	-	-	6,176	6,176
Total expenditure	**34,408**	**263**	**5,748**	**7,261**	**1,961**	**20,503**	**15,563**	**21,670**	**107,377**
Net expenditure	**(34,408)**	**(263)**	**(5,748)**	**(7,261)**	**(1,961)**	**(20,503)**	**(15,563)**	**27,962**	**(57,745)**

Appendix 1 - Accounts Direction by the Scottish Ministers

Received in the year to 31 March 2023

There were no new Accounts Directions issued by the Scottish Ministers in the year to March 2023.

SCOTTISH ENVIRONMENT PROTECTION AGENCY

Scottish Government
Riaghaltas na h-Alba
gov.scot

ACCOUNTS 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 2022, and subsequent years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM) 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 09 December 2005 is hereby revoked.

Signed: Alice Hall, Deputy Director, Environmental Quality and Resilience by the authority of the Scottish Ministers

Dated: 22 August 2023

sepa
Scottish Environment Protection Agency
Buidheann Dìon Àrainneachd na h-Alba

For the future of our environment

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