

# ANNUAL REPORT AND ACCOUNTS

## 2020-2021



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## 1.0 Performance Report

### 1.1 Introduction

The report is divided into three parts:

- **Performance report** consisting of:
  - Overview section – this summarises the whole report, explaining our purpose and strategy, our business model, our activities, our operational risks, and summarises our performance.
  - Performance analysis – this shows our progress against this year's performance measures and our financial performance.
- **Accountability report** – this consists of the Corporate Governance report, a Remuneration and Staff report, and a Parliamentary Accountability and Audit report.
- **Financial statements** – these include the Directors' Report and the Annual Accounts for 2020–2021.

## 1.2 Welcome to SEPA's 2020-2021 Annual Report

As with every other organisation reporting on 2020/21, the global pandemic dominated the setting for our work. We had set ourselves an ambitious plan for 2020/21, both for the delivery of services and for reform in line with our major change agenda. However, our plans were severely impacted when the global pandemic hit in late March 2020, just as the new financial year was about to begin. In the early weeks of the lockdown, our Board took a step back, reflected on the unprecedented times we had all entered, and approved SEPA's COVID-19 philosophy which specified our overall approach:

*"SEPA's focus will be to make our best contribution to helping the nation get through this public health emergency in a way that protects and improves Scotland's environment."*

In line with Government guidelines, we closed all our offices and restricted field activities. As the year progressed, we opened our largest office on a limited basis so that we could use our main laboratory for the most critical work. This was crucial in enabling us to, for example, conduct new analysis of wastewater to identify COVID-19 infection rates to assist the health authorities with their work. We urgently identified the highest priority regulated sites that we needed to visit or monitor through remote assessment techniques. Again, as the year progressed and the Government guidance changed, we opened up field work and increased our assessment and response work, all within strict COVID-19 guidelines.

Importantly, we actively spoke to a wide range of groups to see how the pandemic was affecting them and how SEPA could best work with them to help with mutual aims. For example, discussions with representative bodies of businesses we regulate such as the National Farmers Union of Scotland, the Scotch Whisky Association, the Confederation of British Industry, and others helped us work out how to regulate effectively and assist firms to keep their businesses running in ways that met their environmental obligations.

All this effort meant we were able to deliver much for the environment. We concluded a major investigation of a flaring incident and referred ExxonMobil to the Procurator Fiscal for consideration for prosecution. We did maintenance work across our vital hydrometric network that underpins our flood warning system, we conducted a crackdown on fly tipping in partnership with other agencies, we launched new flood warning schemes for two parts of rural Scotland and much more.

As we were doing this work, our world changed again on Christmas Eve 2020 when we were hit by a sophisticated major ransomware attack. This cybercrime had a huge impact on SEPA. We were effectively locked out of our systems and from our data. We immediately called an emergency under our emergency management protocols which remained in place until 31 March 2021. No ransom was paid. This meant a significant rebuild of all our affected systems.

Thanks to the resourcefulness of our staff and the support we received from partner agencies, the public and those we regulate, we were able to find ways to deliver our highest priority services such as issuing flood alerts and warnings and attending major pollution incidents. We were also able to tackle some of the specific impacts of the cyber-attack, such as analysing the stolen data that had been published by the criminals. By the end of 2020/21 year, we had stabilised the organisation and were progressing the process of recovery.

In dealing with both the pandemic and the cyber-attack, we made supporting our workforce a very high priority. We cannot speak highly enough of how our staff responded to these multiple crises. It is remarkable the extent to which we were able to deliver our environment protection services. Finally, we would like to thank all of those that helped us deal with both crises, but especially Police Scotland, the Scottish Business Resilience Centre, and the Scottish Government officials who provided extensive expert advice and practical support from the moment the cyber-attack hit.

Despite all these challenges, we delivered much for the environment in 2020/21. Many of our planned aims were put aside, new approaches were developed, and we learned a lot about looking after the environment in difficult and unprecedented circumstances, much of which we intend to apply in future years. This is outlined in this report which we hope you find valuable and informative.



**Bob Downes**  
**Chair**

21/12/2021



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

21/12/2021

## Fàilte gu Aithisg Bhliadhnail SEPA 2020-2021

Mar a tha fìor dhan a h-uile buidheann a tha ag aithris air 2020-21, thug an galar lèir-sgaoilte cruinneil buaidh ro-mhòr air co-theacs ar cuid obrach.

Bha sinn air plana àrd-amasach a shuidheachadh airson 2020-21, an dà chuid airson lìbhrigeadh sheirbheisean agus airson ath-leasachadh, mar thoradh air a' mhiann againn atharrachadh mòr a thoirt air a' bhuidhinn. Ach thug an galar lèir-sgaoilte cruinneil buaidh mhòr air na planaichean againn aig deireadh a' Mhàirt 2020 dìreach nuair a bha a' bhliadhna ionmhais ùr gu bhith a' tòiseachadh. Ann an seachdainean tràth a' ghlasaidh-sìos, ghabh am Bòrd againn ceum air ais, chnuasaich iad air na h-amannan gun samhail anns an robh sinn, agus dh'aontaich iad Feallsanachd COVID-19 SEPA a shònraich an dòigh-obrach againn san fharsaingeachd:

“Bidh fòcas SEPA air nas urrainn dhuinn a dhèanamh gus an dùthaich a chuideachadh gus faighinn tron t-suidheachadh èiginn seo a thaobh slàinte a' phobail ann an dòigh a dhìonas agus a leasaicheas àrainneachd na h-Alba.

A rèir stiùireadh an Riaghaltais, dhùin sinn na h-oifisean uile againn agus lùghdaich sinn obair taobh a-muigh gu mòr. Tron bhliadhna, dh'fhosgail sinn am prìomh oifis againn air stèidh cuibhrichte gus am b' urrainn dhuinn am prìomh dheuchainn-lann againn a chleachdadh airson na h-obrach as cudromaiche. Bha seo deatamach gus leigeil leinn, mar eisimpleir, mion-sgrùdadh ùr a dhèanamh air uisge-caithte gus ìrean galair gabhaltach a chomharrachadh gus na h-ùghdarrasan slàinte a chuideachadh le an cuid obrach. Chomharraich sinn na làraichean riaghlaidh leis a' phrìomhachas as àirde gu luath, air am feumamaid tadhail no sgrùdadh a dhèanamh tro dhòighean measaidh air astar. A-rithist, nuair a chaidh a' bhliadhna air adhart agus a dh'atharraich stiùireadh an Riaghaltais, dh'fhosgail sinn obair làraich a-rithist agus mheudaich sinn ar n-obair measaidh is freagairt, uile taobh a-staigh stiùiridhean COVID-19 teann.

Gu cudromach, bhruidhinn sinn gu gnìomhach ri raon farsaing de bhuidhnean gus faicinn mar a bha an galar sgaoilte a' toirt buaidh orra agus mar a b' urrainn do SEPA obrachadh còmhla riutha gus cuideachadh le amasan coitcheann. Mar eisimpleir, chuidich còmhraidhean le buidhnean a tha a' riochdachadh gnìomhachasan a tha sinn a' riaghladh, leithid Aonadh Nàiseanta nan Tuathanach Alba, Comann Uisge-beatha na h-Alba agus Caidreachas Gnìomhachas Bhreatainn agus feadhainn eile sinn gus obrachadh a-mach mar a b' urrainn dhuinn riaghaladh gu h-èifeachdach agus companaidhean a



chuideachadh gus na gnìomhachasan aca a chumail a' dol ann an dòighean a choileanadh nan dleastanasan àrainneachdail aca.

Bha e comasach dhuinn tòrr a lìbhrigeadh dhan àrainneachd mar thoradh air an obair seo. Chuir sinn crìoch air sgrùdadh mòr air tachartas lasair-bhoillsaidh agus rinn sinn aithris air ExxonMobil do Neach-casaid a' Chrùin gus am beachdaicheadh iad air casaid a thogail. Rinn sinn obair-ghlèidhidh air an lìonra hydrometric ro-chudromach air a bheil siostam nan rabhaidhean tuil stèidhichte agus rinn sinn iomairt an aghaidh sitigeadh mhì-laghail ann an com-pàirteachas le buidhnean eile, agus chuir sinn sgeamaichean rabhaidh thuiltean air dòigh airson dà àite ann an Alba dhùthchail agus tòrr a bharrachd.

Fhad 's a bha sinn a' dèanamh na h-obrach seo, dh'atharraich an saoghal againn a-rithist air Oidhche na Nollaig 2020 nuair a rinneadh ionnsaigh-saidhbear oirnn le bathar-èirig. Thug an eucoir-saidhbear seo buaidh mhòr air SEPA. Bha sinn glaiste a-mach às na siostaman agus bhon dàta againn gu ìre mhòr. Chomharraich sinn seo mar shuidheachadh èiginn tro na pròtacalan làimseachaidh suidheachaidhean èiginn againn, a bha an gnìomh gu 31 Màrt 2021. Cha deach èirig sam bith a phàigheadh. Tha seo a' ciallachadh gun robh againn ri ath-thogail nach bu bheag a dhèanamh air na siostaman air an tug seo buaidh.

Mar thoradh air innleachdas an luchd-obrach againn agus an taic a fhuair sinn bho bhuidhnean com-pàirteach, bhon phoball. agus bhon fheadhainn a tha sinn a' riaghaladh, bha e comasach dhuinn dòighean a lorg gus na seirbheisean as cudromaiche againn a lìbhrigeadh, leithid, a bhith a' foillseachadh rabhaidhean thuiltean agus a' dol gu tachartasan truailidh mòr. Bha e comasach dhuinn cuideachd dèiligeadh ri cuid de na buaidhean sònraichte a bh' aig an ionnsaigh-saidhbear, mar eisimpleir, tro bhith a' sgrùdadh an dàta a chaidh a ghoid a bha na h-eucoirich air fhoillseachadh. Ro dheireadh bliadhna 2020-21, bha sinn air a' bhuidheann a dhèanamh seasmhach a-rithist agus bha sinn a' dèanamh adhartas le obair ath-shlànachaidh.

Agus sinn a' dèiligeadh ris an dà chuid an galar lèir-sgaoilte agus an ionnsaigh-saidhbear, thug sinn ìre prìomhachais fìor àrd ri bhith a' toirt taic dhan luchd-obrach againn. Tha an luchd-obrach airidh air àrd-mholadh airson na rinn iad gus freagairt air na diofar shuidheachaidhean èiginn seo. Tha an ìre is gun robh e comasach dhuinn ar seirbheisean dìon àrainneachd a lìbhrigeadh iongantach.



Mu dheireadh, bu mhath leinn taing a thoirt dhan h-uile duine a chuidich sinn gus dèiligeadh ris an dà shuidheachadh èiginn, ach gu sònraichte Poileas Alba, Ionad Ath-sheasmhachd Gnìomhachais na h-Alba, agus oifigearan Riaghaltas na h-Alba a thug seachad comhairle ealanta fharsaing agus taic phractaigeach bhon thòisich an ionnsaigh-saidhbear.

A dh'aindeoin nan dùbhlann seo uile, libhrig sinn tòrr dhan àrainneachd ann an 2020-21. Chaidh tòrr de na h-amasan a bha san amharc againn a chur dhan dàrna taobh, chaidh dòighean-obrach ùra a chruthachadh, agus dh'ionnsaich sinn mòran mu bhith a' coimhead às dèidh na h-àrainneachd ann an suidheachaidhean duilich nach fhacas riamh roimhe, agus tha sinn an dùil mòran dhiubh a chur an sàs anns na bliadhnaichean ri teachd. Thathar a' toirt tuairisgeul air seo uile san aithisg agus tha sinn an dòchas gum bi i luachmhor agus inntinneach dhuibh.



**Bob Downes**  
**Cathraiche**

21/12/2021



**Terry A'Hearn**  
**Àrd-oifigeir**

21/12/2021

## Performance overview

### 1.3.1 Introduction

The purpose of this Overview section is to provide a summary of SEPA, our purpose and strategy, the key risks we are facing, our budget and our performance over the year from April 2020. We hope that most readers will find enough in this section to get a good understanding of who we are and what we achieved in 2020–2021. For those who are interested, more detail can be found in the Performance Analysis and Accountability report sections.

The Overview section shows our path to becoming a world-class environment protection agency fit for the challenges of tomorrow. It details how we have restructured to focus on on-ground delivery, which allows our staff to more powerfully use their skills and abilities. Our achievements are a testament to our position that environmental compliance is non-negotiable and our commitment to helping Scotland to prepare more powerfully for future increased flooding.

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

### 1.3.2 Our purpose and strategy

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

Through the delivery of One Planet Prosperity, we are committed to making Scotland stronger. Every Scottish business will comply with the law, and we'll work to ensure as many as possible will go even further. Our statutory purpose and range of enforcement tools means those that aren't complying will be held to account.

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

We also help Scotland to prepare more powerfully for future increased flooding and are the national flood forecasting, flood warning and strategic flood risk management authority. We develop flood risk management strategies that set the national direction of flood risk management, helping to target investment and co-ordinate action across public bodies. We also operate Floodline, a free 24-hour advice and information service on how to prepare for, or cope with, the impacts of flooding. Customers who register for this service receive phone or text messages letting them know when there is a risk of flooding. This gives communities and businesses valuable time to act and reduce the impacts of flooding.

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

Our statutory purpose and strategy are set out in our [Corporate Plan 2017-2022](#) and summarised in the diagrams on the following pages. The Corporate Plan includes broad measures we will use to monitor our performance. Each year we publish an [Annual Operating Plan](#) that lists the specific annual measures we will report against.

1.3.3 Our strategy

Purpose

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

Strategic outcomes

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



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

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


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



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

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

**The impact of flooding is reducing**



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

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

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

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



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

The impact of pollution and environmental crime is reducing.

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

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

Our core services

Regulation

Flood risk management

### 1.3.4 Our organisational characteristics

Our aim is to ensure that everything we do is designed to deliver our statutory purpose in the most effective ways possible. Six Organisational Characteristics are at the core of our corporate strategy and help us make day-to-day and longer-term decisions.

#### **The Six Organisational Characteristics**

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

### 1.3.5 Our contribution to the Scottish Government purpose

The purpose of the Scottish Government is to focus government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth. To support its purpose, the Scottish Government has identified 11 national outcomes in relation to the National Performance Framework. We make the most significant contribution to the outcomes listed below:

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

### 1.3.6 Our business model

We are a non-departmental public body, accountable to Scottish Ministers and the Scottish Parliament. We are also an independent advisor on the environment. We have 1,268 employees working in 22 offices across Scotland.

#### **Our Board**

Our Board is responsible for ensuring we fulfil the aims and objectives we have agreed with Scottish Ministers. Further detail on Board members<sup>1</sup> and the role of the Audit Committee, is covered in the Governance statement in the Accountability report section.

#### **Our management**

Details of our management team are included on page 59. The Board has delegated day-to-day management of SEPA's operations to the Chief Executive, who works with directors and the Agency Management Team. The Agency Management Team is comprised of the Chief Executive, the Executive Director Evidence and Flooding and the Chief Officers. The biographies of the members of the Agency Management Team are available on our website<sup>2</sup>. They are responsible for strategic planning, business management, performance management and change management, amongst other duties.

#### **Our portfolios**

Our Corporate Plan 2017-2022 sets out the steps we need to take to help create a society that can operate within the means of only one planet. This includes making fundamental changes to the way we work in order to build an environment protection agency fit for the 21st century.

- Compliance and Beyond focuses on environmental performance, enforcement, permitting, and legal services.
- Circular Economy focuses on efficient use of resources and includes our energy, radioactive substances, waste and landfill, planning and land policy, and water teams.
- Evidence and Flooding focuses on evidence, flood risk management, and digital services.
- People and Property, which includes learning and development, human resources, and management of our estate.

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<sup>1</sup> [sepa.org.uk/about-us/how-we-work/our-board/](https://sepa.org.uk/about-us/how-we-work/our-board/)

<sup>2</sup> [media.sepa.org.uk/biographies/](https://media.sepa.org.uk/biographies/)

- Finance manages our financial affairs and procurement activities.
- International Services generates additional income by developing global commercial opportunities from our in-house expertise, as well as seeking to maximise external grant funding.
- Performance and Innovation, which includes, Regulatory Strategy and Government Relations, Strategic Initiatives, and Innovation teams.
- Office of the Chief Executive focuses on strategic corporate initiatives and delivery and includes Communications and Marketing, Governance, and Change.

## Our core services

We have two external services: regulation and flooding.

- **One Planet Prosperity: Our Regulatory Strategy** describes how, in our role as Scotland's environmental regulator, we will work collaboratively with businesses to help them achieve their commercial goals in ways that also deliver environmental success. We need to use innovative and powerful ways of regulating so that those businesses that want to take advantage of the opportunities for profitability presented by moving "beyond compliance" are given strong support to do so.

To organise our regulatory work, we use two 'lenses' - a sector lens and a place lens. The combination of lenses will maximise our influence in how we regulate both sectors and geographical areas. This approach is well established in the River Leven area of Fife with the Leven Programme, a regenerative initiative, delivering co-ordinated partnership activities that improve the environment while contributing to the success of the local community and economy. SEPA's engagement with Regional Growth Deals and other partnerships will employ this same approach and focus.

- **One Planet Prosperity: Our Flooding Services Strategy**, consulted on in October 2020 and due for publication in 2021, enables SEPA to prepare more powerfully for future increased flooding. The strategy sets out how we are refocusing our flooding services in response to the climate emergency and strengthening our ability to tackle the challenges of future flood risk.

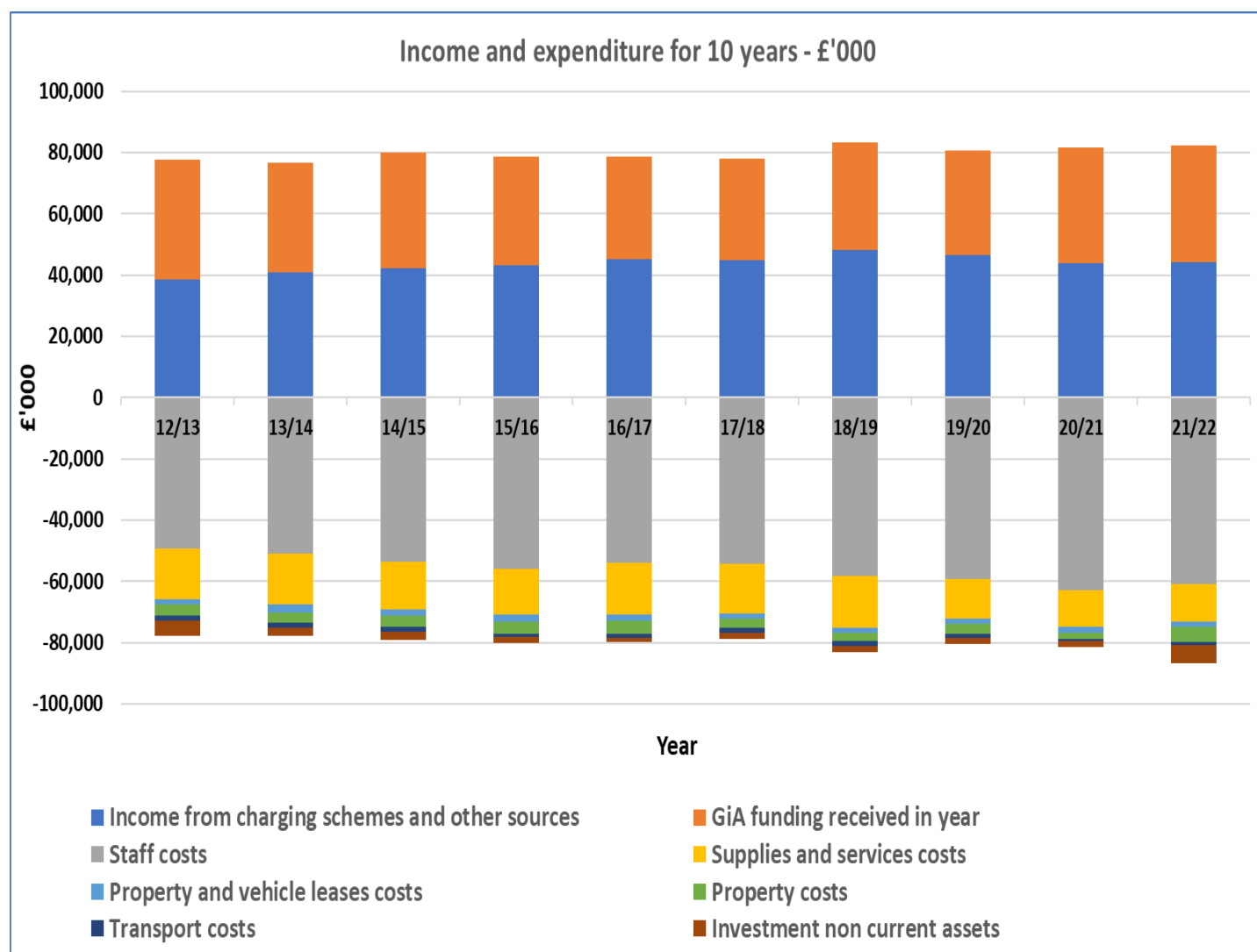
## Our funding

Our income in 2020/21 of £81.4m comes from a mixture of grants from the Scottish Government (cash £37.6m) and licence fees from those we regulate (£42.0m) and other income of £1.8m.



This income covered our operating costs for the year, excluding pensions costs under IAS 19 of £79.3m and capital investment of £2.0m.

The chart below shows where our income has come from and how it has been used from April 2012 through to March 2021. It also includes how we intend to spend our income in 2021/22.



SEPA is committed to managing its expenditure within the income available to it year on year. The Scottish Government has allocated SEPA £33.0m cash grant for 2021/22 operating costs and £6.2m for capital investment. We have estimated that the fees from charging schemes and other income to be £44.2m in 2021/22.

The chart above shows how we have spent funds received in prior years and how we plan to spend the funds we anticipate in 2021/22. The figures above exclude non-cash budget resource provided by Scottish Government each year and the annual depreciation charge. Grant in aid received equals the cash drawn down from Scottish Government in year.

The non-cash resource for 2020/21 shown in the parliamentary accountability section was £4.9m. The non-cash expenditure for 2020/21 was depreciation and loss on asset disposals shown in the statement of comprehensive net expenditure of £3.5m. Additionally, the expenditure reflected in the table excludes IAS 19 pension, unfunded pension adjustments, and life assurance provision reflected in staff costs (page 70) and includes any cash payments made to unfunded debtors and for death in service benefits.

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

For the first time in history, environmental concerns dominated the top long-term risks in a World Economic Forum survey with “Failure of climate change mitigation and adaptation” being the number one risk by impact. With the forum’s younger constituents, the Global Shapers Community, the concern was even stronger.

The concern shown globally by economic leaders reflects the shared focus on tackling climate change that is evident across our governments and communities. The commitment and resolve to emerge from the global pandemic in a way that rebuilds our society and economy in a greener, fairer, and more sustainable way was captured in the Scottish Government’s update to the climate change plan, [“Securing a recovery on the path to net zero”](#).

Following the publication of the Report of the Advisory Group on Economic Activity, which helped to shape the update to the climate change plan, SEPA announced how we are putting our foot on the reform accelerator to make an even bigger contribution to a sustainable recovery in Scotland. This started with the commitment to deliver “strong green space” for the economy through a strategic partnership with Scottish Enterprise that enables public and private sector to work together in more innovative ways.

Despite the challenges of the global pandemic, we continued to be at the forefront of opportunities to tackle climate change, working in partnership to create new ways of working and innovation:

- In partnership with Scottish Wildlife Trust, we developed a route map to unlock £1 billion of new investment for nature conservation in Scotland. This brings together real-world projects that spark regeneration of communities, build green businesses, and create new jobs, with investors that understand that a successful, resilient economy depends not just

on achieving financial returns but on creating social and environmental value and success.

- The River Leven Programme was identified by Volans, a global think tank and strategic advisory firm, as a potential model for global economic recovery and the first living case study in Volan's "Green Swan Observatory". The accolade coincided with the Programme building in strength with five new partners joining the existing ten public and private sector bodies already working together to deliver change in the region.
- In partnership with California based Global Footprint Network, SEPA put a spotlight on the overuse of resources by bringing together progressive business leaders, thought leaders, academia, politicians, communities and young people on Earth Overshoot Day, the day when the world goes into ecological debt. Opened by Minister for the Environment, Climate Change and Land Reform, Roseanna Cunningham MSP, panellists and participants from across the globe explored the challenges and opportunities to #MoveTheDate and explored real opportunities to accelerate action to lock in sustainable, inclusive growth. Our activity on Earth Overshoot Day started with a Club of Rome session, an international membership group of notable scientists, economists, business leaders, and former politicians that seek to define comprehensive solutions to the complex, interconnected challenges of our world, showing the reach and influence of Scotland's ambitions and approach to tackling resource over-use.

As climate change intensifies, water scarcity will increase. SEPA has responsibility for monitoring and reporting of the situation facing Scotland's water resources and produces a report between May and September. In 2020, we warned of low levels across the North-East with one site reaching the lowest levels ever recorded following a spring in which there was exceptionally low groundwater levels as well as the third driest April on record. Our work helps to drive business decisions that reduce reliance on Scotland's water resources.

We also reported results of the Scottish Pollutant Release Inventory that climate changing carbon dioxide emissions from SEPA regulated industrial sites dropped 57% in a decade – down 5% in the last year.

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

One Planet Prosperity – Our Regulatory Strategy aims for all business to meet regulatory standards and help as many businesses as possible to voluntarily go beyond those standards.

This is based on, whether we are in normal or emergency situations, minimising environmental impact, protects the environment and human health and makes powerful economic and social sense within the finite resources of the planet.

Throughout the COVID-19 pandemic we recognised that the ability of our regulated businesses to run their operations may have been compromised by a lack of available staff, and/or the need to protect staff and minimise transmission of the virus. The aim of One Planet Prosperity guided our approach as we helped regulated businesses adjust and adapt to the extraordinary circumstances in which everyone's resources and capacities were severely constrained.

In April 2020, we published SEPA's COVID-19 philosophy, which set out what we expected of regulated business and how we had set ourselves up to help them respond and adapt to the challenges of the pandemic.

We were clear that regulated business should have made best endeavours to look after Scotland's environment and meet their environmental obligations. We anticipated that the vast majority of regulated businesses would live up to this expectation. However, any business that did the opposite and deliberately took the opportunity to cause environmental harm was warned that they would feel the full force of SEPA's powers.

We committed to making decisions as regularly and promptly as possible so that our actions were transparent to everyone in Scotland and liaised with a wide variety of stakeholders to help us make good judgements and be informed.

We reinforced that if regulated businesses tried to do the right thing, we would be helpful and supportive but if they deliberately did the wrong thing, they would get the uncompromising regulator the behaviour deserved.

We expected regulated businesses to make their best endeavours to meet their environmental obligations. If a regulated business was unable to meet all its obligations under SEPA's licence, permit or other authorisations because of these exceptional circumstances, we set out the steps that should be followed.

15 temporary regulatory positions and three guidance statements were adopted early in the pandemic. These were prepared where, as a result of the pandemic, particular activities within certain sectors regulated by SEPA were unable to be carried out in the normal way. In such

cases, a temporary position that provided flexibility was adopted so that regulated businesses could continue to operate within the COVID-19 restrictions while also protecting the environment. SEPA continued to adapt to the external changes impacting regulated business and in December 2020 we published an updated approach, [Principles for Regulatory Approach to EU Exit and COVID-19](#).

With Scotland's waste industry working hard to keep services running in challenging circumstances SEPA, working in partnership Police Scotland, Zero Waste Scotland, and local authorities cracked down on fly-tipping and illegal waste services, activities which added to the burden of those who continued to deliver essential services. Our crackdown included targeting rogue operators that advertised illegal waste collections on social media sites and helping businesses and communities to follow their duty of care by supporting a co-ordinated national campaign, Managing Our Waste.

Continuing our focus on compliance, we submitted a report to the Crown Office and Procurator Fiscal Service for consideration of prosecution in relation to the flaring at the Mossmorran complex from ExxonMobil Chemical Ltd during April 2019. The actions of the operator continued to be under continual review during the pandemic with an intensified compliance programme to focus on the steps the company is taking to prevent and minimise flaring.

Our One Planet Prosperity Strategy commits to working with as many businesses as possible to support them to voluntarily go beyond the standard of compliance, reducing businesses reliance on our natural resources.

The pandemic drew into sharp focus the connection between social, environmental, and economic prosperity. We saw communities and companies rising to the challenge looking to more sustainable business opportunities and, as we started to focus on recovery, we continued our work on Sustainable Growth Agreements. These are voluntary, non-legally binding, formal agreements through which an organisation (or organisations) and SEPA can explore new and innovative ways of working that deliver environmental, social and economic success.

In 2020, SEPA signed a Sustainable Growth Agreement with Nestlé, who currently draws down around 8% of Scottish dairy, processed at its factory in Girvan, South Ayrshire. The agreement centres on:

- Developing circular economy opportunities in food production, food waste and packaging within Scotland for Nestlé UK and Ireland value chains.
- Exploring a fresh approach to maximising local environment, social and economic benefit in the South of Scotland, built around the Landscape Enterprise Networks (LENs) concept.
- Developing resources that will enable businesses in the agri-food arena to understand their environmental obligation and landscape dependencies.

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

Climate change is likely to bring increased risk of coastal, river, and surface water flooding. We are also expected to experience increased sea levels and more extreme weather, including wetter winters, more intense rainfall, and thundery weather in summer.

In Scotland there are an estimated 284,000 homes, businesses, and services at risk of flooding with climate change projected to increase this number by approximately 110,000 by the 2080s. SEPA is acting now to plan and adapt to a high emissions climate scenario in our role as national flood forecasting, flood warning, and strategic flood risk management authority.

Last year we consulted on One Planet Prosperity – Our Flooding Services Strategy, setting out how we will refocus our flooding services in response to the climate emergency and tackle the challenges of future flood risk.

Our work is based on three key principles:

- Avoid the risk of flooding to new developments.
- Protect communities and businesses to reduce the risk of flooding.
- Warn communities and business to help them prepare for flooding.

We know that communities and citizens depend on us to do our job which is why, even when hit by a significant cyber-attack on Christmas Eve 2020, we prioritised critical frontline services including vital flood warnings to safeguard families, communities, and public services. Our river gauging network consists of over 350 sites and this data remained available to SEPA staff ensuring delivery of nationally important flood forecasting, including the issue of Flood Alerts and Warnings. Our ability to display the same information from our gauging network externally was compromised but we worked quickly to restore public access knowing how valuable the

data is to those communities that assess whether levels upstream are continuing to rise or have started to fall when SEPA has issued Alerts and Warnings.

The Scottish Flood Forecasting Service (SFFS), a partnership between SEPA and the Met Office, marked a decade of supporting the nation's preparedness and response to flooding. Staffed around the clock, 365 days a year, the service has been combining hydrological and meteorological data to provide strengthened flood forecasting and delivers an essential daily national flood guidance statement for emergency responders and category two responders. The service has played a critical role in forecasting impacts from some of the most significant weather events of the decade, including storms Desmond and Frank in 2015. These saw SEPA issue its first Severe Flood Warning since the formation of the SFFS, and its highest number of 101 Flood Warnings in one day. The service was also recognised by the Royal Meteorological Society for its pioneering work to provide the UK's first operational 24-hour surface water flood risk forecast during the 2014 Commonwealth Games in Glasgow.

Extending our network of regional Flood Alerts and Local Flood Warnings, we launched two new flood warning schemes for rural Scottish communities threatened by coastal and river flooding. The schemes, covering Eilean Siar and the village of Aberfoyle near Stirling, expanded SEPA's network of more than 60 targeted local warning schemes and built on our commitment to support Scottish communities to prepare more powerfully for future increased flooding.

The coastal scheme in Eilean Siar spans 1,000 homes and businesses directly at risk from coastal flooding and benefits the residents of nearly 7,000 properties who could be affected by coastal flooding during their travel or other activity across the Western Isles, including Lewis and Harris, Berneray, North Uist, Benbecula, South Uist, Barra, and Vatersay. It also provides notice of coastal flooding and disruption to roads and causeways across the island communities.

In contrast, the Aberfoyle scheme covered a specific flood-prone street, where flood waters from a nearby river can directly threaten an estimated 275 properties but also block access to and from the local primary school and the main route from the village to neighbouring Kinlochard. The residents of more than 650 properties benefit from the scheme.

As a statutory consultee and key agency on land use planning, we provide high-quality information, evidence, and expertise to avoid development in flood risk areas. We support sustainable place making so our communities can adapt and be resilient. Partnership working is key to the successful delivery of place-making and our work with partners such as Climate



Ready Clyde, to support their Climate Adaptation Strategy and Action Plan for the Glasgow City Region.

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

As an organisation, SEPA adapted to operating in a completely new set of circumstances and refocused our priorities for 2020/21.

We had to work out how to deal with a set of challenges: how to run our organisation during the pandemic and lockdown arrangements; how to deal with the implications of the shift to the post EU system; and how to keep a focus on the climate emergency, the nature emergency, and all those major environmental challenges that must be tackled in this decade.

We stated publicly that our “focus will be to make our best contribution to helping the nation get through this public health emergency in a way that protects and improves Scotland’s environment.”

We continued to arrange our work and priorities following the fundamental principle in One Planet Prosperity – Our Regulatory Strategy. Under this strategy, we aim to have all businesses meet regulatory standards and help as many businesses as possible to voluntarily do better than those standards. This is based on the fact that, whether we are in normal or emergency situations, minimising environmental impact protects the environment and human health and makes powerful economic and social sense within the finite resources of the planet.

We kept these aims to the fore as we helped regulated businesses adjust and adapt to the extraordinary circumstances in which everyone’s resources and capacities have been severely constrained.

Our scientific capabilities and expertise in designing and implementing monitoring networks made us ideally suited to contributing to the national effort to combat COVID-19. SEPA was amongst the first European agencies to begin exploratory work to pinpoint fragments of coronavirus’ ribonucleic acid (RNA) in local wastewater samples across the country. Partnership working was central to the delivery of the work, with the backing of Scottish Government and Public Health Scotland (PHS), we worked alongside Scottish Water, CREW (Centre of expertise for Waters) and academic partners from the University of Edinburgh’s Roslin Institute and Heriot Watt University.

SEPA is also assisting UK government scientific advisors, who are engaging with the research community to investigate how wastewater monitoring can be used to track the transmission of coronavirus.

As the COVID-19 response shifts the way city centres are used and businesses adapt to different working arrangements, our role on the Vacant and Derelict Land Taskforce became even more important. The taskforce, which aimed to transform Scotland's approach to tackling the legacy of derelict land and ensure that it is no longer acceptable to allow land to fall into long term disrepair, made a series of recommendations calling for a national approach to tackling vacant and derelict land, making it unacceptable for land to be left to fall into disrepair.

SEPA is also managing another challenge – a serious and complex criminal cyber-attack that occurred on Christmas Eve 2020 and significantly impacted our contact centre, internal systems, processes, and communications.

We maintained and restored critical services. We delivered nationally important flood forecasting and warning products, with Flood Alerts and Flood Warnings being issued within 24 hours of the attack. Our contact centre and some web self-help services were impacted for a minimal period including our Floodline calls, 24 Hour Pollution Hotline, and environmental event online reporting. We also maintained our ability to respond to significant environmental events.

We are approaching our recovery to this attack with a sense of urgency, triaging the immediate work whilst considering how to build for the longer term and build back in a stronger way. Through our work with Scottish Government, Police Scotland, and the National Cyber Security Centre, we are gathering the tools to help us build a strong, adaptable, and resilient organisation that will be fit for the challenges of tomorrow.

SEPA has been praised for its real, open, and honest assessment and appraisal of what the last number of months must have been like in dealing with such a significant, intrusive, and impactful attack. The Scottish Business Resilience Centre considers that SEPA's reaction has been exemplary given the circumstances. Through key engagement opportunities we have been able to support other organisations in the public sector by sharing our learning and experience.

### 1.3.7 Key issues and risks

#### Climate change

Climate change is a catastrophic risk and as countries tackle the immediate human and economic challenges caused by COVID-19, they cannot afford to delay the climate change action needed to transition to a low carbon economy. Four out of the top five risks by likelihood in the World Economic Forum's Global Risk Report 2021, are environmental: extreme weather; climate action failure; human environmental damage, and biodiversity loss. This highlights the importance of our regulatory strategy of helping as many businesses as possible to go beyond compliance and contribute to [One Planet Prosperity](#) in Scotland. The Flooding strategy we are developing, will enable the identification of pathways for adaptation to future climate change and support resilience to flooding in Scotland.

#### COVID-19

The COVID-19 pandemic significantly disrupted our work this year. In March 2020 we formed an Emergency Management Team to oversee our response to the pandemic. We focused on adapting the ways we work so that we could make our best contribution to helping the nation get through the public health emergency in a way that protects and improves Scotland's environment and communities.

Initially we prioritised:

- 1) maintaining our flood warning services;
- 2) working closely with those regulated sectors that are most crucial to the function of society during the public health emergency; and
- 3) working as much as possible with all other regulated sectors.

The health and wellbeing of our staff and their families was central to our plans as we responded to the pandemic. Our offices closed at the end of March 2020, in line with Scottish Government guidance, with staff moving predominantly to homeworking for the rest of the year. We put in place new ways of delivering our work and provided IT systems and office equipment to those who needed them. New technologies were rolled out to enable staff to collaborate remotely. We changed our flexible working policies to make it easier for staff with caring responsibilities – particularly working parents. No staff lost their jobs or were furloughed because of the pandemic. We had strict procedures and risk assessments for the small number of staff who needed to work in an office or away from home.

We communicated overarching guidance on our approach to regulation during the pandemic to give operators and communities clarity about our expectations. We expected people make their best endeavours to comply with Scotland's environmental laws, particularly the requirements that have the biggest impact on the environment.

As the pandemic progressed, we expected businesses to have business continuity arrangements in place to ensure compliance with their SEPA permit or other environmental regulatory requirements during COVID-19 and EU exit. In some cases, where compliance with a SEPA permit or other regulatory requirement was not possible for an individual site, a type of activity or for a sector, we temporarily took a regulatory position that any failure to comply with those requirements would not be treated as a non-compliance for compliance assessment or enforcement purposes. This was where non-compliance was unavoidable and solely as a direct result of the impact of COVID-19 and or EU Exit and would not lead to significant environmental harm. We published all the temporary regulatory position statements and guidance on our website, along with the principles we used for decision-making.

### **Cyber-attack**

In December 2020, we were subject to a significant cyber-attack that affected our contact centre, internal systems, processes, and communications. We refused to engage with the likely international serious and organised criminals' intent on disrupting public services and extorting public funds. The matter is subject to a live criminal investigation.

Following the attack, an Emergency Management Team was set up and business continuity arrangements were immediately enacted. As ransoms in cyber-crime is not an area in which we had expertise or experience we took the best professional advice from multi-agency partners, including the Scottish Government, Police Scotland, cyber security experts, and other public bodies to support our response, which was focused on eradication, remediation, and recovery. At all times we weighed up the impacts on our staff, our customers, our ability to do our work, and managing the response in a way that did not increase the cyber-crime risk to the rest of the Scottish public sector.

While the attack significantly impacted our organisation and infrastructure, we worked to clear priorities:

- Protecting Scotland's environment.
- Providing priority services to individuals and businesses across Scotland.

While we initially lost access to most of our systems, including our email system, what we did not lose is the knowledge, skills, and experience of our twelve-hundred expert staff.

Through their work we adapted and continued to provide priority regulatory, monitoring, flood forecasting, and warning services. In addition, our approach prioritised supporting Scotland's recovery from COVID-19.

We published a weekly update providing information on our current service status and recovery so that customers and those we work with knew what to expect and how we were prioritising progress.

## **EU Exit**

The United Kingdom left the European Union on 31 January 2020 and entered into a transition period to 31 December 2020. During this time, we prepared for EU Exit and in particular, the risk of leaving without a deal or with a very limited deal.

In December 2020 the EU-UK Trade and Co-operation Agreement was signed, putting in place new trading arrangements between the EU and the UK. These are initially provisional, with some elements still to be fully activated.

As the new trading arrangements are implemented, we continue to monitor their impact, with a particular focus on the risk of delays in movement or temporary storage of goods at borders. This may include waste or materials that have the potential to impact on the environment or communities if stored inappropriately.

## **Abandonment of landfill sites**

The amount of waste going to Scotland's landfill sites is reducing as greater quantities are being recycled and packaging is reduced. This will have long term positive consequences for our society but the financial pressures it will put on landfill operators could result in some landfill sites being abandoned. This is one of the reasons that we developed the Landfill sector plan as one of our first sector plans.

An abandoned landfill site could have significant impacts on both the local community and the environment, which would be expensive to address. We assess landfill sites to understand where the biggest risks are and help operators understand the actions they need to take to

address them. We also work with the Scottish Government and partners to understand the risks and the impact of policy decisions.

COVID-19 had a big impact on the waste sector. Although we had to reduce our site-based work, we carried out a coordinated programme of desk-based checks across a range of regulated activity, including landfill sites. By checking how sites were operating, we were able to monitor for signs of increased risk of abandonment.

### **Gauging stations**

We rely on information from 345 essential gauging stations and rain gauges for our flood warning services. We have an annual maintenance programme to ensure that they are all functioning when we need them. There are no formal access agreements in place for many of these sites, which could lead to difficulties gaining access to maintain them. We have a programme in place to tackle this risk, focussing first on the sites which are the highest priority in our network.

### **Bathing waters**

Scotland has 85 designated bathing waters where we monitor water quality from 15 May to 15 September and publish the [sampling results](#) online.

The general water quality condition for each location is described by a [classification statement](#) – excellent, good, sufficient, and poor – based on four years of monitoring data. These classifications are calculated at the end of one season for display at the start of the following season. Any designated bathing water which has been rated as poor for five consecutive years must be issued with advice against bathing and under Regulations would not be a statutory bathing water in the following season.

We work with partners to raise all sites to the sufficient or better classification and to make our summer visits to the beach safer and more enjoyable.

In 2020, COVID-19 restrictions reduced both the length of the bathing season and the number of samples we were able to collect and analyse in our laboratories. As a result, in agreement with the Scottish Government, we did not calculate an end of season classification and rolled forward the classifications from the previous year.

Although field work was restricted, Scottish Water engineering work for the key priority measures to improve water quality at Ayr South Beach and other future at-risk locations did take place and progressed well. Engagement also continued with our key stakeholders, including local authorities, elected officials, and the rural livestock sector.

### **Financial sustainability**

Financial sustainability is a significant risk for SEPA, since in common with other central government bodies', core operating grant does not rise in line with pay increases or services and supplies cost increases. We mitigate this risk by preparing financial scenario plans and planning a level of expenditure that is less than our forecast income in any year. Our new way of working and concentration on statutory services identifies areas where we can reduce our operating costs.

We have taken the opportunities arising from the cyber-attack to build back better, simplifying processes and procedures, and making cost savings where we can. We had to adapt how we ran our regulatory and flooding services during the COVID-19 pandemic, using our data better and employing modern technological solutions so we could keep staff safe and still undertake our statutory activities.

Our risk management process is defined in section 2.1.

### **1.3.8 Performance scorecard**

In a normal year, we would publish performance measures as part of our [Annual Operating Plan](#). Following the outbreak of the COVID-19 pandemic, we revised the 2020-2021 Annual Operating Plan to reflect the new set of circumstances and the high levels of uncertainty we were working with. We published the Annual Operating Plan in April 2020.

In July 2020 our Board approved a set of [Corporate Performance Measures](#) to demonstrate progress with the plan. The measures were also published on our website. We reported progress against each measure in November.

In December we lost access to most of our data and systems as a result of a cyber-attack. We had to develop a new short-term plan to focus our efforts on recovering our most critical services between January and March. This means that, in many cases, the performance



measures we developed were not appropriate for the work we were doing during the first three months of 2021.

In these exceptional circumstances, it is not appropriate to provide our usual performance scorecard setting out whether the measures were achieved or not. However, in the Performance Analysis section of this report, we have provided a description of what we achieved and what still needs more effort.

## 1.4 Performance analysis

### 1.4.1 Performance introduction

The performance measures in this report relate to projects set out in our Annual Operating Plan 2020-2021. We set out 47 projects in our Annual Operating Plan and identified 21 of them where we were most keen to formally measure and report performance each quarter. This section provides an update on our progress on each of those projects.

### 1.4.2 Performance report

<b>Priority: Building our One Planet Prosperity capacities</b>
<b>Project: Regulatory roles and responsibilities</b>
<p><b>Measures</b></p> <p>Pilot completed by 30 September 2020.</p> <p>All Relationship Managers assigned by 31 March 2021.</p> <p>At least 50% of staff, surveyed through a pulse survey in March, report that they are starting to see the benefits of the Relationship Management approach.</p>
<p><b>Progress</b></p> <p>The aim of this project was to give our people the clarity and support they need to build their confidence working within the new structure of the organisation. However, the cyber-attack led to the project being deferred.</p> <p>Despite this pause, we have still seen progress on the goal of the project through our work in the Landfill and Aquaculture Sector Plans. Our learning through these pilots may help us fast-track the rolling out of regulatory roles and responsibilities.</p>

## Project: Future economy and society

### Measures

SEPA's regulatory approach referenced in the Higgins Report and Government response. At least three Sustainable Growth Agreements signed which support a green economic recovery.

At least two on-ground projects with green recovery aims are commissioned in SEPA's six partnership programmes.

### Progress

At the heart of One Planet Prosperity is the belief that we need a different economy and society that can prosper within the means of one planet. We continue to want to play an active role in contributing to the shaping of Scotland's future economy and society and be well prepared to respond to this different future.

We have achieved the first measure as the Advisory Group on Economic Recovery, chaired by Benny Higgins, reported in June 2020, and referenced our innovation in regulation. The Scottish Government's response in August 2020 accepted the report and recommendations and specifically referenced past and planned future work on improving the regulatory framework for Aquaculture.

In October 2020, SEPA and Nestlé UK & Ireland signed a Sustainable Growth Agreement. Under this agreement, Nestlé and SEPA have formed a three-year partnership to explore opportunities for environmental innovation in Scotland. With Nestlé currently drawing down around 8% of Scottish dairy, processed at its factory in Girvan, South Ayrshire, this agreement is a significant achievement for a green economic recovery. The agreement allows for a collaborative approach to exploring circular economy opportunities in food production, food waste, and packaging with Scotland for Nestlé UK & Ireland value chains. It also looks to enhance the work around a fresh approach to maximising local environmental, social, and economic benefit in the South of Scotland, built around the Landscape Enterprise Networks concept. The agreement will allow SEPA to explore, with the sector, different ways to enable businesses in the agri-food arena to better understand their environmental obligation and landscape dependencies and show how taking the opportunities to go beyond compliance makes good business sense.

We are close to achieving three new Sustainable Growth Agreements. Two are within the construction sector as we recognise that this sector is one which has a significant role to play in delivering a net zero future for Scotland. One is with Construction Scotland Innovation Centre and one with a construction company. The third agreement we have been developing, is with an iconic Scottish brand who are one of the oldest brewers in Scotland.

One of our partnership programmes is with Scottish Water, and we have agreed two major packages of work with them. The first relates to blue green infrastructure and the second is linked to the circular economy.

### **Priority: Making it easier to get things done**

#### **Project: Job evaluation**

##### **Measures**

Agency Management Team (AMT) agreement for key principles that underpin the procurement of a new job evaluation scheme.

Unison support for the approach adopted in implementing a new job evaluation scheme is maintained.

AMT agrees the selection of a new job evaluation system provider by 30 November 2020.

##### **Progress**

As we transition into a Phase 2 Environment Protection Agency, we must ensure that our job evaluation scheme is fit for purpose and ensures that we can demonstrate delivery of equal pay across our organisation. The AMT has agreed the key principles that underpin the procurement of a new job evaluation scheme and Unison support continues to be positive.

A process issue meant that the initial Invitation to Tender for the scheme was delayed until October. This exercise did not result in a new provider being selected. Despite the cyber-attack, this is a priority area for SEPA, so the contract was retendered with revised criteria and a deadline of early March 2021. We are currently assessing the tenders received.

### **Project: Maximising the value of our administrative work**

#### **Measures**

By March 2021, administration staff across SEPA will see improvements to their area of work. They will have more development opportunities, clear roles, and will feel part of a Phase 2 Environment Protection Agency.

This will be evidenced by at least 50% of administrative staff saying that the review has been positive in a pulse survey in March 2021.

#### **Progress**

The aim of this project is to have administrative work which supports Phase 2 working by April 2021. Our administrative staff will have more development opportunities, have a clear way to input to the direction of the organisation, and will feel their work adds value.

As of December 2020, we had made significant progress in this work. We engaged with all administrative staff to identify the issues which needed to be addressed. This engagement involved several key workshop sessions with administrative staff. The feedback and suggestions from these sessions was presented to the Agency Management Team with recommendations for next steps. These were agreed and work began in several key areas including identifying training needs, working with business leads to identify the future work required by administrative staff, and how to ensure administrative staff are involved in new areas of work.

This project was put on hold due to cyber-recovery work. We will begin the work to complete this project again by August 2021.

### **Project: Safe SEPA learning and development**

#### **Measures**

All staff have completed Level 1 Protecting Information training and basic Cyber Essentials training.

All managers have completed Level 2 Protecting Information training.

#### **Progress**

This year we committed to developing our Learning and Developing tools to embed Safe SEPA practices in our work. All staff were asked to complete basic Protecting Information and Cyber Essentials training and managers were asked to complete second level Protecting Information training.

As a result of the cyber-attack, we have not been able to review the data showing how many people completed the training. We have also currently lost access to the training packages.

However, we were keen to embed good practice from the start as we built new systems following the cyber-attack. To gain access to our new systems, all staff had to attend training sessions which stressed the need for good information security. They then had to review guidance on IT acceptable use, password security, cyber security, and information classification. They completed a cyber security course developed by the National Cyber Security Centre and a data protection training course.

### **Project: Simplification**

#### **Measures**

By March 2021 we will have identified key areas for simplification and will have implemented three projects in this area which result in measured financial and resource time savings.

#### **Progress**

A recurring concern from staff through staff surveys, consultations, and discussions on change is the number of processes we have and the time it takes to service these. Through this engagement work, we identified the areas which could be simplified.

We realised that work had already begun to simplify the areas highlighted through projects in the Annual Operating Plan. Since these projects were already in place, the Agency Management Team agreed that we should revisit this simplification project in January 2021 to identify other areas where simplification work was still required. However, we were unable to carry this out due to cyber-recovery work. As we build back from the cyber-attack, we are taking the opportunity to simplify and improve our processes.

### **Project: Financial management**

#### **Measures**

SEPA balances its 2020/21 budget.

The Board approves a Financial Strategy, including a delivery plan.

#### **Progress**

SEPA managed the financial impact of the COVID-19 pandemic and the cyber- attack in year, keeping expenditure within the income it received in 2020/21 and underspending against the DEL operating budget allocated by Scottish Government by £1.3m.

SEPA spent £2.0m of its £2.2m capital allocation in year.

<b>Project: Net Zero</b>
<b>Measure</b> Greenhouse gas emissions reduced by at least 7.5%.
<b>Progress</b> <p>Due to restrictions on accessing SEPA offices because of the COVID-19 pandemic and then the loss of data and systems resulting from the cyber-attack, we are unable to provide an accurate measure of progress against this target this year.</p> <p>We are currently working to better understand what information we have and what we may be able to use to measure our progress. We will publish this in due course. Due to the closure of most of our offices and reductions in the amount of site work we have been able to undertake during the pandemic, we consider, even taking into account estimated emissions associated with working from home, that our emissions will have reduced by more than our target. Although not currently counted in our inventory, emissions from staff commuting will, during the reporting period, be almost zero, resulting in a significant reduction in impacts from this source.</p>
<b>Project: Staff survey</b>
<b>Measures</b> <p>A response rate that exceeds that of 2017 (79%).</p> <p>AMT agrees an organisational response to the survey feedback by 30 September 2020. All response actions are completed by March 2021.</p>
<b>Progress</b> <p>We wanted to ensure we used the findings from the 2020 staff survey to identify actions that management, teams, and staff could take to improve the running of the organisation and the work experience of our staff.</p> <p>The staff survey was concluded with a response rate of 84%, exceeding the response rate of 79% in 2017. An action plan was developed, which identified priority areas for analysis of the survey results, and the organisational projects which would most benefit from including the results in their project planning. A communications plan was also included, to keep staff and project leads informed and engaged. Analysis relevant to at least four organisational projects was provided. The action plan was completed in 2020.</p>

<b>Priority: Making more of our external relationships</b>
<b>Project: Key contacts</b>
<p><b>Measures</b></p> <p>100% of key contacts allocated by March 2020/21.</p> <p>At least 50% of key contacts involved in the pilot believe it has led to benefits (as assessed by a pulse survey).</p>
<p><b>Progress</b></p> <p>We want to have established relationship managers for all organisations that we regularly interact with.</p> <p>Given the impact of the cyber-attack, it has not been possible to further this work to the degree that had been hoped.</p> <p>We have seen individuals using behaviours which are consistent with the project principles as part of our recovery efforts, however, we are not where we had planned to be at this stage.</p> <p>Despite the impacts, we have been able to assign a relationship manager for our key relationship with Volans. In addition to this, there has been excellent work by our sector sponsors and sector leads in communicating with regulated businesses, partners, and others to ensure a good flow of communication in this exceptionally challenging time.</p>
<b>Project: Scottish Enterprise</b>
<p><b>Measures</b></p> <p>We have started working with Scottish Enterprise on at least three practical programmes that help build a low-environmental impact future.</p> <p>We have delivered at least two outcomes with fewer SEPA resources.</p> <p>At least one project or outcome has delivered major outcomes that are recognised and promoted by other parties because it has ‘game-changing’ one planet economy potential.</p>
<p><b>Progress</b></p> <p>We have worked together previously, but in developing our relationship with Scottish Enterprise, we have an opportunity to make real economic change. Scottish Enterprise has identified driving a low carbon economy as a major priority and is seeking a partnership with us to help transform the Scottish economy. This is a major opportunity to help create a successful, low carbon, circular economy here in Scotland. With the onset of COVID-19</p>



there is an additional urgency to work closely with Scottish Enterprise on the maintenance and rebuilding of the economy.

We have provided significant support to Scottish Enterprise, seconding a senior member of staff to support their work on climate change. They recently strengthened their commitments in this area, declaring that businesses will be required to demonstrate their commitment to net zero carbon emissions to qualify for financial support.

We have implemented collaboration with Scottish Development International (the overseas arm of Scottish Enterprise) on inward investment, with our approach to regulation being included in bids to promote Scotland as a place to invest. One of the benefits of this is that we are being engaged earlier on environmental and permitting considerations so that these can be understood and built into how proposals are taken forward.

Although this latterly slowed as a result of the cyber-attack, we worked with Scottish Enterprise and the Scottish Government to support the development of the Scottish Government's business mobilisation strategy for COP26. This has the potential to support both compliance and beyond compliance outcomes.

We have also strengthened our collaboration with Scottish Enterprise on several of our place-making priorities. This includes Glasgow/Clyde Mission where we are working with partners on a more strategic approach to adaptation and flood risk which will help to guide investment.

More broadly we have also been working with Scottish Enterprise on how they can build in consideration of SEPA's flood risk information in decision making.

### **Priority: Regulating for One Planet Prosperity**

#### **Project: Regulating and supporting sectors**

##### **Measures**

From 1 September 2020, we are ready to implement a sector-based plan of regulatory work during the remainder of 2020/21. We will develop proposals for the plan of regulatory work by 31 July 2020. We will finalise the plan of regulatory work by 31 August 2020.

We will deliver a programme of planned regulatory checks for 2020, incorporating:

- Key sectors.

- High hazard sites.
- Sites of community impact.

Action plans will be developed and delivered for:

- Compliance Assessment Scheme 2019 failing sites.
- Community impact sites.
- Sites of concern identified in the current business year (where appropriate).

### **Progress**

A plan for regulatory work was developed for the remainder of 2020/21, but delivery of that plan was disrupted both by COVID-19 restrictions, reducing the amount of fieldwork undertaken in the early part of 2021, and by the cyber-attack.

In the last quarter of 2020/21, we maintained a focus on re-establishing and maintaining our critical service of environmental events response. We also continued to focus our regulatory effort on high hazard and community impact sites through a combination of remote checks as well as field and site-based activity.

### **Project: Disrupting illegal activities**

#### **Measures**

A reduction in the number of illegal operators working through social media.  
A reduction in the amount of illegal waste activity in the landfill and housing sectors.

#### **Progress**

During the initial COVID-19 lockdown there was an increase in reports of fly-tipping. We focused our efforts on illegal operators working through social media. By the end of October our work had had a very positive impact. We were only identifying one or two reports of illegal waste collectors advertising on social media a month. That was down from four or five reports a day between April and June.

We had planned to begin an audit of sites in the housing sector in October. The audits were looking at all aspects of environmental compliance, focusing on waste management and classification, duty of care, and Controlled Activities Regulations. Due to the COVID-19 situation, this work had to be postponed as localised lockdowns meant we were unable to go onsite. We were then further delayed by the cyber-attack. However, we will resume work on the audits in the first quarter of 2021-2022.

As a result of the cyber-attack, we also lost access to our illegal site data set and systems which allow us to track and monitor those operating through social media. We put effort into

re-forming our data sets on the illegal sites that exist across the country to allow us to prioritise them and we gained access to our systems towards the end of March 2021.

As there was also a strict COVID-19 lockdown during this period, we only deployed to those illegal sites that were causing significant impact or harm to the environment or communities or were involved in more serious elements of criminality. We worked very closely with our partners in Police Scotland, the Fire Service, and the Joint Unit for Waste Crime to keep abreast of emerging issues or threats which we needed to respond to.

We used learning from the work and disruption activities we carried out during the COVID-19 emergency period to influence how we designed priority actions to tackle non-compliance and illegal activity going forward.

### **Priority: Flooding and drought in a climate change world**

#### **Project: Avoid**

##### **Measure**

Link our flood hazard maps to our planning advice by 31 March 2021.

##### **Progress**

We have a statutory role to advise on how new developments can avoid flood risk. For many years we have provided high-quality reactive consultation responses, but this approach is unsustainable due to the increasing number of responses required. Our intention is to get involved earlier in the design stage to make it clear where development should and should not be permitted, with greater emphasis on our flood maps, guidance, and training. The first part of this transition is completion of the “Rapid Review” project, which was achieved in May 2020.

The Rapid Review approach has been implemented, with a whole new planning service launched from April 2021. The process to link maps to the planning process completed in March 2021. Since then, we have been completing the outstanding licensor permissions with a view to publishing the Flood Hazard Maps in July 2021.

#### **Project: Protect**

##### **Measures**

Agree with partners a revised timetable for the next six-year cycle of Scotland’s Flood Risk Management Strategies or reduce scope by 30 September 2020.

<p>Complete the final engagement and consultation phase on SEPA's One Planet Prosperity - Flooding Services Strategy by 31 March 2021.</p> <p>Implement the results of the flood studies trial by 31 March 2021.</p>
<p><b>Progress</b></p> <p>We have a statutory role to coordinate strategies to protect communities and businesses from flood risk.</p> <p>The Flood Strategy consultation was completed by March 2021. Due to delays caused by the cyber-attack, we have not yet been able to agree a new timetable for the Flood Risk Management Strategies with the Scottish Government.</p> <p>The flood studies trial has also been impacted by the cyber-attack and has not yet been completed. We have incorporated this into our plan for 2021-2022.</p>
<p><b>Project: Warn</b></p>
<p><b>Measures</b></p> <p>Launch Eilean Siar and Aberfoyle flood warning schemes by 31 January 2021.</p> <p>Complete recalibration of at least one flood warning scheme by 31 March 2021.</p>
<p><b>Progress</b></p> <p>Predictions are that winter rainfall will increase. Summer thunderstorms will get worse. Droughts and summers like 2018 will become more common. The sea level around Scotland may rise by at least one metre, possibly two metres, by 2100. These are all reasons why we need to continue to improve and develop our warning services, which protect lives during floods and help maintain water supplies for drinking, food production, and electricity generation during droughts.</p> <p>We launched two flood warning schemes, Eilean Siar and Aberfoyle, before the target date of 31 January 2021.</p> <p>We had also intended to recalibrate an additional flood warning scheme. However, this has been delayed by the cyber-attack, which has impacted our ability to use data and procure services, and so the work will not be completed this year. We will, however, begin early preparations this year.</p>
<p><b>Project: Changes to Hydrology</b></p>
<p><b>Measures</b></p> <p>Complete recruitment for priority tranche 1 posts by 30 September 2020.</p>

<p>Review feedback from staff and task and finish groups by 31 December 2020.</p> <p>Finalise and implement new structure with key “how” questions resolved by 31 March 2021.</p>
<p><b>Progress</b></p> <p>Our current way of working can often create situations where we rely too much on individuals. This is a risk for them and our organisation. In the future, we will have greater emphasis on short-lived project teams who come together to deliver a piece of work and then disband. This flexible resourcing approach will provide development opportunities, variety, and resilience.</p> <p>Our new way of working will be underpinned by, for example, managers who can focus on supporting and developing staff, targeted improvements to the way we deliver work across different teams, and a greater focus on technical training and staff development.</p> <p>The new structure went live on 5 October 2020 as planned and recruitment was completed by the 30 September 2020 target date.</p> <p>Finalising the completion of the “how” elements of the restructure has been delayed by the cyber-attack, but we have included this in our plan for 2021-2022.</p> <p>We finalised the review of feedback from staff, task, and finish groups by 31 December 2020 as planned.</p>

<b>Priority: Enhancing Scotland’s places</b>
<b>Project: Leven</b>
<p><b>Measure</b></p> <p>Connectivity Project – Reach Transport Scotland’s Panel review to progress to next stage of funding. This includes community engagement, integration with the rail link, active travel option appraisal, and design.</p> <p>Vacant &amp; Derelict Land – Progress identified sites in line with Sustainable Growth Agreement targets.</p>
<p><b>Progress:</b></p> <p><u>Connectivity Project</u></p> <p>The Connectivity Project is made up of two key pieces of work: the active travel network and the river park. In response to COVID-19 restrictions, the project team used online</p>

engagement tools to consult the community on the design of both of these large-scale pieces of work. A community steering group met regularly online to co-produce a behaviour change plan for the area which aims to overcome social barriers to active travel. The community group was so enthusiastic and successful, it has remained in place to review and feedback on the infrastructure proposals. There has also been successful engagement with various schools in the area. As a result, two young project champions have emerged, both of whom won prizes for their contributions and have remained active participants.

Active travel network: Design consultant Amey has completed a thorough options appraisal to identify routes and the most appropriate provision of infrastructure to these routes. As a result, most of the network is proposed to be a fully segregated facility which will provide designated and protected space for those walking, wheeling, or cycling and driving. This will be the first such provision in Fife and, due to the scale of the network, will be exemplar for Scottish active travel in a context outside the major cities.

Since the confirmation of the proposed rail station locations, the project team has liaised closely with Network Rail and Fife Council to finalise routes to the stations. Discussions regarding rail crossings are ongoing.

River park: Design consultant Iglu Studios has worked closely with the SEPA team leading on the River Leven Restoration to ensure both set of proposals are aligned. The river park will feature a network of traffic-free active travel routes which will connect the communities to the river and each other, alongside six themed “garden” areas which will include spaces for local heritage, community growing, play, nature, and learning.

Next steps: Having completed RIBA Stage 2 (concept design), the project is now seeking funding to complete RIBA Stages 3-4 by passing through the next Sustrans Places for Everyone review panel (postponed from 2020) and new applications to National Lottery Heritage Fund and Levenmouth Reconnected Programme. It is hoped funding will be confirmed by the end of 2021.

#### Vacant and derelict land

We are currently finalising our interpretive site investigative reporting for the Mayfield site. In parallel to this we have been thinking about how we could add value on wider issues for the proposed development, such as maximising biodiversity potential and other natural capital benefits.

The Mayfield site clearly has potential for a variety of good, sustainable future uses, not least because of its situation at the heart of the River Leven project area. A report by environmental consultants RSK, has shown that there is plenty of ecological value already present (despite the fact that it is derelict industrial land), as well as further opportunities to increase biodiversity. There is also potential to provide several other natural capital benefits through sensitive design of the site, especially in relation to flood protection, water quality, public access to wild spaces, and indeed industrial heritage education. Constraints and risks posed by land contamination and geotechnical risks need to be considered alongside this.

The project team is taking options forward with further site investigations to assess the extent of any contamination. This significant area of vacant and derelict land may also come into productive use with the reinstatement of the rail link, and we are working alongside Network Rail and Fife Council to explore opportunities.

### **Project: Clyde Region**

#### **Measures**

Establishment of a team approach to River Clyde development planning flood risk assessments, with Glasgow City Council, resulting in an increase in the number of pre-planning applications.

Receipt and approval of an improved flood model for the River Clyde to support planning application assessment by SEPA and Glasgow City Council.

Agreeing a Development Management Process with Glasgow City Council for assessing planning applications for sites adjacent to the Clyde.

#### **Progress**

Our joint SEPA / Glasgow Council team approach to the River Clyde development planning and flood risk is now well established at operational and strategic levels, and we are actively considering pre-application development proposals.

The improved flood model for the tidal Clyde to support planning applications has been received and approved. The Development Management Framework for assessing planning applications for sites adjacent to the Clyde has been agreed with Glasgow City Council.

<b>Project: Scope new place opportunities</b>
<b>Measure</b> Identify two additional pilots.
<b>Progress</b> We identified four places as priorities for 2020/21 (Leven, Clyde Region, Falkirk/Grangemouth, and Borderlands including Southwest Landscapes Enterprise Network). We also left scope to identify two additional places where there is momentum for us to be involved in a place making initiative. Aberdeen and Edinburgh were identified as the two additional pilots.
<b>Project: Develop place making capacities</b>
<b>Measure</b> A reduction in the number of detailed site-based flood risk assessments
<b>Progress</b> We set up a project team to deliver this work. Its focus included: provision of better upfront map-based information, a decision tree to inform when and where we will provide detailed assessments, and an associated communications plan.  The number of detailed site-based risk assessments has been reduced due to: <ul style="list-style-type: none"> <li>■ The implementation of revised risk-based criteria for planning applications subject to detailed risk assessment.</li> <li>■ The introduction of a more collaborative approach with planning authorities helping to triage and prioritise case work.</li> </ul> The exact number is not available, but there has been a reduction of more than 50% of all planning case work received by SEPA in the last quarter. This is partly due to the above actions.  The impact of the cyber-attack on our systems precipitated the rapid application of these approaches.  The improved map-based flood risk data (and associated communications) will be launched in the second quarter of 2021/22.



### 1.4.3 Corporate social responsibility matters

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

#### **Helping Scotland respond to the public health emergency**

At the start of the COVID-19 pandemic, we committed to make our best contribution to helping the nation get through the public health emergency in a way that protects and improves Scotland's environment. One of the ways we did this was through testing of wastewater. We successfully pinpointed fragments of coronavirus' ribonucleic acid (RNA) in local wastewater samples across the country. We were among the first European agencies to begin this exploratory work in May 2020, with the backing of the Scottish Government and Public Health Scotland, alongside Scottish Water, the Centre of Expertise for Waters, and academic partners from the University of Edinburgh's Roslin Institute and Heriot Watt University.

The aim was to detect fragments of the virus' RNA – a genetic footprint which can be measured in wastewater even after the virus has begun to breakdown.

Samples from every health board area are tested for traces of non-infective COVID-19 RNA and the information shared with public health partners so they can see where rates are increasing or decreasing. In combination with community testing, this information is helping Scotland understand the prevalence and distribution of the virus, and gives a broader, unbiased picture of the possible number of cases in a community. The project was extended in March 2021 for another year.

#### **Our people**

We have a range of policies, procedures, and guidance in place to promote equality, diversity, health, and wellbeing in our workplace.

#### **Flexible working**

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

and flexible retirement. We also increased our flexible working to support our staff during the pandemic.

We recognised that not everyone was able to work from home or that it may not be possible for staff to do their normal hours due to caring responsibilities, underlying health conditions, self-isolation, or other reasons. We offered staff support to ensure they could work safely and manage their caring and other personal responsibilities. We encouraged them to work as and when they could, whilst providing a 'no pay detriment' approach.

### **Working remotely**

Like many organisations, we had to quickly set ourselves up to work remotely. We made it clear to our employees that their health and wellbeing, and that of their families, was of the upmost priority. We requested staff take the time to make whatever arrangements they needed to set themselves up to live and work from home.

We knew that working from home presented additional health and safety considerations. We therefore provided staff with guidance on how to set their workstations up and reimbursed costs for purchasing equipment to improve their workstation. Where someone was not able work from home due to their workstation limitations, we asked them to do only what they could.

We were able to use our existing data around staff who required supportive equipment and software in the office environment, to help ensure that they had the equipment they needed to support them to work safely at home. Where people had musculoskeletal or other physical disabilities, we made sure they had the correct equipment (chairs, mouse, keyboard etc.), and we engaged with our people on assistive technologies to address any issues because of remote working.

### **Health and wellbeing**

We continue to offer a free, confidential employee assistance programme through Validium, to all our staff. This service provides counselling, signposting, and information to help staff with personal or work-related problems that may be affecting their health, well-being, or performance.

We recognised how isolating homeworking can be for some people, and we fast-tracked system improvements such as the launch of Microsoft Teams to allow our people to work more collaboratively and stay in touch with their colleagues. We also increased the communication to

staff from our Chief Executive and Agency Management Team, to provide reassurance and to promote options for employee support. Many of the communications issued were via video, with an accompanying transcript so we could reach as many of our people as possible. We also had a dedicated Healthy SEPA coronavirus resilience intranet page to answer staff questions.

### **Pay policy**

We follow the Scottish Government's Pay Policy. This has prioritised protecting those on low pay through a progressive approach delivered through the application of tiered pay increases.

### **Disability confident**

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

### **Volunteering**

Recognising the critical contribution volunteering makes in building a strong and cohesive society, we offer two days a year paid leave to carry out volunteering activities. This allows employees to develop new skills, build important partnerships between charities and the public sector, and help break down barriers between different sections of society.

### **Career ready**

One way we have continued to promote SEPA as an employer of choice to younger people is through our support of 'Career Ready'. This is a national charity which links local authorities and schools with employers to increase awareness of local job opportunities. It also aims to increase the number of young people in work or on a positive pathway towards work. Career Ready works with young people from lower income backgrounds so that their success as working adults is not limited by their socio-economic background. Each year we have offered five paid mentorships.

### **Sustainable Growth Agreements**

One of the most important tools we have for helping businesses go beyond compliance are Sustainable Growth Agreements. These are voluntary, formal agreements between us and another organisation (or organisations) that focus on practical action to deliver environmental outcomes and help achieve One Planet Prosperity.

In November 2020, SEPA, Nestlé UK, and Ireland formed a three-year partnership to explore opportunities for environmental innovation in Scotland. The agreement covers three main areas:

- Developing circular economy opportunities in food production, food waste, and packaging within Scotland for Nestlé UK & Ireland value chains.
- Exploring a fresh approach to maximising local environmental, social, and economic benefit in the South of Scotland, built around the Landscape Enterprise Networks (LENs) concept.
- Developing resources that will enable businesses in the agri-food arena to understand their environmental obligations and landscape dependencies.

This is one of a series of such agreements we have struck in recent years, with existing partnerships including the Leven Programme Partnership and the 2050 Climate Group. The aim is to support the business and its supply chains to voluntarily move beyond compliance with Scotland's environmental law.

### **Supporting water resource management in Malawi**

Despite the restrictions of the COVID-19 pandemic, which included a ban on travel, we continued to carry out our valuable work in Malawi throughout the year remotely. We are helping both the National Water Resources Authority and the Malawi Environment Protection Authority to become fully operational and build their capacity to effectively manage and regulate Malawi's precious water resources and aquatic environments. Once fully established and operational, these two Authorities will be able to address water quality and scarcity issues in Malawi, and help meet the food security, nutrition, and environmental needs of the country's growing population.

The pandemic, and the election of a new President and appointment of a new Government during the year, have made the work slower and more difficult. Important progress has been made in key areas, however, providing a solid foundation for the continuation of the programme over the coming year, with ongoing support from the Scottish Government.

In a separate but related programme of work, we have been supporting a project for Community Advocacy for Sustainable Rural Water Services in Malawi, also funded by the Scottish Government. This work is equipping communities to address the issue of failed water points and, ultimately, promoting accountability in the water sector and encouraging rehabilitation of failed water supplies. Working in partnership with a local non-governmental organisation, the

water regulator, and the communities affected is providing a unique opportunity to work towards achieving the UN Sustainable Development Goal 6: Ensuring availability and sustainable management of water and sanitation for all.

Again, the COVID-19 pandemic and election have resulted in some delays, but the programme has made great progress and will be concluded in the coming year.

### **Scottish Regulators' Strategic Code of Practice**

The Scottish Regulators' Strategic Code of Practice requires regulatory functions to be exercised in accordance with the principles of better regulation. It is predicated on existing good practice and supports the outcome-based approach that is integral to the Government's National Performance Framework. The Code also promotes an approach whereby regulators seek to understand those they regulate, including taking into account economic and business factors appropriately.

This year our focus has been on supporting everyone we regulate during COVID-19, EU exit, and our response to the cyber-attack, in ways which maintain protection for Scotland's environment, communities and our people.

We recognised that during a significant outbreak of COVID-19, the ability of operators to run their operations may be compromised by a lack of available staff, as well as the need to protect staff and minimise transmission of the COVID-19 virus. To support businesses through the pandemic, on 6 April 2020 we published a COVID-19 philosophy alongside our over-arching guidance on regulation during the pandemic. Together, these set out how we would regulate during the pandemic and what was expected of regulated businesses. The philosophy and guidance were supported by 15 Temporary Regulatory Position Statements that were prepared for specific circumstances where more detail was required.

In the philosophy and overarching guidance, we were clear what we expected of regulated businesses: "SEPA is clear we expect everyone we regulate to make their best endeavours to meet their environmental obligations. If a regulated business is unable to meet all its obligations under SEPA's licence, permit, or other authorisations because of these exceptional circumstances, we expect it to:

- Prioritise compliance with conditions which directly protect the environment over those which are indirect controls or more administrative in nature.

- Alert us as early as possible if it believes it will be unable to meet any obligations and work closely with us on making choices and finding solutions.
- Document choices made and actions taken.

If a regulated business behaves in line with the above, SEPA will take a proportionate and reasonable approach to how we assess compliance during COVID-19.

As the pandemic progressed and we, and the businesses we regulate, adapted to the conditions and to operating differently, we revised our approach. As the transition period for the UK leaving the EU ended on 31 December 2020, we published our revised guidance as ["Principles for Regulatory Approach to EU Exit and COVID-19"](#).

This set out an updated position: "SEPA expects people to have business continuity arrangements in place to ensure compliance with their SEPA permit or other environmental regulatory requirements during EU Exit and COVID-19. We are clear we expect everyone we regulate to continue to comply with Scotland's environmental laws."

It also explained that we would continue to consider the need to adopt Temporary Regulatory Position Statements for specific instances where compliance with a SEPA Permit or other regulatory requirement is not possible for an individual site(s), a type of activity, or for a sector, and where that non-compliance is unavoidable and solely as a direct result of the impact of EU Exit or COVID-19 and will not lead to significant environmental harm.

In response to the cyber-attack, we published an Approach to Delivery of Services until June 2021, where we explained the approach that we were going to take to doing our work at SEPA over the first six months of 2021. This included a commitment to 'listen and quickly respond to any challenges as they emerge and encourage early dialogue with us to achieve shared solutions.'

We published a Service Status that was updated weekly and allowed people to understand what to expect from us and how we were prioritising progress. The Service Status was updated weekly.

### 1.4.4 Financial performance 2020–2021

As a result of the cyber-attack, we lost access to our detailed records for 2020/21. The 2020/21 financial records that form the basis of these accounts have been created from a mixture of third-party data to 31 December 2020 and our own records from 25 December 2020, plus relevant information we have recovered. Note 1 of the financial statements provides more information on the accounting policies, estimations, and judgments used in preparing these accounts.

Our financial performance for the year against our Annual Operating Plan (AOP) is provided below:

Income and expenditure account	2020/21 AOP	2020/21 outturn	Variance
	£'000	£'000	£'000
Grant-in-aid	37,638	42,560	4,922
Charging schemes and other income, incl. bank interest	46,849	43,857	(2,992)
<b>Total income</b>	<b>84,487</b>	<b>86,417</b>	<b>1,930</b>
Staff costs	59,007	62,310 <sup>3</sup>	(3,303)
Other staff costs	660	441	219
Property costs	4,777	4,162	615
Transport costs	1,516	396	1,120
Supplies and services	13,588	12,056	1,532
Depreciation and impairments	2,939	3,502	(563)
<b>Total operating costs</b>	<b>82,487</b>	<b>82,867</b>	<b>(380)</b>
<b>Surplus to fund capital investment</b>	<b>2,000</b>	<b>3,550</b>	<b>1,550</b>

Income was £1.9m more in year than originally planned. Scottish Government provided an additional £4.9m: £2.0m was additional non-cash budget to cover an expected increase in accrued annual leave and flexi time balances as a result of the pandemic; £2.0m was additional non-cash budget to cover expected increases in depreciation as a result of the new accountings standard IFRS16, which was subsequently delayed; £0.7m was for additional COVID-19 waste water sampling services we provided in year; and £0.2m was additional cash budget for capital investment.

<sup>3</sup> The staff costs shown in this table are the costs that score against cash DEL £62,118k, plus cash utilised for unfunded pensions £143k and £49k Life Assurance benefit paid in year.

2020/21 brought unprecedented challenges to the management of our operating costs. To counteract the reduction in income as a result of the pandemic we restricted our recruitment of staff and day to day operating costs to business-critical activities only. When the cyber-attack occurred, it resulted in us losing access to our finance system and data. We deployed manual financial processes and procedures to continue operating and ensure we had resources to deliver essential public services. Overall, our operating expenditure for the year was £0.3m more than planned. Details regarding SEPA's income and expenditure can be found in the financial statements section 3.

The Statement of Net Comprehensive Expenditure shows net expenditure for the year of £48.4m including pensions and life assurance costs of £9.6m, which are excluded from the table above. Additionally, it also excludes Grant in Aid cash received of £37.6m; under International Accounting Standards this income is assumed as financing and taken directly to the general reserves in the Statement of Changes in Taxpayers' Equity.

SEPA only draws down cash grant in aid from Scottish Government when it needs it. The £37.6m noted above excludes £6.9m non-cash budget. SEPA was allocated an additional £2.0m non-cash budget in year to cover the forecast impact the planned change in the treatment of lease costs (£2.0m) that has been delayed to 2022/23; and £2.0m to cover the expected increase in accrued annual leave and flextime at the year-end as a result of COVID-19 restrictions. The total grant in aid budget allocated to SEPA for the year was £42.5m. Section 2.3 provides additional information.

The Statement of Financial Position shows SEPA owes £161.5m more than the value of its assets at 31 March 2021. This is caused by a pension deficit at 31 March 2021 of £189.7m; an increase of £72.9m in year. The Financial Statements have been prepared on a going concern basis, as Board believe that SEPA will be able to pay its pension contributions in years to come from future income and Government grants. The rate of employer's contribution agreed and included in future years cost projections for 2021-2023 is 20.0% and for 2023-24 is 20.5%.

We carried out a desktop market valuation of our land and buildings at 31 March 2021 (£4.0m), this was a downward movement of £1.0m in year. Following full revaluation of the gauging stations on 31 March 2018, we index them annually each year to arrive at current value as at 31 March 2021 of £17.2m. A full revaluation will be undertaken every five years or sooner where there is indication of material movement in valuation.



### **Supplier payment policy**

It is our policy to pay all small local suppliers as soon as possible, and other suppliers within 10 days from invoice date. This policy was maintained from April until the cyber- attack in December 2020. Our records evidencing this were lost in the cyber-attack. From a sample of 300 payments made since the cyber-attack, 24% of our supplier invoices were paid within the 10-day target and 61% of all invoices within 30 days.

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

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

There were two reports of fraud in 2020/21 (in 2019/20 there were four reports), both of these were investigated, and no further action was required.

Approved by the Board on 14 December 2021 and signed on behalf of the Board on 21 December 2021.



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

21/12/2021

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**Date of signature**

## 2.0 Accountability report

### 2.1 Corporate governance report

#### Directors' Report

##### Board

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

##### Register of interests

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

##### Auditors

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

The fees paid to Audit Scotland in respect of the independent statutory audit for the financial year 2020-2021 are estimated at £85,000.

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.

**Bankers:**

Royal Bank of Scotland

30 Nicholson Street

Edinburgh

EH8 9DL

Royal Bank of Scotland

European Operations Centre

Brampton Road

Newcastle-under-Lyme

Staffordshire

ST5 0QX

**Statement of Accountable Officer's responsibilities**

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

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

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

- Observe the accounts direction issued by Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis.
- Ensure that SEPA has in place appropriate and reliable systems and procedures to carry out the consolidation process.
- Make judgements and estimates on a reasonable basis.
- State whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed and disclose and explain any material departures in the accounts.
- Prepare the accounts on a going concern basis.
- Confirm that the Annual Report and Accounts as a whole is fair, balanced, and understandable.
- Take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced, and understandable.

The Principal Accountable Officer of the Scottish Government appointed me, the Chief Executive, as the Accountable Officer for SEPA. My responsibilities as Accountable Officer are set out in the [Framework Document](#) issued by the Scottish Government in December 2014 and in Managing Public Money published by HM Treasury. They include responsibility for the propriety and regularity of SEPA's finances, keeping proper records, and safeguarding assets.

As the Accounting Officer, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that SEPA's auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.

## **Governance statement**

### **Context**

This has been a particularly challenging year for SEPA and for those who use our services. The scale of environmental challenge facing humanity is enormous, with a real urgency to act. We are striving to help Scotland accelerate the pace of action to tackle its overuse of the world's resources, address the climate and nature emergencies, and achieve [One Planet Prosperity](#). That challenge became even more difficult this year as we have also had to work out how to:

- Run our organisation during a pandemic and lockdown arrangements;
- deal with the implications of the shift to the post EU system; and
- deal with a criminal [cyber-attack](#) that prevented us from accessing most of our systems and data for a period of time.

More information about these challenges is included in the Key Risks and Issues section of this report.

### **Governance Framework**

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

### **Board operation**

Our Board members attend a range of meetings. These include formal Board meetings, ad-hoc meetings, and working groups. They meet with SEPA staff to discuss key strategic issues. They also attend seminars and events run by SEPA or partner organisations. The Board's role and responsibilities is set out in its [Standing Orders](#).

This year, lockdown restrictions meant that all Board and committee meetings took place virtually. On 28<sup>th</sup> April, the Board agreed to temporarily suspend sections 8, 31, and 32 of its Standing Orders which relate to public access to Board meetings, while our virtual meeting arrangements were being established. A message on our website invited members of the public to contact the Clerk to the Board to arrange access to a meeting, so that appropriate arrangements could be made. We continued to publish the papers and minutes of all formal Board meetings on our website. This decision was reviewed every two months, and the Board agreed to end the suspension on 28 July 2020.

The Board has appointed an Audit Committee to review risk, control, and corporate governance. N Martin currently chairs the Audit Committee. The Board appoints members to the Committee. The Committee is governed by its [Terms of Reference and Remit](#).

The Audit Committee receives reports from Internal and External Auditors and SEPA staff. The Internal and External Auditors may attend all Committee meetings. They can contact the Chair of the Committee at any time to express specific concerns identified during audit work.

We are making substantial changes to the way we work to support Scotland's transition to a One Planet economy. This year, the Board appointed a temporary Change Committee, chaired by M Francis, to help with our change programme. The Change Committee was initially established for one year. Its remit was to help management to drive change during the unusual pandemic circumstances.

**Attendance at meetings by Board members 2019/2020 and 2020/2021**

<b>Board members meeting attendance</b>	<b>Board</b>		<b>Strategy</b>		<b>Audit Committee</b>		<b>Change Committee</b>
	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2020/21
Total number of meetings in year	6	6	4	4	4	4	6
<b>Board member</b>	<b>Number of meetings attended</b>						
B Downes (Chair)	6	6	4	4	4	1 <sup>4</sup>	4
T A'Hearn (Chief Executive)	6	6	4	4	4	4 <sup>5</sup>	4
M Francis <sup>6</sup>	6	6	4	4	1	4	6
N Martin	6	6	4	4	4	4	N/A
M Hill	6	6	4	4	4	4	6
F Van Dijk	6	6	4	4	N/A	N/A	N/A
N Gordon	6	6	4	4	4	4	6
C Hume <sup>7</sup>	1	6	1	4	N/A	1 <sup>8</sup>	N/A
J Hutchison <sup>7</sup>	1	6	1	4	N/A	N/A	N/A
H Kohli <sup>6 7</sup>	1	6	1	4	1	4	N/A
P Matthews <sup>7</sup>	1	6	1	4	N/A	N/A	6

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4 B Downes is not a member of the Audit Committee but attended 1 meeting

5 T A'Hearn is not a member of the Audit Committee but attended 4 meetings

6 Joined Audit Committee on 18/02/20

7 Appointed to Board 01/01/20

8 Not a member of the Audit Committee but attended one meeting owing to cyber experience

**Agency Management Team**

The Agency Management Team is responsible for the day-to-day running of the organisation including strategic planning, business management, performance management, relationships, and change management.



The [biographies](#) of members of our Agency Management Team can be found on our website. During 2020-2021, F Wyllie (Head of Chemistry) was seconded to the Agency Management Team on a part-time basis for 8 months to assist with the coordination of our COVID-19 response and recovery.

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

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

We changed the way we manage the organisation this year to respond to the unprecedented challenges we faced. The Emergency Management Team replaced the Agency Management Team on two occasions. The first time was between March and April 2020 to manage the initial

response to COVID-19. The second time was to manage the response to the cyber-attack (December 2020 to March 2021). The Chief Executive chaired the Emergency Management Team. It included all members of the Agency Management Team, along with other Senior Leaders with the specific skills needed to tackle the challenges the organisation faced.

### **Planning and performance reporting**

Our strategy is set out in a five-year corporate plan, supported by annual operating plans. We set out the measures we will use to track our performance in each annual operating plan. We usually report performance quarterly to the Agency Management Team and Board. We publish performance reports on our website.

We put a lot of thought into developing an Annual Operating Plan for 2020-2021. Before we had published it, the world was engulfed by the COVID-19 pandemic. As we needed to operate in very different circumstances, we refocused our priorities. We published our revised [Annual Operating Plan](#) in April 2020. The Board approved [performance measures](#) that we used to assess our progress in July. We also published them on our website. As a result, we did not produce a quarter one performance report. However, we produced weekly status reports for the Emergency Management Team throughout the recovery period (April-June 2020).

We produced and published a performance report in [quarter two](#). Following the cyber-attack in December 2020, we were not able to access the information needed to produce a quarter three performance report. Once more, we moved to weekly status reports. These kept the Emergency Management Team, Board, and Scottish Government updated on progress during the initial recovery period (January-March 2021). Our end of year performance report and analysis is in the performance section of this Annual Report.

### **Budgeting and financial management**

Prior to the cyber-attack we operated a comprehensive budgeting and financial reporting system, in line with the Scottish Public Finance Manual, which compared actual results to the budgets approved by our Board. Management accounts are prepared for each portfolio and SEPA as a whole, on a monthly basis. Significant variances from budget were thoroughly investigated. Cash flow and other financial forecasts are prepared regularly throughout the year to ensure that we have sufficient cash to meet our operational needs. After 24 December 2020 we operated manual finance procedures, incorporating checks and controls necessary to safeguard public assets. We have rebuilt the core enterprise system SEPA uses to support Human Resources, time recording, and management, payroll, expenses, finance, and procurement. We then rebuilt



financial records for 2020/21 from the data we recovered from HMRC, our pensions provider, and the bank. Comprehensive budget and financial management practices will be fully restored in 2021/22.

### **Internal audit, peer review, and internal control**

As Accountable Officer, I have responsibility for maintaining sound systems of internal control. These support the achievement of our policies, aims, and objectives. They also safeguard the public funds and assets for which I am personally responsible. Given the challenges that we have faced this year, we have had to adapt many of our existing controls. In some cases, we have put in place temporary manual controls. I introduced a Recovery Protocol and Governance Charter in February 2021. This was to ensure sound decision-making during the recovery phase.

Azets carries out our internal audits. They provide assurance that we are managing key risks well and achieving value for money. When we develop our audit plan, we consider several factors: our risk management framework; strategic objectives and priorities; the views of senior managers; and the members of the Audit Committee.

Following the outbreak of the pandemic, we revised our internal audit programme to reflect our changed ways of working. In line with COVID-19 guidelines, Azets carried out audits remotely. The areas audited were: budget management; flood forecasting and incident management; health and safety arrangements for returning to on-site working; whistleblowing; and the management response to COVID-19. These audits were all completed before the cyber-attack occurred in December. As a result of the cyber-attack, Azets was not able to carry out its annual review of progress with actions identified through audits.

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.”

Azets Chief Audit Executive concluded: “In our opinion, for the period from 1 April 2020 to 23 December 2020, SEPA had a framework of controls in place that provided reasonable assurance regarding the organisation’s governance framework, internal controls, effective and efficient achievement of objectives, and the management of key risks. However, we have been unable to test the impact of the cyber-attack on the organisation’s internal control framework and, therefore, we provide limited assurance on the control framework for the period from 24 December 2020 to

31 March 2021. Based on our continuing work with management, we recognise that key aspects of governance have been maintained, although these are not operating in the same manner as in advance of the cyber-attack limiting our ability to form an opinion on the period from 24 December 2020.”

Given the significant impact of the cyber-attack on our operations, we commissioned a comprehensive review of the incident. Four independent organisations contributed to the review. It sought to establish: what led to the attack and why; what improvements are needed in our recovery to avoid a repeat of the incident; what went well in our response and what lessons can be learnt for the management of future incidents; given the elevated threat on organisations from cyber-crime, what learning is there for other organisations, particularly the Scottish public sector, to help reduce the risk of this happening to them. These reports have been published and can be accessed on our [website](#).

In March 2021 we published a peer review of our Regulation of the PPC permit for the ExxonMobil Chemical Ltd Fife Ethylene Installation. The plant is at Mossmorran in Fife. It has the potential to have a significant impact on the environment and the local community. We asked the Irish Environment Protection Agency to carry out the peer review. The aim was to share best practice and advice on further actions we could take to drive compliance. We also published our response to the findings.

## **Transparency**

Under our One Planet Prosperity strategy, we have made transparency a key priority. This was an important aspect of our response to the cyber-attack. On Christmas Eve, we asked the BBC to publish a statement saying we had been subject to a cyber-attack. From then on, we tried to be as open as possible both internally and in public fora. The level of interest and scrutiny on the cyber-attack is natural and welcome as part of our accountability as a public agency.

## **Regulatory obligations**

As a public body we aim for the highest standards of corporate governance. The cyber-attack curtailed our ability to meet all our regulatory obligations within statutory timescales. We are committed to meeting the intent of all regulations and directions that apply to us. However, as we have lost access to our data and systems, it may take us longer than usual to report our work or provide evidence of what we have done.

We contacted relevant regulators and oversight bodies from early in the cyber-attack. We informed them of the impact and explained our approach to try to meet our obligations within the constraints imposed by the cyber-attack. We sought their advice about what we should do. We also reviewed all the legal obligations listed on our legal registers to understand the main risks to compliance. The high areas of risk were discussed with the Scottish Government.

### **Information governance**

This year the Information Commissioner's Office investigated an objection to our handling of personal data. It found that, although we had not complied with our data protection obligations, we had taken the appropriate mitigating action. It did not take any further action.

Following the cyber-attack in December 2020, we learned that the criminals had stolen 1.2 GB of our data. This amounted to just over 4,000 files. We reported the theft to the Information Commissioner's Office straightaway. On 13 January 2021, we learned that the criminals had published 20 documents illegally online. On 21 January 2021 they published a further 4,150 documents.

Dealing with the data theft was one of our highest priorities following the cyber-attack. We set up a dedicated team under a senior manager, reporting into our Fraud Response Group. They reviewed every document that was stolen. All staff were advised of the theft of data through staff information sessions. Those people who had had sensitive or special category personal data stolen were contacted individually. We also contacted partners and customers whose data had been stolen to inform them. We purchased identity protection and anti-virus software and made these available to all staff free of charge for two years. We held briefing sessions for all staff on progress. In these sessions we answered questions and provided guidance on ways staff could protect themselves from risk. We committed to let every staff member know what personal data of theirs was stolen and published.

At all times we sought and took advice from Police Scotland about how best to conduct our response to the data theft. This was to ensure we protected staff, external parties, and the organisation.

The Information Commissioner's Office began an investigation into the data breach which was still ongoing at 31 March 2021.

Our ability to access our information was significantly impacted by the cyber-attack. This limited our ability to respond to access to information requests. We were in regular contact with the Office of the Scottish Information Commissioner. We made sure that they were aware of the impact that the attack had on our ability to respond and how we were managing enquiries. We published a weekly service status update. It set out what people could expect from our access to information service. Through this we signposted people to key areas where they could find information we had already published. These included our Disclosure Log for responses to similar requests, the Environmental Data page on our website, and to Scotland's Environment website.

We kept a register of all requests so that they could be triaged and processed when able.

### **Accreditation**

We are accredited to the ISO 17025 standard for some of our sampling and laboratory testing activities. The UK Accreditation Service (UKAS) assesses us annually to ensure ongoing compliance with the standard. In March 2021, as a result of the impacts of the cyber-attack, we applied to UKAS for voluntary suspension of our accreditation for a six-month period. We needed time to re-establish sampling and analytical processes and the essential systems required to demonstrate compliance with the standard. UKAS is satisfied with our rebuilt systems and processes and reinstated our accreditation in October 2021.

### **Risk management and resilience**

We have a risk management framework in place. Through it we seek to (i) understand the threats, (ii) identify and prioritise risks, (iii) identify controls to reduce or mitigate the risk, and (iv) monitor the risk until it has been reduced to a tolerable level. 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 are likely to occur.

We capture corporate risks in a risk register. It is regularly scrutinised: quarterly by our Risk Management Group, twice a year by the Agency Management Team and Audit Committee, and annually by the Board. This year, COVID-19 and the cyber-attack disrupted this timetable. However, we continued to use our risk management framework and re-assessed our risks in the light of these significant challenges.

Risk is frequently discussed at executive and Board meetings. The Risk Management Group regularly considers ways to strengthen our approach to risk management. It reviews external

analysis of key risks impacting UK organisations; it considers potential risks raised by staff or Board members; it ensures risks are being managed across the organisation and it considers the adequacy of existing controls.

As a Category 1 responder under the Civil Contingencies Act, 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. Our resilience arrangements have stood us in good stead this year. We have well-established procedures for Emergency Management, including an annual training exercise, which meant we were prepared to respond quickly to both the pandemic lockdown and the cyber-attack.

### **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; procedures, guidance and training; internal checks and balances; regular reviews of management information, including financial, performance, and risk information; peer reviews; external accreditation; internal and external audit.

My review of the effectiveness of these systems is informed by:

- The work of the internal auditors which is directed through an audit plan agreed by the Audit Committee.
- Reviews of the corporate risk by executive managers, the Audit Committee, and the Board.
- Reviews of regular performance and financial reports by executive managers and the Board.
- Comments made by the external auditors in their management letter and other reports.

Approved by the Board on 14 December 2021 and signed on behalf of the Board on 21 December 2021.



21/12/2021

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

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**Date of signature**

## 2.2 Remuneration of staff

### 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 2020/21 in accordance with the Scottish Government pay policy.

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

The following sections provide details of the remuneration and pension interests of Board members. The table below and supporting information is subject to audit.

**Chair, Board Members, Chief Executive, Executive Director, and Chief Officers' salary, value of pension benefits, and value of benefits in kind**

	Salary £'000		Value of pension benefits £'000		Value of benefits in kind £	
	2019/20	2020/21	2019/20	2020/21	2019/20 <sup>9</sup>	2020/21
<b>Chair</b>						
B Downes	45<50	45<50	-	-	1,078	-
<b>Chief Executive</b>						
T A'Hearn	125<130	125<130	41	43	-	-
<b>Directors, Executive Directors &amp; Chief Officers'</b>						
D Pirie	105<110	105<110	48	44	-	-
F Martin	85<90	85<90	47	45	-	-
S McGregor	85<90	85<90	46	52	-	-
J Green	80<85	85<90	39	43	-	-
J Kenny	80<85	85<90	44	49	-	-
I Buchanan	80<85	80<85	26	52	-	-
<b>Board Members</b>						
K Nicholson (retired 31/12/19)	5<10	-	-	-	-	-
L Sawers (retired 31/12/19)	5<10	-	-	-	257	-
R Dixon (retired 31/12/19)	5<10	-	-	-	430	-
W McKelvey (retired 31/12/19)	5<10	-	-	-	444	-
M Francis	5<10	5<10	-	-	240	-
N Martin	5<10	10<15	-	-	195	-
M Hill	5<10	5<10	-	-	236	-
F Van Dijk	5<10	5<10	-	-	71	-
N Gordon	5<10	5<10	-	-	318	-
C Hume (appointed 01/01/20)	0<5	5<10	-	-	40	-
J Hutchison (appointed 01/01/20)	0<5	5<10	-	-	48	-
H Kohli (appointed 01/01/20)	0<5	5<10	-	-	-	-
P Matthews (appointed 01/01/20)	0<5	5<10	-	-	-	-

The Chief Executive, Executive Directors, and Chief Officers are ordinary members of Falkirk Pension Scheme. SEPA pays a fixed percentage employers' pension contribution and staff pay an

<sup>9</sup> In 2019/20, expenses for traveling to Board meetings, were grossed up for income tax and national insurance and subject to PAYE in year.

employee contribution, which is based on a percentage of their pensionable salary. The employers' contribution was 20% in 2020/21 (20% in 2019/20) and the employees' contribution ranged from 5.5% to 10.2% of pay.

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

#### **Pension entitlements of Chief Executive, Executive Director, and Chief Officers' 2020/21<sup>10</sup>**

	<b>Accrued pension at 31 March 2021</b>	<b>Accrued lump sum at 31 March 2021</b>	<b>Real increase in annual pensions 2020/21</b>	<b>Real increase in annual lump sum 2020/21</b>	<b>CETV <sup>11</sup>at 31 March 2021</b>	<b>CETV at 31 March 2020</b>	<b>Real increase in CETV 2020/21</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Chief Executive</b>							
T A'Hearn	15<20	-	2.5<5	-	213	168	30
<b>Directors, Executive Directors &amp; Chief Officers'</b>							
D Pirie	50<55	80<85	2.5<5	0<2.5	947	879	48
F Martin	40<45	60<65	2.5<5	0<2.5	679	619	46
S McGregor	40<45	60<65	2.5<5	0<2.5	834	765	53
J Green	25<30	30<35	2.5<5	0<2.5	498	447	39
J Kenny	35<40	55<60	2.5<5	0<2.5	639	581	44
I Buchanan	40<45	65<70	2.5<5	0<2.5	701	639	48

<sup>10</sup> This table does not include seconded members to AMT.

<sup>11</sup> CETV - Cash equivalent transfer value



**Pension entitlements of Chief Executive, Executive Director, and Chief Officers 2019/20<sup>12</sup>**

	<b>Accrued pension at 31 March 2020  £'000</b>	<b>Accrued lump sum at 31 March 2020  £'000</b>	<b>Real increase in annual pensions 2019/20  £'000</b>	<b>Real increase in annual lump sum 2019/20  £'000</b>	<b>CETV at 31 March 2020  £'000</b>	<b>CETV at 31 March 2019  £'000</b>	<b>Real increase in CETV 2019/20  £'000</b>
<b>Chief Executive</b>							
T A'Hearn	10<15	-	2.5>5	-	168	119	35
<b>Directors, Executive Directors &amp; Chief Officers</b>							
D Pirie	45<50	75<80	2.5<5	0<2.5	879	769	91
F Martin	35<40	55<60	2.5<5	0<2.5	619	529	76
S McGregor	35<40	60<65	2.5<5	0<2.5	765	672	76
J Green	25<30	30<35	0<2.5	0<2.5	447	378	55
J Kenny	30<35	55<60	0<2.5	0<2.5	581	494	73
I Buchanan (Appointed Nov 2018)	35<40	65<70	0<2.5	0<2.5	639	559	66

**Fair pay disclosure**

The highest paid person of the management team was the Chief Executive. His annual salary was within the range £125,000 to £130,000 (£125,000 to £130,000 in 2019/20). This was 3.71 times (3.71 times in 2019/20) the median remuneration paid to SEPA staff in 2020/21. The median salary paid in 2020/21 was £34,378 (£33,377 in 2019/20).

<sup>12</sup> This table does not include seconded members to AMT.

## Staff report

### Staff costs during the year to March 2021

	Permanently employed staff	Others	Year to 31 March 2021
	£'000	£'000	£'000
Wages and salaries	47,289	414	47,703
Social security costs	4,800	42	4,842
Apprenticeship levy	209	2	211
Pension costs	9,280	81	9,361
<b>Subtotal of payroll costs</b>	<b>61,578</b>	<b>539</b>	<b>62,117</b>
Other staff related costs (principally recruitment fees, staff subsistence, training costs and hiring agency and temporary staff)			441
IAS19 pension charge (note 16)			6,651
Life Assurance provision (note 13)			(19)
Unfunded IAS 19 Pension charge (note 13)			193
			<b>69,383</b>

Our 2020/21 payroll costs have been based on the cash payments to staff and payroll related third parties. Payments made to staff included reimbursed expenses for business mileage and other items such as computer monitors purchased to work from home. The data lost means we are unable to establish how much of this staff expenditure should be transferred to transport and or supplies costs included in other operating costs. The reconstructed payroll records indicate that staff costs contain circa £0.3m of other operating costs.

The year-end accruals to payroll third parties have all been reconciled and subsequently agreed with the parties. Further information on staff costs is included in note 4 of the financial statements for the year.

**Staff costs during the year to March 2020**

	<b>Permanently employed staff</b>	<b>Others</b>	<b>Year to 31 March 2020</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Wages and salaries	43,366	1,229	44,595
Social security costs	4,349	123	4,472
Apprenticeship levy	195	6	201
Pension costs	8,464	240	8,704
<b>Subtotal of payroll costs</b>	<b>56,374</b>	<b>1,598</b>	<b>57,972</b>
Other staff related costs (principally recruitment fees, staff subsistence, training costs and hiring agency and temporary staff)			1,161
IAS19 pension charge (note 16)			10,273
Life Assurance provision (note 13)			(94)
Unfunded IAS 19 Pension charge (note 13)			43
			<b>69,355</b>

**Pension Scheme**

SEPA contributes to the Falkirk Council Pension Fund. This is a Local Government Pension Scheme (LGPS), which is a defined benefit scheme and is administered by Falkirk Council. This Scheme is a multi-employer scheme. Employee contributions, based on salary, are fixed by statute currently on a scale of 5.5% - 11.2%.

The latest formal valuation of the Fund for the purpose of setting employer's actual contributions was at 31 March 2020, with the next full formal valuation scheduled for 31 March 2023. The formal valuation at 31 March 2020 estimated the pension deficit at £27.5m, or 91.5% funding level, an improvement of 1.5% on the previous formal valuation in March 2017. The employer's contribution rate agreed for the three years 2021-23 are both at 20.0%, rising to 20.5% for 2023-24.

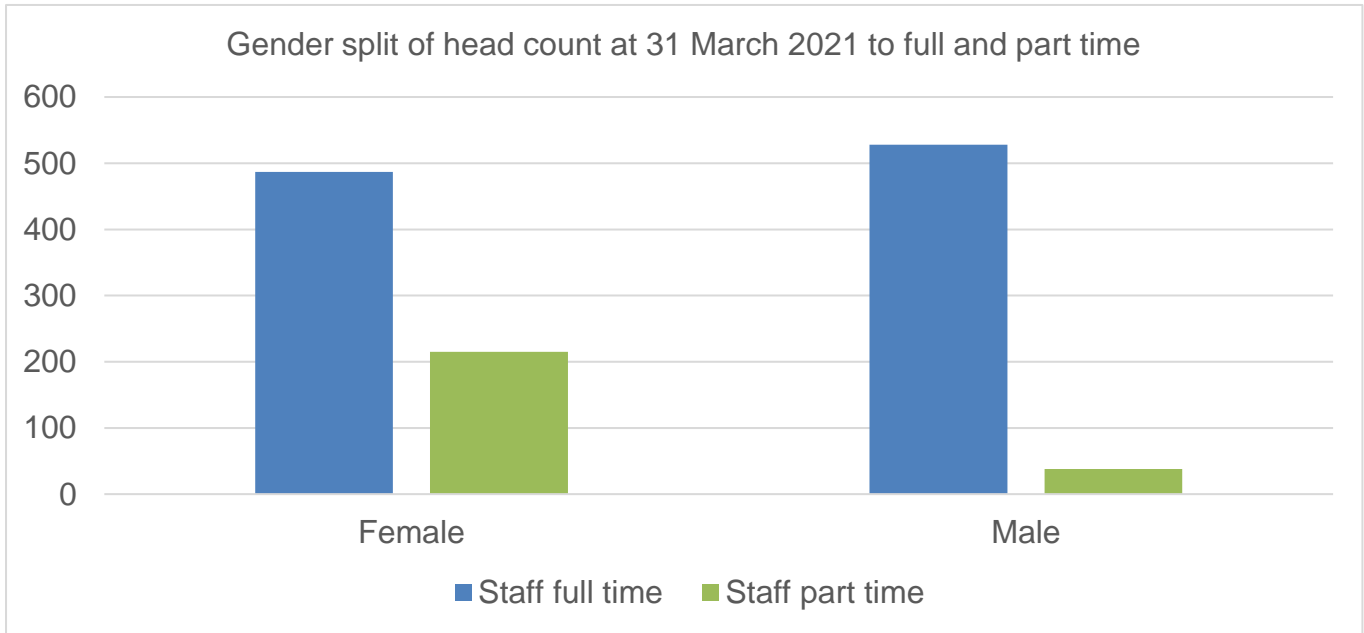
The Scheme actuaries have undertaken an accounting valuation of the pension scheme for SEPA at 31 March 2021 of £190.0m shown in the Statement of Financial Position. Note 15 provides information on SEPA's share of the scheme assets and liabilities.

The pension costs for the year represent the contributions paid by SEPA to the scheme of £9.4m (2019/20 - £8.7m). There was £1.1m, (2019/20 - £1.0m) outstanding at 31 March 2021 in relation to the pension contribution.

Headcount

We had a total head count of 1,268 staff excluding Board members at 31 March 2021. This head count represented 1,193 Full Time Equivalent (FTE) staff (1,166 FTE for 2019/20).

Headcount of full and part time workers, split by gender at 31 March 2021



Full Time Equivalent (FTE) employed

Full time equivalent number of persons

Average FTE

Permanently employed staff	Others	Year to 31 March 2021	Year to 31 March 2020
FTE	FTE	FTE	FTE
1,184	10	1,194	1,166
1,184	10	1,194	1,166

The numbers shown for the year to 31 March 2021 are an average of the FTE in post on 20 March 2020, 30 September 2020, and 31 March 2021. The numbers shown for year to 31 March 2020 were derived from SEPA payroll, where the average hours paid for each month were converted to FTE.

**Headcount by grade**

<b>Description</b>	<b>Pay Range</b>	<b>Number of staff 31 March 2021</b>	<b>Number of staff 31 March 2020</b>
Chief Executive, Directors and			
Chief Officers	81,996-129,364	9	9
Band A	67,066-75,510	22	22
Band B	54,177-60,998	46	44
Band C	45,890-51,667	189	179
Band D	36,914-41,561	359	353
Band E	30,352-34,378	395	399
Trainee	27,115-27,765	10	10
Band F	24,659-27,114	158	166
Band G	20,213-22,222	77	88
Band H	18,086-18,964	3	4
<b>Total headcount</b>		<b>1,268</b>	<b>1,274</b>

**Gender analysis March 2020 and 2021**

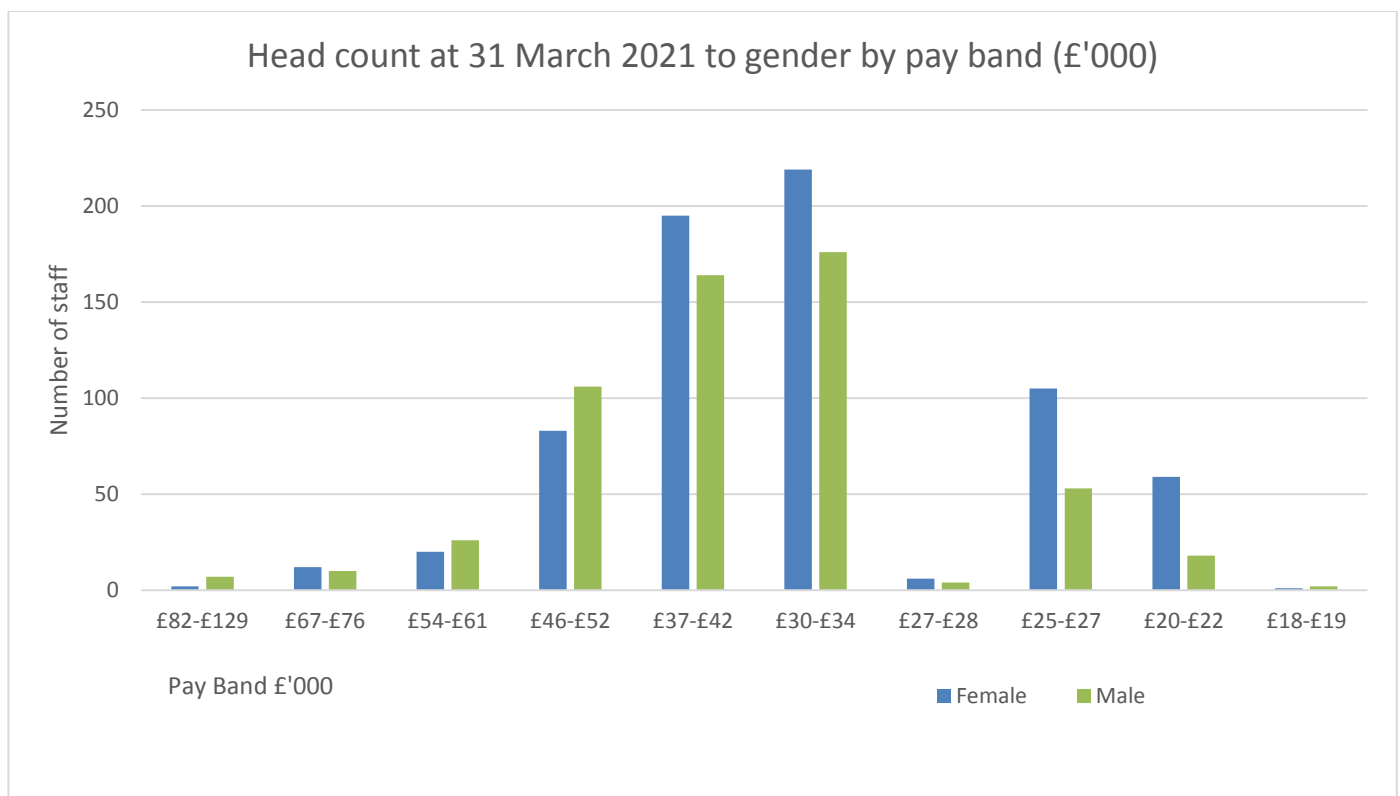
<b>Gender analysis</b>	<b>31 March 2021</b>			<b>31 March 2020</b>		
	<b>Total</b>	<b>Female</b>	<b>Male</b>	<b>Total</b>	<b>Female</b>	<b>Male</b>
<b>Board</b> <sup>13</sup>	11	4	7	11	4	7
<b>AMT</b> <sup>14</sup>	7	2	5	7	2	5
<b>Staff (includes AMT, excludes Board)</b>	<b>1,268</b>	<b>702</b>	<b>566</b>	<b>1,274</b>	<b>695</b>	<b>579</b>

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13 Board number includes the Chief Executive- 1 male

14 AMT number includes Chief Executive – 1 male

## Headcount by gender and pay band at 31 March 2021



### Lost time rate

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

We lost access to our staff time records on 24 December 2020. We have rebuilt the core system and have reinstated key time records to account for flexi time and annual leave at 31 March 2021. The sickness data we hold for January – March 2021, is insufficient to provide a robust % absence rate for the year (2019/20 - 4.28%).

### Staff policies

We have a range of policies, procedures, and guidance in place to promote equality, diversity, health, and wellbeing in our workplace. See section 1.4.3 for more information.

### Exit packages

SEPA has a policy of no compulsory redundancy, in accordance with Public Sector Pay Policy set out by Scottish Government. There were no compulsory redundancies in 2020/21 (none – 2019/20).

## Health, safety, and wellbeing

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

- Incident reporting – clear internal process for staff to report an incident or near miss.
- Annual Operating Plan and associated project plan.
- Portfolio Management Teams – managing issues impacting on the portfolio.
- National Health and Safety Committee (NHSC) - demonstrates positive partnership working with portfolios and UNISON representing all staff on health and safety matters.
- Keeping People Safe project with cross-portfolio representation and trade union representatives that develops, implements, and progresses agreed health and safety matters and reports to NHSC on a quarterly basis.
- Agency Management Team – is updated on health and safety performance monthly.
- Agency Board – receives quarterly updates on performance for assurance.
- Healthy Working Lives - accreditation to silver level.
- Safety cover provision - health and safety cover for lone working and going out of the office on site visits.
- A range of training for staff, currently mostly, but not exclusively, e-learning.
- Employee Assistance Programme.

The total number of incidents reported using our Incident Reporting system is low in comparison to previous years and is likely due to office closures during the pandemic with 24 incidents reported in 2020/21 compared to 142 in 2019/20. The number of hazards spotted in 2020/21 was 3, compared to 27 in 2019/20. There was no (2019/20 – none) incidents reported to the Health and Safety Executive in 2020/21. Due to the cyber-attack on 24<sup>th</sup> December 2020, SEPA Health and Safety Department cannot guarantee the completeness of the data.

## Industrial relationships<sup>15</sup>

UNISON is SEPA staff's trade union. It is Britain's biggest union, representing almost 1.3 million people across the UK's public services, including around 150,000 members delivering public services in Scotland. There are 15 branch officers who undertake union duties. There were 4,151 hours of staff time spent on trade union duties and activities in year. More information is provided in appendix 2.

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<sup>15</sup> Industrial relations are not subject to audit

The Joint Negotiation and Consultation Committee (JNCC) meets regularly to:

- carry out formal consultation between management and UNISON;
- carry out formal negotiation between management and UNISON;
- provide information to UNISON to allow meaningful consultation and negotiation.

The trade union representatives noted in the table below were those active in 2020/21. SEPA negotiates its staff's pay, terms, and conditions with UNISON.

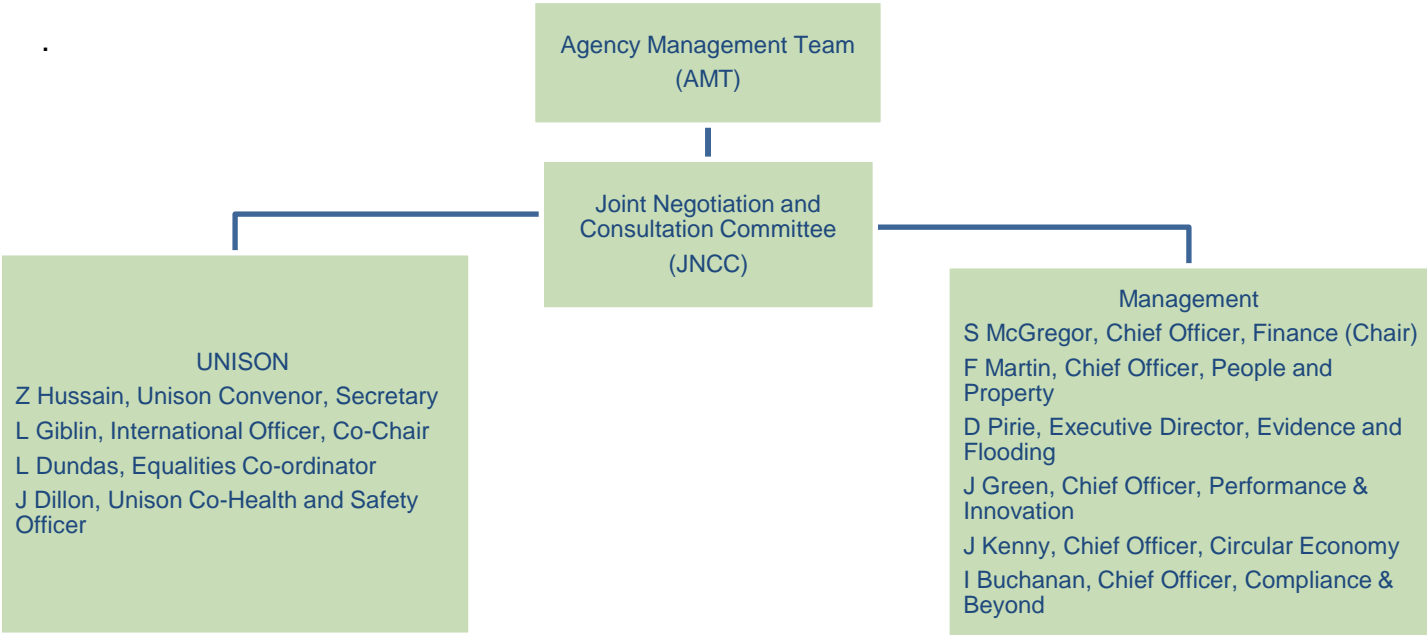
The parameters of pay terms and conditions that SEPA can offer staff are contained within Scottish Government's pay policy. SEPA's pay offer for 2020/21 was accepted by UNISON in February 2021.

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


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



The Joint Negotiation Consultation Committee (JNCC) members



Approved by the Board on 14 December 2021 and signed on behalf of the Board on 21 December 2021.



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

21/12/2021

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**Date of signature**

## 2.3 Parliamentary accountability (subject to audit)

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

The 2020/21 DEL operating resource and capital budget was £42.5m (2019/20: £37.3m). SEPA incurred £41.0m expenditure against this limit, an underspend of £1.6m.

SEPA also has an allocated Annually Managed Expenditure (AME) budget limit of £13.0m for 2020/21 (2019/20: £10.4m) (note 22). The actual IAS 19 pension adjustments, provisions movements, and market value movements for fixed assets in year amounted to £9.6m (note 21), an underspend of £3.4m.

The table below provides a summary of the outturn for 2020/21 against the Scottish Government targets for the year.

### Summary of the outturn against the Scottish Government targets 2020/21

	Year to 31 March 2021			Year to 31 March 2020
	Expenditure Outturn £'000	Budget £'000	Variance £'000	Variance £'000
<b>Department Expenditure Limit (DEL)</b>				
Total Capital Resource (cash)	1,955	2,200	245	35
Operating Resource (cash) (note 21)	34,227	33,423	(804)	1
Operating resource (non-cash) staff benefit	1,281	2,000	719	-
Depreciation/Impairments (non-cash)	3,502	4,923	1,421	51
Total Operating Expenditure	39,010	40,346	1,336	52
<b>Total DEL Expenditure</b>	<b>40,965</b>	<b>42,546</b>	<b>1,581</b>	<b>87</b>
<b>Total Annually Managed Expenditure (AME) (note 22)</b>	<b>9,576</b>	<b>13,010</b>	<b>3,434</b>	<b>(6,499)</b>

### **Consolidated fund receipts**

SEPA collects penalties for EU Emissions Trading Scheme (EU ETS) and environmental offences. During 2020/21, penalties notices of £0.0m (2019/20 - £0.2m) were raised and payments of £0.0m were received and remitted to Scottish Government.

### **Value for money**

SEPA, like every other government body, is expected to deliver best value and achieve efficiency savings of at least 3% in year. SEPA planned to manage its financial resources in 2020/21 by controlling staff recruitments and only incurring essential business critical non pay costs. The need for robust financial control was heightened by the pandemic. The core records we maintained to demonstrate the value for money actions that had been taken in year have been lost following the cyber-attack.

### **Fees and charges**

In 2020/21, SEPA earned £43.9m from statutory charges and other income. SEPA 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 cyber-attack resulted in the loss of all of our data. We prioritised our resources to recreate the core finance system to restore compliant financial records. The trading accounts are prepared in a standalone system using data from the finance system and data from our time recording system, which records the activities staff have been engaged in. We are unable to recreate this data for 2020/21. We have continued to provide core regulatory services throughout the year and our staff levels have remained similar to 2019/20.

Approved by the Board on 14 December 2021 and signed on behalf of the Board on 21 December 2021.



21/12/2021

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

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**Date of signature**

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

### Reporting on the audit of the financial statements

#### Disclaimer of opinion on financial statements

We were appointed by the Auditor General for Scotland to audit the financial statements in the annual report and accounts of the Scottish Environment Protection Agency for the year ended 31 March 2021 under the Public Finance and Accountability (Scotland) Act 2000. The financial statements comprise the Statement of Comprehensive Net Expenditure, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Taxpayers' Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2020/21 Government Financial Reporting Manual (the 2020/21 FReM).

We do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

#### Basis for disclaimer of opinion

The cyber-attack suffered by the Scottish Environment Protection Agency on 24 December 2020, as described in the Performance Report, resulted in the loss of the body's financial records. Consequently, these financial statements have predominantly been created using cash records. However, there are limitations in this approach, including lack of supporting documentation for some transactions and balances included in the financial statements. For Income from Contracts (£42.092 million) we were unable to obtain sufficient audit evidence over the underlying substance of the transactions, whether the income belonged to the Scottish Environment Protection Agency and whether the income was accounted for appropriately. The Agency also used an aged debtors listing that existed prior to the attack to help reconstruct income and debtors as at November 2020. However, £2,197 million of these amounts were not paid and were written off as bad debts within other Operating Charges. We have been unable to gain sufficient audit evidence over the amount written off. The Agency has also recognised deferred income as part of the Accruals and Deferred Income balance (£9.648 million) included

within Trade and Other Payables (£11.210million). We have been unable to obtain sufficient audit evidence over the completeness and accuracy of the deferred income balance.

As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of income balances and bad debts written off recorded in the Statement of Comprehensive Net Expenditure and deferred income balances recorded in the Statement of Financial Position. This also impacts on the related entries in the Cash Flow Statement and Statement of Changes in Taxpayers' Equity. Income from Contracts represents substantially all of Total Operating Income recognised in the Statement of Comprehensive Net Expenditure, therefore we have concluded that the possible effects on the financial statements of undetected misstatements could be both material and pervasive.

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

We 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 we have performed, we 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 twelve months from when the financial statements are authorised for issue.

### **Risks of material misstatement**

We report in a separate Annual Audit Report, available from the Audit Scotland website, the most significant assessed risks of material misstatement that we identified and our 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 deemed inappropriate.

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

Our responsibility is to conduct an audit of the financial statements 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, and to issue an auditor's report. However, because of the matters described in the Basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

We were appointed by the Auditor General on 31 May 2016. The period of total uninterrupted appointment is five years. We are independent of the body in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the body.

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

### **Disclaimer of opinion on regularity**

Because of the matters described in the Basis for disclaimer of opinion section of our report, we do not express an opinion on whether 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 our responsibilities to detect material misstatements in the financial statements in respect of irregularities, we are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

## **Reporting on other requirements**

### **Opinion prescribed by the Auditor General for Scotland on audited part of the Remuneration and Staff Report**

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

## **Statutory other information**

The Accountable Officer is responsible for the statutory other information in the annual report and accounts. The statutory other information comprises the Performance Report and the Accountability Report excluding the audited part of the Remuneration and Staff Report.

Our responsibility is to read all the statutory other information and, in doing so, consider whether the statutory other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this statutory other information, we are required to report that fact. As described in the Basis for disclaimer of opinion section of our report, we were unable to determine whether any adjustments might have been found necessary in respect of Income from Contracts or associated deferred income balances within Trade and Other Payables and issued a disclaimer of opinion on the financial statements. Accordingly, we have concluded that where the other information refers to amounts in the financial statements it may be materially misstated.

## **Disclaimer of opinions prescribed by the Auditor General for Scotland on Performance Report and Governance Statement**

Because of the matters described in the Basis for disclaimer of opinion section of our report, we do not express an opinion on whether:

- 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 we are required to report by exception

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

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

As set out in the Basis for disclaimer of opinion section of this report, we have determined that adequate accounting records have not been kept and we have not received all information and explanations required for our audit.

## Conclusions on wider scope responsibilities

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

## Use of our report

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

*Joanne Brown*

21/12/2021

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

Grant Thornton UK LLP  
110 Queen Street  
Glasgow  
G1 3BX



## 3.0 Financial statements

### 3.1 Statement of comprehensive net expenditure for the year to 31 March 2021


		Year to 31 March 2021	Year to 31 March 2020
	Notes	£'000	£'000
<b>Income</b>			
Income from contracts	2, 19	42,092	44,024
Other income	3	1,762	2,442
<b>Total operating income</b>		<b>43,854</b>	<b>46,466</b>
<b>Expenditure</b>			
Staff costs	4	(69,383)	(69,355)
Depreciation, loss on sale, and impairment of non-current assets	9	(3,502)	(3,068)
Other operating charges	5	(16,615)	(19,355)
<b>Total operating expenditure</b>		<b>(89,500)</b>	<b>(91,778)</b>
<b>Net operating expenditure</b>		<b>(45,646)</b>	<b>(45,312)</b>
Finance income	6	3	28
Finance expenses	7	(2,761)	(3,307)
<b>Net expenditure for year</b>		<b>(48,404)</b>	<b>(48,591)</b>
<b>Other comprehensive expenditure</b>			
Net (loss)/gain on revaluation of property, plant, and equipment	9	9	(1,075)
Actuarial gain/(loss) on pension scheme	15	(63,436)	29,451
<b>Comprehensive net expenditure for the year funded by GiA</b>		<b>(111,831)</b>	<b>(20,215)</b>

The excess expenditure over income represents the cost of the Scottish Government-funded activities; the cash to fund these activities has been taken directly to the Comprehensive Net Expenditure reserve. The note numbers referred to above are incorporated within the notes to the accounts.

### 3.2 Statement of financial position at 31 March 2021

		At 31 March 2021	At 31 March 2020
	Notes	£'000	£'000
<b>Non-current assets</b>			
Property, plant and, equipment	9	35,070	35,032
Intangible assets	9	753	882
		<b>35,823</b>	<b>35,914</b>
Trade and other receivables	11	-	122
<b>Current assets</b>			
Trade and other receivables	11	3,669	3,251
Cash and cash equivalents	10	4,731	922
		<b>8,400</b>	<b>4,173</b>
<b>Total assets</b>		<b>44,223</b>	<b>40,209</b>
<b>Current liabilities</b>			
Trade and other payables < 1 year	12	(11,210)	(7,283)
Provisions for liabilities and charges <1 year	13	(143)	(142)
<b>Total current liabilities</b>		<b>(11,353)</b>	<b>(7,425)</b>
<b>Total assets less current liabilities</b>		<b>32,870</b>	<b>32,784</b>
<b>Non-current liabilities</b>			
Provisions for liabilities and charges >1 year	13	(4,764)	(4,592)
Employee retirement benefits	15	(189,654)	(116,806)
<b>Total non-current liabilities</b>		<b>(194,418)</b>	<b>(121,398)</b>
<b>Total assets less total liabilities</b>		<b>(161,548)</b>	<b>(88,614)</b>
<b>Taxpayers' equity</b>			
Comprehensive net expenditure reserve		(178,036)	(103,842)
Revaluation reserve		16,488	15,228
<b>Total taxpayers' equity</b>		<b>(161,548)</b>	<b>(88,614)</b>

The note numbers referred to above are incorporated within the notes to the accounts. These annual accounts were approved by the Board on 14 December 2021 and authorised for issue on 21 December 2021.

  
 Terry A'Hearn  
 Chief Executive and Accountable Officer

21/12/2021

Date of signature

### 3.3 Statement of cash flows for year to 31 March 2021

		Year to 31 March 2021	Restated <sup>16</sup> Year to 31 March 2020
	Notes	£'000	£'000
<b>Net operating expenditure</b>		(45,646)	(45,312)
<b>Adjustments for non-cash transactions</b>			
Depreciation, amortisation, and impairments	9	3,506	3,068
Pension scheme adjustment	16	6,651	10,273
Life Assurance charge	13	(19)	43
Unfunded pensions charge	13	192	(94)
<b>Cash Expended in year</b>			
Life Assurance payments	13	(49)	-
Unfunded pensions payments	13	(143)	(142)
<b>Movements in working capital</b>			
Decrease in trade and other receivables over 1 year	11	122	-
Decrease/(Increase) in trade and other receivables		(418)	838
(Decrease)/Increase in trade and other payables		2,983	(1,094)
<b>Net cash outflow from operating activities</b>		<b>(32,821)</b>	<b>(32,420)</b>
<b>Cash flows from investing activities</b>			
Purchase of non-current assets		<b>(1,010)</b>	<b>(1,965)</b>
<b>Cash flows from financing activities</b>			
Bank interest received	6	3	28
GiA funding received in year	20	37,637	34,142
<b>Net cash inflow from financing</b>		<b>37,640</b>	<b>34,170</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>3,809</b>	<b>(215)</b>
Less cash and cash equivalents at start of year	10	(922)	(1,142)
Receipts due to the consolidated fund		-	167
Payments made to the consolidated fund		-	(162)
Cash and cash equivalents at end of year	10	4,731	922
<b>(Decrease)/Increase in cash for the year</b>		<b>3,809</b>	<b>(215)</b>

The note numbers referred to above are incorporated within the notes to the accounts. These annual accounts were approved by the Board on 14 December 2021 and signed on behalf of the Board on 21 December 2021.

<sup>16</sup> The prior year cashflow statement did not reflect non-cash entries correctly. The only material adjustment required under accounting standards was made for the decommissioning provision £2.4m.

### 3.4 Statement of changes in taxpayers' equity for the year to 31 March 2021

		Comprehensive net expenditure reserve	Revaluation reserve	Total year to 31 March 2021
	Notes	£'000	£'000	£'000
Balance at 1 April 2020	-	(103,842)	15,228	(88,614)
Grant from sponsoring department	20	37,637	-	37,637
Net expenditure for the year	-	(48,404)	-	(48,404)
Total of pension re-measurements	15	(63,436)	-	(63,436)
Revaluation of non-current assets	9	9	1,260	1,269
<b>At 31 March 2021</b>		<b>(178,036)</b>	<b>16,488</b>	<b>(161,548)</b>

#### Comprehensive net expenditure reserve consists of:

Pensions deficit	15	(189,654)
Surplus arising from operating activities	-	11,618
<b>Balance at 31 March 2021</b>	<b>-</b>	<b>(178,036)</b>

**Statement of changes in taxpayers' equity for the year to 31 March 2020**

		<b>Comprehensive net expenditure reserve</b>	<b>Revaluation reserve</b>	<b>Total year to 31 March 2020</b>
	<b>Notes</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Balance at 1 April 2019		(117,769)	15,386	(102,383)
Grant from sponsoring department	20	34,142	-	34,142
Net expenditure for the year	-	(48,591)	-	(48,591)
Assets disposed of		-	-	-
Total of pension re-measurements	15	29,451	-	29,451
Revaluation of non-current assets	9	(1,075)	(158)	(1,233)
<b>At 31 March 2020</b>		<b>(103,842)</b>	<b>15,228</b>	<b>(88,614)</b>

**Comprehensive net expenditure reserve consists of:**

Pensions deficit	15	(116,806)
Surplus arising from operating activities	-	12,964
<b>Balance at 31 March 2020</b>		<b>(103,842)</b>

The note numbers referred to above are incorporated within the notes to the accounts. These annual accounts were approved by the Board on 14 December 2021.

### 3.5 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, SEPA has adopted the option that it judges to be most appropriate for the purpose of giving a true and fair view of its financial position.

As a result of the cyber-attack on 24 December, we lost access to our core finance system and data. We recovered a dataset from 29 March 2020 and recreated the 2020/21 financial records based on the data we obtained from our bank, HMRC, the pensions fund, our external auditors (year ended 31 March 2020) and suppliers. We made the decision to recreate sufficient 2020/21 financial records to meet our statutory duty to prepare our annual report and accounts as required by FReM.

The preparation of the statement of financial position is largely based on professional valuations and has been prepared on the same basis as previous years. The trade and other payables figures have been established from information on payments made for the period up to the end of August 2021 and reconciliations of key accounts to 31 March 2021. The accounts receivable figures have been prepared from the comparison of known outstanding debt, bank receipts and payments received after the 31 March 2021, to the end of August 2021. The Board and Chief Executive are confident that the statement of financial position presents a true and fair view of SEPA's financial affairs at 31 March 2021.

There are some records we have lost that are either impossible to replicate or require significant time and resources to replicate, neither of which we have, to deliver the Annual Report and Accounts by the statutory deadline. We lost data normally used to prepare elements of our annual report and accounts on staff time spent undertaking activities, trading accounts system and data, and the detailed subsistence fees invoices for 2020/21.

We are confident that we have captured all income received in year from bank transactions. Due to COVID-19 all our offices were closed throughout the year and there was no cash income. We identified bank receipts to debtors records we recovered. We adopted a prudent approach to the

debtors balances we held at year end and wrote off all debtors we had outstanding at 31 March 2021 who had not paid by the end of August 2021.

We have used our limited resources to ensure we rebuilt the systems necessary to prepare customers subsistence invoices for 2021/22, not to replicate the 2020/21 invoices. This has resulted in there being no source documents for our auditors to check income back to.

We based our expenditure information on bank payments, supplier invoices, and reconciliations of payroll creditors. We lost all detailed payroll records up to the 31 December 2020. We had to recreate payroll to 31 December from HMRC and pension fund data and then retrospectively process payroll for January to March 2021. The detail of expenses reimbursed, and overtime payments made through payroll was lost for the period to 31 December. This means that our staff costs included in the statement of comprehensive net expenditure for the year will include an element of reimbursed expenses which would normally be shown against other operating costs (estimated impact £0.3m). Overall, the statement of comprehensive net expenditure reflects SEPA's financial performance for the year, it includes all income received and expenditure incurred presented as accurately as possible from the information we have been able to recreate.

### **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 2020 and ended on 31 March 2021.

### **Going concern**

The accounts have been prepared incorporating the requirements of international accounting standards and include an actuarial valuation of the pension scheme liability at 31 March 2021 (note 15). The actuarial valuation reflects the inclusion of liabilities falling due to the pension scheme in future years in respect of benefits payable to members.

SEPA's pension liabilities falling due in future years are met from income derived from charging schemes and grant in aid (GiA). Future years charging scheme fees will be increased to meet the expected costs attributable to providing these services, including pension costs. The Board has no reason to expect this process to change in the future. To the extent that the pension deficit is not met from SEPA's other sources of income, it will be met by future GiA from Scottish Government

Directorate for Environment and Forestry. Under the controls applying to parliamentary income and expenditure, grants may not be paid in advance of need. The Board and AMT believe that SEPA will continue to receive support from Scottish Government, accordingly they consider it appropriate to adopt a going concern basis for the preparation of these annual accounts.

## **Non-current assets**

### **Property, plant, and equipment**

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 SEPA's accounts on the basis of 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 an independent chartered surveyor at 31 March 2018 to calculate what the replacement costs would be. In 2019/20 and 2020/21 this valuation has been indexed to reflect inflationary construction cost increases for the intervening years, to produce the valuation at 31 March 2021 reflected in these accounts.
- 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.
- The only large vessel is reported at market value. A professional market valuation has been obtained for the vessel (Sir John Murray).
- Depreciated historic cost is used as a proxy for current value of plant and equipment that has a medium-term economic life and where depreciation charge provides a realistic reflection of consumption.



Expenditure on improvements, repairs, and renewals of non-current assets is charged to the Statement of Comprehensive Net Expenditure in the year the expenditure is incurred, unless it is considered to have replaced a part of an asset. If it has replaced part of an asset, it will be capitalised and the cost and cumulative depreciation or amortisation of the asset it has replaced, will be removed from non-current assets.

### **Depreciation and amortisation**

Depreciation or amortisation is provided on all non-current assets, other than freehold land. Depreciation or amortisation is calculated on a straight-line basis over the useful lives of the asset as detailed in the table below. Depreciation and amortisation is charged to the Statement of Comprehensive Net Expenditure on the carrying value of the non-current assets. An element of the depreciation and amortisation arising from the increase in the valuation, and in excess of the depreciation or amortisation that would be charged on the historic cost value of the asset, is taken to the Revaluation Reserve.

### **Assets separated into categories and their lives**

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

### **Assets in course of completion**

Assets in course of completion are valued at cost. On completion they are transferred from the project account into the appropriate asset category. No depreciation or amortisation is charged until the asset is in operational use. The capitalisation threshold for assets is £10,000 including VAT. The actual salary costs including national insurance and superannuation of SEPA staff who are involved in the creation of non-current assets are capitalised against the relevant assets.

## **Intangible assets**

### **Purchased software**

Purchased software is valued at 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 SEPA staff who are involved in the creation of non-current assets, are capitalised against the relevant asset. These costs are written off over the period the software is in operational use. 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 SEPA's assets is reviewed at each statement of financial position date to determine whether there is any indication of impairment. An impairment loss is recognised in the Statement of Comprehensive Net Expenditure whenever:

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

### **Provisions for liabilities and charges**

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

- Unfunded pension liabilities in respect of pension commitments inherited from SEPA's predecessor bodies and the past Chair.
- Life assurance benefit provided to staff under SEPA's terms and conditions of employment as estimated by Hymans Robertson based on the profile of the staff employed at 31 March 2021.

- Decommissioning costs for leased properties were estimated by Cushman and Wakefield at 31 March 2020 and indexed for the inflationary in construction costs in 2020/21.

## **Reserves**

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

## **Value added tax**

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

## **Leases**

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

## **Government Grant-in-Aid (GiA)**

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

## **Income**

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

Statutory income is defined as income which SEPA receives in its regulatory role and for which the basis for charging is defined within statute. Non-statutory income covers a range of income primarily for the recharge of staff time or services provided to other organisations. SEPA recognises income on delivery of performance obligations as per IFRS 15. Other operating income relates primarily to grant income which SEPA recognises in line with 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; and
- b) will be reclassified subsequently to profit or loss when specific conditions are met.

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

## **Expenditure**

Expenditure incurred on day-to-day operational activities is accounted for or charged into the Statement of Comprehensive Net Expenditure in the year that the work has been done. Staff costs are accounted for in the year that salaries are earned together with the employers' costs. Other expenditure is charged or accrued into the year the services or goods were used. As part of the year end accounts process, a detailed accrual exercise is conducted to ensure expenditure is matched with income appropriately. Expenditure that relates to future accounting periods of more than £5,000 is prepaid and will be matched to income earned in future periods. All expenditure that related to services or goods received by 31 March 2021 has been accrued.

## **Pension costs**

SEPA participates in the Local Government Superannuation Scheme which is a defined benefit scheme. The expected cost of providing staff pensions is recognised on a systematic basis over the expected average remaining lives of members of the pension fund in accordance with International Accounting Standard 19 and recognises retirement benefits as the benefits that are earned and not when they are due to be paid. The actuary reviews the scheme on a triennial basis and SEPA has always implemented the contributions recommended (notes 15 and 16). The contribution charges are recognised in the accounting years in which they arise.

SEPA provides in full for the cost of meeting pensions up to normal retirement age in respect of staff taking early retirement programmes and voluntary severances in the current and previous years. Most pensions payable after normal retirement age are met by the pension scheme, although there are some pension liabilities inherited from predecessor bodies that are met directly by SEPA - these are reflected in the unfunded pension liabilities (note 13).

## **Research and development expenditure**

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

## **Financial instruments**

SEPA's financial instruments comprise trade and other receivables, trade and other payables, and cash and liquid resources. Trade receivables are initially recognised at transaction price, which is assumed to be their fair value. Robust annual reviews are undertaken of all outstanding debtors to determine the likelihood of payment. If it is assessed/known that a debt will not be paid it is 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**

FReM has removed the need to calculate and account for cost of capital, in the form of interest on capital, from 1 April 2010. Notional costs of capital are included in the costs recovered under the charging schemes, to reflect the cost of using government funded assets to deliver services. The charge was calculated at 3.5% of the average carrying amount of all assets, including assets in course of construction less trading liabilities, apportioned between charging scheme and non-charging scheme activities.

## **Contingent liabilities**

SEPA occupies 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.

As a result of the cyber-attack, we lost all our systems. This has led to us being non-compliant with PAYE and VAT regulations for several months. We have had ongoing dialogue with HMRC and have made payments to account to mitigate the risk of penalties and interest payments. We have brought our PAYE records up to date and are in the process of completing the outstanding VAT returns. We will be liable for penalties under both regimes, and we believe we have grounds to appeal these charges. At the time of preparing the accounts we are uncertain of the sum of this liability or its certainty.

The Information Commissioner has been investigating the data theft that occurred during the cyber-attack, therefore at the time of preparing the accounts, we did not know if they are going to issue SEPA with a fine.

### **Review of accounting policies**

SEPA has reviewed all its accounting policies to ensure their continued relevance.

### **Judgements and estimates**

There are several areas where judgements and estimates are made on how the accounting policies outlined above are applied.

A judgement is made with the best information available at the time, considering the likely future outcomes. Judgements involve a 'yes or no' decision which can be supported by the weight of factors that support one answer over the next.

The material judgements applied in preparing these accounts were:

- The decision made to extend the review of transactions post year end to ensure that all income and expenditure relating to 2020/21 accounting year has been reflected in these accounts.
- The decision made to write off unpaid debtor balances at 31 March 2021. The net outstanding debtors balance at 31 March 2021 reflects the payments received post 1 April 2021, relating to services provided in 2020/21. In previous years we have only provided for bad debt for those customers who we judged will default on their outstanding accounts,

based on their previous payment history. The impact in 2020/21 is bad debt write off of £2.2m. There is no known future impact from this decision.

An estimate usually involves a subjective measurement and a range of reasonable outcomes. Although these estimates and associated assumptions are based on historical experience and our best knowledge of current events and actions, the actual results may ultimately differ from those estimates.

The material estimates used to prepare SEPAs accounts relate to:

- Valuation of specialised buildings (note 9).
- The fair values of properties with a market value (note 9).
- Valuation of funded and unfunded pension liabilities (notes 13 and 15).
- Evidence used to assess impairment in trade receivables (note 11).
- Estimated cost of decommissioning (note 9 and 13).
- Valuation of life assurance liability (note 13).

Our expectation based on the knowledge we have at this point in time is that there should be no material changes to the valuations used to prepare these accounts, with the exception of pensions.

### Sensitivity analysis

Historically the pensions liability has been volatile. The most significant financial impact from the estimations used to prepare the accounts arises from changes to assumptions used to calculate the pension deficit. The sensitivities regarding the principal assumptions used to estimate the scheme liabilities are set out below:

Change in assumption at 31 March 2021	Approximate % increase in employers' liability	Approximate monetary amount £'000
0.1% decrease in real discount rate	2	12,593
0.1% increase in salary increase rate	0	1,942
0.1% increase in pension increase rate	2	10,495
1 year increase in member life expectancy	4	22,404

## Future changes in accounting standards

Changes that were due to be introduced under International Financial Reporting Standards (IFRS) 16 have been delayed by a year. The public sector will implement this standard from 1 April 2022. This will require all leases that run for more than 12 months to be reflected in the balance sheet. An up-to-date assessment of what the impact of adopting IFRS 16 will be, has yet to be completed. Note 14 outlines our current lease commitments of £13.4m, the bulk of these leases will appear on our balance sheet.

## Subsequent events

There are no events which have occurred since the statement of financial position at 31 March 2021 was prepared that require disclosure.

## Note 2. Income from contracts

	Year to 31 March 2021	Year to 31 March 2020
	£'000	£'000
<b>Statutory income</b>		
Charging Scheme fees & charges	40,810	41,860
Scottish Landfill Tax	485	534
Scottish Landfill Communities Fund	93	149
Supporting enforcement undertakings	-	97
<b>Non-statutory income</b>		
Provision of services	704	1,384
	<b>42,092</b>	<b>44,024</b>

## Note 3. Other income

	Year to 31 March 2021	Year to 31 March 2020
	£'000	£'000
Grants	1,541	2,366
Other	221	76
	<b>1,762</b>	<b>2,442</b>

2020/21 income records have been recreated from bank transaction information for 2020/21. We have used this core transactions information and any other information we could recover on income and customer payments to produce the above analysis of income.



**Note 4. Information regarding employees and Board members****Staff costs during the year to March 2021**

	<b>Permanently employed staff</b>	<b>Others</b>	<b>Year to 31 March 2021</b>
<b>Staff costs</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Wages and salaries	47,289	414	47,703
Social security costs	4,800	42	4,842
Apprenticeship levy	209	2	211
Pension costs	9,280	81	9,361
<b>Subtotal of payroll costs</b>	<b>61,578</b>	<b>539</b>	<b>62,117</b>
Other staff related costs (principally recruitment fees, staff subsistence, training costs, and hiring agency and temporary staff)			441
IAS 19 pension charge (note 16)			6,651
Life Assurance provision (note 13)			(19)
Unfunded IAS 19 Pension charge (note 13)			193
			<b>69,383</b>

Our 2020/21 payroll costs have been based on the cash payments to staff and payroll related third parties. Payments made to staff included reimbursed expenses for business mileage and other items such as computer monitors purchased to work from home. Due to the cyber-attack, the data lost means we are unable to establish how much of this staff expenditure should be transferred to transport and or supplies costs included in other operating costs. The year-end accruals to payroll third parties have all been reconciled and subsequently agreed with the parties.

**Staff costs during the year to March 2020**

	<b>Permanently employed staff</b>	<b>Others</b>	<b>Year to 31 March 2020</b>
<b>Staff costs</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Wages and salaries	43,366	1,229	44,595
Social security costs	4,349	123	4,472
Apprenticeship levy	195	6	201
Pension costs	8,464	240	8,704
<b>Subtotal of payroll costs</b>	<b>56,374</b>	<b>1,598</b>	<b>57,972</b>
Other staff related costs (principally recruitment fees, staff subsistence, training costs, and hiring agency and temporary staff)			1,161
IAS 19 pension charge			10,273
Life Assurance provision			(94)
Unfunded IAS 19 Pension charge			43
			<b>69,355</b>

More information on SEPA's staff can be found in section 2.2 of Remuneration and Staff Report.

**Note 5. Other operating charges**

	<b>Year to 31 March 2021</b>	<b>Year to 31 March 2020</b>
<b>Operating charges categorised</b>	<b>£'000</b>	<b>£'000</b>
Supplies and services	11,929	12,735
Property costs	2,209	3,223
Transport costs	397	1,478
Research and development costs	42	127
Board expenses	-	20
Property and vehicle leases	1,953	1,715
External Auditor's remuneration – audit services	85	57
	<b>16,615</b>	<b>19,355</b>

The 2020/21 financial records have been based on bank payments plus accruals for outstanding payments to suppliers at 31 March 2021, less any prepayments that have been made in 2020/21 that relate to 2021/22 expenditure. The accruals and prepayments exercise was based on the actual income and payments for the six months to 30 September 2021.

Payments made to staff included reimbursed expenses for business mileage and other items such as computer monitors purchased to work from home; in total these items amounted to £0.3m. The data lost due to the cyber-attack means we are unable to establish how much of this staff expenditure should be transferred to transport and or supplies costs included in other operating costs

#### **Note 6. Interest receivable and similar income**

	<b>Year to 31 March 2021</b>	<b>Year to 31 March 2020</b>
	<b>£'000</b>	<b>£'000</b>
Bank interest received	<b>3</b>	<b>28</b>

#### **Note 7. Interest payable**

	<b>Year to 31 March 2021</b>	<b>Year to 31 March 2020</b>
	<b>£'000</b>	<b>£'000</b>
International Accounting Standards (IAS) 19 net return on pension scheme assets and liabilities (note 16)	<b>(2,761)</b>	<b>(3,307)</b>

The negative net return position on pension assets at 31 March 2021, is as a result of the actual interest on assets of £7.0m being significantly less than the interest on liabilities of £9.7m (note 15 refers).

#### **Note 8. Taxation**

SEPA is not liable to corporation tax for 2020/21 (nil for 2019/20).

Note 9.Non-current assets to March 2021

	Tangible assets										Intangible assets			Assets	
Year to 31 March 2021	Land	Buildings	Leasehold buildings fit out	Gauging stations	Plant & machinery	Vessel	Computer equipment	Motor vehicles	Fixtures fittings, tools & equipment	Total tangible assets	Software developed in-house	Purchased software	Total intangible assets	Under construction	Total
Cost or valuation	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
1 April 2020	857	4,150	9,651	17,503	11,622	1,815	3,525	745	270	50,138	1,198	3,958	5,156	-	55,294
Purchases	-	-	50	332	262	-	802	25	-	1,471	-	100	100	384	1,955
Decommission provision	-	-	191	-	-	-	-	-	-	191	-	-	-	-	191
Disposals/ Impairments	-	-	-	(20)	-	-	(1,024)	-	-	(1,044)	(121)	(93)	(214)	-	(1,258)
Revaluations	(25)	(215)	-	1,388	-	(1,080)	-	-	-	68	-	-	-	-	68
At 31 March 2021	832	3,935	9,892	19,203	11,884	735	3,303	770	270	50,824	1,077	3,965	5,042	384	56,250
Depreciation															
1 April 2020	-	-	2,762	1,212	7,185	1,093	2,322	352	180	15,106	903	3,371	4,274	-	19,380
Charge for year	-	195	765	626	792	55	333	86	13	2,865	82	176	258	-	3,123
Disposals/ Impairments	-	-	-	(16)	-	-	(772)	-	-	(788)	(71)	(16)	(87)	-	(875)
Revaluations	-	(195)	-	142	-	(1,148)	-	-	-	(1,201)	-	-	-	-	(1,201)
At 31 March 2021	-	-	3,527	1,964	7,977	0	1,883	438	193	15,982	914	3,531	4,445	-	20,427
Net book value at 31 March 2021	832	3,935	6,365	17,239	3,907	735	1,420	332	77	34,842	163	434	597	384	35,823
Net book value at 31 March 2020	857	4,150	6,889	16,291	4,437	722	1,203	393	90	35,032	295	587	882	-	35,914

Non-current assets to March 2020

	Tangible assets										Intangible assets			
Year to 31 March 2020	Land	Buildings	Leasehold buildings fit out	Gauging stations	Plant & machinery	Vessels	Computer equipment	Motor vehicles	Fixtures fittings, tools & equipment	Total tangible assets	Software developed in-house	Purchased software	Total intangible assets	Total
Cost or valuation	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
1 April 2019	852	5,495	7,022	17,217	11,077	1,815	3,277	560	270	47,585	1,161	3,814	4,975	52,560
Purchases	-	52	198	370	731	-	248	185	-	1,784	37	144	181	1,965
Decommission provision	-	-	2,448	-	-	-	-	-	-	2,448	-	-	-	2,448
Disposals/ Impairments	-	-	(17)	-	(186)	-	-	-	-	(203)	-	-	-	(203)
Revaluations	5	(1,397)	-	(84)	-	-	-	-	-	(1,476)	-	-	-	(1,476)
At 31 March 2020	857	4,150	9,651	17,503	11,622	1,815	3,525	745	270	50,138	1,198	3,958	5,156	55,294
Depreciation														
1 April 2019	-	-	2,275	604	6,581	1,038	1,953	287	167	12,905	819	3,034	3,853	16,758
Charge for year	-	237	496	614	781	55	369	65	13	2,630	84	337	421	3,051
Disposals/ Impairments	-	-	(9)	-	(177)	-	-	-	-	(186)	-	-	-	(186)
Revaluations	-	(237)	-	(6)	-	-	-	-	-	(243)	-	-	-	(243)
At 31 March 2020	-	-	2,762	1,212	7,185	1,093	2,322	352	180	15,106	903	3,371	4,274	19,380
Net book value at 31 March 2020	857	4,150	6,889	16,291	4,437	722	1,203	393	90	35,032	295	587	882	35,914
Net book value at 31 March 2019	852	5,495	4,747	16,613	4,496	777	1,324	273	103	34,680	342	780	1,122	35,802

The charge in the Statement of Comprehensive Net Expenditure includes depreciation charged for the year and the net book value of impairments £3.1m, plus the loss on disposal £0.4m, amounting to a total of £3.5m. The total carrying value of Property, Plant and Equipment including assets under construction as at 31 March 2021 was £35.070m. Intangible assets, including assets under construction were £0.753m.

The building's category includes properties whose current value (market value equivalent) was provided by Cushman and Wakefield at £4.0m on 31 March 2021 (£5.0m at 31 March 2020). Leasehold buildings decommissioning costs have been increased in year by £0.2m (2019/20 - £2.4m), which is the estimated increase in cost of returning the internal layout to the original form. The estimate at 31 March 2020 supplied by Cushman and Wakefield, has been indexed in 2020/21 to reflect the increased costs of construction works.

Gauging stations are specialised buildings. A full assessment of replacement cost was conducted by Cushman and Wakefield, our property services advisor, at 31 March 2018. Their valuation was made using the depreciated replacement cost approach set out in the Royal Institution of Chartered Surveyors (RICS) Red Book<sup>17</sup>. The net replacement cost was estimated at £14.1m for 354 gauging stations. SEPA owns the land for 25 gauging stations and 329 are on leased sites. Following full revaluation on 31 March 2018, we index gauging stations annually each year to arrive at current value as at 31 March. A full revaluation will be undertaken every five years or sooner where there is indication of material movement in valuation.

The vessel (Sir John Murray) is reflected at market value at 31 March 2021. It was valued by Century Marine.

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.

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<sup>17</sup> '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.

The revaluation movements of £1.3m have been offset by the movements on revaluation reserve held in taxpayers' equity of £1.3m.

#### Note 10. Cash and cash equivalents

	At 31 March 2021	At 31 March 2020
	£'000	£'000
Balance at 1 April 2020	922	1,142
Net change in cash and cash equivalent balances	3,809	(220)
Balance at 31 March 2021	<b>4,731</b>	<b>922</b>
The following balances were held in:		
Government banking services	4,729	910
Commercial banks and cash in hand	2	12
Balance at 31 March 2021	<b>4,731</b>	<b>922</b>

#### Note 11. Trade and other receivables

	At 31 March 2021	At 31 March 2020
	£'000	£'000
<b>Amounts falling due within one year</b>		
Trade receivables	4,171	1,442
Less provisions for bad debts	(2,197)	(370)
Trade receivables net	1,974	1,072
Other trade receivables	(3)	11
Prepayments and accrued income	1,698	2,168
Sub total	<b>3,669</b>	<b>3,251</b>
<b>Amounts falling due after one year</b>		
Prepayments	-	122
	<b>3,669</b>	<b>3,373</b>

At the year end, the total bad debt provision is £2.2m (2019/20 – £0.4m). Included within the trade receivables there is: £0.0m (2019/20 - £0.0m) owing from central government bodies; £0.0m

(2019/20 -£0.0m) owing from local authority bodies; £0.0m (2019/20 - £0.0m) owing from NHS bodies; and £0 (2019/20 - £0.2m) owing from other public bodies.

We have created the 2020/21 income records from cash receipt information received from the bank. We have compared the information received from the bank with the customer record information we recovered following the cyber-attack to arrive at the trade receivables figure. We have then reviewed this information against the receipts received to the end of August 2021 and made a provision for the write-off of balances where payment has not been received.

## Note 12. Trade and other payables

	At 31 March 2021	At 31 March 2020
Amounts falling due within one year	£'000	£'000
Trade payables	(18)	(1,305)
Other taxes and social security	(1,253)	(1,148)
VAT	(38)	(45)
EU grant deferred income	-	(253)
Accruals and deferred income	(9,901)	(4,532)
	<b>(11,210)</b>	<b>(7,283)</b>

Included within the trade and other payables there is: £1.5m (2019/20 - £1.0m) owing to local authority bodies; £0.1m (2019/20 - £1.1m) owing to central government bodies; £0.0m (2019/20 - £0.0m) owing to NHS bodies; and £0.4m (2019/20 - £0.0m) owing to other public bodies.

We recreated the information on payments to suppliers from payment details supplied by our bank after the cyber-attack. We have then matched these payments to invoices from suppliers to allocate costs to appropriate expenditure categories for accounting purposes. The trade payables, accruals and deferred income figures shown above represent payments made in 2021/22 to the end of August 2021 and or invoices received but not yet paid up to the end of August that relate to 2020/21, or in the case of deferred income 2021/22.

The other taxes and social security figure have been calculated following the completion of payroll processing for the period to 31 March 2021 and reconciled back to our cash payments made in the year.



The VAT records for 2020/21 have been recreated for quarters 1 and 2 from data held by HMRC. We have then used the payment and receipt records to calculate the VAT owing for the six months to 31 March 2021. A payment to account was made in respect of the return due to 31 December 2020. The liability shown above is our estimated liability for VAT at 31 March 2021. The returns for period to 31 March 2021 have yet to be agreed with HMRC.

### Note 13. Provision for liabilities and charges to March 2021

	Unfunded pension liabilities	Provision for leased property decommissioning	Life assurance provision	Total provision for liabilities and charges
Year to 31 March 2021	£'000	£'000	£'000	£'000
Balance at 1 April 2020	1,800	2,448	486	4,734
New provision	-	191	-	191
Actuarial valuation changes	193	-	(19)	174
Utilised in year	(143)	-	(49)	(192)
At 31 March 2021	<b>1,850</b>	<b>2,639</b>	<b>418</b>	<b>4,907</b>
Liabilities due > 1 year	1,707	2,639	418	4,764
Liabilities due < 1 year	143	-	-	143
At 31 March 2021	<b>1,850</b>	<b>2,639</b>	<b>418</b>	<b>4,907</b>

### Provision for liabilities and charges to March 2020

	Unfunded pension liabilities	Provision for leased property decommissioning	Life assurance provision	Total provision for liabilities and charges
Year to 31 March 2020	£'000	£'000	£'000	£'000
Balance at 1 April 2019	2,036	-	443	2,479
New provision	-	2,448	-	2,448
Actuarial valuation changes	(94)	-	43	(51)
Utilised in year	(142)	-	-	(142)
At 31 March 2020	<b>1,800</b>	<b>2,448</b>	<b>486</b>	<b>4,734</b>
Liabilities due > 1 year	1,658	2,448	486	4,592
Liabilities due < 1 year	142	-	-	142
At 31 March 2020	<b>1,800</b>	<b>2,448</b>	<b>486</b>	<b>4,734</b>

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

There is also a provision at 31 March 2021 for the Life Assurance liability. Hymans Robertson have estimated SEPA's 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 as estimated by Cushman and Wakefield at 31 March 2020, indexed for the increase in construction costs in 2020/21.

#### **Note 14. Financial commitments**

There are capital commitments at 31 March 2021 of £1.0m (2019/20 - £0.0m).

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

All contractual land and building leases are 'full repairing' leases and the basis of all future lease payments is as deemed at the point of agreement.

All vehicle lease payments are also determined at the point of agreement.

#### **Total commitments under operating leases at 31 March 2021**

	<b>Land and buildings</b>		<b>Other</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Payable within one year	1,636	1,523	-	3
Later than 1 year but less than 5 years	5,394	5,734	5	5
After 5 years	6,402	7,800	-	-
	<b>13,432</b>	<b>15,057</b>	<b>5</b>	<b>8</b>

**Note 15. IAS 19 – Pension asset and liabilities**

In accordance with International Accounting Standard No 19 'Employee Benefits' (IAS 19), SEPA is required to account for the net pension liability of £189.7m (2019/20 -£116.8m) for the financial year ended 31 March 2021, as valued by Hymans Robertson, the actuaries to the Falkirk Council Pension Fund. The actuary uses several factors to estimate SEPA's net liability, these include discount rates, salary increases, mortality, retirement age, and expected returns on pension fund assets.

In 2020/21, the pension fund deficit increased by £72.9m in 2020/21 (2019/20 - decreased by £15.9m). The significant changes were due to increases in liabilities from changes in the discount rate applied and other financial assumptions of (£126.6m), the net increase in current year service cost (£9.5m), offset by £60.8m return on assets, and £2.4m of other experienced changes on demographics. The discount rate applied by the actuaries in year was 2% (2019/20 - 2.3%).

The key assumptions used by the actuary include:

**Financial assumptions**

<b>Year ended</b>	<b>31 March 2021</b> (% per annum)	<b>31 March 2020</b> (% per annum)
Pension increases	2.85	1.9
Salary increases	3.45	3.0
Discount rate	2.00	2.3

**Mortality**

<b>Average life expectancy 2021</b>	<b>Males</b>	<b>Females</b>
Current pensioners	20.5 years	23.2 years
Future pensioners	21.9 years	25.2 years

<b>Average life expectancy 2020</b>	<b>Males</b>	<b>Females</b>
Current pensioners	20.5 years	22.8 years
Future pensioners	21.7 years	24.3 years

The default longevity assumptions are based on the Fund's data curve with improvements in line with CMI 2018. At the last formal valuation, the duration of the employers funded obligations was 23 years.

**Defined benefit obligation**

	Number	Total salaries / pensions		Average age	Liability split	Liability split	Average age
	31 Mar 2020	2020/21 Payroll	31 Mar 2020	31 Mar 2020	31 Mar 2021	Percentage (%) at 31 March 2021	2017 formal valuation
		£'000	£'000		£'000		
Actives	1,266	45,245	42,270	50	346,138	62%	49
Deferred pensioners	816		2,951	50	98,488	18%	48
Pensioners	421		5,198	66	115,483	20%	65
<b>Total</b>					<b>560,109</b>	<b>100%</b>	

**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
<b>Change in assumption at 31 March 2021</b>		<b>£'000</b>
0.1% decrease in real discount rate	2	12,593
0.1% increase in salary increase rate	0	1,942
0.1% increase in pension increase rate	2	10,495
1 year increase in member life expectancy	4	22,404

**Assets**

The asset values below are at bid value as required under IAS 19. Where asset splits were not available at the exact start and end dates, the nearest split prior to these dates has been used by the actuaries.

SEPA's fair value of fund assets is approximately 13% of the total assets of the fund.

**Asset value at 31 March 2021 and 31 March 2020**

	At 31 March 2021				At 31 March 2020			
	Quoted prices in active markets	Prices not quoted in active markets	Total		Quoted prices in active markets	Prices not quoted in active markets	Total	
<b>Asset category</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>%</b>
<b>Equity securities:</b>								
Consumer	27,663	-	27,663	8	19,524	-	19,524	7
Manufacturing	19,911	-	19,911	5	17,825	-	17,825	6
Energy and utilities	13,119	-	13,119	4	11,915	-	11,915	4
Financial institutions	30,776	-	30,776	8	22,317	-	22,317	7
Health and care	10,178	-	10,178	3	10,481	-	10,481	4
Information technology	33,978	-	33,978	9	24,073	-	24,073	8
Other	1,954	-	1,954	0	1,069	-	1,069	0
<b>Debt securities:</b>								
UK Government	5,206	-	5,206	1	4,782	-	4,782	2
<b>Private equity:</b>								
All	-	5,401	5,401	1	-	6,725	6,725	2
<b>Real estate:</b>								
UK property	-	20,505	20,505	6	-	18,452	18,452	6
Overseas property	-	32	32	0	-	76	76	0
<b>Investment funds and unit trusts:</b>								
Equities	91,307	-	91,307	25	61,181	-	61,181	20
Bonds	23,233	-	23,233	6	15,719	-	15,719	5
Infrastructure	-	36,161	36,161	10	-	34,232	34,232	11
Other	34,118	8,326	42,444	12	28,582	5,855	34,437	12
<b>Cash and cash equivalents:</b>								
All	8,587	-	8,587	2	17,760	-	17,760	6
<b>Totals</b>	<b>300,030</b>	<b>70,425</b>	<b>370,455</b>	<b>100</b>	<b>235,228</b>	<b>65,340</b>	<b>300,568</b>	<b>100</b>

## Change in fair value of SEPA's pension plan assets, defined benefit obligations, and net liability for the year ended 31 March 2021 and 2020

	Year ended 31 March 2021			Year ended 31 March 2020		
	Assets	Obligations	Net (liability)/asset	Assets	Obligations	Net (liability)/asset
<b>Pensions deficit</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Fair value of employer assets	300,568	-	300,568	315,854	-	315,854
Present value of funded liabilities	-	(417,374)	(417,374)	-	(448,531)	(448,531)
<b>Opening position at 31 March</b>	<b>300,568</b>	<b>(417,374)</b>	<b>(116,806)</b>	<b>315,854</b>	<b>(448,531)</b>	<b>(132,677)</b>
<b>Service cost</b>						
Current service cost <sup>18</sup>	-	(15,700)	(15,700)	-	(19,028)	(19,028)
Past service cost	-	-	-	-	(71)	(71)
<b>Total service cost</b>	<b>-</b>	<b>(15,700)</b>	<b>(15,700)</b>	<b>-</b>	<b>(19,099)</b>	<b>(19,099)</b>
<b>Net interest</b>						
Interest income on plan assets	6,968	-	6,968	7,652	-	7,652
Interest cost on defined benefit obligation	-	(9,729)	(9,729)	-	(10,959)	(10,959)
<b>Total net interest</b>	<b>6,968</b>	<b>(9,729)</b>	<b>(2,761)</b>	<b>7,652</b>	<b>(10,959)</b>	<b>(3,307)</b>
<b>Total defined benefit cost recognised in profit or (loss)</b>	<b>6,968</b>	<b>(25,429)</b>	<b>(18,461)</b>	<b>7,652</b>	<b>(30,058)</b>	<b>(22,406)</b>
<b>Cash flows</b>						
Plan participants' contributions	3,084	(3,084)	-	2,904	(2,904)	-
Employer contributions	9,049	-	9,049	8,826	-	8,826
Benefits paid	(6,886)	6,886	-	(5,714)	5,714	-
<b>Expected closing position</b>	<b>312,783</b>	<b>(439,001)</b>	<b>(126,218)</b>	<b>329,522</b>	<b>(475,779)</b>	<b>(146,257)</b>
<b>Re-measurements</b>						
Change in demographic assumptions	-	2,181	2,181	-	16,298	16,298
Change in financial assumptions	-	(126,578)	(126,578)	-	40,013	40,013
Other experience	(3,107)	3,289	182	-	2,094	2,094
Return on assets excluding amounts included in net interest	60,779	-	60,779	(28,954)	-	(28,954)
<b>Total re-measurements recognised in other comprehensive income</b>	<b>57,672</b>	<b>(121,108)</b>	<b>(63,436)</b>	<b>(28,954)</b>	<b>58,405</b>	<b>29,451</b>
Fair value of employer assets	370,455	-	370,455	300,568	-	300,568
Present value of funded liabilities	-	(560,109)	(560,109)	-	(417,374)	(417,374)
<b>Closing position at 31 March</b>	<b>370,455</b>	<b>(560,109)</b>	<b>(189,654)</b>	<b>300,568</b>	<b>(417,374)</b>	<b>(116,806)</b>

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

**Note 16. IAS 19: Details of entries in the Statement of Comprehensive Net Expenditure**

IAS 19 requires SEPA to analyse and disclose the amounts included within the Statement of Comprehensive Net Expenditure. These are detailed below.

**Statement of Comprehensive Net Expenditure**

	<b>Year to 31 March 2021</b>	<b>Year to 31 March 2020</b>
	<b>£'000</b>	<b>£'000</b>
<b>Charge to operating costs</b>		
Current service cost	15,700	19,028
Past service cost	-	71
Total service cost	15,700	19,099
Employer contribution	(9,049)	(8,826)
<b>Added to staff costs</b> (see note 4)	<b>6,651</b>	<b>10,273</b>
Projected return on employers' assets	(9,729)	(10,959)
Actual return on employer assets	6,968	7,652
<b>Interest payable</b> (note 7)	<b>(2,761)</b>	<b>(3,307)</b>

Hymans Robertson have estimated SEPA's employer's contributions for the period to 31 March 2022 at approximately £9m.

**Note 17. Related party transactions**

SEPA is a non-departmental public body sponsored by the Scottish Government Directorate for Environment and Forestry. The Scottish Government is regarded as a related party. During the year, SEPA has had various material transactions with the Scottish Government and with other entities for which the Scottish Government is regarded as a parent body (notes 11, 12, and 20 refer). During the year, apart from their service contracts, no Board Member, key manager, or other related parties have undertaken any material transactions with SEPA. Board Member Declarations of Registered Interests is published on the SEPA [website](#).

One non-executive member of the Board also sits as a non-executive member on the Board of NHS Lothian. NHS Lothian are deemed to be a related party. SEPA had a small number of transactions with NHS Lothian during the year.

**Note 18. Segmental analysis for year to 31 March 2021**

SEPA sets out its aims and objectives for the five years 2017-2022 in its [Corporate Plan](#). Each year SEPA publishes an [Annual Operating Plan](#).

SEPA operates mainly in Scotland. SEPA normally manages its assets, liabilities, and income on a corporate basis and its day-to-day operating costs are managed by portfolios. The segmental analysis usually provided is based on the financial monitoring returns that are regularly produced for Agency Management Team. Due to the cyber-attack, all of this routine information was lost.

We have rebuilt the finance system and have reconstructed the financial records for 2020/21 at a corporate level, to prepare the annual report and accounts. The management information at portfolio level was not reconstructed, so there is no segmental information available for 2020/21.

SEPA's contribution to EU projects is included in the expenditure in the table below. Over and above this, there was £0.4m direct EU funded expenditure included in the Statement of comprehensive net expenditure for the year. The associated income has been included in other income of the year in the Statement of comprehensive net expenditure (£46.1m plus £0.4m is £46.5m).



## Segmental Analysis for 2019/20

	Evidence and Flooding	Chief Exec	Performance & Innovation	People & Property	Finance	International Services	Compliance & Beyond	Circular Economy	Corporate	Total
<b>Extracted from Management Reports for period 12</b>										
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Income:</b>										
Revenue from Charging Schemes	-	-	-	-	-	-	-		41,861	41,861
Other income	-	-	-	-	-	-	-		4,200	4,200
<b>Total income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>		<b>46,061</b>	<b>46,061</b>
<b>Less expenditure</b>										
Staff costs	22,370	272	3,935	2,074	1,156	439	16,852	9,977	674	57,759
Other operating charges	9,769	53	925	5,279	324	214	1,034	2,374	349	20,321
Depreciation and impairment	-	-	-	-		-			3,119	3,119
<b>Total expenditure</b>	<b>32,139</b>	<b>325</b>	<b>4,860</b>	<b>7,353</b>	<b>1,480</b>	<b>653</b>	<b>17,886</b>	<b>12,351</b>	<b>4,142</b>	<b>81,189</b>
<b>Net expenditure for year</b>	<b>(32,139)</b>	<b>(325)</b>	<b>(4,860)</b>	<b>(7,353)</b>	<b>(1,480)</b>	<b>(653)</b>	<b>(17,886)</b>	<b>(12,351)</b>	<b>41,919</b>	<b>(35,128)</b>
<b>Reconciliation to annual accounts</b>										
Adjustment to depreciation and impairments										51
Increase in bad debt provision										(126)
Additional accrued income										10
Additional accrued expenditure										(11)
Add life assurance adjusted provision										(43)
Add unfunded pension additional provision										236
Pension scheme adjustments										(13,580)
<b>Net expenditure for the year</b>										<b>(48,591)</b>

**Note 19. Trading Accounts schemes year to 31 March 2021**

SEPA recovers the cost of providing its services by charging fees. Under the Environment Act, SEPA should produce a trading account showing the costs it incurred in year to provide these services. Due to the cyber-attack, the systems and data required to prepare these trading accounts for 2020/21 was lost and we are unable to recreate it.

<b>Schemes</b>	<b>ERS</b>	<b>PRW</b>	<b>RSA Band A</b>	<b>Other</b>	<b>Total</b>
<b>Year to 31 March 2020</b>					
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Income</b>	<b>38,192</b>	<b>1,227</b>	<b>1,664</b>	<b>778</b>	<b>41,860</b>
<b>Expenditure</b>					
Staff costs	(28,771)	(641)	(1,078)	(1,053)	(31,543)
Depreciation / cost of capital	(2,228)	(30)	(43)	(27)	(2,328)
Bad debts	(150)	(99)	(58)	(37)	(344)
Other operating charges	(7,600)	(148)	(771)	(197)	(8,716)
<b>Total expenditure</b>	<b>(38,749)</b>	<b>(918)</b>	<b>(1,950)</b>	<b>(1,314)</b>	<b>(42,931)</b>
<b>(Under)/Over recovery</b>	<b>(557)</b>	<b>309</b>	<b>(286)</b>	<b>(536)</b>	<b>(1,071)</b>
<b>% Cost recovery</b>	<b>99%</b>	<b>134%</b>	<b>85%</b>	<b>59%</b>	<b>98%</b>

**Additional schemes**

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

**Note 20. Grant in Aid Funding (GiA)**

	<b>Year to 31 March 2021</b>	<b>Year to 31 March 2020</b>
	<b>£'000</b>	<b>£'000</b>
<b>Cash GiA received to meet expenditure</b>	<b>37,637</b>	<b>34,142</b>

The amount of GiA provided to SEPA is initially agreed by Ministers, as part of the Scottish budget process. This figure is then subject to adjustments as agreed with the sponsor division. Government

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

### Net expenditure

		Year to 31 March 2021 £'000	Year to 31 March 2020 £'000
Budgeted cash allocation	Capital	2,200	2,000
Budgeted cash allocation	Operating costs	33,423	32,142
Total cash that could be drawn down in year		35,623	34,142
Cash drawn down in year		(37,637)	(34,142)
Cash remaining with Scottish Government		<b>(2,014)</b>	-

The non-cash resource allocated to operating costs was mistakenly drawn down in cash and is included in cash at bank at 31 March 2021 (note 10). It has been agreed with Scottish Government that this will be offset against the cash draw down allocated for 2021/22.

### Note 21. Operating resource reconciliation

	Note	Year to 31 March 2021 £'000	Year to 31 March 2020 £'000
Net Operating Expenditure, Statement of Comprehensive Net Expenditure		(45,646)	(45,312)
Add back pensions adjustments	4	6,651	10,273
Add back life assurance	4	(19)	43
Add back unfunded pensions	4	193	(94)
Add back depreciation and impairments	9	3,502	3,068
Less cash paid out on unfunded pensions	13	(143)	(142)
Less cash paid out on life assurance	13	(49)	-
Add interest received	6	3	23
<b>Section 2.3 Parliamentary accountability expenditure outturn</b>		<b>(35,508)</b>	<b>(32,141)</b>
This is split between cash and non-cash in the parliamentary report:			
Operating Cash DEL		<b>34,227</b>	
Operating non-cash DEL staff benefit		<b>1,281</b>	
<b>Total</b>		<b>35,508</b>	

**Note 22. Annually Managed Expenditure (AME) at 31 March 2021**

		Year to 31 March 2021	Year to 31 March 2021	
	Note	Budget	Actual	Variance
		£'000	£'000	£'000
IAS 19 pension charge	4	6,369	6,651	(282)
Unfunded pension charge	4	70	193	(123)
Interest payable IAS 19 assets & liabilities	7	2,761	2,761	-
Death in service provision charge	13	80	(19)	99
Leased property decommissioning provision	13	2,950	191	2,759
Less cash paid out on unfunded pensions	13	(140)	(143)	3
Less cash paid out death in service	13	(50)	(49)	(1)
Movement in leased property decommissioning provision		300	-	300
Movement in market value of fixed assets		670	(9)	679
<b>Section 2.3 Parliamentary accountability expenditure outturn</b>		<b>13,010</b>	<b>9,576</b>	<b>3,434</b>

**Annually Managed Expenditure (AME) at 31 March 2020**

		Year to 31 March 2020	Year to 31 March 2020	
	Note	Budget	Actual	Variance
		£'000	£'000	£'000
IAS 19 pension charge	4	7,000	10,273	(3,273)
Unfunded pension charge	4	150	(94)	244
Interest payable IAS 19 assets & liabilities	7	2,800	3,307	(507)
Leased property decommissioning provision	9 ,13	-	2,448	(2,448)
Less cash paid out on unfunded pensions	13	(139)	(142)	3
Death in service provision	13	100	43	57
Movement in market value of fixed assets		500	1,075	(575)
<b>Section 2.3 Parliamentary accountability expenditure outturn</b>		<b>10,411</b>	<b>16,910</b>	<b>(6,499)</b>

## Appendix 1 Ministerial Directions



### SCOTTISH ENVIRONMENT PROTECTION AGENCY

#### DIRECTION BY THE SCOTTISH MINISTERS

1. The Scottish Ministers, in pursuance of Section 45(2) of the Environment Act 1995, hereby give the following direction.
2. The statement of accounts for the financial year ended 31 March 2006, and subsequent years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (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 19 March 2001 is hereby revoked.

*Richard Grant*

Signed by the authority of the Scottish Ministers

Dated 9 December 2005

**Received in the year to 31 March 2021**

<b>Title</b>	<b>Year</b>	<b>In exercise of powers under</b>	<b>Coming into force date</b>	<b>Comments and eRDM objective ID</b>
The Water Environment (Controlled Activities) (Unconventional Oil or Gas Development) (Scotland) Revocation Direction 2020	2020	Regulation 20(2) of the Water Environment (Controlled Activities) (Scotland) Regulations 2011	15 July 2020	eRDM Objective ID – A30519071  Revokes The Water Environment (Controlled Activities) (Unconventional Oil or Gas Development) (Scotland) (No.2) Direction 2015
The Scotland River Basin District (Quality of Shellfish Water Protected Areas) (Scotland) Directions 2021	2021	Section 40(1) of the Environment Act 1995, section 2(6) of the Water Environment and Water Services (Scotland) Act 2003	15 March 2021	ERDM Objective ID: A32366255  Revokes the Scotland River Basin District (Quality of Shellfish Water Protected Areas (Scotland) Directions 2015
The Water Environment (Shellfish Water Protected Areas: Objectives and Classification etc.) (Solway Tweed) Directions 2021	2021	Section 40(1) of the Environment Act 1995, section 2(6) of the Water Environment and Water Services (Scotland) Act 2003	15 March 2021	eRDM Objective ID – A32366465  Revokes the Water Environment (Shellfish Water Protected Areas: Objectives and Classification etc.) (Solway Tweed) Directions 2016

## Appendix 2 Trade union facilities time<sup>19</sup> (unaudited)

In accordance with SEPA's statutory responsibility under Trade Union (TU) (Facility Time Publication Requirements) Regulations 2017, the schedule below provides the required data relating to SEPA's trade union representatives for the period 2020/2021.

### Relevant union officials during 2020/21

Number of employees who were relevant union officials during 2020/21	Full-time equivalent employee number
20	20

### Percentage of time spent on facility time during 2020/21<sup>20</sup>

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

Percentage of time	Number of employees
0%	7
1 – 50%	13
51% - 99%	0
100%	0

### Percentage of pay bill spent on facility time during 2020/21<sup>21</sup>

Total cost of facility time	£116,802
Total pay bill	£61.9m
Percentage of total pay bill on facility time	0.19%

<sup>19</sup> All footnotes on this page refer to information taken from HM government Supporting Guidance for the Trade Union (Facility Time Publication Requirements) Regulations 2017.

<sup>20</sup> TU activities – means time taken off under section 170(1) (b) of the 1992 Act. TULR(C) A section 170. There is no statutory entitlement to paid time off to undertake TU activities. However, TU representatives are entitled to be granted reasonable unpaid time off to participate in TU activities.

<sup>21</sup> Total paid facility time hours – total number of hours spent on facility time by TU representatives during a relevant period. Does not include hours attributable to time taken off under section 170(1) (b) of the 1992 Act in respect of which a TU representative does not receive wages.

**Paid trade union activities<sup>22</sup>**

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

Time spent on paid trade union activities as a percentage of total paid facility time (hours)	11.4%
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<sup>22</sup> Paid TU activities – time taken off for TU activities under section 170 (1) (b) of the 1992 Act in respect of which a TU representative receives wages from the relevant public sector employer. There is no statutory entitlement to paid time off to undertake activities.