



Agency Board Meeting 29 November 2022

Board Report Number: SEPA 49/22

Board report for period ending 30th September 2022

Summary:	<p>This report is to provide an update to the Board on:</p> <ul style="list-style-type: none"> • Actual results for Quarter 2 (Q2), the period of 1st April 2022 to 30th September 2022 show that SEPA is forecasting a break-even budget for the year. The forecast includes £1.8m of staff turnover savings and a further £0.6m of staff savings due to managing recruitment. • The forecast contains £1.6m inflationary expenditure which may be used for a pay award settlement. Discussion are on-going for the 2022-23 pay award • Capital summary and balance sheet are provided.
Risks:	The financial risks are detailed separately in Annex A in private session.
Resource and Staffing Implications:	Resourcing and staffing implications are outlined in Annex A risk no R006.
Equalities:	None.
Environmental and Carbon Impact:	None.
Purpose and audience of the report:	The Board is asked to note the contents of this report.
Report Author:	<p>Ian Bryce, Deputy Head of Finance Rosaleen Burke, Head of Finance Sponsor: Angela Milloy, Chief Officer, Finance</p>
Appendices:	<p>Annex A: Analysis of financial risks – submitted to private session. None</p>

Table 1 – Year to date actuals and full year forecast

Scottish Environment Protection Agency Income & Expenditure Account 2022-23						
Period Ended 30th September 2022	Year to date			Full Year		
	Description	Actual £'000	Budget £'000	Var. £'000	Outturn £'000	Budget £'000
Grant in Aid	21,500	21,500	0	40,047	40,047	0
Charging Schemes	39,584	39,752	(168)	43,561	43,568	(7)
Other Income	1,311	1,051	260	4,730	4,822	(92)
Total Income	62,395	62,303	92	88,338	88,437	(99)
Staff Costs	30,294	30,665	371	61,917	62,527	610
Other Staff Costs	357	172	(185)	756	414	(342)
Transport Costs	444	504	60	1,091	1,067	(24)
Supplies & Services	6,093	6,182	89	15,761	15,944	183
Property Costs	2,252	2,308	56	3,513	3,185	(328)
Depreciation/impairment	2,650	2,650	0	5,300	5,300	0
Total Operating Costs	42,089	42,481	391	88,338	88,437	99
Operating Surplus/ (Deficit)	20,306	19,822	484	(0)	(0)	(0)

1. Net results

1.1 Table 1 is forecasting that the full year outturn is a break-even position. It should be noted that the 2022-23 budget was set net of £2.6m savings by budget reductions in Staff Costs (£1.8m) and Supplies & Services (£0.8m).

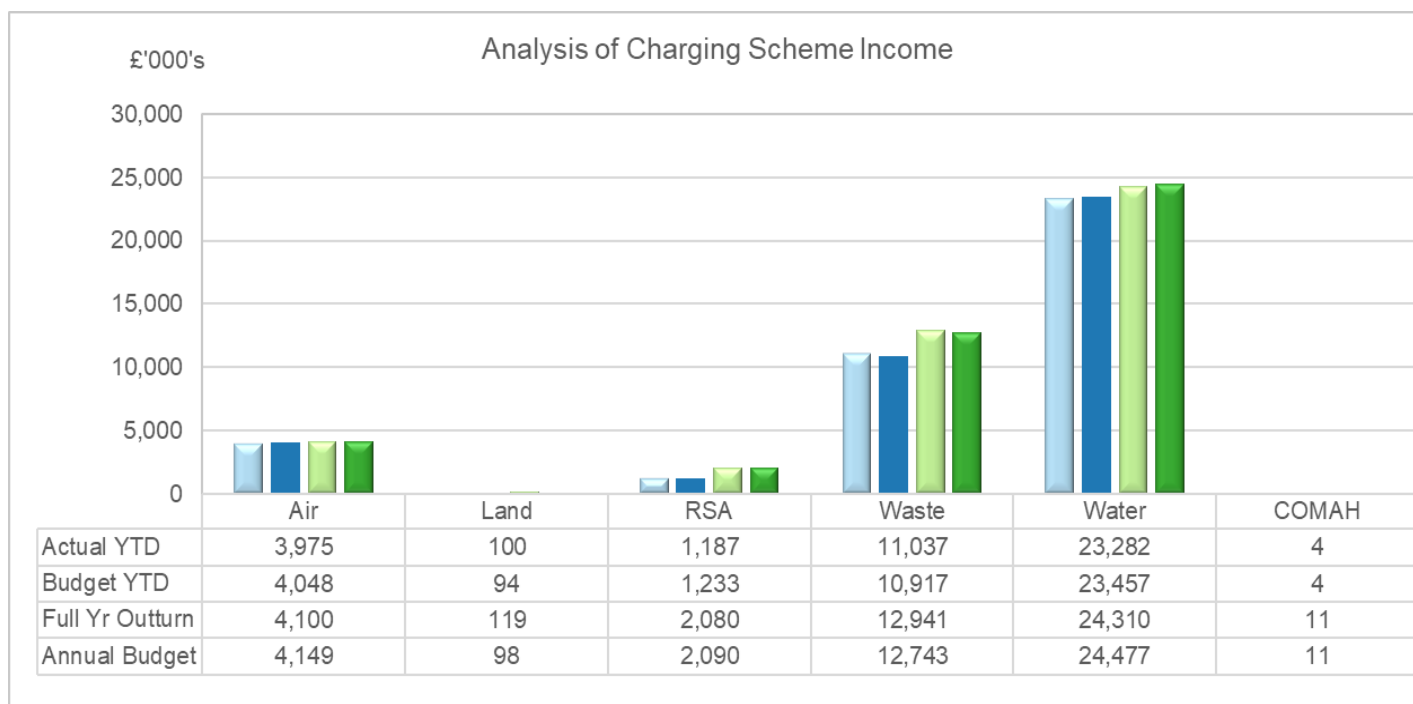
1.2 Revenue Grant in Aid (GiA) is presented in the above table and GiA Capital of £4.5m has been excluded. A capital update is provided later in the report.

Total income

1.3 Total income for the full year is forecast at £88.3m which is £99k less or a (0.1%) variance on the full year budget, this relates to Other Income and is detailed below.

Grant in Aid (GiA)

1.4 SEPA's revenue GiA is currently forecast at £40.0m. This has reduced by a net £0.7m from the original budget set due to a decrease of (£1.8m) in relation to the implementation of IFRS (International Financial Reporting Standards) 16 Leases, offset by increases of £1.1m for additional duties.

Table 2 – Charging Schemes – Income highlights

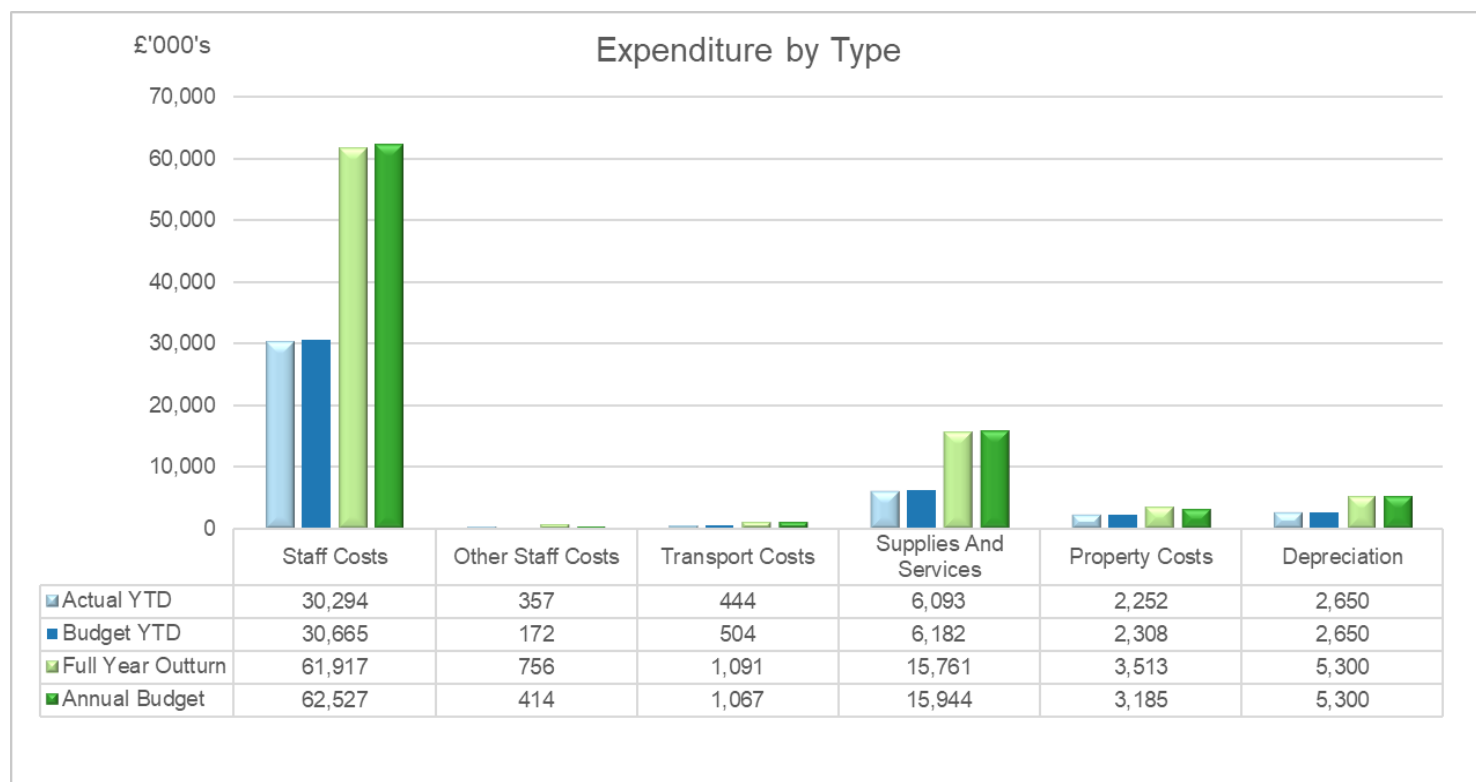
- 1.5 Table 2 shows Charging Scheme income by category. The full year income is expected to outturn at £43.6m. Whilst this level is only £7k less than budget, the income mix has moved from budget. Application income has increased by £87k and is offset by a forecast reduction in subsistence charges of £96k.

Other income – highlights

- 1.6 The budget is £4.8m, the forecast outturn for other income is a net £92k lower primarily due to:
- a decrease in forecast income from the Water Environment Fund of £184k (original budget £2.8m);
 - a decrease in Scottish Landfill Tax of £163k (original budget £740k); and
 - an increase in Transfrontier Free Rider income of £244k.

2. Total expenditure

- 2.1 Full year operating costs are forecast at £88.4m, £99k less or a (0.1%) variance from budget. The charts below show forecast expenditure against budget for the year by expenditure type.

Table 3 – Expenditure by type

Staff costs and other staff costs

- 2.2 AMT implemented tighter controls on recruitment, the full year staff costs forecast estimates that £1.8m of turnover savings will be achieved with a further underspend of £610k. These savings should be viewed together with other staff costs where the full year forecast estimates an overspend of £342k relating to temporary recruitment, overtime, and allowances.
- 2.3 At the time of writing, the 2022-23 pay award has not been approved and discussions are ongoing. As a scenario, if an award approved is in line with the rest of public sector at 5%, this would add a further £2.3m to the staff costs the forecast.
- 2.4 The year-end forecast is subject to change from further staff churn and the FRS 102 requirement for annual leave/flexi adjustments.

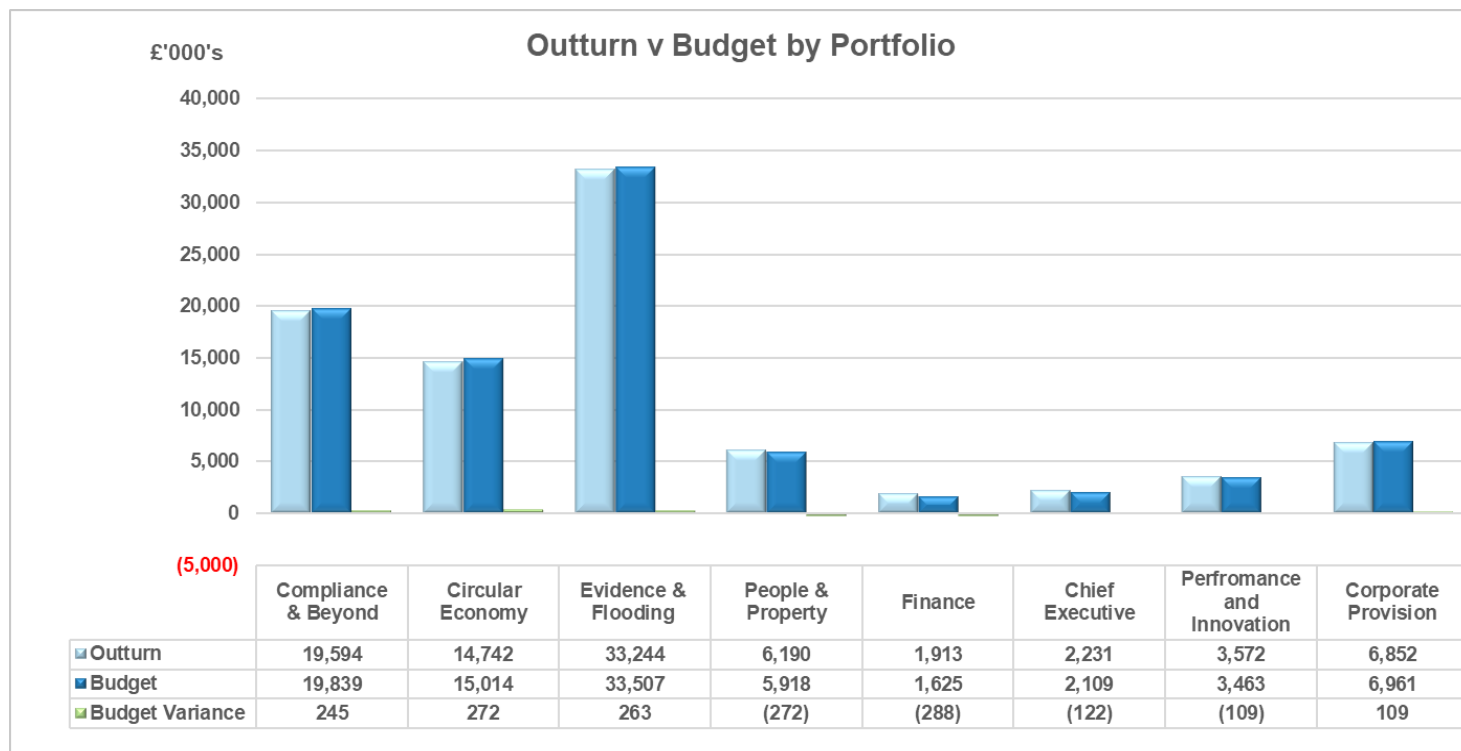
Supplies and services

- 2.5 The full year forecast is currently showing a £183k underspend. It should be noted that the forecast includes £1.6m expenditure to be allocated to priority cost pressures which may include a revised pay offer in the coming months. This has been primarily achieved through:
- Implementing a mid-year spending review £0.5m.
 - Recovery of bad debt previously provided for £0.8m
 - Reduction in national insurance due to a reversal of the planned increase £0.2m

Property costs

- 2.6 The full year forecast is an overspend in property costs of £328k. This is mainly associated with increased costs against property maintenance of £178k covering essential work at the offices in Aberdeen, Dumfries, and Stirling. There are also increased charges for utilities of £114k and cleaning of £19k primarily required due to exceptional additional cleaning to enable the reopening of buildings.
- 2.7 The graph below represents the performance of each portfolio, comparing full year outturn to budget.

Table 4 – Expenditure by Portfolio



3. Future focus

- 3.1 At the time of writing, October results are still being verified. The reporting timetabling is being reviewed to align to reporting dates to future Audit & Risk meetings. The aim would be to have 10 days between Audit & Risk meeting and the Board meetings to allow for Audit & Risk feedback & scrutiny queries to be incorporated into the report. A short report will be submitted at the next meeting for consideration.
- 3.2 Budget work has commenced and a first draft due in December.
- 3.3 Charging schemes work modelling RPI (Retail Price Inflation) inflationary increases is underway.
- 3.4 Work on 2023-24 year-end will commence with a main aim of addressing auditor recommendations on front half format of the financial statements.

Table 5 – Capital expenditure

Capital Budget 22/23		
	Budget	YTD Actual
Capital GiA	4,355	1,660

Capital Area	Forecast	Actual	Committed	Uncommitted	Type of Spend
Circular Economy	300	154	13	133	Electronic Waste Tracking
Chemistry	351	0	244	107	Landfill Tax / Air Monitoring
Ecology	55	0	33	22	Kelpie Engines / Autoclave
Environmental Quality	46	0	8	38	Bathing Water Signs
Facilities	176	0	106	70	UPS Batteries / Aberdeen Lab
Hydrology	2,017	850	650	517	Pluvial / FFIMS / Telemetry / Gauging Stations
Information Systems	1,700	753	525	422	Infrastructure Dev / Security Equip / Website
Capital Totals 22/23	4,645	1,757	1,579	1,309	

4. Capital

- 4.1 SEPA's capital budget provided by SG for the year is £4.5m. We are currently managing a capital programme of £4.6m with further pipeline projects on hold which can be brought forward early if required. The plan has been prioritised and will be carefully managed to guard against the risk of overspending. Committed expenditure as at the end of September was £3.3m.

Balance sheet

Scottish Environment Protection Agency Balance Sheet		
Period Ended 30th September 2022	Actual	Actual YTD
	Year End 31st Mar 22	30th Sept 22
Description	Balance	Balance
	£'000's	£'000s
Non-current assets		
Capitalised Assets	40,212	38,045
Assets under construction	2,603	2,603
Right of Use Asset		11,825
Total non-current assets	42,815	52,473
Current Assets		
Debtors & Prepayments	6,921	5,398
Cash at Bank & In Hand	2,146	17,650
Total current assets	9,067	23,048
Creditors & Accruals	(8,841)	(6,567)
Deferred Income	(489)	(49)
Net current liabilities	(9,330)	(6,616)
Total assets less current liabilities	42,552	68,905
Lease Liabilities		(11,931)
Provision for Liabilities & Charges	(2,148)	(2,101)
Decommissioning Provision	(3,286)	(3,286)
FRS 17 Pension Provision	(120,967)	(120,967)
Total assets less liabilities	(83,849)	(69,380)
Financed By: Taxpayers Equity Reserves		
Income & Expenditure Account	0	14,469
Accumulated Income & Expenditure Account	(104,473)	(104,473)
Revaluation account	20,624	20,624
Total Capital Employed	(83,849)	(69,380)

4.2 The Balance Sheet is tabled above and reports the opening balances based on the Financial Statements which have now been approved by external auditors by way of an unmodified (True & Fair) opinion for the 2021-22 accounts.

4.3 The Year-to-Date balance details the addition of SEPA's leases which are now required to be recognised on the Balance Sheet as a requirement of accounting standard IFRS 16 where organisations account for leased assets and corresponding liability more than 12 months.

5. Recommendation

5.1 The Board asked to note SEPA's financial performance for the year to 30th September 2022.

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Sponsor: Angela Milloy, Chief Officer, Finance