

SNH

ANNUAL REPORT

2004/2005



**SCOTTISH
NATURAL
HERITAGE**



CONTENTS

Chief Executive's Foreword	3
Introduction	4
Our performance	5
The year in summary	
1 Caring for the natural world	7
2 Enriching people's lives	10
3 Promoting sustainable use	12
4 Delivering the strategy	14
Performance against government's key targets	16
Board members at 31 March 2005	18
Board members' interests	19
Nature Conservation Orders	27
SNH offices and staff	28
Audited accounts for 2004–2005	31

CHIEF EXECUTIVE'S FOREWORD

I am pleased to present the Scottish Natural Heritage Annual Report for 2004–2005.

This Annual Report is one of three publications that report on our work and performance in the year from April 2004 to March 2005. It fulfils our statutory responsibility to present an Annual Report and Annual Accounts to the Scottish Parliament. The SNH Annual Review is aimed at a broader public readership and provides a fuller account of our work during the year. We also produce 'Facts & Figures', which gives statistical information on natural heritage designations and full details of payments made to others by SNH as grants, management agreements or research projects. This year we have also developed an online interactive version of Facts and Figures which is available on our website www.snh.org.uk.

This year has seen us operating in a climate of significant public sector change in Scotland, which has challenged us to look closely at our priorities and how we operate. In particular, the Strategic Review of SNH, commissioned by the Scottish Executive, sets an agenda for continuous improvement in how we deliver our remit and

services, which we welcome. I am pleased to say that we have continued to deliver effectively across our broad remit, and met or substantially met all the key targets set for us by the Scottish Executive. Delivering this demanding programme is reliant on the commitment of staff, members of our Boards and Committees and the many individuals and organisations who work with us. My thanks go to them for all their efforts over this year in achieving positive outcomes for Scotland's natural heritage.



Ian Jardine
Chief Executive
Scottish Natural Heritage

INTRODUCTION

Scottish Natural Heritage is a Government body, responsible to Scottish Ministers. We have duties to conserve and enhance Scotland's natural heritage, help people to enjoy and understand it, and to encourage others to use it sustainably. In carrying out this broad remit, we work to four main themes:

Caring for the Natural World, by maintaining and restoring Scotland's rich diversity of animal and plant life.

Enriching People's Lives, by providing opportunities for people to enjoy and care for the natural environment and improving the quality of life in urban areas through access to good quality green open spaces.

Promoting Sustainable Use, by promoting care of our land, freshwater and marine resources and the social and economic benefits we get from the environment.

Delivering the Strategy, by listening to our customers and partners, making our information more accessible and increasing our reputation as an authoritative and reliable organisation.

Much of our work is done in partnership with others – public, private and voluntary organisations and individuals. We operate at both national and local levels, with our devolved network of offices throughout Scotland helping us to be accessible and responsive to local needs and circumstances.

OUR PERFORMANCE

We report to the Scottish Executive on our performance through 10 key targets, agreed with them and drawn from our Corporate Plan. Full details of these are provided elsewhere in this report. Overall, we met or substantially met all our targets

	2004/05
Exceeded target	
Met target	9
Substantially met target	1
Failed to meet target	
Total	10

1

CARING FOR THE NATURAL WORLD

The year in Summary

BIODIVERSITY

The first part of 2004 saw the introduction of two key initiatives, from the Scottish Executive, that will help us all to meet the challenge of 'halting the loss of Scotland's biodiversity'. The Scottish Biodiversity Strategy, '*Scotland's Biodiversity – It's In Your Hands*' was launched in May 2004 and The Nature Conservation Bill received Royal Assent on 11th June 2004.

Almost every aspect of SNH work has a link to caring for Scotland's biodiversity. SNH has a central role in implementing the strategy that aims to co-ordinate efforts to halt biodiversity loss in Scotland. Implementation Plans have been prepared that set out the actions for the first three years to initiate the 25-year Scottish Biodiversity Strategy. SNH has been identified as supporting 92 actions and leading a further 51.

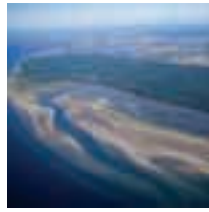
Throughout the year SNH has continued to support Local Biodiversity Action Plan (LBAP) groups across Scotland. This includes making a substantial financial contribution to support staff and projects, providing funds to over 75% of the local authorities in Scotland. Local projects undertaken by LBAP groups include survey work for ponds, encouraging farmers to plant crops to benefit birds and work with local schools to develop a popular biodiversity calendar.

SNH staff have also been involved in practical biodiversity work, such as a feasibility study to determine if the endangered freshwater pearl mussel can be translocated to new rivers to

expand its declining population. Throughout the year SNH has supported a range of research and survey work on important animals and plants. The recently published report on Priority Woodlands for Red Squirrels has led to the employment of a Scottish Squirrel Co-ordinator who will be promoting management to improve woodlands for red squirrels.

Another important role SNH plays in protecting wildlife is to advise on projects and development proposals that might impact on protected habitats and species. During the year we responded to over 7,000 consultations. A large proportion of these relate to planning applications where our advice is sought to ensure that developments are designed to avoid damaging impacts on wildlife, landscapes and recreational interests. This is a key role of staff in our local offices who work closely with land managers and staff in public bodies to ensure that the well-being of our protected areas and species is carefully considered during the planning process.

In addition SNH has a statutory function to issue licences for certain activities like bird ringing and photography, to ensure that these activities are undertaken in a way that minimises disturbance to protected species. During the year we issued a total of 727 licences, over 400 of which were issued to support scientific monitoring of important bird species.



Natura 2000

Natura 2000 is a network of nature conservation sites – called Special Protection Areas (SPAs – for birds) and Special Areas of Conservation (SACs – for habitats and a wide range of species). This network is intended to protect Europe's most seriously threatened habitats and species through the 21st century and beyond. Creation of the Natura network is a key part of action stemming from the EC Habitats Directive and the EC Wild Birds Directive.

Some of Europe's most threatened wildlife and habitats occur in Scotland and Natura sites are an important way to protect their future. During the year further candidate Special Areas of Conservation were submitted to the EC and in December 2004 the UK list for terrestrial sites was agreed. Following this, Scottish Ministers formally designated all Scottish Special Areas of Conservation on this list. Further work proceeded during the year on identifying marine Natura sites for birds and other habitats and species.

This year saw the 25th anniversary of the Birds Directive and 10th anniversary of the Habitats Directive. In recognition of this a new Natura leaflet was produced and a display promoting the network launched in Edinburgh. Management of the network and protection of the sites is a high priority for SNH and work continued on developing marine and terrestrial management schemes. In addition, SNH has played a lead role in implementing important habitat and species

restoration projects, part funded by the EC LIFE programme, for capercaillie, peatlands, mink eradication, and salmon.

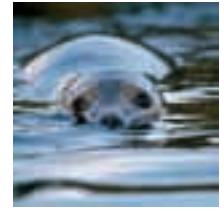
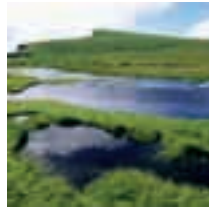
National Nature Reserves

SNH has reviewed its approach to management planning on National Nature Reserves (NNRs) to make sure that it meets current day needs. The biggest changes reflect a commitment to consult with a wider audience on how each NNR is managed. Key stakeholders including local authorities, local community and surrounding land managers will all be asked for their views during the preparation of the plans, and the finalised plans will be made widely available.

So far public consultations have been completed on four NNRs. The plans were made available on the NNR Scotland website www.nnr-scotland.org.uk and information sessions and guided walks were also organised.

Site Condition Monitoring

SNH is responsible for monitoring and reporting on the condition of Sites of Special Scientific Interest (SSSIs) in Scotland. The process of Site Condition Monitoring is carried out on a six-year cycle and 2004/05 was the last year of the first cycle. By the end of the year we had completed condition assessments of nearly 5,000 features of interest across the 1,451 SSSIs in Scotland. The data collection, analysis and reporting have been



a major undertaking. The data are already in use for example, when discussing land management options with managers, and are also being used to influence SNH's Natural Care programme.

Natural Care

The Natural Care programme is a key mechanism for delivering the natural heritage benefits of the Nature Conservation (Scotland) Act. Our target, agreed with the Scottish Executive, is to bring 80 per cent of the special features in Scotland's nationally important nature sites into favourable condition by 2008, with a longer-term target of 95 per cent being in favourable condition by 2010. Our Natural Care programme aims to bring protected areas under beneficial management for their nature conservation interest and thereby achieve the favourable condition of the special interest of these sites.

Management Schemes agreed with landowners and launched or renewed in 2004/05 include:

- The East Scotland Grassland Management Scheme – offers help with the management of grassland and fen SSSIs from Moray to the Borders.
- The Forth and Borders Moorland Scheme – offers help for managers of twelve moorland SSSIs in Fife, Falkirk, the Lothians and the Borders.

- The Skye Golden Eagle scheme – developed after the Cuillins Special Protection Area was classified for its breeding population of golden eagles.
- The Eagle Scheme on Mull follows on from classification of the Cnuic agus Cladach Mhuile Special Protection Area.

Landscape

SNH continued its efforts on landscape-related work during the year. Working in partnership with Historic Scotland, SNH helped to prepare material for Guidance on Local Landscape Designations. This will help local authorities refresh their approach to local landscape designations. It required close involvement and consultation with local authorities and other stakeholders. In September 2004, SNH hosted a seminar, involving over 95 participants from public and voluntary sectors, to promote debate about the importance and future of Scotland's landscapes; about guiding and managing change so that development or other activities will complement or enhance the landscape, and that a joined up approach is developed to reflect the range of interest in local and national landscapes.

2

ENRICHING PEOPLE'S LIVES

The year in Summary

Access Code

The landmark Scottish Outdoor Access Code was launched in February 2005. This was the culmination of many years' work by SNH and partners. Prior to the launch SNH had conducted a large-scale consultation to ensure that the code reflected the many and varied views on access to the countryside. 4000 leaflets were circulated as well as 20,000 copies of the consultation document and 400,000 copies of a short information leaflet.

To raise awareness of the code and the responsibilities on everyone who accesses the countryside SNH undertook a major advertising campaign, which included television and radio. Work has not stopped since the code was launched, and SNH is working with land managers to offer support and guidance on implementing the code. We will also be monitoring levels of awareness and this will inform our access education programme.

SNH has continued its support for the Paths to Health Initiative that aims to promote walking through local community partnerships. The work delivers many benefits including the therapeutic and social benefits from enjoying the countryside.

There are now over 1400 volunteer walk leaders in Scotland.

Encouraging Involvement

SNH has also run several Sharing Good Practice workshops. These very popular events aim to provide opportunities to share expertise, exchange information and develop new ideas among people involved in natural heritage management and education. Over 1000 participants were involved in the 2004/05 events.

Increasing Awareness

SNH aims to encourage the Scottish public's enthusiasm for the natural heritage in order to gain commitment and involvement in caring for its future. SNH has continued its efforts working to influence the formal education sector. For example, we have worked with the Scottish Education Department and Learning and Teaching Scotland to integrate natural heritage education within the national curriculum. In 2004–2005, we paid over £200,000 in grants to 150 schools to create wildlife friendly school grounds and promote opportunities for children to learn about plants and animals.



The Greenspace for Communities Initiative (GfC) was developed by SNH in partnership with local authorities and local partnerships involving the voluntary sector, community and business interests and led to the setting up of Greenspace Scotland. This year, we commissioned a review, which has

confirmed the positive impact of the organisation and the eight local Greenspace partnerships across Scotland in influencing community planning, local biodiversity action and raising the profile of greenspace to people's health and well being.

3

PROMOTING SUSTAINABLE USE

The year in Summary

Scotland's natural heritage provides significant benefits to the economy; the livelihood of rural communities and to the health and well-being of its people. It is the resource on which the primary industries depend as well as the sporting activities and tourism important in Scotland's rural areas.

Marine

Much of our work on marine issues involves providing specialist advice and working in partnership to influence others. In 2004–05 we were involved in the preparation of the Scottish Executive's Strategic Framework for Inshore Fisheries. This will help to build biodiversity considerations into future management of fisheries through the development of national and local management objectives.

We published a major report on 'The Seas Around Scotland' in 2004 as part of our continuing 'Natural Heritage Trends' series. The report highlighted several marine issues, including the continued vulnerability of native species such as basking sharks, angel sharks, long-nosed and common skates. The Seas Around Scotland brings together the findings from a wealth of research and survey work undertaken by a wide variety of organisations.

We continued to contribute to the funding of the Scottish Coastal Forum and we were instrumental in establishing a group to produce a framework for Integrated Coastal Zone Management for Scotland, covering existing coastal partnerships and beyond. In addition we also began work with

the Scottish Environment Protection Agency to link existing coastal management initiatives with river basin planning.

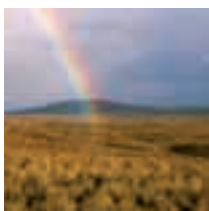
Agriculture

We have been working closely with the Scottish Executive to help to implement the recent far-reaching reforms of the Common Agricultural Policy, and in particular the introduction of the new Single Farm Payment Scheme.

SNH staff have been working with Scottish Executive Environment and Rural Affairs Department and Forestry Commission Scotland colleagues to determine the detail of the new Land Management Contracts to make sure that they fulfil their potential to deliver a wide range of natural heritage benefits. Land Management Contracts will be a key tool in ensuring that future management of the land sustains the wildlife and character of the rural landscape and provides new opportunities for the public to experience and enjoy these interests and qualities.

Forestry

During the year we have worked closely with Forest Research and Forestry Commission Scotland to look at the impacts of expanding forest networks on species and habitats in Scotland. We also continued work with Forest Research and the Scottish Executive Agricultural Department on a project, called 'Lowland Habitat Networks', which enables us to develop an integrated approach across a range of habitats rather than focusing in



on the needs of a specific habitat, e.g. farmland or woodland, potentially to the detriment of other habitats or species.

Renewables

Since April 2001 there has been a huge increase in the number of renewable energy development proposals on which SNH is consulted, responding to Government's aim to increase the proportion of electricity generated from renewable sources, and stimulated by the introduction of the Renewables Obligation (Scotland).

Renewable energy developments often have a significant effect on the natural heritage. SNH plays an advisory role in the planning and decision making process for renewable energy developments. During 2004–2005 there was a substantial increase in interest in onshore wind power and we responded to 674 requests for advice on developments and consultations.

Equally important in ensuring that the Executive's renewable energy targets are met in ways compatible with natural heritage interests, was SNH's input to consultations on various transmission proposals, both upgrades of existing power lines and creation of new lines linked to possible new renewables schemes.

LIFE Projects

The LIFE Nature programme is a source of European Commission funding that specifically targets conservation actions in the network of sites designated under the EC Habitats and Wild Birds Directives. We are major partners in several LIFE-Nature co-funded projects, involving work to protect capercaillie, to protect and expand native woodlands, and to conserve Atlantic salmon which will cost more than £3 million over four years, of which 50 per cent is funded by LIFE-Nature.

4

DELIVERING THE STRATEGY

The year in Summary

PFMR

In 2004, the Scottish Executive commissioned a Policy, Finance and Management Review (PFMR) of SNH. A steering group comprising the Scottish Executive, SNH and representatives of partner organisations oversaw the work. Its primary objective was to foster the continuous improvement of SNH in delivering its remit for the natural heritage.

The Review includes recommendations aimed at enabling SNH to contribute effectively to a wider programme of more integrated rural services across Scotland and to operate more efficiently so that public funds are targeted in achieving more for the natural heritage and the customers of SNH's services.

It also focuses on working between SNH and the Scottish Executive. The Review concluded that SNH is performing well; that it is a diligent, well-managed public body working efficiently to deliver its remit. It concludes that there should be no change at the present time to our status as a non-departmental public body. However it also highlights a number of ways in which we could improve our performance and these are now being progressed and implemented.

Openness and Accountability

The Freedom of Information (Scotland) Act and the Environmental Information (Scotland) Regulations came into force on 1 January 2005 and provide a renewed focus on openness in the public sector and public accountability of the decisions that

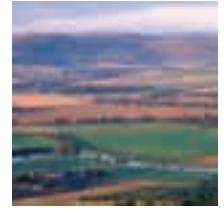
public bodies take. In response, SNH has prepared a Publication Scheme detailing the information we hold and make available; we have also sought to train our staff to respond effectively to information requests.

This year we have responded to over 140 national and UK policy consultations from Government and partner organisations. Our responses are available on the SNH website.

A key mechanism to ensure that our work is open to public scrutiny is through making information available on the SNH website. In response to customer feedback, we have redesigned the website to make it simple and quicker to find information about SNH and its work.

Part 3 of the Disability Discrimination Act came into force on 1 October 2004 and is expected to have implications on many of our activities. For example, we have been working with several groups to give guidance on access, signage and facilities for people with disabilities. In addition the NNR website has been designed to meet the highest level of the World Wide Web Consortium Web Accessibility Initiative (W3C WAI). This ensures that the website is easy to use for as many people as possible.

Open sessions before board meetings have been a feature of the work of each of the three Areas Boards. This has enabled people to have direct access to board members in an informal setting, designed to encourage participation.



Relocation

At the end of March 2005, we made available the latest version of our Project Plan for relocation of our corporate functions from Edinburgh to Inverness by the end of March 2006.

The building now under construction for our new corporate office in Inverness is designed to achieve an 'excellent' rating, using the Building Research Establishment Environmental assessment method (BREEAM). This is regarded as the UK construction industry's benchmark of environmental best practice. Buildings are

assessed on design, materials, construction methods, energy use and maintenance requirements. They can then be given a rating of pass, good, very good or excellent. This will be only the fifth 'excellent' rating in Scotland since 1998.

During this year, we have relocated 30 staff from Edinburgh to Inverness and actively recruited new staff. We now have 125 staff working from five temporary offices in Inverness, a net increase of 75 new jobs in Inverness so far.

PERFORMANCE AGAINST THE GOVERNMENT'S KEY TARGETS

Ref	Theme	Key Target	Progress 2004–05	Year-end position
1	1	Revise SNH procedures in line with the provisions of new legislation on nature conservation, including greater consultation with local communities.	Three guidance notes on implementation of the Nature Conservation Act approved, one awaiting final approval and four others in draft. Implementation Policy paper currently in draft.	Target met
2	1	Complete, by April 2005, the monitoring of features in the first 6-year pilot cycle of Site Condition Monitoring and with JNCC produce a report on this by December 2005.	Nearly 5,000 features have been monitored by end 2004/05. Of these, 3,732 (68%) features have been reported on and are currently undergoing quality assurance. Once this is complete, we will be making the results more widely known.	Target met
3	1	Increase the percentage of sites (by area) under assured management from 60% to 80% by 2006, through a range of funding mechanisms under the Natural Care programme, and pave the way for further increases thereafter.	The area of sites under assured management stood at approximately 590,000 ha at the end of 2004/05 (or 66% of SSSIs and Natura sites by area). During the year SNH signed up 143 new Natural Care scheme agreements covering some 84,000 ha.	Target substantially met
4	1	Agree, by December 2004, the forward programme for positive action by SNH to assist in the implementation of the Scottish Biodiversity Strategy (SBS).	Implementation tasks have been produced and work planned for 2005/06. Biodiversity project initiation document approved.	Target met
5	2	Establish a baseline for public awareness and understanding of the Access Code and to launch a promotional campaign.	Baseline established. A successful major promotional campaign was launched using TV, radio and press as well as mass distribution of the Code and associated leaflets. This has resulted in the awareness of the Code and the legislation rising from <6% before the rights commenced to up to between 35–46% since the launch of the campaign.	Target met

Ref Theme	Key Target	Progress 2004–05	Year-end position
6 2	Improved public enjoyment & protection of the countryside, as measured by the increase in numbers of walkers visiting.	Scottish Recreation Survey commenced in 2005 for a ten-year programme to monitor participation in the full range of outdoor activities. Opportunities to enjoy the outdoors responsibly are being increased through the implementation of the Land Reform Act: local issues are being addressed; awareness of the outdoor resource is being raised in association with the Access education programme and partnership working; SNH is working with Visitscotland to improve data on visitor numbers.	Target met
7 3	Provide SEPA with the required data and information for their water body characterisation report.	In September 2004 we provided SEPA with an assessment of condition, based on best expert judgement, of aquatic features on Natura 2000 sites. These were included in SEPA's 'characterisation reports' submitted to the European Commission in March 2005. During 2005–06, we will update these assessments in the light of any relevant site condition monitoring data. We will also ensure that SEPA has access to SNH data and expertise in assessing whether groundwater-dependent wetland Natura 2000 sites are affected by pressures on groundwater resources.	Target met
8 4	Deliver the SNH relocation plan	Planning permission for new corporate office in Inverness secured on 4th February 2005. 75 new posts have been filled in Inverness of a total 125 staff based in five temporary offices across the city.	Target met
9 4	Manage running costs and capital budgets within limits agreed by the Scottish Executive.	Target achieved	Target met
10 4	Take action to secure £1m of planned savings and gains through implementation of the Efficiency Plan.	Target achieved	Target met

BOARD MEMBERS AT 31 MARCH 2005

SNH BOARD

Chairman

John Markland CBE

Deputy Chairman

Michael Scott

Amanda Bryan (Chairwoman of NAB)

Peter Chapman (Chairman of EAB)

Keith Geddes CBE (Chairman of
ARMC)

Lady Isabel Glasgow (Chairwoman
of WAB)

Jim Hunter CBE

Nick Kempe

Alice Lambert

Hugh Raven

Professor Janet Sprent OBE
(Chairwoman of SAC)

Professor Susan Walker OBE

EAST AREAS BOARD

Chairman

Peter Chapman

Robert Balfour

Dr Nonie Coulthard

John Hunt

Councillor Alison McInnes

Captain Robin Middleton

Guy Wedderburn

Michael Williams MBE

SCIENTIFIC ADVISORY COMMITTEE

Chairwoman

Professor Janet Sprent

Dr Richard Birnie

Dr Nonie Coulthard

Dr Mary Gibby

Dr Jim Hansom

Dr Murdo Macdonald

Dr Donald McLusky

Dr Rupert Ormond (resigned
1/12/04)

Professor J Proctor

Professor Nigel Trewin

Dr Sheena Wurthmann

NORTH AREAS BOARD

Chairwoman

Amanda Bryan

Councillor Stuart Black

David Buckland

Ronald Eunson

John Henderson

Dr Sandy Kerr

Dr Murdo Macdonald

Karen Macgregor

Iain Muir

Sheila Nairn

Chris Tyler

Robert Wemyss

WEST AREAS BOARD

Chairwoman

Lady Isabel Glasgow

Colin Adams (as of 15/11/04)

Dorothy Breckenridge (as of
15/11/04)

Dr Jim Hansom

Sue Evans (as of 15/11/04)

Ian Fernie

Gordon L Mann, OBE

Janette McKay

Ruth Tittensor (to 31/08/04)

Bill Whitaker

Dr Sheena Wurthmann

AUDIT COMMITTEE

Chairman

Keith Geddes

Susan Walker

Gordon Mann OBE

Robert Balfour

BOARD MEMBERS' INTERESTS

SNH maintains a register of Board members' interests in accordance with the requirements of the Ethical Standards in Public Life etc. (Scotland) Act 2000 and Standards Commission of Scotland guidelines. A summary of the register at 31 March 2005 is printed below, listing member's employment, Directorships and professions. For more detailed information, please consult the register on our website (www.snh.org.uk) or contact Board Secretary, Scottish Natural Heritage, 12 Hope Terrace, Edinburgh EH9 2AS.

SCOTTISH NATURAL HERITAGE BOARD

John Markland is Chairman of SNH, having formerly been Chief Executive of Fife Council. He represents SNH on the Joint Nature Conservation Committee. In addition to his work for SNH, he is active in a number of other organisations in the sustainable development field such as Forward Scotland and Environmental Campaigns (Encams). He is a member of the Court of Edinburgh University and Chairman of the Scottish Leadership Foundation. He has a particular interest in sustainable development issues, having previously chaired the Secretary of State for Scotland's Advisory Group on Sustainable Development. John lives near Kinross.

Michael Scott is SNH's Deputy Chairman. He is a freelance natural history writer and consultant, and previously worked part-time as Co-ordinator of Plantlife Scotland, the wild plant conservation charity. He has a strong interest in all

environmental issues, particularly biodiversity and marine. He represents SNH as a Director of Highland Birchwoods. He is also a member of the Joint Nature Conservation Committee. Michael lives in Lochcarron.

Keith Geddes is presently Chairman of the SNH Audit & Risk Management Committee. He also chairs Greenspace Scotland, an umbrella body whose aim is to create new greenspaces and improve the management of existing greenspace in Scotland's urban communities. He has extensive experience in local government, having been until May 1999 Leader of the City of Edinburgh Council and President of the Convention of Scottish Local Authorities. He is also a former member of the Scottish Arts Council, Scottish Enterprise and Livingston Development Corporation. He currently works as Policy Director with Pagoda Public Relations. Keith lives in Edinburgh.

Amanda Bryan is Chairwoman of the North Areas Board. She is a consultant specialising in rural and community issues in the Highlands. She is Principal of Aigas Associates, Chair of BBC Scotland's Scottish Rural Affairs and Agriculture Advisory Committee and former Development Manager with Ross and Cromarty Enterprise. She was employed by SNH as the Minch Project Officer 1993-1995. She has served on the North Areas Board since 1997 and was previously the depute Chairman of that Board. Amanda lives in Beaulieu.

Peter Chapman is Chairman of the East Areas Board. He is a farmer in Buchan with almost 30 years experience, having formerly been Vice President of the National Farmers Union for Scotland. Like many farmers, he is very interested in, and protective of, our diverse and beautiful environment. His aim is to help build strong partnerships between SNH and the agricultural community to the benefit of both. Peter lives in Fraserburgh.

Isabel Glasgow is Chairwoman of the West Areas Board. She is co-founder of Kelburn Country Centre in Ayrshire. She is a Member of Loch Lomond and the Trossachs National Park Authority and is also, amongst other involvements, Chairwoman of Scottish Council for National Parks, the Moorland Forum and the Firth of Clyde Forum. Isabel lives in Fairlie near Largs.

James Hunter is (until 31 August 2004) chairman of Highlands and Islands Enterprise, the Inverness-based development and training agency for the North of Scotland. A freelance historian and author, he has written ten books on Highlands and Islands themes – including *A Dance Called America* and *The Making of the Crofting Community*. James Hunter was born and brought up in Duror, North Argyll, and educated at Oban High School and Aberdeen and Edinburgh Universities. He has been a journalist and broadcaster and was the first director of the Scottish Crofters Union (now the Scottish Crofting Foundation) that he helped set up. A longstanding campaigner for land reform of the sort now resulting in community ownership of localities like Knoydart and Gigha, James Hunter has a detailed knowledge of developmental, environmental and related issues. James lives near Kiltarlity.

Nick Kempe is a Social Work Services Manager in Glasgow with a keen interest in outdoor recreation and access, mountains, wild land, and landscape. He developed expertise on these issues through 8 years involvement with the Mountaineering Council of Scotland, Scottish Environment Link and as a member of the Access Forum 1994–9. He has written various articles/papers on access and wild land and is

currently co-editing a book for hillwalkers on Scotland's Mountain Environment. He is an active hillwalker/runner, climber, skier and cyclist and is SNH's Director on the Paths for All Partnership. Nick lives in Glasgow.

Alice Lambert was a former shellfish farmer and an environmental and shellfish consultant with a working knowledge of, and involvement in, West Coast and Island matters, both human and environmental. She ran a successful holiday accommodation business and was involved in various community organisations on Mull. She was a member of the West Regional Board of the Scottish Environmental Protection Agency. Alice lived on Mull. Mrs Alice Lambert died in June 2005.

Hugh Raven is self-employed as a consultant on sustainable development issues. He is an advisor to the Soil Association on aquaculture, policy and development, and to the Esmee Fairbairn Foundation, the UK's largest environment charitable grant-making trust. He is a member of the Sustainable Development Commission, the advisory body to the Prime Minister and leaders of the devolved administrations. He was formerly an adviser to environment and foreign office ministers in London, and a trustee of the RSPB and the Soil Association. He is a director of his family's land management business and is a trustee of the Lochaber Fisheries Trust. Hugh lives in the Morvern peninsula.

Janet Sprent is Chairwoman of the Scientific Advisory Committee. She is Emeritus Professor of Plant Biology at the University of Dundee; with particular expertise in plant nutrition and over 30 years research in the field of nitrogen fixation. She is a member of the Royal Commission on Environmental Pollution and is Director of the Scottish Association for Marine Science. She has extensive experience in management of science and research in a variety of organisations, and of research overseas. She has a particular interest in the management of protected areas, including Nature Reserves, National Parks and SSSIs. Janet lives in Wormit in Fife.

Sue Walker has extensive experience in the water and environment sector. She is Director of Sue Walker Management Ltd and is a member of the SNH Audit and Risk Management Committee. She is, in addition to SNH, a member of four other public bodies: SEPA, the Deer Commission for Scotland, the Fisheries (Electricity) Committee and the Cairngorms National Park Authority. She is also a keen hiker. Sue lives in Braemar.

NORTH AREAS BOARD

Amanda Bryan (Chairwoman – see SNH Board)

Councillor Stuart Black has worked a Strathspey hill farm for 35 years. He is also a partner in a self-catering business and is Councillor for North East Strathspey. He was involved in the setting up of the Farming & Wildlife Advisory Group in the Cairngorms and was its first Director. He is Director of Explore Abernethy, a local interpretative project, and a Member of the Agricultural Task Group of the Cairngorms Partnership. He is Chairman of Cairngorms Agricultural Forum and member of the National Farmers Union Scotland. On the North Areas Board, he has particular responsibilities for Badenoch & Strathspey within SNH's East Highland Area.

David Buckland is a Veterinary Surgeon for the islands of Uist and Barra in the Western Isles. He is also a crofting tenant with a 20ha croft in an ESA scheme. On the North Areas Board he has particular responsibilities for the Uists and Barra within SNH's Western Isles Area.

Ronnie Eunson is a full time farmer in Shetland. He has devoted a great deal of his energies to create markets for the produce from the native breeds of sheep and cattle from the islands. He currently chairs the Shetland Crofting and Farming Wildlife Advisory Group and the Shetland Organic Producers Group having just served a term on the Environment and Land Use Committee of the NFUS. His lifelong interest in Shetland's environment has been driven and focussed by his belief in the sustainable development of its natural

resources. Rural communities are intrinsically linked to their homeland and sea. His desire would be to bring a greater understanding and appreciation of each to the other. On the North Areas Board, he has particular responsibilities for Shetland within SNH's Northern Isles Area.

John Henderson (Deputy Chairman) is a farmer at Scrabster in Caithness. Among other involvements he is chairman of the Caithness and Sutherland Community Economic Development Group, director of the Scottish Agricultural College, Vice Chairman of Caithness and Sutherland Chamber of Commerce and a management Trustee of Scrabster Harbour. On the North Areas Board as well as being the Deputy Chairman, he has particular responsibilities for Caithness within SNH's North Highland Area.

Dr Sandy Kerr is a researcher and lecturer at the Heriot-Watt University run International Centre for Island Technology (ICIT) based in Stromness, Orkney. His research and teaching focuses on the management of marine and coastal resources with a particular emphasis of the sustainable development on small island communities. He also has considerable experience of consultancy having worked on numerous oil related environmental impact and environmental risk assessment projects and the development of environmental indicators for business. He has a strong interest in all aspects of the environment and actively participates in many outdoor pursuits. On the North Areas Board, he has particular responsibilities for Orkney within SNH's Northern Isles Area.

Dr Murdo Macdonald is a biologist and naturalist. He is involved in the implementation of several UK and Local Biodiversity Action Plans. He is the author of the SNH 'Naturally Scottish – Bumblebees' book, and is Chairman of the Highland Biological Recording Group. He is a member of the SNH Scientific Advisory Committee. On the North Areas Board, he has particular responsibilities for Ross-shire within SNH's East Highland Area.

Karen Macgregor is the former founder and owner of the Natural History Centre at Glenmore, Ardnamurchan which she successfully operated for 19 years with her husband before selling in 2002 in order to devote more time to developing their photography business. Karen is also the owner and manager of a self-catering holiday business. In 1992 she diversified into farming and now runs a small flock of blackface sheep and a fold of pedigree Highland Cattle. Karen was until recently the Vice-Chair of the Board of Lochaber Enterprise as well as holding membership to various boards including the local Area Board of Careers Scotland, the management committee of the Sunart Centre at Ardnamurchan High School, the Steering Group for the Learning Centre at Strontian and The Board of Lochaber College. On the North Areas Board, Karen's skills in tourism and rural development will be utilised across all of SNH's North Areas.

Iain Muir had an early career as a vet in the Highlands and later as a manager in the pharmaceutical industry. He now works as an adviser to the businesses and community projects for the Highlands and Islands Enterprise network, provides a locum service to several veterinary practices in the Highlands and Islands, and provides self-catering accommodation to visitors. His upbringing in a North-West coastal crofting and fishing community has given him a broad and active interest in local environmental and social issues. He is chairman of West Sutherland Fisheries Trust, a member of the North and West District Salmon Fishery board and vice-Chairman of his local Community Council. On the North Areas Board, he has particular responsibilities for Sutherland within SNH's North Highland Area.

Sheila Nairn is a crofter on the family croft in Kentra, Ardnamurchan and is a self-employed rural development worker with a particular interest in the social, economic and cultural development

of rural areas. Sheila is a native of Ardnamurchan and a Gaelic speaker. She has a particular interest in SNH's work relative to sustainable and innovative rural development, local heritage, Gaelic language, environmental education, and working with communities on local initiatives. On the North Areas Board she has particular responsibility for Lochaber within SNH's West Highland Area.

Chris Tyler is a biologist and cartoonist. Since moving to Skye in 1978 he has worked as a clam diver, fisherman and tree planter. In 1991 he helped to start a native tree nursery at Orbest in Skye, which supplies trees of local provenance for use in native broadleaf planting schemes. He currently works for the RSPB at Aros in Portree, as seasonal Sea Eagle Information Warden. He also draws the weekly cartoon for the West Highland Free Press. On the North Areas Board he has particular responsibility for Skye and Lochalsh within SNH's West Highland Area.

Robert Wemyss is a professional planner having worked in local government for 26 years in planning and economic development to Director level and now as a self-employed part-time planning consultant. He is also currently studying part-time for a PhD with the UHI Millennium Institute/Open University researching the relationship between protected area designations and rural development and land use. He has been appointed a member of the Scottish Wildlife Trust Council and serves on the Scottish Wildlife Trust North Regional Committee as the representative for the Western Isles. On the North Areas Board he has particular responsibility for Lewis and Harris within SNH's Western Isles Area.

EAST AREAS BOARD

Peter Chapman (Chairman – see SNH Board)

Robert Balfour is a landowner and farmer in Fife and is a past Convenor of the Scottish Landowners Federation. He is a fellow of the Royal Institution of Chartered Surveyors and worked for 18 years in private practice before returning to run the family estate and farm. As Vice Chairman of the Lomond Hills Regional Park Partnership, a director of Paths for All, and a director of Fife Coast and Countryside Trust and with a detailed involvement with in the Land Reform Act, he is keen that those who live and work in the countryside should work closely and constructively with those from urban areas. Recently he has become Chairman of the Association of Deer Management Groups and is keen on promoting sustainable deer management throughout Scotland.

Dr Nonie Coulthard is a consultant ecologist specialising in biodiversity conservation and project management in Scotland and Africa. With her husband, she is joint director of Logical Cobwebs, a company providing ecological and software development expertise. She is a keen outdoor sportswoman, with a particular interest in canoeing. She is a member of the SNH Scientific Advisory Committee. On the Areas Board, she has particular responsibilities for SNH's Tayside Area.

John Hunt has extensive experience of managing land for nature conservation. He was head of RSPB Nature Reserves in Scotland until 1994 and then Head of RSPB Policy and Advisory in Scotland. From 1996 until 2001 he was Programme Manager for the Millennium Forest in Scotland initiative. Currently he is self-employed as a nature conservation consultant. He has particular interest in native woodlands, deer management and National Parks.

Councillor Alison McInnes is a member of Aberdeenshire Council of which she is Chair of the Infrastructure Services Committee and also a Member of the Policy & Resources and Formartine Area Committees. She is also the Council's

representative for Local Agenda 21 UK. She is a Board Member of Scottish Enterprise Grampian, Vice Chair of the North Sea Commission's Environment Group and a Director of Callisto Productions Ltd. She is particularly interested in sustainable rural development and community participation. On the Areas Board, she has responsibilities for SNH's Grampian Area.

Captain Robin Middleton served as Managing Director and then Director of Consultancy Services with Briggs Marine Environmental Services Ltd. Past President and a fellow of the Nautical Institute, Captain Middleton serves on the Board of Peterhead Bay Authority, is also a Director of Upper Deeside Access Trust, and is also Chairman of the East Grampian Coastal Partnership. He is Hut Custodian of the Cairngorm Club with special interest in a birchwood regeneration project at Piper's Wood in Glen Eye. On the Areas Board he has particular responsibilities for SNH's Grampian Area and sits on the NNR group within SNH.

Guy Wedderburn is a rural practice Chartered Surveyor currently managing estates in Falkirk, Fife and Stirling all of which include important nature conservation interests and expanding path networks for public access. He is an Associate Director of Bell Ingram and provides valuation and land agency advice to a wide range of clients throughout Central Scotland. He has a professional interest in countryside access and is involved in a number of access related projects for local authorities and others. He is Chairman of the Falkirk Countryside Access Forum and ByCycle (the Perth & Kinross Cycle Campaign) and represents SNH as Director of the Fife Environment Trust and Fife Coast & Countryside Trust. On the East Area Board he has particular responsibility for the Fife and Falkirk areas.

Michael Williams runs a farm in East Lothian on which he has made use of various grants to create a farm 'sympathetic' to the countryside by imaginative habitat creation and enhancement. He also uses this farm to demonstrate to other farmers, and to educate various other groups on, the wide range of conservation practices possible.

He has a long-standing involvement in the Farming & Wildlife Advisory Group (FWAG) – is Vice Chairman of FWAG Scotland and Trustee of FWAG UK. He lectures regularly on farm conservation. On the Areas Board, he has particular responsibilities for Lothians within SNH's Forth and Borders Area.

WEST AREAS BOARD

Isabel Glasgow (Chairwoman – see SNH Board)

Dr Colin Adams (appointed 15/11/04) is an academic, employed by the University of Glasgow. He is the Director of Glasgow University Field Station on Loch Lomondside and a senior lecturer in ecology in the Division of Environmental and Evolutionary Biology. He lives on Loch Lomondside and has professional research interests in the functioning of freshwater ecosystems and the ecology and evolution of fish. He is a trustee and vice chair of the Loch Lomond Fishery Trust, one of a network of charitable organisations helping to support management of exploited fish species. He is the convenor of the Scottish Freshwater Group, and chairs the Loch Lomond and the Trossachs Research Group. In the past he has worked in the fish farming industry and retains research links in this field.

Dr Dorothy Breckenridge (appointed 15/11/04) is a biochemist by training and is currently director with C-N-DoScotland. She is and has been involved with tourism, walking and outdoor education for over 20 years. She has a keen and active interest in outdoor recreation, education, tourism, access, people and the environment, landscape and wild land issues. Her current activities include being Chair of the Scottish Countryside Activities Council, a committee member of Activity Scotland and their representative on the National Access Forum. She lives in Stirling and enjoys a wide range of outdoor activities. She has responsibility for Argyll and Stirling on the West Areas Board.

Shireen Chambers is Chief Executive of the Greenbelt Foundation, a not-for-profit organisation that owns and manages greenspace

throughout the UK. Until recently she chaired the Forestry Commission's Regional Advisory Committee for mid Scotland and was formerly Chief Executive of the Edinburgh Greenbelt Trust. Shireen's background is forestry, both overseas and in Scotland, with extensive experience in community forestry and urban greenspace. Shireen lives in West Lothian.

Sue Evans (appointed 15/11/04) is the Forest Implementation Manager for Central Scotland Forest Trust where she is responsible for development, community and delivery work. A chartered landscape architect and a member of the Landscape Institute's Technical and Environmental Committee. Sue played a key role in the master planning and delivery of the Glasgow Garden Festival 1988. In private practice, she gained extensive experience in landscape design and management. Sue enjoys hill walking, cross-country skiing and watching wildlife. Sue lives near Glasgow.

Ian Fernie is a former Director of Economic Planning and Environmental Services with West Dunbartonshire Council. He is a part-time lecturer at Strathclyde University and a member of the Scottish Executive Committee of the Royal Town Planning Institute. He is Director of Loch Lomond Steamship Company, SNH's Director on the Scottish Greenbelt Foundation and SNH's nominee Director and Chairman on the Glasgow and Clyde Valley Greenspace for Communities Trust. He is vice Chairman of the Sustainable Secondary Schools project. On the Areas Board, he has particular responsibilities for SNH's Strathclyde and Ayrshire Area.

Dr Jim Hansom (Deputy Chair) is a Reader in Geography and Topographic Science at the University of Glasgow, with teaching, research and consultancy interests in coastal and lake-shore processes, sea level change and coastal zone management, both in Scotland and internationally. He is a Member of the Royal Scottish Geographical Society and is a Fellow of the Royal Geographical Society. He has a general interest in geographical and environmental education at all levels and is a member of the SQA Geography Assessment Panel and the SQA Advisory Group on

Social Sciences and Social Subjects. On the Areas Board, he has particular responsibilities for SNH's Argyll and Stirling Area.

Gordon Mann is Managing Director of the Dumfries-based Crichton Trust, formerly the Director of Planning for Dumfries & Galloway Council. He has also held the posts of Director of Planning for Shetland Isles Council and Director of Planning for Banff and Buchan District Council. With a keen interest in countryside management and access issues as well as rural development and planning, he has been involved in setting up and running a number of countryside management schemes including the Solway Firth Partnership. Currently a judge in the Scottish Executive's Quality in Planning Award Scheme he also is a long-running member of the Royal Town Planning Institute. On the Areas Board, he has particular responsibility for SNH's Dumfries and Galloway Area.

Janette McKay is a community forestry and development consultant living on the island of Islay. She has lived in remote rural communities since 1986, gaining wide-ranging experience working for government agencies, NGOs, community groups and voluntary committees. She has experience of using participatory techniques in a variety of settings to enable people to become involved in decision-making processes about the management and development of their communities and the environment. On the Areas Board she has particular responsibilities for Argyll and Stirling.

Ruth Tittensor (resigned 31/8/04) runs her own consultancy in countryside management from her base in Ayrshire. She is a Fellow and council member of the Institute of Biology and a committee member of its Scottish Branch. Ruth is also a committee member of the Loudoun and Galston Agricultural Association and the Irvine Valley Local Access Forum. She has travelled widely in connection with ecology and land management. Her specialist interests are historic landscapes, farmed landscapes and education on rural affairs for all age groups. In her spare time Ruth enjoys walking, cycling and many other forms of travel. On the Areas Board she has special responsibility for SNH's Strathclyde and Ayrshire Area.

Bill Whitaker is a Farm Manager, Organic Farmer, Horse Breeder and Organic Farm Inspector. He is a Committee Member of Dumfries and Galloway Organic Network and a Member of NFUS. On the Areas Board, he has particular responsibilities for SNH's Dumfries and Galloway Area.

Dr Sheena Wurthmann is a Senior Lecturer at the School of Built and Natural Environment at Glasgow Caledonian University. She is an ecologist with interests in river catchment issues and urban ecology. She is a Board Member of the Scottish Field Studies Association, a member of the Scottish Biodiversity Group and the SQA Advisory Panel on Land & Environment. She is active in educational developments in tertiary education and has national and international experience on environmental education. On the Areas Board, she has particular responsibilities for SNH's Strathclyde and Ayrshire Area.

SCIENTIFIC ADVISORY COMMITTEE

Professor Janet Sprent (Chairwoman – see SNH Board)

Dr Richard Birnie's background is in geomorphology, resource assessment, remote sensing and GIS, and land use research. He is Manager of the Human Dimensions group programme at The Macaulay Land Use Research Institute. His research is now principally concerned with land resource assessment and the human dimensions of land use change. He convenes the Hill Land Use and Ecology Discussion Group.

Dr Nonie Coulthard (see East Areas Board)

Professor Mary Gibby is Director of Science at the Royal Botanic Gardens Edinburgh. She has particular expertise in ferns and their habitats, and her research interests include the investigation of plant population biology and genetics to inform conservation strategies for species. She is keen to increase the level of expertise in cryptogamic plants and fungi in Scotland – key areas of Scotland biodiversity both nationally and internationally.

Dr Jim Hansom (see West Areas Board)

Dr Murdo Macdonald (see North Areas Board)

Dr Donald McLusky is Senior Lecturer in Biological Sciences at the University of Stirling and was formerly the Head of the Department of Biological Sciences. His main research interest is in estuarine ecology, especially of the Forth Estuary. He has been involved with assessing the impact of refinery discharges on coastal habitats, estuarine eco-toxicology and the conservation of a variety of aquatic habitats. He has been closely involved with coastal issues in Scotland for the last thirty years.

Dr Rupert Ormond (resigned 1/12/04) is Director of the University Marine Biology Station Millport, which is located on the Isle of Cumbrae in the Firth of Clyde, and is managed by the University of London in association with the University of Glasgow. He has broad interests in marine ecology, but in particular has many years experience of research in marine conservation, protected areas, fish behaviour and fisheries management, mostly from tropical environments, but also in the UK.

Professor John Proctor is currently involved in the Conservation Degree Teaching Programmes at the University of Stirling. His particular expertise is in serpentine environments, but he has a more general interest in Scottish terrestrial plants, and a special interest in their soil environment. He also has considerable experience in tropical conservation, particularly of rain forests.

Dr Nigel Trewin is Professor of Geology and Petroleum Geology at the University of Aberdeen with 30 years experience of Scottish geology and geological sites. He is editor of the 4th edition of 'The Geology of Scotland', author of geological guidebooks and many contributions on Scottish geology and has broad interests in natural history, archaeology and fishing. His current research themes involve sedimentology, palaeontology and geochemistry, and include the Old Red Sandstone, the Rhynie Chert and the Jurassic.

Dr Sheena Wurthmann (see West Areas Board)

NATURE CONSERVATION ORDERS AND SPECIAL NATURE CONSERVATION ORDERS MADE DURING YEAR TO 31 MARCH 2005

A full list of Nature Conservation Orders (NCOs) and Special Nature Conservation Orders (SNCOs) in force during the year to 31 March 2005 is listed in SNH Facts & Figures 2004/2005 published in association with this Report. From the coming into force of the Nature Conservation (Scotland) Act 2004 (2004 Act) on 29 November 2004, all existing NCOs and SNCOs continued in force as NCOs under S.23(1) of the 2004 Act.

It remains our view that these Orders should only be used as a matter of last resort where there is a direct threat to the natural features of an SSSI and/or European Natura site.

As required by Section 29(11) of the Wildlife and Countryside Act 1981 and by Regulation 22(6) of the Conservation (Natural Habitats, &c.)

Regulations 1994 (before 29 November 2004) and Section 28 of the 2004 Act (as amended by Regulation 9 of the Conservation (Natural Habitats, etc) Amendment (Scotland) Regulations 2004) (from 29 November 2004), we report that during 2004/05 :-

- No new NCOs under S.29(11) of the 1981 Act were made,
- No new SNCOs were made,
- No new NCOs under S.23(1) of the 200 Act were made,
- No existing orders were revoked.

SNH OFFICES

SNH MAIN OFFICES

12 Hope Terrace
Edinburgh EH9 2AS
t: 0131 447 4784
f: 0131 446 2277

2 Anderson Place
Edinburgh EH6 5NP
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f: 0131 446 2405

Battleby, Redgorton
Perth PH1 3EW
t: 01738 444177
f: 01738 458611

Caspian House
Mariner Court
Clydebank Business Park Clydebank
G81 2NR
t: 0141 951 4488
f: 0141 951 4510

Fraser Darling House
9 Culduthel Road
Inverness IV2 4AG
t: 01463 723100
f: 01463 723119

27–29 Ardconnel Terrace
Inverness IV2 3AWE
t: 01463 712221
f: 01463 712675

SNH AREA OFFICES

ARGYLL and STIRLING

The Beta Centre, Innovation Park
University of Stirling
Stirling FK9 4NF
t: 01786 450362
f: 01786 451974

1 Kilmory Industrial Estate, Kilmory
Lochgilphead
Argyll PA31 8RR
t: 01546 603611
f: 01546 602298

Glencruitton Road, Oban
Argyll PA34 4DN
t: 01631 567228
f: 01631 567229

Main Street, Bowmore
Isle of Islay
Argyll PA43 7JJ
t: 01496 810711
f: 01496 810665

Ballochyle, Sandbank
Dunoon PA23 8RD
t: 01369 705377
f: 01369 705788

STRATHCLYDE and AYRSHIRE

Caspian House, Mariner Court
Clydebank Business Park
Clydebank G81 2NR
t: 0141 951 4488
f: 0141 951 8948

30 Hope Street
Lanark ML11 7NE
t: 01555 665928
f: 01555 661966

19 Wellington Square
Ayr KA7 1EZ
t: 01292 261392
f: 01292 269493

DUMFRIES and GALLOWAY

Carmont House, The Crichton
Bankend Road, Dumfries DG1 4ZF
t: 01387 247010
f: 01387 259247

Holmpark Industrial Estate
New Galloway Road
Newton Stewart DG8 6BF
t: 01671 401075
f: 01671 401078

Cairnsmore of Fleet NNR
Reserve Office
Dromore Farm, Gatehouse of Fleet
Castle Douglas
Kirkcudbrightshire DG7 2BP
t: 01557 814435
f: 01557 815044

Caerlaverock NNR Reserve Office
Hollands Farm Road, Caerlaverock
Dumfries DG1 4RS
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f: 01387 770084

NORTHERN ISLES

Ground Floor, Stewart Building
Alexandra Wharf, Lerwick
Shetland ZE1 0LL
t: 01595 693345
f: 01595 692565

54–56 Junction Road
Kirkwall, Orkney KW15 1AW
t: 01856 875302
f: 01856 876372

EAST HIGHLAND

Fodderty Way, Dingwall Business Park
Dingwall IV15 9XB
t: 01349 865333
f: 01349 865609

Achantoul, Aviemore
Inverness-shire PH22 1QD
t: 01479 810477
f: 01479 811363

Creag Meagaidh NNR, Aberarder
Kinlochlaggan
by Newtonmore
Inverness-shire PH20 1BX
t/f: 01528 544265

NORTH HIGHLAND

Main Street, Golspie
Sutherland KW10 6TG
t: 01408 633602
f: 01408 633071

17 Pulteney Street, Ullapool
Ross-shire IV26 2UP
t: 01854 613418
f: 01854 613419

WEST HIGHLAND

The Governor's House
The Parade, Fort William
Inverness-shire PH33 6BA
t: 01397 704716
f: 01397 700303

Bridge Road, Portree
Isle of Skye IV51 9ER
t: 01478 613329
f: 01478 613470

Anancaun, Kinlochewe
by Achnasheen, Ross-shire
IV22 2PA
t: 01445 760254
f: 01445 760301

The Reserve Office
The White House
Isle of Rum PH43 4RR
t: 01687 462026
f: 01687 462805

WESTERN ISLES

32 Francis Street, Stornoway
Isle of Lewis HS1 2ND
t: 01851 705258
f: 01851 704900

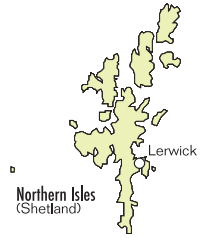
Stilligarry, South Uist
Western Isles HS8 5RS
t: 01870 620238
f: 01870 620350

FORTH and BORDERS

Laundry House,
Dalkeith Country Park
Dalkeith, Midlothian EH22 2NA
t: 0131 654 2466
f: 0131 654 2477

46 Crossgate, Cupar
Fife KY15 5HS
t: 01334 654038
f: 01334 656924

Anderson's Chambers
Market Street
Galashiels TD1 3AF
t: 01896 756652
f: 01896 750427



GRAMPIAN

16/17 Rubislaw Terrace
Aberdeen AB10 1XE
t: 01224 642863
f: 01224 635020

32 Reidhaven Street, Elgin
Morayshire IV30 1QH
t: 01343 541551
f: 01343 546406

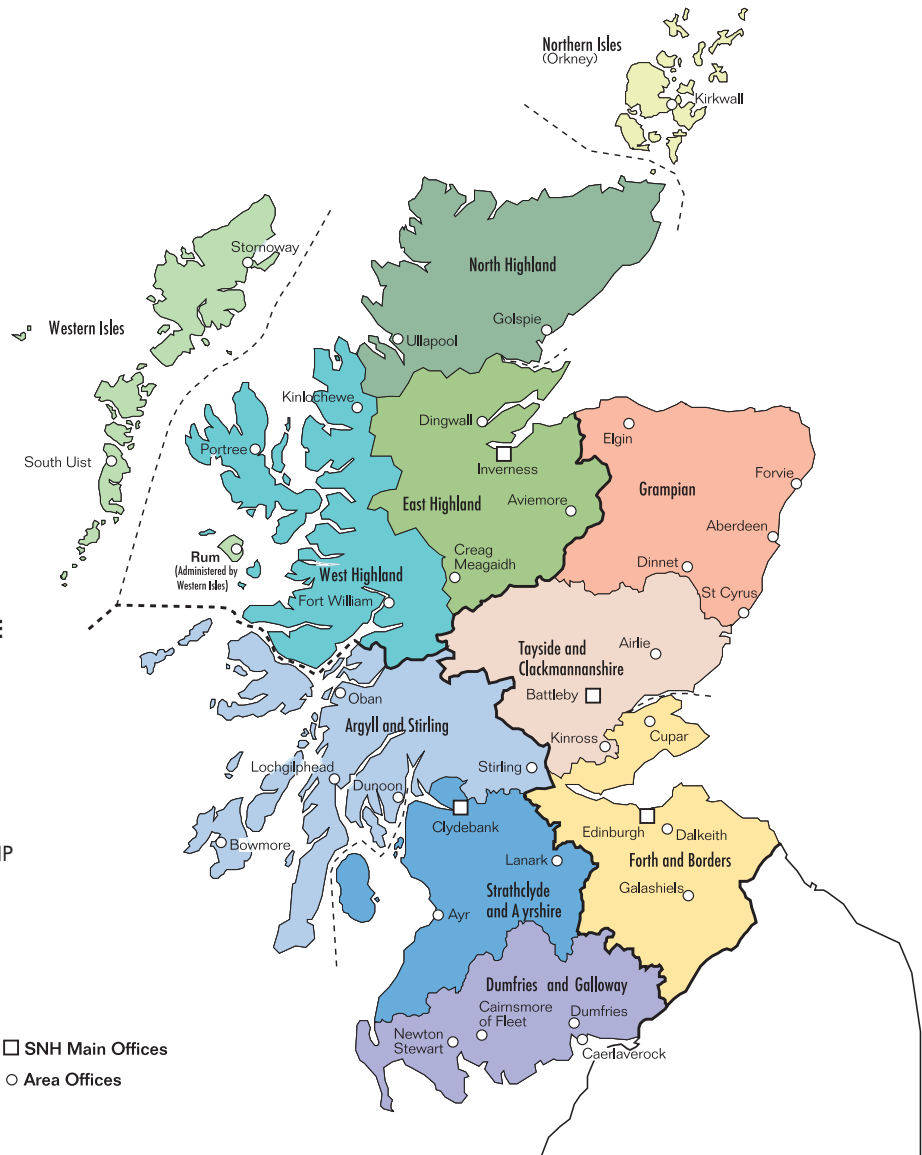
Forvie NNR
Stevenson Forvie Centre
Little Collieston Croft
Collieston, Ellon
Aberdeenshire AB41 8RU
t/f: 01358 751330

TAYSIDE and CLACKMANNANSHIRE

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Perth PH1 3EW
t: 01738 444177
f: 01738 458616

West Lodge, Airlie
by Kirriemuir, Angus DD8 5NP
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f: 01575 530220

The Pier, Loch Leven
Kinross KY13 8UF
t: 01577 864439
f: 01577 865166



AUDITED FINANCIAL ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

FOREWORD

These accounts have been prepared in a form directed by Scottish Ministers in accordance with the Natural Heritage (Scotland) Act 1991.

HISTORY AND STATUTORY BACKGROUND

Scottish Natural Heritage (SNH) is a Non-Departmental Public Body (NDPB) and was established in April 1992. It is also recognised as a Scottish charity under Section 1(7) of the Law Reform Miscellaneous Provisions (Scotland) Act 1990.

PRINCIPAL ACTIVITIES

SNH's principal activities involve working with people to secure the conservation, enhancement, understanding and enjoyment of Scotland's natural heritage.

RESULTS FOR THE YEAR

SNH's operating expenditure in the year to 31 March 2005 was £62.9m with income (including grant-in-aid) of £63.0m. This resulted in an operating surplus of £0.1m. Expenditure includes a further net charge to provisions of £0.6m (note 20). After adding back notional costs of £0.5m, there remains a retained surplus for the year of £0.6m.

SNH managed its finances within the capital and operating budgets and funding limits set by its sponsoring department, Scottish Executive Environment and Rural Affairs Department (SEERAD).

During 2004–5, total expenditure on the relocation project amounted to £1.6m and this has been charged to the Income and Expenditure account.

SIGNIFICANT CHANGES IN FIXED ASSETS

Significant additions during the year included:

- Remotely Operated Vehicle £0.15m
- Electronic Records and Document Management System £0.66m

ACTIVITIES IN THE FIELD OF RESEARCH AND DEVELOPMENT

SNH's research expenditure for the year was £4.5m. It is delivered through a Research and Technical Support Strategy, which is structured around three main themes:

- understanding the state of the natural heritage;
- understanding the causes and nature of change in the natural heritage; and
- development of good practice in caring for and managing the natural heritage.

This programme covers basic surveys, designed to gather baseline information on the natural heritage and people's enjoyment of it, to monitoring programmes that show environmental change and help us to understand what is causing this and what might happen in the future. We also use the programme, mostly through demonstration projects, to help us work out effective management techniques.

FUTURE DEVELOPMENTS

In September 2003, Scottish Ministers directed SNH to relocate most of its Edinburgh based operations to Inverness. A Project Board has been established, chaired by SNH's Chief Executive, which oversees progress on accommodation, human resources and business continuity work streams.

Tendering for the new headquarters in Inverness was completed in August 2004 and a contractor appointed in December 2004. Demolition of the buildings on the site of the new headquarters has been completed and construction work on the new building has commenced. No significant change to overall project costs or timescales are anticipated at this stage. The Scottish Executive is funding all additional net costs arising from the relocation project.

During 2005–6, SNH will consider the recommendations of the recent Policy and Financial Management Review undertaken by the Scottish Executive and introduce an agreed action plan.

STATE AIDS

In May 2001 the European Commission confirmed to the Ministry of Agriculture, Food and Fisheries, acting on behalf of UK-wide interests, that new nature conservation management agreements entered into after January 2000 were notified as approved State Aids. Retrospective notification and approval of management agreements concluded before 1 January 2000 is still awaited. In the meantime, Scottish Ministers have agreed that SNH should continue to make payments under these management agreements.

PAYMENT POLICY

It is SNH policy to pay all invoices not in dispute within 30 days or the agreed contracted terms if otherwise specified. Payment performance in 2004–5 was 93% (2003–4 82%). We made two payments totalling £103 during the year of statutory interest under the Late Payment of Commercial Debts (Interest) Act 1998.

EQUALITY AND DIVERSITY IN EMPLOYMENT

SNH wholeheartedly supports the principles of Equality and Diversity in employment and opposes all forms of unlawful or unfair discrimination.

We are committed to maintaining a culture and philosophy which recognises and rewards individual achievement and merit regardless of age, colour, disability, ethnic or national origin, gender, marital status, sexual orientation, religion or a deeply held philosophical belief.

We will seek to take every possible step to ensure that individuals are treated equally and fairly and that decisions on recruitment, selection, training, promotion and career development are based on objective and job-related criteria.

EMPLOYEE INVOLVEMENT

We actively encourage employee involvement. Through the Whitley Council, we bring together representatives from Trade Unions and Management with the aim of working in partnership. Employee involvement is also encouraged through the staff suggestions scheme. Aimed at improving the working environment, efficiency and good practice, staff are rewarded for the suggestions taken up. We are positive about communication,

using numerous mechanisms such as bulletins, general news updates, Management/Staffing Notices etc. to keep our staff informed. Increasingly new technology is used for this and our staff newsletter "Update" is posted monthly on the internal website (intranet).

BOARD MEMBERS

SNH has a Main Board, three Areas Boards, a Scientific Advisory Committee, an Audit and Risk Management Committee and an Advisory Committee on Sites of Special Scientific Interest. Main Board members are normally appointed for three years, with some appointments then extended for a further three-year term. A register of Board Members' interests is published on the SNH website www.snh.org.uk. The membership of the Main Board at 31 March 2005 was as follows:

	Appointed	Term
John Markland CBE (Chairman)	1 April 1999	2nd
Michael Scott (Deputy Chairman)	1 April 1999	2nd
Peter Chapman	1 April 2000	2nd
Keith Geddes CBE	1 April 2001	2nd
Lady Isabel Glasgow	1 April 2001	2nd
Nick Kempe	1 April 2003	1st
Alice Lambert (retired 31 March 2005)	1 April 1999	2nd
Professor Janet Sprent OBE	1 April 2001	2nd
Professor Susan Walker OBE	1 April 2000	2nd
Amanda Bryan	1 April 2004	1st
Dr James Hunter CBE	1 April 2004	1st
Hugh Raven	1 April 2004	1st

Michelle Francis and Professor Phillip Thomas were appointed with effect from 1 April 2005 replacing Alice Lambert and Michael Scott who retired on 31 March 2005.

Sadly, it is reported that since retiring Alice Lambert died on 14 June 2005.

SNH aims to be an open and accountable organisation. The seven meetings of the Main Board in 2004–5 included open sessions, which the public were free to attend. Agendas and Board papers are published on the SNH website. SNH held its annual open event in Edinburgh during October.

AUDIT

The Auditor-General appoints SNH's auditors under the Public Finance and Accountability (Scotland) Act 2000. Arwel Roberts, Director, Central Government was appointed as SNH's auditor for the financial year ending 31 March 2005.

The auditors were remunerated in the sum of £57,200 for audit services in 2004–5.

Ian Jardine

Accountable Officer
29 September 2005

STATEMENT OF BOARD MEMBERS' RESPONSIBILITIES

Under Section 10 of the Natural Heritage (Scotland) Act 1991, Scottish Natural Heritage is required to prepare a statement of accounts for each financial year in the form 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 Scottish Natural Heritage's state of affairs at the year-end and of its income and expenditure and cash flows for the financial year.

In preparing the accounts Scottish Natural Heritage is required to:

1. Observe the accounts direction issued by Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
2. Make judgements and estimates on a reasonable basis;
3. State whether applicable accounting standards have been followed and disclose and explain any material departures in the financial statements;
4. Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that Scottish Natural Heritage will continue in operation;
5. In addition, Scottish Natural Heritage has general responsibility for taking such steps as are reasonably open to it to safeguard its assets and to prevent and detect fraud and other irregularities.

STATEMENT OF ACCOUNTABLE OFFICER'S RESPONSIBILITIES

Under Section 15(7) of the Public Finance and Accountability (Scotland) Act 2000, the Principal Accountable Officer of the Scottish Administration has designated Scottish Natural Heritage's Chief Executive as the Accountable Officer for Scottish Natural Heritage.

The Chief Executive's relevant responsibilities as Accountable Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the non-departmental bodies 'Memorandum to Accountable Officers of Other Public Bodies', issued by Scottish Ministers and which is contained as Annex 1 to the Scottish Public Finance Manual obtainable on the Scottish Executive web site www.scotland.gov.uk.

With specific reference to the preparation of the annual accounts the Accountable Officer:

1. Has a personal duty to sign the accounts and has personal responsibility for their proper presentation;
2. Must ensure that proper financial procedures are followed and that accounting records are maintained in a form suited to the requirements of legislation and SNH's Financial Memorandum;
3. Has a consequent duty of being a witness before the Audit Committee of the Scottish Parliament and to answer questions arising from the accounts or, more commonly from reports made to the Scottish Parliament by the Auditor General for Scotland.

STATEMENT OF INTERNAL CONTROL

SCOPE OF RESPONSIBILITY

As Accountable Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of SNH's policies, aims and objectives, set by Scottish Ministers, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me.

PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of SNH's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically. The system of internal control has been in place for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts and accords with guidance from Scottish Ministers.

CAPACITY TO HANDLE RISK

As Accountable Officer, I also have responsibility for determining our capacity to handle risk. The following processes have been established:

- A Management Team which meets monthly to review progress against the Corporate Strategy for SNH and consider performance against annual plans. The Management Team comprises the directors of SNH. I act as the sponsor for risk management in SNH;
- Regular review of the schedule of delegations to ensure they are appropriate to the level of authority and responsibilities assigned to staff.

RISK AND CONTROL FRAMEWORK

A framework has been established to manage risk as part of our operating principles, including:

- Implementation of a robust risk management prioritisation and monitoring system based on risk ranking, likelihood and controls. This system is internally audited annually;
- Regular review of the SNH-wide risk register to evaluate risk and the appropriateness of controls. The register has identified risk owners who report quarterly on the steps they are taking to manage risks in their areas of responsibility including progress reports on key projects. SNH's Management Team and the Audit and Risk Management Committee evaluate these reports. An annual report is prepared for the SNH Board;
- Embedding risk management in the decisions and activities undertaken by staff. Risk awareness is included in employee induction and training programmes and assessed as part of the staff appraisal system.

The risk register has identified that the risk priorities are in the areas of public or staff safety, for example: whilst visiting a National Nature Reserve, as a result of natural hazards or the working environment, through misadventure or lack of awareness of the risks, failure to respond to information requests appropriately, policy and advice based on inaccurate information or loss of information, and failure to ensure business continuity throughout the relocation of headquarters staff to Inverness. Controls have been identified to address these high level risks.

REVIEW OF EFFECTIVENESS

As Accountable Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the internal auditors and staff within SNH who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of effectiveness of the system of internal control by the Board and Audit and Risk Management Committee and plan to address weaknesses and ensure continuous improvement of the system in place.

The following processes are also in place for reviewing the effectiveness of the system of internal control:

- Periodic reports from the Chairman of the Audit and Risk Management Committee to the Board, concerning internal control;
- Regular reports from SNH's internal auditors that include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of SNH's system of internal control together with recommendations for improvements. The work of the internal auditors is largely directed by SNH's own Risk Register. Internal audit plans and reports are approved by me and endorsed by SNH's Audit and Risk Management Committee.

The programme of internal audits for 2004–5 has offered 'satisfactory' assurance that SNH continues to have a broadly sound framework of internal control ensuring the effective and efficient achievement of SNH's objectives.

The first annual Relocation Project audit report was completed in 2004–5. The report, covering the period 2003–4 concluded that the project was being satisfactorily managed. During 2004–5, our internal auditors maintained a Relocation Control summary, designed to identify and track the management of emerging risks. Regular reports were prepared on the Control Summary in year, which offered 'good' or 'satisfactory' assurance. A specific assurance report on the tender exercise for the new SNH headquarters in Inverness was provided in November 2004. This report offered 'satisfactory' assurance. A second annual Relocation report covering the period 2004–5, which was finalised in 2005–6, also provided 'satisfactory' assurance over the project's management. The Gateway Review of the Relocation Project, conducted by the Scottish Executive concluded that the SNH relocation project has been well managed and is on schedule to appoint a developer in line with the procurement strategy. In addition, the HR work stream has designed and delivered an effective range of HR packages in order to support relocation, redeployment, redundancy and retention.

No cases of fraud were reported during 2004–5. During this year, the SNH Fraud Policy was updated to take account of the Public Interest Disclosure Act and new roles and responsibilities within SNH. The Policy is intended to ensure that any suspected/potential frauds are reported quickly and consistently across SNH, allowing management to take timeous action as required. A detailed set of fraud identification, reporting and investigation procedures was also developed and promulgated.

One significant internal control weakness was identified in 2004–5. A 'weak' assurance was given following an audit of SNH's partnerships. The report identified a number of recommendations to ensure a more consistent, risk-based approach to entering, managing, monitoring and exiting from partnerships. The recommendations have been well received and in response an action plan has been developed and ongoing monitoring of implementation established.

Ian Jardine

29 September 2005

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SCOTTISH NATURAL HERITAGE, THE SCOTTISH PARLIAMENT AND THE AUDITOR GENERAL FOR SCOTLAND

I have audited the financial statements on pages 39 to 60 under the Natural Heritage (Scotland) Act 1991. The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and in accordance with the accounting policies set out on pages 42 to 44.

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 the Code of Audit Practice approved by the Auditor General for Scotland and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by Audit Scotland, dated July 2001.

RESPECTIVE RESPONSIBILITIES OF THE SCOTTISH NATURAL HERITAGE BOARD, THE CHIEF EXECUTIVE AND AUDITOR

As described on page 34 the Scottish Natural Heritage Board and the Chief Executive are responsible for the preparation of the financial statements and for ensuring the regularity of expenditure and receipts. The Board and the Chief Executive are also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Natural Heritage (Scotland) Act 1991 and directions made thereunder and whether, in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if Scottish Natural Heritage has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 35 and 36 complies with Scottish Executive guidance on statements on the system of internal control. I report if, in my opinion, it does not comply with the guidance, or if the statement is misleading or inconsistent with other information I am aware of from my audit. I am not required to consider whether the statement covers all risks and controls, or form an opinion on the effectiveness of Scottish Natural Heritage's corporate governance procedures or its risk and control procedures.

BASIS OF AUDIT OPINIONS

I conducted my audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, which requires compliance with relevant United Kingdom Auditing Standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and receipts shown in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to Scottish Natural Heritage's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error, and that, in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

As disclosed in the Foreword to the accounts, the European Commission has been approached for approval that the system of management agreements operated throughout the United Kingdom up to 1 January 2000 could be deemed as allowable state aid. During 2004–5 Scottish Natural Heritage spent some £1.3 million under such agreements that without European Commission sanction must be deemed irregular. At present the European Commission has not given any indication whether or not they would grant retrospective approval for such payments or impose any financial sanction.

In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINIONS

Financial statements

In my opinion the financial statements give a true and fair view of the state of affairs of Scottish Natural Heritage at 31 March 2005 and of the surplus, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Natural Heritage (Scotland) Act 1991 and directions made thereunder.

Qualified regularity opinion arising from limitation in audit scope

In my opinion, except for the limitation in scope of my work arising from uncertainty over the regularity of payments under management agreements entered into prior to 1 January 2000, in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Arwel Roberts

Director, Central Government
Audit Scotland
18 George Street
Edinburgh
EH2 2QU

10 October 2005

Scottish Natural Heritage

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2005

	Note	2004-5 £000	2003-4 £000
Income			
Grant-in-aid received	2	57,547	51,725
External funding	3	3,195	2,717
Bequests		2	-
Income from activities	4	523	622
Other income	5	147	147
Released from deferred income and reserves	6	1,579	1,720
		<u>62,993</u>	<u>56,931</u>
Expenditure			
Staff costs	7	23,520	22,463
Other administrative costs	9	8,444	6,960
Programme expenditure	10	28,224	26,915
Provision for relocation / redundancy costs	20	590	7,600
Depreciation and impairment	13	1,579	1,720
Notional cost of capital	1	503	468
		<u>62,860</u>	<u>66,126</u>
Operating surplus (deficit)		133	(9,195)
Reversal of notional cost of capital		503	468
Transfer to bequest reserve		(5)	(2)
Retained surplus (deficit) for the year		631	(8,729)

STATEMENT OF RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 MARCH 2005

	Note	2004-5 £000	2003-4 £000
Surplus (deficit) for the financial year		631	(8,729)
Revaluation of fixed assets		324	636
Transfer from Capital Asset Fund to Revaluation Reserve	21	-	185
Appropriation of bequest/bequest interest to bequest reserve	22	5	2
(Decrease) Increase in share of JNCC reserves	22	2	22
Total recognised gains (losses) since last reported		962	(7,884)

No activities were discontinued during the year.

The accounting policies and notes on pages 42 to 60 form part of these accounts.

Scottish Natural Heritage

BALANCE SHEET AS AT 31 MARCH 2005

	Note	2004-5 £000	2004-5 £000	2003-4 £000
Fixed assets				
Tangible fixed assets	13		14,446	13,269
Current assets				
Stocks	14	34		26
Debtors	15	2,086		1,690
Cash at bank and in hand	16	4,456		1,300
		<u>6,576</u>		<u>3,016</u>
Creditors (due within one year)	17	<u>(5,747)</u>		<u>(3,346)</u>
Net current assets (liabilities)			829	(330)
Total assets less current liabilities			15,275	12,939
Creditors (due outwith one year)	18		(13)	(60)
Provisions for liabilities and charges	20		(8,158)	(7,600)
Total assets less liabilities			<u>7,104</u>	<u>5,279</u>
Financed by:				
Deferred income	21		10,825	9,894
Reserves	22		(3,721)	(4,615)
			<u>7,104</u>	<u>5,279</u>

Ian Jardine

Accountable Officer
29 September 2005

The accounting policies and notes on pages 42 to 60 form part of these accounts.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2005

	Note	2004-5 £000	2003-4 £000
Net cash inflow from operating activities	29	2,729	419
Returns on investment and servicing of finance			
Bank interest received		144	145
Interest received on bequest funds		3	2
Net cash inflow from returns on investment and servicing of finance		147	147
Capital expenditure			
Purchase of fixed assets	13	(2,177)	(1,638)
Sale of fixed assets		13	55
		(2,164)	(1,583)
Net cash inflow/(outflow) before financing		712	(1,017)
Financing			
Grants received and applied to purchase fixed assets	21	2,444	1,927
Increase in cash for the year		3,156	910
Opening cash at bank and in hand		1,300	390
Closing cash at bank and in hand	16	4,456	1,300

The accounting policies and notes on pages 42 to 60 form part of these accounts

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

1. Accounting policies

The accounts are prepared in accordance with an Accounts Direction issued by Scottish Ministers. The accounting policies are set out below and applied consistently in the accounts from one financial year to another.

Without limiting the information given, the accounts meet the accounting and disclosure requirements of the Companies Act 1985 and accounting standards issued or adopted by the Accounting Standards Board and statements of recommended practice (SORP) issued by the Charity Commission in so far as these requirements are appropriate.

Accounting convention

The accounts are prepared on an accruals basis under the historical cost convention, modified to include the revaluation of fixed assets.

Tangible Fixed Assets

The minimum value for capitalisation of expenditure as an asset, or group of assets, is £10,000 for land and buildings, including improvements, and £3,000 for all other categories.

Fixed Assets (with the exception of non-operational heritage assets and assets under construction) are valued at the lower of depreciated replacement cost or open market for existing use.

Freehold land designated a National Nature Reserve and certain associated buildings are treated as non-operational heritage assets as they are held primarily in trust for the ongoing maintenance of the nation's heritage. Non-operational heritage assets are not valued and therefore not included in the accounts, save for those elements of buildings which are used in the day to day provision of services such as certain visitor facilities and staff accommodation. Further information is available in SNH's publication, "Facts & Figures".

Fixed assets (excluding computer equipment) are revalued in accordance with HM Treasury requirements. Operational land, buildings, and associated plant are revalued by independent external valuers every five years and appropriate indices supplied by the Office for National Statistics in intervening years. The last full revaluation exercise was undertaken on 31 March 2001.

Improvements to leasehold properties and premiums paid on leasehold properties are valued at depreciated historic cost. A minimum capitalisation threshold of £10,000 applies to leasehold improvements.

Depreciation is provided on a straight-line basis on all tangible fixed assets (other than freehold land) at rates calculated to write down the cost or valuation of each asset to its residual value, evenly over its expected useful life, as follows:

Freehold buildings	10 to 50 years as determined by the Valuation Office Agency
Leasehold buildings including improvements	50 years or period of lease whichever is shorter
Computer equipment	4 years
Other equipment	7 years
Vehicles	4 years
Furniture, fixtures & fittings	10 years

Stocks

SNH does not hold material levels of stocks. Only SNH's share of JNCC's stocks is included in the Balance Sheet.

Taxation

Irrecoverable VAT is charged to the Income and Expenditure Account in the period in which it is incurred. SNH relinquished its partially exempt VAT status in 2004–5 due to the cost of administration.

Joint Nature Conservation Committee (JNCC)

JNCC was set up in November 1990 by Section 128(4) of the Environmental Protection Act 1990. It allows the nature conservation agencies: Scottish Natural Heritage (SNH), English Nature (EN) and Countryside Council for Wales (CCW) to work together to do things that were previously done by the Nature Conservancy Council. JNCC is funded jointly by SNH, EN and CCW. SNH's share of JNCC's net assets has been presented in these accounts in line with the funding agreement between the three country agencies.

In April 2005, JNCC changed its corporate status to a Company Limited by Guarantee.

Grant-in-aid

Grant-in-aid in respect of operating expenditure, including relocation is credited to income in the period in which it is received. The proportion equal to grant-in-aid for capital expenditure is allocated to the Balance Sheet and released to the Income and Expenditure account over expected assets lives in line with the depreciation policy. This covers only the historical cost element of depreciation, and the equivalent of depreciation on any revalued element of asset value is released from the Revaluation Reserve.

Grants and Management Agreements

Grant and management agreement expenditure is recognised at the point of authorisation for payment. SNH's policy is to recover grants where the conditions attached to that grant have been materially breached and no acceptable alternative conditions or remedies can be implemented.

The treatment of management agreements this year represents a change to the basis of recognition. It is difficult to estimate the impact of this change but based on the levels of accruals at March 2005 of £12,000 it is estimated that a similar level of management agreement costs might have been expensed in 2003–4.

Notional costs

SNH's notional cost of capital is calculated at a rate of 3.5%.

Pension Costs

The provisions of the Principal Civil Service Pension Scheme (PCSPS), which is a defined benefit scheme and is unfunded, cover SNH employees. SNH recognises the expected cost of providing pensions on a systematic basis over the period in which it benefits from employees' services by payments to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefit is a charge on the PCSPS. Further information is given in Note 8.

Funding from the European Commission and Lottery

Funding receivable for operating expenditure is included in the Income and Expenditure Account in respect of expenditure incurred to 31 March on approved projects. Funding receivable for capital expenditure is taken to Deferred Income in the year in which the funds are due, and released to Income and Expenditure account to match depreciation of the assets.

Big Lottery Fund

Funding receivable from the Big Lottery Fund is included in the Income & Expenditure account to match the relevant expenditure incurred during the year. Funds received in excess of that need are treated as income received in advance. Note 12 to the accounts provides further information.

2. Grant-in-aid

Total grant-in-aid received in 2004–5 was £60.01m (2003–4: £53.70m). This appears in the accounts as follows:

	Note	2004–5 £000	2003–4 £000
Revenue Expenditure			
SNH – core operational funding		54,935	49,134
JNCC	11.1	1,712	1,598
Central Scotland Forest Trust (CSFT)		900	993
		<u>57,547</u>	<u>51,725</u>
Capital Expenditure			
SNH – core capital funding		2,444	1,922
JNCC	11.1	19	53
	13	<u>2,463</u>	<u>1,975</u>
Total Grant-in-aid receivable		<u>60,010</u>	<u>53,700</u>

The schedule indicates funds received as grant-in-aid but restricted as contributions to JNCC and CSFT.

3. External Funding

	Note	2004–5 £000	2003–4 £000
Grant income			
Fresh Futures	12	2,081	1,347
Other		592	919
Partnership income		361	234
Sponsorship income		-	29
Other external funding		161	188
		<u>3,195</u>	<u>2,717</u>

The above figures are net of amounts received for purposes of capital expenditure. External funds received for the purposes of purchasing fixed assets in 2004–5 amounted to £ nil (2003–4: £6,000)

Other grant income is shown net of an amount of £380,346 (2003–4: £305,000) received from Fresh Futures and incorporated in details of Fresh Future's expenditure (Note 12).

4. Income from activities

	2004–5 £000	2003–4 £000
Professional services	60	74
Managing resources	316	382
Other income from activities	147	166
	<u>523</u>	<u>622</u>

5. Other Income

	2004-5 £000	2003-4 £000
Bank Interest	144	145
Interest on bequest funds	3	2
	147	147

6. Released from Deferred Income and Reserves

Released from deferred income	Note	2004-5 £000	2003-4 £000
Capital Asset Fund			
Release to match historic depreciation for the year		1,512	1,429
Release of unexpended depreciation on asset disposals		1	1
Release to match cost of asset diminution		–	245
Total released from Capital Asset Fund	21	1,513	1,675
Released from Reserves			
Revaluation Reserve			
Release to match depreciation on fixed asset revaluation		66	42
Release to match cost of asset diminution		–	3
Total released from Revaluation Reserve	22	66	45
Total released from deferred income and reserves		1,579	1,720

7. Staff costs (including Board members)

7.1 All employees

	Note	2004-5 £000	2003-4 £000
Wages and Salaries			
Chairman	7.3	43	42
Main Board members	7.4	139	127
Area and Advisory Board members		197	179
Management Team	7.6	398	367
All other staff		18,835	18,038
		19,612	18,753
Social security costs		1,398	1,334
Pension costs	8	2,510	2,376
Staff costs per Income and Expenditure account		23,520	22,463

The 4.7% increase in staff costs is due to an increase of three in the average number of staff employed (full time equivalent) and the impact of guaranteed pay progression and annual pay increases.

7.2 Pension costs

A breakdown of pension costs payable for the year is as follows:

	Note	2004–5 £000	2003–4 £000
			(Restated)
Accruing superannuation liability charges (ASLCs)		2,492	2,361
Other SNH pension costs		4	42
Net increase/(decrease) on early retirement provision	19	14	(27)
Total pension costs per Note 7.1		2,510	2,376

7.3 Chairman

The Chairman's appointment is pensionable and on a part-time basis of three days a week. His total emoluments in 2004–5 were £43,117 (2003–4: £42,270). Total accrued pension at 60 as at 31 March 2005 amounts to £3,189 (2003–4: £2,599), which equates to a real increase of £590 (2003–4: £521).

Pensionable service used to calculate accrued pension as at 31 March 2005 represents years service payable from SNH's pension scheme including any added years or transfers in.

7.4 SNH Board Members

Main Board salaries for 2004–5 amounted to £139,000 (2003–4: £127,000). Excluding back pay and additional payments, this equated to an equivalent daily rate of £260 (2003–4 : £255). On this basis, indicative annual salaries, which are not pensionable, were as follows:

- Deputy Chairman, for 6 days per month plus 10 days p.a. JNCC, £21,320
- Area Board Chairs, for 6 days per month, £18,720
- Chair of Scientific Advisory Committee, for 4 days per month, £12,480
- Main Board members, for 2.5 days per month, £7,800
- Area Board members, for 2 days per month, £6,240
- Scientific Advisory Committee, for 1.5 days per month, £4,680

Main Board members' emoluments, excluding the Chairman, cover membership of subsidiary Boards and Committees as indicated:

Board Member	Key	Emoluments	
		2004–5 £	2003–04 £
Michael Scott, Deputy Chair Main Board, (retired 31 March 2005)	1	21,334	20,915
Keith Geddes CBE (Chair Audit and Risk Management Committee)	1,6	8,847	8,673
Peter Chapman, Chair East Areas Board	1,4	17,529	7,653
Lady Isabel Glasgow, Chair West Areas Board	1,3	18,733	18,365
Nick Kempe	1	9,335	4,624
Alice Lambert, retired 31 March 2005	1	7,805	7,653
Professor Janet Sprent OBE, Chair SAC	1,5	12,489	12,244
Professor Susan Walker OBE*	1,6	8,910	9,747
Professor Jeremy Rowan-Robinson (retired 31 March 2004)		–	18,365
Simon Fraser (retired 31 March 2004)		–	18,365
Amanda Bryan, (Chair North Areas Board)**	1,2	19,360	–
Dr James Hunter CBE	1	7,154	–
Hugh Raven	1	7,154	–
		138,650	126,604

* Includes £323 relating to childcare payments.

** Includes £627 relating to childcare payments.

7.6 Management Team

The emoluments and pension entitlements of SNH's Management Team were:

	Age	Years at Current Grade	Annual Salary £000	Other Emoluments £000	Total Emoluments £000	Real Increase in Pension at 60 £000	Total accrued pension at 60 as at 31 March 2005 £000
Ian Jardine Chief Executive	45	3	82	7	90	1	22
John Thomson Director of Strategy & Operations (West)	53	15	66	–	66	1	27
Andrew Bachell Director of Strategy & Operations (East)	47	3	55	–	55	1	8
Jeff Watson Director of Strategy & Operations (North)	52	8	61	–	61	2	18
Ian Edgeler Director of Corporate Services	55	6	62	–	62	1	9
Colin Galbraith Director of Scientific and Advisory Services	46	3	59	6	64	1	13
Total Emoluments – Management Team			385	13	398		

Pensionable service used to calculate accrued pension as at 31 March 2005 represents years service payable from SNH's pension scheme including any added years or transfers in.

Colin Galbraith was in receipt of other emoluments comprising housing allowance of £5,551.

An inflation factor for the year of 2.1% has been used, based on RPI.

7.7 Average number of persons employed

By Occupational Group	2004–5 Number	2003–4 Number
Operational, professional and managerial	548	536
Administration and support	172	184
Estate workers, manual and domestic	31	28
Senior management	6	6
	757	754

Staff numbers are stated as full time equivalents based on the average of numbers employed at the end of each month.

8. Pension Benefits

	Total accrued pension and related lump sum at age 60 at 31 March 2005	Real increase in pension and related lumpsum at age 60	CETV at 31 March 2005	CETV at 31 March 2004	Real increase in CETV
	£000	£000	£000	£000	£000
Chairman					
John Markland	9	1	58	46	8
Management Team					
Ian Jardine	87	3	294	266	10
John Thomson	31	1	424	387	10
Andrew Bachell	8	3	28	16	10
Jeff Watson	71	5	295	258	21
Ian Edgeler	35	4	154	129	17
Colin Galbraith	52	5	182	155	15

Pension benefits are provided through the Principal Civil Service Pension Scheme (PCSPS), which is an unfunded multi-employer defined benefit scheme. SNH is unable to identify its share of the underlying assets and liabilities. From 1 October 2002, staff may be in one of three statutory based "final salary" defined benefit schemes (classic, premium and classic plus). Pensions payable under these schemes are increased annually in line with changes in the Retail Prices Index. New entrants from 1 October 2002 may choose between membership of the premium scheme or joining a "money purchase" stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of the pensionable salary for each year of service. In addition, a lump-sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do contribute, SNH will match these up to a limit of 3% pensionable salary (in addition to the employer's basic contribution). SNH also contributes a further 0.8% of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill health retirement).

Further details about the PCSPS arrangements can be found at the website www.civilservice-pensions.gov.uk.

For 2004–5, employer's contributions of £2,510,000 were payable to the PCSPS. These contributions were payable at rates ranging from 12% to 18.5% of pensionable pay, based on salary bands. Rates will increase in the next year and will also be subject to revalorisation of the salary bands. Employer contributions are to be reviewed every 4 years following a full scheme valuation by the Government Actuary. The date of the last actuarial valuation was 31 March 2003. The contribution rates reflect benefits as they are accrued and reflect past experience of the scheme.

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the members' accrued benefits and any contingent spouse's pension payable from the scheme. It is a payment made by the pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures and other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The real increase in the value of the CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

9. Other administrative costs

	2004-5 £000	2003-4 £000
Staff related costs	1,146	1,058
Office and other Accommodation	2,100	1,949
Travel	913	825
Communications	1,221	1,350
Supplies and services	1,318	1,077
Audit fee	57	57
Other administrative costs	1,689	644
	<u>8,444</u>	<u>6,960</u>

The increase in other administrative costs is largely due to the use of consultants on various aspects of the relocation project.

Other administrative costs includes costs incurred in the year for the costs of employee relocation of £140,000 and exit training costs for employees leaving SNH of £11,000. Provision has been created for future costs of a similar nature (Note 20).

10. Programme expenditure

	2004-5 £000	2003-4 £000
Promotion	2,070	1,708
Research	4,465	4,111
Grants	8,937	9,143
Partnership funding	7,581	6,465
Management Agreements	4,041	4,434
Managed Sites	1,130	1,054
	28,224	26,915

SNH inherited the administration and payment of certain Local Authority loans following the merger between the Nature Conservancy Council Scotland and the Countryside Commission for Scotland. SNH is responsible for paying an annual grant to meet the approved schedule of debt financing charges arranged by the local authorities and for compliance monitoring.

Details of forward commitments on the remaining loan are contained in Note 24.

11. JNCC

11.1 Ring fenced grant-in-aid for JNCC

	Note	2004-5 £000	2003-4 £000
Ring fenced grant-in-aid received		1,731	1,651
Less: applied as capital expenditure		(19)	(53)
Grant Income per Income and Expenditure account	2	1,712	1,598

11.2 Contribution to JNCC expenditure

	Note	2004-5 £000	2003-4 £000
Expenditure:			
Conservation support		727	558
Staff costs		1,017	904
Depreciation & impairment		29	28
Other operating costs		425	396
Notional costs		6	5
		2,204	1,891
Less Income:			
EU Funding		235	–
Income from activities		231	256
Released from Capital Asset Fund		33	28
		499	284
Net operating cost		1,705	1,607
Interest receivable		(4)	(3)
Gain/(loss) on sale of fixed assets		3	–
Add back of notional costs		(6)	(5)
Retained surplus/(deficit) for year		14	(1)
Net Expenditure included in programme expenditure	10	1,712	1,598

11.3 Reconciliation of Movement in SNH's Share of JNCC Reserves

	Note	2004-5 £000	2003-4 £000
Share of JNCC Net Reserves at start of year		158	136
Movement in reserves position for year	22	2	22
Share of JNCC Net Reserves at end of year		160	158

12. Fresh Futures

During the year, SNH and Forward Scotland in a project partnership, called Fresh Futures, continued to manage two funding programmes using monies provided by the Big Lottery Fund (BLF) a lottery distributing body. The first programme was called Green Spaces and Sustainable Communities. The second programme is called Transforming Your Space. The lifetime of both projects now extends to March 2007. Fresh Futures is now targeted to deliver over £7.7 million to support projects that enable communities to understand, improve or care for their natural environment. The funds are held separately and provide the finance to cover all of the costs of both schemes, including two open grants programmes and operating costs.

One of the conditions for receiving grant from the BLF is that SNH act as the principal agent for the receipt and distribution of the funds, including those provided to Forward Scotland to cover running costs. Details of the transactions are also to be published in SNH's annual accounts. During the year 2004-5 the financial transactions of the two programmes amounted to:

	Note	2004-5 £000	2003-4 £000
Income			
Grants receivable from the Big Lottery Fund		2,682	1,577
Interest receivable		18	11
		2,700	1,588
<u>Less: funds not applied</u>		(619)	(241)
Income per Income and Expenditure Account	3	2,081	1,347
Expenditure			
Administrative costs:			
Wages and salaries (incl. ERNIC and superannuation)		102	123
Other operating costs		38	72
		140	195
Grants:			
Green Spaces for Communities		380	305
Open Grants Programme		1,235	547
Sustainable Communities Programme		326	300
		1,941	1,152
Expenditure included in programme expenditure	10	2,081	1,347
	Note	2004-5 £000	2003-4 £000
Reconciliation of funds balance			
Funds balance as at the start of the year		(380)	(139)
Funds not applied in year		(619)	(241)
Funds not applied as at end of the year		(999)	(380)
Represented by:			
Debtors – Advances made	15	6	5
Cash at bank	16	993	375
Creditors – Income received in advance	17	(999)	(380)

Green Spaces for Communities is a project managed by SNH.

13. Tangible Fixed Assets

	Freehold		Leasehold Improvements	Computer Equipment	Other Equipment	Vehicles	Fixtures Furniture & Fittings	Share of JNCC Assets	Total
	Land	Buildings							
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation:									
At 1 April 2004	2,125	7,739	1,154	7,552	4,003	1,955	877	295	25,700
Additions	30	453	43	1,026	584	289	19	19	2,463
Disposals	–	–	–	(1,332)	(69)	(181)	–	(51)	(1,633)
Impairment	–	–	–	–	–	–	–	2	2
Revaluation	360	(61)	–	–	15	47	12	5	378
At 31 March 2005	2,515	8,131	1,197	7,246	4,533	2,110	908	270	26,910
Depreciation:									
At 1 April 2004	–	515	662	5,841	3,129	1,424	696	164	12,431
Charged in year	–	236	48	751	244	259	41	24	1,603
Backlog	–	(5)	–	–	12	34	8	–	49
Disposals	–	–	–	(1,332)	(69)	(180)	–	(47)	(1,628)
Impairment	–	–	–	–	–	–	–	3	3
Revaluation	–	–	–	–	–	–	–	6	6
At 31 March 2005	–	746	710	5,260	3,316	1,537	745	150	12,464
Net Book Value									
At 31 March 2005	2,515	7,385	487	1,986	1,217	573	163	120	14,446
Net Book Value									
At 31 March 2004	2,125	7,224	492	1,711	874	531	181	131	13,269

Purchases of fixed assets in the above schedule of £2,463,000 (2003–4: £1,980,000) appear in the cash flow statement as £2,177,000 after adjustment for fixed asset creditors.

14. Stocks

	2004–5 £000	2003–4 £000
Share of JNCC stock	34	26

15. Debtors

	Note	2004-5 £000	2003-4 £000
Trade debtors		270	235
Prepayments and accrued income		677	641
Other debtors		591	258
Claims due from European funding sources		175	167
Heritage Lottery Fund claims		94	166
Fresh Futures – Advances made	12	6	5
Share of JNCC debtors		273	218
		<u>2,086</u>	<u>1,690</u>

Smaller amounts falling due after more than one year are included in other debtors and amount to £55,000. These relate primarily to interest free loans to essential car users within SNH under a scheme approved by the Treasury and approved housing advances for staff who have been permanently relocated.

16. Cash at bank and in hand

	Note	2004-5 £000	2003-4 £000
Cash at bank and in hand		2,613	754
European Commission funds received in advance		747	102
Bequest funds		69	64
Fresh Futures	12	993	375
JNCC share		34	5
		<u>4,456</u>	<u>1,300</u>

During the year, SNH received no restricted bequests and one unrestricted bequest of £2,000.

In addition, interest of £3,000 was received on bequest funds on deposit. No monies from the funds were spent during the year.

17. Creditors due within one year

	Note	2004-5 £000	2003-4 £000
Trade creditors		2,985	2,484
Other tax and social security		524	–
Value Added Tax		27	–
Project funds in advance		766	115
Provision for payment of pension to early retirees	19	22	56
Accruals		122	87
Fresh Futures – Income received in advance	12	999	380
Deferred rental income		–	2
Share of JNCC creditors		302	222
		<u>5,747</u>	<u>3,346</u>

The increase in creditors of £2,354,000 is shown in the reconciliation of operating surplus to net cash flow (Note 29) as an increase of £2,062,000 after adjustment for movements in fixed asset creditors (Note 13).

18. Creditors Amounts falling due outwith one year

	Note	2004-5 £000	2003-4 £000
Provision for payment of pension to early retirees	19	13	31
Deferred rental income		–	29
		13	60

19. Provision for payment of pension to early retirees

	Note	2004-5 £000	2003-4 £000
Balance at 31 March 2004		87	184
Charged to Income and Expenditure Account for future pension costs			
Employees retiring during current year		8	66
Increase (Decrease) to pensions payable to existing retirees		6	(93)
Net increase in early retirement provision for year	7.2	14	(27)
Release for pension payments during year		(66)	(70)
Net movement in provision for year		(52)	(97)
Balance at 31 March 2005		35	87
Payable within 1 year		22	56
Payable outwith 1 year		13	31
		35	87

At the start of the year, there were six former employees in receipt of early retirement pensions. During the year, one further employee took early retirement on voluntary grounds agreed by SNH and two reached normal retirement age leaving five former employees in receipt of early retirement pensions. Full provision has been made for the costs of pension payments to the remaining voluntary early retirees up to normal retirement age on the basis as described in Note 1.

20. Provisions for liabilities and charges

	Redundancy Prov'n £000	Other reloc'n provisions £000	Total 2004-5 £000	Total 2003-4 £000
Relocation to Inverness				
Balance at 31 March 2004	7,600	–	7,600	–
Charged to Income and Expenditure in year:				
Provision for redundancy costs	–	–	–	7,600
Estimates of reloc'n incentives and exit/training costs	–	1,058	1,058	–
Releases to Income and Expenditure:				
Provision no longer required	(468)	–	(468)	–
Net increase/(decrease) in the year	(468)	1,058	590	7,600
Payments made during the year	(32)	–	(32)	–
Balance at 31 March 2005	7,100	1,058	8,158	7,600

Following Ministerial Direction, SNH is relocating most of its Edinburgh based operations to Inverness. Details of the financial packages, calculated by SNH's pension provider, were issued to employees and a subsequent survey of employee intentions was conducted during October/November 2004. Based on an informed interpretation of the results of this survey, the likely costs of redundancy for those employees unable, or unwilling, to relocate has been estimated at £7,600,000 and provision was made last year for this amount. This covers lump sum compensation payments on departure and annual costs expected to apply from that date until normal retirement date. During 2004–5 some employees have left on less expensive voluntary terms and further re-assessment of employees status and intentions has allowed £468,000 of the provision to be released back to Income and Expenditure as no longer required.

The estimate is subject to change as staff make their decisions, however from October 1, 2005 all redundancies will be on compulsory terms. Most of the redundancy payments will occur between October 2005 and March 2006, although timings are not possible to estimate accurately. A further provision of £1,058,000 has been added this year to cover relocation costs due to staff that have or intend to relocate and an estimate of the re-training cost for staff leaving SNH. The Scottish Executive is reimbursing the net additional cost of all relocation related expenditure.

21. Deferred income

	Note	2004–5 £000	2003–4 £000
Capital Assets Fund			
Balance at 31 March 2004		9,894	9,827
Funds received during the year for purchase of fixed assets	2	2,444	1,927
Released to Income and Expenditure Account		(1,513)	(1,675)
Transfer to Revaluation Reserve		–	(185)
Balance at 31 March 2005		<u>10,825</u>	<u>9,894</u>

This fund represents the balance of income received for the purchase of fixed assets after releases to the Income and Expenditure to match historical amounts written off over the useful life of the assets concerned. The amount released represents an amount to cover historical depreciation for the year of £1,512,000 and unexpired depreciation on disposals of £1,000. The difference between this and the total release of £1,579,000 (Note 6) amounts to £66,000. This represents the unconsumed element of previous revaluations of the assets concerned and this is released from revaluation reserve (Note 22).

22. Reserves

	Revaluation Reserve £000	JNCC (Note 11) £000	Bequest Reserve £000	Income & Expenditure £000	Total 2004–5 £000	Reserves 2003–4 £000
Balance at 1 April 2004	3,276	158	64	(8,113)	(4,615)	3,316
Surplus/(Deficit) for the year	–	2	–	631	633	(8,707)
Revaluation gain	322	–	–	–	322	634
Bequest funds received	–	–	5	–	5	2
Release to Income and Expenditure:						
depreciation (Note 6)	(66)	–	–	–	(66)	(45)
Transfer from Capital Asset Fund	–	–	–	–	–	185
Balance at 31 March 2005	<u>3,532</u>	<u>160</u>	<u>69</u>	<u>(7,482)</u>	<u>(3,721)</u>	<u>(4,615)</u>

Of the above funds, £1,500 of Bequest funds is restricted as to use. All other reserves are unrestricted.

23. Operating lease commitments

As at 31 March 2005, SNH had the following annual commitments under operating leases:

	Land		Buildings		Other Leases		Total	
	2004-5 £000	2003-4 £000	2004-5 £000	2003-4 £000	2004-5 £000	2003-4 £000	2004-5 £000	2003-4 £000
Expiry within:								
One year	–	–	397	387	24	43	421	430
Two to five years	1	1	346	132	3	3	350	136
After five years	8	7	1,092	270	–	–	1,100	277
	9	8	1,835	789	27	46	1,871	843

The significant increase in operating lease commitments represents the rent for the new Headquarters at Westercraigs, Inverness.

24. Contractual commitments

Capital

As at 31 March 2005 SNH had various commitments under its capital programme totalling £3,094,000. This expenditure fell into the following categories:

	2004-5 £000	2003-4 £000
Authorised and contracted:	22	95
Authorised but not contracted:	3,072	402

The authorised but not contracted figure includes £2,812,000 in respect of the fitting out, furnishing and equipping the new Headquarters at Westercraigs as detailed in the Project Plan.

Management Agreements

As a result of management agreements concluded by 31 March 2005, commitments to continuing annual payments for 2005-6, under leases and management agreements, amount to £3,450,000 (2003-4: £3,492,000). Of this total, it is estimated that an amount of £1,260,000 (2003-4: £1,380,000) refers to agreements entered into before 1 January 2000. These agreements are currently awaiting notification as approved state aids (Note 25).

Grants

Grant forward commitments on offers made and accepted as at 31 March 2005 covering the years up to and including 31 March 2009, amount in total to £15,785,000 as follows:

	2004-5 £000	2003-4 £000
Payable within 1 year	8,534	8,122
Payable in 2-4 years	7,251	5,419
	15,785	13,541

Total forward commitment on grants to local authorities for loan charges outstanding until 2008 is £49,000.

Grants to Local Authorities for approved loan charges

	2004-5 £000	2003-4 £000
Grants for approved annual loan charges	22	22

25. Contingent Liabilities

The European Commission is conducting an examination of management agreements entered into before 1 January 2000. Although there have been no material developments on the notification of pre January 2000 management agreements, the value of annual payments made under these agreements decreases annually. It is unlikely that any financial penalties will result.

A contingent liability of approximately £307,000 exists in respect of site safeguard compensation cases where claims have been lodged and are under arbitration. Subject to the results of the arbitration, SNH may have potential obligation for back payments and accrued interest.

26. Losses Statement

During the year, losses and special payments totalled £42,074. An analysis of this figure shows the following:

	2004-5 £000	2003-4 £000
Cash Losses	2	1
Losses of assets, stores and equipment	39	1
Fruitless payments and constructive losses	-	1
Claims waived or abandoned	1	2
Special Payments	-	-
	42	5

In 2004-5, the principal losses were accident repairs to SNH owned vehicles and fire damage to a cottage on the island of Rum.

27. Related party transactions

SNH is a Non-Departmental Public Body (NDPB) sponsored by the Scottish Executive and Rural Affairs Department. During the year, SNH had various transactions with the Scottish Executive and other entities for which the Scottish Executive is regarded as a parent body.

SNH also had a small number of transactions with other Government Departments and other NDPBs (mainly English Nature and the Countryside Council for Wales).

SNH's chairman, John Markland, is a non-executive director of Forward Scotland. This organisation is in a project partnership with SNH to manage a funding programme called Fresh Futures, funded by the Big Lottery Fund (see Note 12).

The deputy chairman, Michael Scott, was a director of Highland Birchwoods until 31 March 2005, which is in receipt of funding from SNH amounting to £226,000 in 2004-5.

Lord Glasgow, the husband of Lady Isabel Glasgow, an SNH board member, is the owner of Kelburn Country Centre, which was in receipt of grants totalling £25,000 during 2004-5.

With the exception of those indicated above, none of the main board members, Management Team or other related parties has undertaken any material transactions with SNH during the year.

28. Key Financial Targets

SNH is required to operate within a resource budget and funding limits for operating and capital expenditure set by the Scottish Executive. SNH's performance against these targets is shown below:

	2004-5			2003-4		
	Budget £000	Net Outturn £000	(Over)/ underspend £000	Budget £000	Net Outturn £000	(Over)/ underspend £000
Capital:						
Net additions	3,051	2,443	608	1,980	1,926	54
Total Capital	3,051	2,443	608	1,980	1,926	54
Operating:						
Cash based	59,512	56,912	2,600	54,702	60,452	(5,750)
Non cash based	2,030	2,080	(50)	1,888	2,188	(300)
Total operating	61,542	58,992	2,550	56,590	62,640	(6,050)
Total Budget/ Outturn	64,593	61,435	3,158	58,570	64,566	(5,996)

In 2004-5 SNH underspent its capital and operating budgets by £608,000 and £2,550,000 respectively. Accordingly SNH's key financial targets of working within budget limits were achieved. The operating budget overspend in 2003-4 of £6,050,000 resulted from creating a provision of £7,600,000 to cover future redundancy costs associated with SNH's relocation to Inverness. Under Government rules grant-in-aid cannot be anticipated in advance of need creating a revenue/expenditure imbalance that will correct on receipt of grant-in-aid as redundancy payments fall due.

29. Reconciliation of Operating (Surplus) to Net Cash Inflow (Outflow) from Operating Activities.

	2004-5 £000	2003-4 £000
Surplus / (Deficit) on operating activities	133	(9,195)
Bank interest	(144)	(145)
Bequest interest	(3)	(2)
Depreciation charge	1,579	1,720
Profit on sale of tangible fixed assets	(8)	(54)
Notional costs	503	468
Transfers from Deferred Income	(1,513)	(1,674)
Movements to (from) Reserves: -		
- Revaluation Reserve	(66)	(46)
- JNCC Reserves	27	53
- Bequest Reserves	5	-
(Increase) / Decrease in stocks	(8)	123
(Increase) / Decrease in debtors	(396)	63,844
Increase / (Decrease) in creditors	2,062	(62,273)
Increase in provisions	558	7,600
Net cash inflow from operating activities	2,729	419

30. Statement of Financial Activities

The table below is provided in accordance with the requirements of SORP 2, the Statement of Recommended Practice on the accounts of charities. The statement analyses the expenditure of SNH by functional and administrative categories, and separately identifies income in the form of grants and donations. Transactions related to Fresh Futures use of Big Lottery funds are restricted as to use. Bequest funds of £1,500 are restricted funds.

	2004-5 £000	2003-4 £000
Incoming Resources		
Grant income	60,010	54,105
Income from activities	3,718	3,339
Donations, legacies and similar income	2	–
Other income	650	615
Total Incoming Resources	64,380	58,059
Resources Expended		
Direct charitable expenditure	54,477	50,363
Managerial and administration expenditure	8,078	15,560
Total Resources Expended	62,555	65,923
Net Movement in Funds	1,825	(7,864)
Funds balance at start of the year	5,279	13,143
Funds balance at end of the year	7,104	5,279
Total Fund balances made up by:		
General funds	7,104	5,279

31. Managing risk in financial instruments

FRS 13, "Derivatives and Other Financial Instruments", requires disclosure of the role which financial instruments have during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the nature of its activities and the way in which SNH is financed, SNH is not exposed to the degree of financial risk faced by other business entities. SNH has no power to borrow and all surplus funds are held in interest bearing deposit accounts. The interest rates are fixed for the duration of the banking contract at 0.5% below base rate. SNH has no other investments and therefore there is no exposure to interest rate risk.

SNH minimises exchange rate risk on EU funded projects by identifying in the memo of agreement for the projects a mechanism for partners to agree how a shortfall or surplus will be handled. Any shortfall or surplus would be covered in proportion to the partners' contributions to the overall project.

32. Dedication

These annual accounts are dedicated to the memory of John Kerr, Business Support Accountant, who passed away suddenly in July 2005. John had been a member of the annual accounts project team.

APPENDIX 1

SCOTTISH NATURAL HERITAGE

DIRECTION BY THE SCOTTISH MINISTERS

1. The Scottish Ministers, in pursuance of Section 10(3) of the Natural Heritage (Scotland) Act 1991, hereby give the following direction.
2. The statement of accounts which it is the duty of Scottish Natural Heritage to prepare in respect of the financial year ended 31 March 2002 and in respect of any subsequent financial year, shall comprise:
 - 2.1 a foreword;
 - 2.2 an income and expenditure account;
 - 2.3 a balance sheet;
 - 2.4 a cash flow statement;
 - 2.5 a statement of total recognised gains and losses;
 - 2.6 a statement of accountable officer's responsibilities; and
 - 2.7 a statement on the system of internal control.

including such notes as may be necessary for the purposes referred to in the following paragraphs.

3. The statement of accounts shall give a true and fair view of the income and expenditure and cash flows for the financial year and the state of affairs as at the end of the financial year. Subject to this requirement, the accounts shall be prepared in accordance with:
 - 3.1 the accounting and disclosure requirements of the Companies Act for the time being in force; and
 - 3.2 generally accepted accounting practice in the UK, including accounting standards issued or adopted by the Accounting Standards Board and statements of recommended practice issued by the Charity Commission; and
 - 3.3 guidance which Scottish Ministers may issue from time to time in respect of accounts which are required to give a true and fair view;
 - 3.4 the accounting and disclosure requirements given in "Executive NDPBs: Annual Reports and Accounts Guidance", as amended or augmented from time to time;

insofar as these are appropriate to Scottish Natural Heritage and are in force for the financial year for which the statement of accounts is to be prepared.

4. Clarification of the application of the accounting and disclosure requirements of the Companies Act and accounting standards is given in Schedule 1 attached. Additional disclosure requirements are set out in Schedule 2 attached.
5. The income and expenditure account and balance sheet shall be prepared under the historical cost convention modified by the inclusion of:
 - 5.1 fixed assets at their value to the business by reference to current costs; and
 - 5.2 stocks valued at the lower of net current replacement cost (or historical cost if this is not materially different) and net realisable value.
6. This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 13 March 2001 is hereby revoked.

Andrew Dickson

Signed by the authority of the Scottish Ministers

Date 2 October 2002

SCHEDULE 1

APPLICATION OF THE ACCOUNTING AND DISCLOSURE REQUIREMENTS OF THE COMPANIES ACT AND ACCOUNTING STANDARDS

COMPANIES ACT

1. The disclosure exemptions permitted by the Companies Act shall not apply.
2. The Companies Act requires certain information to be disclosed in the Director's Report. To the extent that it is appropriate, the equivalent information relating shall be contained in the foreword.
3. When preparing its income and expenditure account Scottish Natural Heritage shall have regard to the profit and loss account format 2 prescribed in Schedule 4 to the Companies Act.
4. When preparing its balance sheet Scottish Natural Heritage shall have regard to the balance sheet format 1 prescribed in Schedule 4 to the Companies Act.
5. Scottish Natural Heritage is not required to provide the additional information required by paragraph 33(3) of Schedule 4 to the Companies Act.
6. The foreword and balance sheet shall be signed and dated by Scottish Natural Heritage's Accountable Officer and be submitted to the Scottish Ministers by 30 September each year.

ACCOUNTING STANDARDS

7. Scottish Natural Heritage is not required to include a note showing historical cost profits and losses as described in FRS3.
8. Scottish Natural Heritage shall not adopt the Financial Reporting Standard for Smaller Entities.

SCHEDULE 2

ADDITIONAL DISCLOSURE REQUIREMENTS

1. The foreword shall, *inter alia*:
 - 1.1 state that the statement of accounts have been prepared in a form directed by the Scottish Ministers in accordance with Section 10(3) of the Natural Heritage (Scotland) Act 1991.
 - 1.2 include a brief history of Scottish Natural Heritage and its statutory background including its status as a Scottish charity under the provisions of Section 1(7) of the Law Reform Miscellaneous Provisions (Scotland) Act 1990.
2. The notes to the accounts shall include:
 - 2.1 details of any key corporate financial targets set by the Scottish Ministers together with an indication of the performance achieved, and
 - 2.2 details of the pension arrangements operated by Scottish Natural Heritage and confirmation that the scheme accords with the guidance contained in "Non-Departmental Public Bodies: A guide for Departments".

FINANCIAL SUMMARY

	2004-5 £000	2003-4 £000	2002-3 £000	2001-2 £000	2000-1 £000
Income and expenditure					
Income	62,993	56,931	54,386	52,616	43,749
Staff costs	(23,520)	(22,463)	(20,814)	(19,969)	(17,706)
Operating costs	(36,668)	(33,875)	(34,339)	(32,166)	(26,767)
Provision for relocation / redundancy	(590)	(7,600)	–	–	–
Depreciation	(1,579)	(1,720)	(1,657)	(1,509)	(1,441)
Cost of capital	(503)	(468)	(822)	(769)	(707)
Operating surplus/(deficit) for year	133	(9,195)	(3,246)	(1,797)	(2,872)
Balance Sheet					
Fixed assets	14,446	13,269	12,405	11,665	10,690
Net current assets/(liabilities)	829	(330)	889	2,456	1,076
Long-term creditors	(13)	(60)	(151)	(203)	(143)
Provisions for liabilities and charges	(8,158)	(7,600)	–	–	–
	7,104	5,279	13,143	13,918	11,623
Financed by					
Deferred income	10,825	9,894	9,827	9,279	8,258
Reserves	(3,721)	(4,615)	3,316	4,639	3,365
	7,104	5,279	13,143	13,918	11,623

PICTURE CREDITS

Lorne Gill/SNH: Front cover, 8 (all except centre), 9, 11 (all except left, left centre and centre), 13, 15

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OUR MISSION STATEMENT

Working with Scotland's people to care for our natural heritage

OUR AIM

Scotland's Natural Heritage is a local, global and national asset. We promote its care and improvement, its responsible enjoyment, its greater understanding and appreciation and its sustainable use, now and for future generations.

OUR OPERATING PRINCIPLES

We work in partnership, by co-operation, negotiation and consensus, where possible with all relevant interests in Scotland: public, private and voluntary organisations and individuals. We operate in a devolved manner, delegating decision making to the local level within the organisation to encourage and assist SNH to be accessible, sensitive and responsible to local needs and circumstances. We operate in an open and accountable manner in all our activities.

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