

SNH

ANNUAL REPORT

2005/2006

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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SCOTTISH NATURAL HERITAGE ANNUAL REPORT 2005/2006



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CHIEF EXECUTIVE'S FOREWORD

I am pleased to present the Scottish Natural Heritage Annual Report for 2005–2006.

This Annual Report is one of three publications that report on our work and performance in the year from April 2005 to March 2006. 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 grants, management agreements and 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 has been a challenging year for SNH, during which time there has been significant activity relating to the relocation of our corporate office from Edinburgh to Inverness. 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.

Government services must be delivered as efficiently as possible. Under the Efficient Government Initiative, SNH achieved £608,000 of cash and time-releasing savings, against a target of £667,000 for the year 2005–6. The shortfall was due to organisational change projects not being achieved early enough to deliver the projected full year savings, however it is anticipated that many of the planned savings for 2005–6 will come to fruition this year.

The recommendations of the Strategic Review, commissioned by the Scottish Executive in 2004–5, have also been taken forward. The actions arising from the Strategic Review, which include a review of SNH's organisational structure, will ensure continuous improvement in how we deliver our remit and services.

The delivery of 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 our 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 international, 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 in the section on Performance against the Government's Key Targets in this report. Overall, we met or substantially met all our targets

	2005/06
Met target	7
Substantially met target	3
Partially met target	0
Failed to meet target	0
Total	10

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CARING FOR THE NATURAL WORLD

The year in summary

Protected Areas

Approximately 20% of Scotland's land area is given some level of protected status because of its special natural heritage interest. Additional protection was afforded to these areas following the introduction of The Nature Conservation (Scotland) Act 2004. During the year SNH staff began the extensive task of reviewing the 1,451 Sites of Special Scientific Interest (SSSI), to ensure that the information provided to land owners and managers is up to date and takes account of the Act. As part of this process staff began consulting owners and land managers to agree the management operations required to maintain these sites of special interest. In addition, the list of operations over which land managers are required to consult SNH is being rationalised and existing management consents reviewed.

In order to implement the changes brought about as a result of the new legislation, staff have prepared a number of comprehensive, internal guidance notes to ensure that we apply new procedures effectively and consistently throughout the country. Staff have also been involved in providing advice and guidance to other public bodies, such as planning authorities, to help establish a common understanding of new requirements under the Act.

During the year we have advised on a large number of development proposals that have the potential to impact on protected areas. A number of these have been complex and high profile,

including the Beaully-Denny connector line and proposals for a large wind farm on Lewis in the Western Isles.

A significant amount of time is devoted to local casework across Scotland to ensure that the special features on protected sites are taken into account in development decisions. As well as advising on potential impacts before developments proceed, we have been involved in advising on post development monitoring and site reinstatement. A successful example of this is the reinstatement of the pipeline assembly facility in the middle of the Morrich More SSSI and Special Area of Conservation (SAC) in Easter Ross. Techniques used in this project will inform similar restoration work in other coastal sites.

Work to identify any gaps in the suite of protected areas on land and freshwater is largely complete with a small number of potential terrestrial sites being progressed during the year for birds such as hen harriers. In the marine environment, site identification effort continues due to the lack of survey information for a small number of key habitats and species. Survey work is almost complete to identify any gaps in the Special Area of Conservation (SAC) series for 'common seal' and 'reefs and sandbanks slightly covered at all times' features. Work to identify marine Special Protection Areas (SPA) has been led at UK level by the Joint Nature Conservation Committee (JNCC) who have produced guidelines for the selection of sites. Our Board has agreed that 31 sites, selected



as seaward extensions of existing breeding bird SPAs, should be recommended to the Scottish Executive. If these are agreed by the Scottish Executive then work will proceed on definition of boundaries and consultations on behalf of Ministers.

Substantial work was undertaken during the year towards Scotland declaring the country's first ever Coastal and Marine National Park. SNH undertook an intensive nine-month programme of policy development, research and stakeholder engagement. This culminated in the provision of comprehensive advice to Ministers on the possible legal and policy framework of a Coastal and Marine National Park, and enabled the identification of five areas, which are considered as potentially suitable for Coastal and Marine National Park status.

Monitoring and Management

During the year SNH completed the first cycle of site condition monitoring. This is the first comprehensive assessment of the condition of the special features in our protected areas. In this first cycle 88% of the important features were monitored and over 70% were found to be in favourable condition, or recovering towards favourable condition. Our challenging target is to ensure that 95% of protected features are in this good condition by 2010.

In order to achieve this target we have continued to promote a suite of special management

schemes known as "Natural Care" to provide financial support to land managers for undertaking the management needed to ensure that the special features on these sites thrive. During the year seven new schemes were launched including the Dumfries & Galloway Management Scheme and the Sunart Woodland Management Scheme.

Biodiversity

Promoting and protecting biodiversity is a priority for SNH and a substantial proportion of our grants budget is devoted to helping communities and other bodies undertake positive management for biodiversity. SNH has been a key player in developing and implementing the Scottish Biodiversity Strategy. This year we made significant progress on the 27 actions for which we are the lead partner in the Implementation Plans that support the Strategy.

Managing species interactions is a particular biodiversity challenge, often generating a great deal of public interest. During the year the Hebridean Mink Project, supported by the EC LIFE Nature Programme finished its first 3-year programme of work. In total, 532 mink were caught – 302 in Harris and 230 in the Uists. The results are very encouraging and the project has been a great success. Given this success and the importance of consolidating progress to date, we are aiming to take forward a second phase of work shortly to completely eradicate mink from the Western Isles.



To ensure attention and resources are focussed effectively on species management needs in the future, a Species Framework, *"Making a Difference for Scotland's Species"* was launched in March 2006 to gather views from interested parties on the priority species requiring management action in the next few years.

National Nature Reserves

Work began on the development and implementation of consistent standards of visitor services and site management for our 55 National Nature Reserves (NNRs) in Scotland. This will ensure that all our NNRs provide facilities that are accessible and welcoming and demonstrate best practice in conservation management. A smaller number (16) have been identified as having the potential to become Spotlight Reserves, which will provide a higher standard of visitor experience, as well as provide opportunities for visitors and local people to learn and take part in educational experiences.

As part of our activities to promote awareness and understanding of the natural heritage through our NNRs, we held a number of family fun days on NNRs such as St Cyrus, Cairnsmore of Fleet, Tentsmuir, Isle of May and Forvie. A special celebration was held in Shetland to celebrate the 50th anniversary of two NNRs – Noss and Hermaness. An open day allowed local school children to take part in an art competition, and guided walks and boat trips allowed visitors to see the spectacular colonies of puffins, guillemots and gannets that breed on the sea cliffs. An ongoing programme of building and maintenance work was progressed during the year to ensure that we can effectively promote access and education on our reserves. On Cairnsmore of Fleet NNR planning permission was secured for the redevelopment of the visitor centre and at Kirkconnell Flow and Creag Meagaidh footpath work has taken place to improve access to these special places.

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ENRICHING PEOPLE'S LIVES

The year in summary

Access Code

A year after the launch of the Scottish Outdoor Access Code, SNH continues to promote the Code to the public and to special interest recreation groups. A repeat of the media campaign, including TV and radio advertising, ran to encourage responsible access. We also started to promote responsible access amongst key groups, including dog walkers, and provided signs and guidance to farmers and landowners to assist them. SNH-commissioned market research shows that awareness of the code has increased from less than 10% to around 50% of the Scottish adult population.

A major accolade came SNH's way when the British Horse Society awarded their National Access Award for our role in the Land Reform Act (Scotland). SNH is involved in projects throughout Scotland to develop better access facilities and guidance for horse riders.

SNH has continued its support for the Paths for All Partnership to contribute to access projects on the ground by developing local skills and knowledge, offering advice, training and producing publications on good practice. Included within the work of the Paths for All Partnership is support for the Paths to Health Initiative. This is central to the Scottish Physical Activity Strategy, which actively promotes outdoor access to a wider audience, helping to improve the nation's health and well-being.

Increasing Awareness

Making people more aware of Scotland's environment, what's important about it and how

to encourage people to get more involved in looking after it, is a key challenge for SNH. Over the last year, we have been looking at ways of improving how we communicate. One study looked into what sorts of messages we should be using to inform people about the environment and what they can do to look after it. Another study looked at what people think about our website and publications. A third asked people about what sorts of publications they would like us to produce. Overall these studies told us that people liked what we produce but that we need to improve awareness of SNH and what we do and provide more information about places to visit and things to do outdoors.

SNH aims to stimulate an awareness of the natural environment so that people can develop a commitment and interest in caring for its future, and get enjoyment from it. The BBC, with support from SNH, has launched a major new campaign, Breathing Places, which aims to create sustainable wildlife friendly greenspace across the UK and heighten awareness and understanding of the natural world.

SNH continues to be involved across a range of education work. We are working with the Scottish Executive and Learning and Teaching Scotland to help provide more opportunities for using the outdoors as a classroom for learning and teaching across the curriculum. SNH also supports the development of school grounds for outdoor learning, through Grounds for Learning, and by providing grants worth £739,558 to more than 314 schools throughout Scotland.



But it's not just about school grounds – SNH has joined with others to promote 'Gardens for Life' to encourage people out of their armchairs and into their gardens to promote biodiversity and well-being through gardening.

Greenspace

Greenspace Scotland continues to flourish. Set up by SNH and its partners in 2002 with support from the Big Lottery Fund to champion greenspace issues and provide support to local initiatives, a review of its activity found it to be very successful. Its work is highly valued by government, local authorities and local projects and across environmental, community and health sectors. SNH continues to support Greenspace Scotland and local greenspace initiatives and, working with the Scottish Executive and others, has initiated a greenspace policy review to be completed in 2006.

This work will help deliver a clear vision and framework for greenspace in our towns and cities and examine ways in which involvement in and access to good quality greenspace contributes to people's quality of life, including many of Scotland's poorest urban areas.

Central Scotland Forest Trust

After 20 years of core funding the Central Scotland Forest Trust (CSFT), SNH handed this responsibility over to Forestry Commission Scotland (FCS). CSFT has continued its work throughout central Scotland to establish the

Central Scotland Forest, develop volunteer activity and provide high quality improvements to the green environment of many communities. SNH will however continue to work in partnership with the Trust in the delivery of many projects. New work will increasingly focus on greenspace – with all its benefits for health and well-being as well as biodiversity and landscape.

Encouraging Involvement

SNH offers advice and guidance to local authorities and community groups to help them create their own greenspace. In July 2005, a community group in East Kilbride became the focus of the national celebration of local nature reserves called 'Waking up to Wildlife'. The group's effort, with advice from SNH, helped to create and protect the John Struthers nature area – a local wildlife haven.

SNH continued running the popular Sharing Good Practice Programme to share expertise, exchange information and develop new ideas with people involved in natural heritage management and education. In 2005 the programme focussed on supporting and delivering the Scottish Outdoor Access Code and the Scottish Biodiversity Strategy. We also looked at what local landscapes mean to people, and how professionals such as architects and designers can help to guide change. Over 1,000 people came through our doors in the 2005/06 programme. In addition, a review of previous events was undertaken to guide future events and develop the Sharing Good Practice ethos further.

3

PROMOTING SUSTAINABLE USE

The year in summary

Deciding how best to use resources often involves difficult choices: for example what type of development is best? Or how can natural resources be used with minimum loss or damage? It is SNH's role to advocate approaches that take a long-term view and to recognise that the best outcomes are usually where social, economic and environmental considerations are combined. Many natural resources are finite and wise use of them is important for current and future generations.

Climate Change

Climate change presents an immense challenge, not only for nature conservation but also because of the impact on the quality of life for all people living in Scotland and for those who gain their livelihood or enjoyment from the sea and the land. The 20th century was probably the warmest century in the last millennium. Rainfall patterns are changing and sea levels are rising.

SNH has been involved in a programme of scientific research to assess the implications for our natural heritage. The MONARCH Project – Modelling Natural Resource Responses to Climate Change – will allow us to predict the effects of climate change on a range of species and will help us to formulate advice on possible action to mitigate those effects. We are using the data from Marine Climate Change Impact Partnership to predict future effects of climate change on our seas and coasts.

At a more local level and as part of our Greening the Workplace programme, we have installed a

mini wind turbine on the roof of the Forvie National Nature Reserve visitor centre. This will save about 1.4 tonnes of CO₂ being released into the atmosphere from conventional electricity generation.

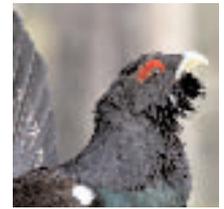
The Future of Tourism

According to recent figures, Scottish tourism earns almost £5 billion from around 18 million visitors and is probably our largest industry involving the whole of Scotland. The natural heritage is at the heart of Scotland's attraction – top reasons for coming to Scotland include the scenery and the natural environment.

SNH supports visitor attractions, encourages access to the outdoors, welcomes visitors to our National Nature Reserves and provides information about Scotland's fabulous natural heritage. We supported the preparation of the national strategy for tourism – "*Scottish Tourism – the next decade*" and together with partners in VisitScotland's scenario planning group, we've mapped out potential future tourism trends to 2025. This helps us to understand the relationship between potential tourism trends and the need to maintain a high quality natural heritage.

Coasts and Seas

Our coasts and seas are valuable from a tourism and recreational viewpoint and they are of considerable economic importance. They contain some of Scotland's most varied and important wildlife and habitats. Indeed, in a European and



global context, Scotland's marine environment is more significant than the land-based environment.

The recent Scottish Executive publication "*Seas the Opportunity: A Strategy for the Long-Term Sustainability of Scotland's Coasts and Seas*" is the first step towards a cohesive marine and coastal strategy. A Ministerial Advisory Group on Marine and Coastal Strategy is taking forward the work identified in the strategy. In 2005/06 our chairman, John Markland, was SNH's representative on this group, which will take key decisions on marine strategy for the future in Scotland. SNH is also represented on various working groups feeding into the Ministerial Advisory Group, including those on Integrated Coastal Zone Management, science and indicators and monitoring.

Farming

SNH has supported the work of the Farming and Wildlife Advisory Group (FWAG) for many years: in 2005–06 SNH provided £377,000 of funding to FWAG. The role of natural heritage advice to farmers is as important as ever.

The new Rural Development Programme, which includes Land Management Contracts, will be the main source of financial support for farmers and other land managers who wish to manage their land for the purpose of maintaining or improving its value for the natural heritage. We have been helping the Scottish Executive to implement the new programme with a view to making arrangements that will provide for better-integrated land management.

The Scottish Executive intend to introduce the new system of Land Management Contracts in 2007. In preparation for this, SNH has been working with the Executive to incorporate a substantial part of our own Natural Care Schemes, which make payments to support conservation management on Sites of Special Scientific Interest (SSSIs). In the future we expect most new agreements for managing SSSIs to be part of a Land Management Contract.

Under recent reforms to the Common Agricultural Policy, farmers must meet a number of conditions, including the requirements of the European Birds and Habitats Directives, to qualify for the Single Farm Payment. SNH is responsible for inspecting compliance with conditions on Natura 2000 sites: these are sites designated under the European Birds and Habitats Directives. During the first year of the new regulations we formally inspected 20 sites and were pleased to find no infringements.

Caledonian Pine, Capercaillie and Crossbill

We have set up a deer management agreement with Seafield and Strathspey Estates to restore the Caledonian Pine forest, the regeneration of which had been halted by deer grazing. The agreement aims to protect this fragile and threatened habitat and restore it to its former splendour as dramatic pine woodland that provides a home for the black grouse, the capercaillie and the Scottish crossbill.

The Kinveachy agreement marks a major step forward in addressing deer issues through a joint



working approach involving the estate, the Deer Commission for Scotland, Forestry Commission for Scotland, Scottish Executive Environment & Rural Affairs Department, and SNH. It now forms part of a wider programme of Joint Action on Deer Management, progress on which is reported through the Executive's website.

The Environment and Planning

Strategic Environmental Assessment – embodied in the Environmental Assessment (Scotland) Act 2005 – aims to provide high level protection for the environment and promotes sustainable development by putting environmental considerations at the heart of decision-making. All public plans, programmes and strategies in Scotland require a strategic environmental assessment (SEA). SNH's involvement is not only to undertake an SEA for our own plans and strategies but also as a consultee, where we will provide comments on the possibility of environmental effects of others' plans. In 2005/06 SNH responded to 67 consultations on SEA.

The recent proposals to upgrade the overhead power lines between Beaully and Denny gave us one of the most complex and difficult proposals that SNH has ever had to consider.

The power line would connect renewable energy projects (particularly wind farms in the north and west of Scotland) and feed the power generated into the wider National Grid. It is seen as the key to unlocking the environmental and economic benefits of renewable energy production in the north, but it will also affect areas highly valued for their wildlife, habitats, and landscapes, and for outdoor recreation opportunities. While we support the development of more sustainable renewable energy, we have had to consider the wider effects on the environment.

Having carefully considered the environmental statement produced for the proposed power line, SNH concluded that, in principle, it does not object to the proposals to upgrade the overhead power lines between Beaully and Denny but that it remains concerned about the impacts of some specific aspects of the proposals on the natural heritage.

4

DELIVERING THE STRATEGY

The year in summary

Great Glen House (Taigh a' Ghlinne Mhòir)

In 2003 Scottish Ministers determined that SNH should move its headquarters to Inverness as part of the Executive's policy on dispersing civil service jobs. The move offered the opportunity to unify our main corporate functions and to acquire a bespoke building. Although SNH sadly lost a number of long-serving staff, who decided not to relocate when their jobs moved to Inverness, more than 50 of our Edinburgh staff made the move to Inverness, a higher number than expected. Through a programme of recruitment, SNH has managed to attract many well-qualified new staff who will bring fresh ideas to the organisation. Occupation of Great Glen House (Taigh a' Ghlinne Mhòir) was completed in mid July 2006. Later in the year we will welcome the Deer Commission Scotland to Great Glen House and we are looking forward to sharing the building with them as a practical demonstration of how public agencies can work together to share resources and enhance efficiency savings.

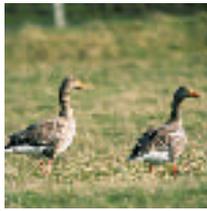
The new building promises to be an excellent working environment and has received the Building Research Establishment (BRE) award of a BREEAM rating of 'excellent' for its design and procurement. The Building Research Establishment Environmental Assessment Methodology (BREEAM) is the construction industry benchmark for environmental buildings. Great Glen House has achieved a score of 84%, which has been confirmed as the highest score ever achieved by any building in the UK since the system was introduced in 1998.

Openness and Information Sharing

SNH are fully committed to openness and making our information available to everyone. The government set targets for all newly created public records to be stored and retrieved electronically by 2004 and for all public services to provide services electronically by 2005. We met these targets and commitments through a planned approach to information management and using new technology. We established a new electronic document and record management system that will help us to provide information quickly when asked. We also launched SiteLink on our Internet web page. This service provides easy access to SNH's information on sites and species.

75% of our printed publications are now available to view on-line, for example our Corporate Publications series, including this report. Our website also contains an up-to-date list of the new, priced publications that we produce. We have increased the content of our website over the past year thus improving public access to information about Scotland's natural heritage. We have been developing methods to investigate how our website is used, for example how many hits it receives, which parts of our web site are visited, and where site visits come from. This information will help us to target improvements effectively.

Under the Freedom of Information (Scotland) Act 2002 and Environmental Information (Scotland) Regulations 2004, we have responded to an average of around 10 complex requests per month this year. Requests for information relating to sensitive species also increased. We are always



working on improving our responses to information requests in light of developing guidance from the Scottish Information Commissioner.

Strategic Review

In common with all other public bodies sponsored by the Scottish Executive, SNH is subject to periodic review. The Strategic Review of SNH, commissioned on behalf of Ministers by David Bills (former Director General of the Forestry Commission), was completed in July 2005. As reported last year it found SNH to be a well-run public body. The Review's findings and recommendations, accepted by both Ministers and SNH, paved the way for a 25-point Action Plan jointly managed by SNH and Scottish Executive.

We are developing our organisation in three main ways: these relate to Areas Boards, organisational structure and aspects of our provision of advice to consultees and stakeholders. New arrangements for an advisory committee to replace Areas Boards and for a refreshed organisational structure are planned for 2007. Other measures to ensure our advice about the natural heritage is provided in ways that meet stakeholders' needs are also being identified and implemented.

The Strategic Review placed SNH in the context of emerging changes in Scotland's public sector. These include a renewed focus on the needs of service users and continuing improvements in the quality of service delivery, achieved through improved efficiency, joined-up delivery and strengthened accountability. The Review provided the platform on which SNH is playing an increasingly active role in achieving these aims, in part by contributing to the Scottish Executives' Efficient Government Initiative and shared Services Strategy, but especially through our strong support for the 'On the Ground' Programme. This three-year programme will improve service delivery to the customers of ten public bodies (including SNH) known as the 'ERAD family', whether that's assisting, regulating or advising farmers, land managers, communities or businesses. The overall vision is that these bodies will work much more closely together, whilst retaining their distinct roles and identities, through co-locating local office networks, establishing joint delivery of services where appropriate and developing shared support services. In this way we shall use our formidable assets of people, knowledge and other assets far more effectively.

PERFORMANCE AGAINST THE GOVERNMENT'S KEY TARGETS

SEKT #	Scope of Target	Comment	2005–06 Year-end position
1	Deliver SNH's agreed contribution to the Government's commitment to halt biodiversity losses by 2010	Almost every aspect of SNH's work has a link to caring for Scotland's biodiversity, and specific areas of our work relate more directly to delivery of the 2010 target to halt the decline in biodiversity. SNH staff are involved in a range of actions that will contribute towards delivering the targets set out in the UK-wide Habitat and Species Action Plans and Local Biodiversity Action Plans. SNH is also contributing to the delivery of the Scottish Biodiversity Strategy and is the lead body for 26 targets. Good progress has been made with 31 out of the 67 actions under these targets and some activity is ahead of schedule.	Target substantially met
2	Bring 80% of the special features on Scotland's nationally important nature sites into favourable condition by March 2008	To date SNH has reported on 4769 out of a total of 5437 features (92%). Of those features reported on, over 70% are in favourable condition or recovering towards favourable condition	Target substantially met
3	Secure, by 2008, substantial progress in extending Natura 2000 protection to Scotland's marine environment	Advice to Relevant Authorities on the conservation objectives and operations likely to damage interest for 28 Marine SACs was issued on 30 March 2006. Work to identify marine SPAs has been led by JNCC who have produced guidelines for the selection of sites. The Board has agreed that 31 sites, selected as seaward extensions of existing breeding bird SPAs, should be recommended to SE. If these are agreed by SE, work will proceed on definition of boundaries and consultations on behalf of ministers.	Target met

SEKT #	Scope of Target	Comment	2005–06 Year-end position
4	Implement a new approach to nature conservation using the provisions of the Nature Conservation (Scotland) Act 2004	We are making use of the new powers provided by the Nature Conservation (Scotland) Act [or the 2004 Act] to simplify arrangements for their owners and managers by reviewing our SSSI documentation and consents. Work has also been undertaken to raise awareness amongst other public bodies about the new duties under the legislation.	Target met
5	Improve public enjoyment of the countryside as measured by increases in the number of walkers visiting	Outputs from the Scottish Recreation Survey were published and the project continues to run in order to collect data to report on the target. Additional monitoring of the Scottish Outdoor Access Code media campaign was also carried out. Data is received monthly by SNH and emerging trends show that overall participation is fluctuating seasonally, but may be increasing overall. The distribution of visits is changing slightly with increasing numbers of shorter, more local visits recorded during 2005–06.	Target met
6	Implement SNH’s duty, under the Land Reform (Scotland) Act, to promote understanding of the Scottish Outdoor Access Code	The Scottish Recreation Survey data has shown that the awareness of the legislation and Scottish Outdoor Access Code has risen from a pre-legislative level of 6% to 55% by March 2006. Re-runs of the mass media campaign, including TV, radio and press advertising were undertaken in August 2005 and February 2006. Various other publications and training were undertaken in-year targetting specific audience groups. Dog owners, for example, were targeted with a poster and leaflet campaign which was distributed through vet surgeries, dog training centres and pet stores.	Target met
7	Establish an improved framework for the care of Scotland’s landscapes	Very substantial progress was made on a number of fronts. SNH supported the Executive in framing proposals for new NSA legislation for inclusion in the Planning (Scotland) Bill. Ministers endorsed SNH’s proposals for the establishment of a Scottish Landscape Forum and its initial programme of work. Work was initiated to identify appropriate landscape measures for inclusion in Tiers 2 and 3 of Land Management Contracts. There was some slippage in the contract let to develop a set of landscape condition indicators but this exercise was nonetheless largely completed.	Target substantially met

SEKT #	Scope of Target	Comment	2005-06 Year-end position
8	Increase & secure greater recognition for the contribution of the natural heritage to the rural economy	We have started a review of the natural heritage's contribution to social and economic development. We have completed three research reports, two on evaluating social and economic outputs from small-scale natural heritage based projects and one commissioned jointly with Forward Scotland, on training needs for natural heritage employment. We have contributed to the finalisation of the Scottish Tourism Framework, including a new approach to sustainable tourism and to the Tourism and Environment Forum. We continue to lead the Northern Peripheries Nature Based Tourism project and to provide grant aid to Wild Scotland.	Target met
9	Relocate the main SNH functions currently Edinburgh based to Inverness by December 2006, within a Best Value framework	50 Edinburgh staff have committed to relocate to Inverness. Great Glen House has been awarded a BREEAM Excellent rating, scoring 84%, the highest score ever achieved by a building in the UK. Occupation of the building is planned for June 2006.	Target met
10	Support the Executive's Efficient Government initiative by seeking Best Value in all SNH operations	As anticipated, SNH did not meet the 2005/06 target of £667,000. The bulk of our savings would not be realised until years two and three, and The Scottish Executive were content with this. However, we did secure £608,000 of efficiency savings and subsequently the Executive awarded the project its first 'green' rating.	Target met

BOARD MEMBERS AT 31 MARCH 2006

SNH BOARD

Chairman

John Markland CBE

Deputy Chairman

Keith Geddes CBE (Chairman of
ARMC)

Amanda Bryan (Chairwoman of NAB)

Peter Chapman (Chairman of EAB)

Lady Isabel Glasgow (Chairwoman
of WAB)

Michelle Francis

Jim Hunter CBE

Nick Kempe

Hugh Raven

Professor Janet Sprent OBE

(Chairwoman of SAC)

Phil Thomas

Professor Susan Walker OBE

EAST AREAS BOARD

Chairman

Peter Chapman

Alison Anderson

Robert Balfour

Dr Nonie Coulthard

David Hughes Hallett

John Hunt

Captain Robin Middleton

Alister Scott

Michael Williams MBE

SCIENTIFIC ADVISORY COMMITTEE

Chairwoman

Professor Janet Sprent OBE

Dr Mary Gibby

Professor Hamlyn Jones

Dr Glenn Iason

Dr Malcolm Ogilvie

Dr Beth Scott

Professor Nigel Trewin

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

Dorothy Breckenridge

Shireen Chambers

Sue Evans

Ian Fernie

Gordon Mann, OBE

Janette McKay (to 30/11/05)

Bill Whitaker

AUDIT COMMITTEE

Chairman

Keith Geddes CBE

Robert Balfour

Michelle Francis

Gordon Mann OBE

Phil Thomas

BOARD MEMBERS' INTERESTS

MAIN 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.

Keith Geddes is Deputy Chairman of SNH. He is presently Chairman of the SNH Audit & Risk Management Committee and 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 Chairman 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.

Michelle Francis is a freelance consultant specialising in environmental and sustainability management for business, in particular in the transport sector. She is also a Senior Associate to consulting firm Arthur D. Little. Michelle was previously Head of Environment for Network Rail, covering the whole of the UK and prior to that Environment Manager for Railtrack in Scotland. She is a member of the MS Society Science and Development Board. Michelle lives near Falkirk.

Lady Isabel Glasgow is Chairman of the West Areas Board and has particular responsibilities for SNH's Strathclyde and Ayrshire Area. 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, Chairman 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*. He 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) which he helped set up. A longstanding campaigner for land reform of the sort now resulting in community ownership of localities like Knoydart and Gigha, he 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.

Hugh Raven is director of the Soil Association in Scotland and Specialist Adviser on the Environment to the Esmée 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 and the Corroul Trust. Hugh lives in the Morvern peninsula.

Janet Sprent is Chairman 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 member of Waterwatch, the organisation which provides recommendations to the water industry (incl Ministers, Scottish Water and SEPA) on matters of relevance to customers. She is also a keen hiker. Sue lives in Braemar.

Phil Thomas is Director of Artilus Ltd a multi-disciplinary consultancy he established in 1999. He is also presently Chairman of the Central Scotland Forest Trust, the Animal Medicines Training Regulatory Authority, and the Scottish Quality Salmon Products Standards Committee, a Director of the Responsible Use of Medicines in Agriculture Initiative, a member of the Scottish Food Advisory Committee, the British Pig Health and Welfare Council, and the Scottish Advisory of Linking Environment and Farming. At earlier stages of his career he held scientific

appointments at the University of Leeds, Hannah Research Institute, West of Scotland College and University of Glasgow, before serving as Principle and Chief Executive of the Scottish Agricultural College. He has served on a range of public and industry bodies, as well as on research and project evaluation groups, both in the UK and internationally. Phil lives in Balerno, Midlothian.

NORTH AREAS BOARD

Amanda Bryan (Chairwoman – see SNH Board)

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.

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.

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 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.

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.

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.

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)

Alison Anderson has worked in Dundee for a variety of City Council Departments for 13 years, and is currently Corporate Planning Officer (Environment). Previous to that she worked for the Nature Conservancy Council (Scotland) in Dundee. From her experience both in Scotland and England she has expertise in natural heritage and urban issues as well as local government. She is chair of the urban sub-group for the Tayside Biodiversity Partnership. Alison is particularly interested in community and natural heritage projects in urban areas.

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.

David Hughes Hallett is a Chartered Surveyor, practising in areas of countryside and heritage projects, land reform issues, project management training, mediation for dispute resolution and tutoring distance learning students. He is a Board member of Loch Lomond and the Trossachs National Park Authority, and a member of the Loch Lomond and the Trossachs Access Forum. Formerly he was Director of the Scottish Landowners Federation and of the Scottish Wildlife Trust. Past experience also includes: seven years as a main Board member of the Scottish Environment Protection Agency; Chairman of the Royal Institution of Chartered Surveyors in Scotland; membership of the Policy Committee of the Scottish Council for Voluntary Organisations. David lives in Ceres, Fife.

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.

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 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.

Alister Scott has recently taken up the post of senior researcher in rural planning and policy at the Macaulay Land Use Research Institute. Prior to this he worked in the University of Wales Aberystwyth as head of countryside management. He has some 18 years research and teaching experience covering rural planning, landscape and sustainable development matters and is keen to apply this expertise to help SNH address its natural heritage brief.

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 & Borders Area.

WEST AREAS BOARD

Isabel Glasgow (Chairwoman – see SNH Board)

Colin Adams 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.

Dorothy Breckenridge 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 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. She enjoys hill walking, cross-country ski-ing 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 & Ayrshire 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 & Galloway Area.

Janette McKay (resigned 30/11/05) 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.

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 & Galloway Area.

SCIENTIFIC ADVISORY COMMITTEE

Professor Janet Sprent (Chairwoman – see SNH 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 Glenn Iason is a research ecologist at the Macaulay Institute. He takes a broad view of ecology but has specialised in plant-herbivore interactions, particularly involving mammals. He has worked on a range of species in varied systems. These include sheep, red deer, rabbits and mountain hares in temperate grasslands and moorlands, to voles and moose in Boreal forests, and other species in tropical systems. Current work includes aspects of ecosystem function,

chemical ecology and the role of herbivores in border biodiversity issues associated with Scots pine and montane willows. He is an associate of Northern Ecological Services, and lives at Dinnet, on Deeside

Professor Hamlyn Jones has been Professor of Plant Ecology in the University of Dundee since 1997. His expertise is particularly in the area of plant responses to the environment, with particular emphasis on plant water relations. In addition to his interests in the plant ecology of Scotland, and especially the uplands, his current research includes studies of the impacts of climate change, improved agricultural and horticultural sustainability (e.g. through improved efficiency of irrigation systems) and remote sensing of vegetation. Lyn lives in Dundee.

Dr Malcolm Ogilvie is a freelance natural history writer, editor and consultant. He served on the West Areas Board from 1991 to 2001, and on the Scientific Advisory Committee from 1994 to 2001. His principal interests are ornithology, especially wildfowl and raptors, wetland and coastal ecology and botanical recording. He is Secretary of the Rare Breeding Birds Panel, and represents the Panel on the Scottish Raptor Monitoring Scheme. He is a regional representative for the British Trust for Ornithology, and a vice-county recorder for the Botanical Society of the British Isles. He manages a Local Biological Recording Centre covering Islay, Jura and Colonsay. He undertakes regular winter goose counts and other monitoring on Islay for SNH.

Dr Beth Scott is a research fellow at the University of Aberdeen, School of Biological Sciences. Her research focus is on marine ecosystems, in particular identifying marine habitats where predator and prey species overlap and understanding the physical oceanographic features (or anthropogenic factors) that can enhance or destroy these linkages. Beth has been involved in numerous large-scale research projects working with teams of oceanographers, mathematicians, sociologists, lawyers and biologists. She also has had several years of

professional involvement with the fishing industry and been directly involved with the management of fisheries resources. She has lived in a range of regions/countries including Micronesia, Canada and Belgium, settling for the last 12 years on a farm near Torphins, Aberdeenshire.

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 guide books 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.

NATURE CONSERVATION ORDERS MADE DURING YEAR TO 31 MARCH 2006

The Nature Conservation (Scotland) Act 2004 (2004 Act) came into force on 29 November 2004. The provisions of Section 23(1) ensured that all Nature Conservation Orders (NCOs) and Special Nature Conservation Orders (SNCOs) in place before that date continued in force.

At the end of March 2006 there were 18 NCOs in force, five of these were also subject to further amendment Orders giving an overall total of 23 Orders in force.

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 28 of the 2004 Act (as amended by Regulation 9 of the Conservation (Natural Habitats, &c.) Amendment (Scotland) Regulations 2004) we report that during 2005/06 :-

- No new NCOs were made
- No existing NCOs were revoked or amended

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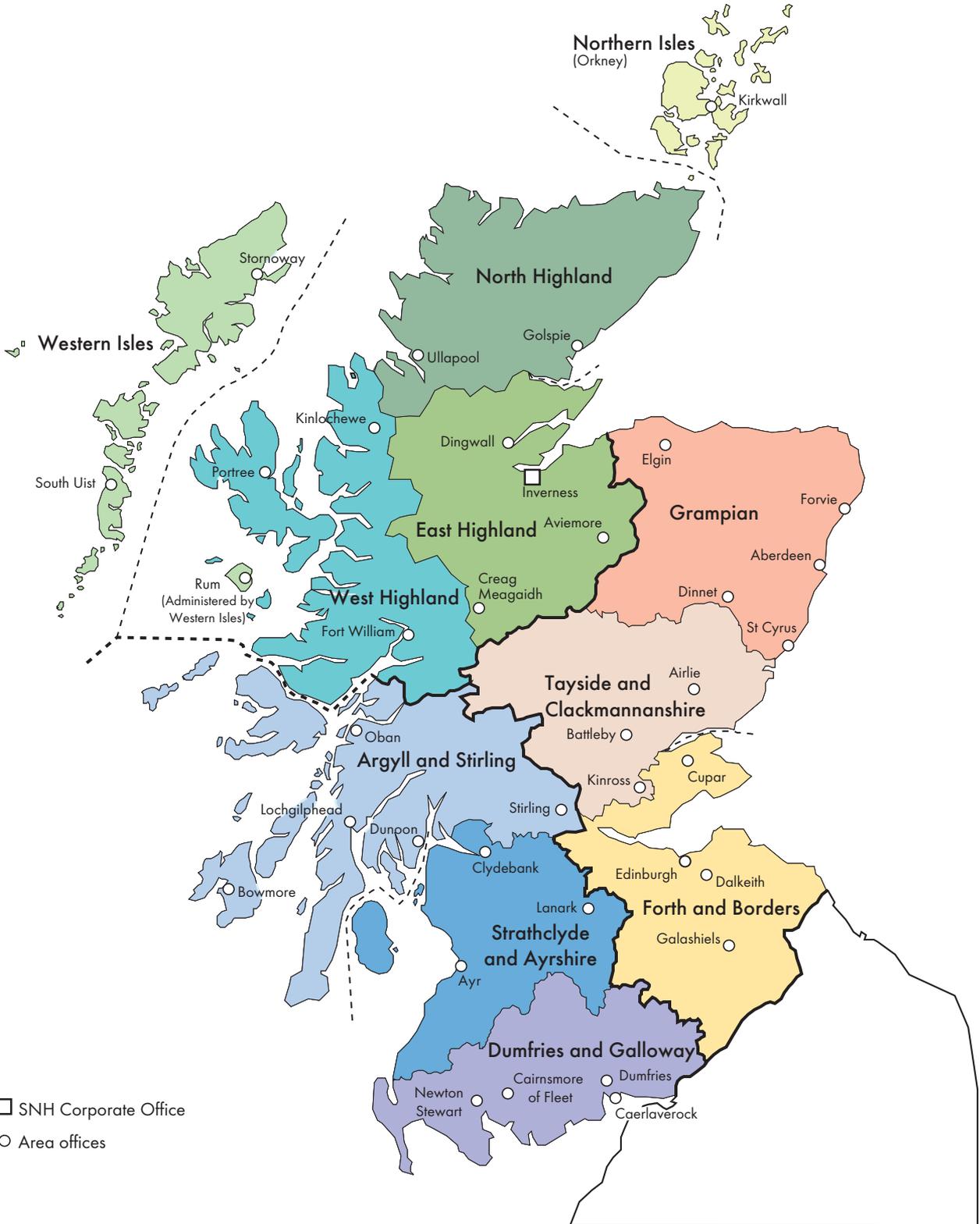
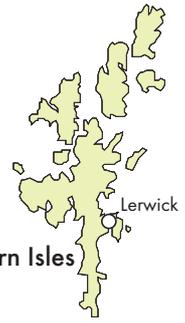
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AUDITED FINANCIAL ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2006

INTRODUCTION & BACKGROUND TO ACCOUNTS

BASIS OF ACCOUNTS

These accounts have been prepared in accordance with the Accounts Direction issued by Scottish Ministers under section 10(3) of the Natural Heritage (Scotland) Act 1991. The direction is reproduced as an appendix to the accounts.

STATUTORY BACKGROUND

Scottish Natural Heritage (SNH) is a Non-Departmental Public Body (NDPB), which was established in April 1992. It is currently 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. The corporate strategy defines four elements of SNH's remit as:

- caring for the natural world;
- enriching people's lives;
- promoting sustainable use; and
- delivering the strategy.

We deliver this strategy in a variety of ways including operating a suite of National Nature Reserves, undertaking an annual research programme, offering grants and management agreements and co-funding the Joint Nature Conservation Committee (JNCC).

SNH BOARD AND MANAGEMENT TEAM

SNH has a Main Board, three Areas Boards, a Scientific Advisory Committee and an Audit & Risk Management Committee (ARMC). Main Board members are normally appointed for three years, with some appointments 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 2006 was as follows:

	Appointed*	Term
John Markland CBE (Chairman)**	1 April 1999	2nd
Keith Geddes CBE (Deputy Chairman)	1 April 2001	2nd
Peter Chapman	1 April 2000	2nd
Lady Isabel Glasgow	1 April 2001	2nd
Nick Kempe	1 April 2003	1st
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	1 April 2005	1st
Professor Phillip Thomas	1 April 2005	1st

* Appointed to Main Board

** John Markland's contract was extended on 31 March 2005 until 30 June 2006 to cover the period of SNH's relocation. He retired on 30 June 2006. His successor is Andrew Thin.

Ministers have also appointed new members for 3-year terms to replace Peter Chapman, Nick Kempe and Professor Susan Walker who all left the Board on 31 March 2006. The new members are Julia Sturrock, David Crawley and Andrew Campbell.

SNH aims to be an open and accountable organisation. The 7 meetings of the Main Board in 2005–06 included open sessions, which the public were free to attend. Agendas and Board papers are published on the SNH website.

Details of the Management Team who served between 1 April 2005 and 31 March 2006 are set out in the remuneration report on page 38.

FINANCIAL OVERVIEW

KEY PERFORMANCE TARGETS

An analysis of SNH's key performance targets is presented at the beginning of the Annual Report.

More detail on the two key financial performance targets can be found in Note 28 to these accounts.

RESULTS FOR THE YEAR

The income and expenditure account for the year is shown at page 48, together with a statement of recognised gains and losses.

SNH manages its finances within capital and operating budgets and cash grant in aid funding limits approved by its sponsoring department, Scottish Executive Environment and Rural Affairs Department (SEERAD). Cash grant-in-aid is recognised in the accounts when received, rather than when earned.

SNH's income for 2005–06 was £64.7m (2004–05: £63.0m), of which £61.0m (94%) was cash grant in aid from SEERAD (2004–05: £60m or 95% of income). £58.5m of the cash grant-in-aid funded operating expenditure (2004–05: £57.6m), with the balance of £2.5m released from the capital asset fund and revaluation reserve for annual capital charges.

Significant fixed asset additions during the year included:

• fit out of the new headquarters building in Inverness	£0.705m
• works under the Disability Discrimination Act	£0.150m
• Stirling Office refurbishment	£0.126m
• replacement pool vehicles	£0.111m

Total operating expenditure in 2005–06 was £68.2m (2004–05: £62.9m). After adjusting for interest on capital of £0.2m, the retained deficit for the year was £3.2m (2004–05: retained surplus £0.631m). As SNH operated within its operating budget that is underwritten by SEERAD, the deficit arises due to timing differences over the accounting treatment of cash grant in aid from SEERAD, which is recognised in SNH’s accounts when physically received, rather than when it is receivable to match accrued expenditure.

SNH had net current liabilities of £4.6m at 31 March 2006. This arose from an increase in year-end trade creditors and a reduction in cash at bank. This net current liability is the result of a timing difference between receipt of cash grant-in-aid and recognition of expenditure on an accruals basis. The cash grant-in-aid to settle year-end creditors within agreed payment terms was received from SEERAD in April.

In 2005–06, SNH’s expenditure on relocation, which was fully funded by the Executive, was:

• capital expenditure	£1.224m
• charged to provision for redundancy etc.	£2.357m
• operating expenditure	£3.024m

VALUATION OF LAND AND BUILDINGS

SNH engaged the Valuation Office (S. Biggerstaff MRICS and P. M. Gray MRICS) to undertake a five-yearly valuation of its land and buildings as at 31 March 2006. The results of the exercise have been reflected in these accounts. The valuation did not include certain infrastructure assets such as the slipway on Rum or the Dunoon Office, which will be valued separately in 2006–07.

ACTIVITIES IN THE FIELD OF RESEARCH AND DEVELOPMENT

SNH spent £4.5m on research in the year. This was 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.

The programme covers basic surveys designed to gather baseline information on the natural heritage and people’s enjoyment of it, and monitoring work that shows environmental change to help us understand causes and future impacts. We also use the programme to devise effective management techniques, mostly through demonstration projects.

FUTURE DEVELOPMENTS

Charitable status

SNH is currently a recognised charity. However, following discussions with the Office of the Scottish Charity Regulator over SNH’s constitution, specifically the Ministerial power of direction, it has been agreed that SNH will be removed from the Register of Charities with effect from 1 April 2007. SNH is in discussion with its sponsoring department over the financial impact on its budgets from 2007–08. This principally relates to the loss of rates relief.

Relocation to Inverness

Following a Ministerial direction in September 2003 that SNH should relocate most of its Edinburgh based operations to Inverness, it has been managing a relocation project to achieve this through a Project Board, chaired by SNH’s Chief Executive. The Project Board oversees progress on accommodation, human resources, and business continuity work streams.

The new office in Inverness was completed largely on time with no significant delays or additional costs. An official opening will take place on 3rd October 2006. The first staff moves to Great Glen House took place at the end of June 2006. Great Glen House will also provide accommodation for up to 30 employees from the Deer Commission and Paths for All.

On 1 June 2006, the Deputy Environment Minister, Rhona Brankin, announced that SNH had exercised its option to buy Great Glen House for £15m rather than maintain a lease agreement.

SEERAD continues to fund the additional net costs arising from the relocation project.

Estate rationalisation

Following relocation to Great Glen House, Inverness, SNH will be rationalising its other office accommodation in Edinburgh and Inverness. Freehold properties at Hope Terrace in Edinburgh and Fraser Darling House and Ardconnel Terrace in Inverness will be sold on the open market.

Strategic review

The Scottish Executive is committed to reviewing public bodies on a five-year cycle. Reviews look at organisational status and functions to identify ways in which to develop best practice and enhance future performance. Most follow a two-stage process. Stage one reviews the function and form of the body and its performance since the last review. Stage two is forward looking and strategic and where there is supporting evidence, makes recommendations for change.

The conclusions and recommendations of the review in 2005 were discussed and accepted by SNH's Board and the Minister. The following high priority recommendations and actions are being followed by SNH from the agreed reports:

- revise the Management Statement and Financial Memorandum;
- revise the business planning process;
- produce a project plan for Biodiversity Strategy;
- create a pro-active communications strategy;
- ensure close liaison, and continuing involvement, with "On The Ground" (a SEERAD initiative);
- clarify roles and responsibilities regarding Nature Conservation (Scotland) Act 2004;
- introduce a clearer organisational structure;
- develop, and introduce, a quality assurance programme for casework advice; and
- reshape the current SNH Business Change programme.

STATE AIDS

In May 2001, the European Commission confirmed to the Ministry of Agriculture, Fisheries and Food, 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 pending. In the meantime, Scottish Ministers have agreed that SNH should continue to make payments under these management agreements.

In view of this, Audit Scotland includes a qualified regularity opinion from limitation in audit scope. This is reviewed annually in view of the decreasing level of payments made under non-notified management agreements.

SUPPLIER PAYMENT POLICY

SNH complies with the Government's Better Payment Practice Code. Unless otherwise stated in the contract, we aim to pay within 30 days from the receipt of goods and services or the presentation of a valid invoice, whichever is the later. In 2005-06, 94% of invoices were paid within the due date (2004-05 93%). One payment of £104 was made during the year for statutory interest under the Late Payment of Commercial Debts (Interest) Act 1998.

SUSTAINABLE DEVELOPMENT

SNH operates an Environmental Management System that identifies and measures the environmental impacts of its own operations – including travel, energy use, waste production, and resource use. We aim to improve our environmental performance through setting and managing performance standards, better resource management through procurement, staff engagement, advice and local support.

We report on our environmental performance in an 'Annual Greening Report' on our website, where further information on our Greening programme can also be found.

EQUAL OPPORTUNITIES

SNH is an equal opportunities employer and is committed to promoting diversity. It 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 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.

COMMUNICATION AND 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. This is aimed at improving the working environment, efficiency, and good practice. The SNH Intranet is an effective way to keep staff informed through bulletins, general news updates and management and staffing notices. Our staff newspaper "Update" is posted monthly on the SNH intranet.

AUDITORS

SNH's accounts are audited by auditors appointed by the Auditor General for Scotland.

DISCLOSURE OF AUDIT INFORMATION TO THE AUDITORS

So far as the Accountable Officer is aware, there is no relevant audit information of which SNH's auditors are unaware. The Accountable Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that SNH's auditors are aware of that information.

Ian Jardine

Chief Executive and Accountable Officer:
27 September 2006

REMUNERATION REPORT

REMUNERATION POLICY

SNH does not have a remuneration committee. The remuneration, allowances and expenses paid to Board Members [and any pension arrangements] comply with specific guidance issued by Scottish Ministers.

For all other staff, SNH submits a pay remit to SEERAD for approval (normally annually, unless a multi-year deal has been agreed), which is within the terms and conditions set out in the Scottish Executive's Public Sector Pay Guidance. On approval of the pay remit, a pay settlement is then negotiated. Annual salaries are paid in accordance with the standard SNH staff pay agreement. Performance is monitored and reviewed through SNH's staff appraisal arrangements. Increases in staff salary and performance bonus, if awarded, are based on managers' assessment of individual performances.

The Chief Executive's salary is reviewed each year by the Chairman, in consultation with the Board, with a view to re-valorisation in line with the increase agreed by the Scottish Executive Remuneration Committee and Ministers. The terms and conditions of the Chief Executive's performance bonus are subject to a separate approval exercise.

EMPLOYMENT CONTRACTS

SNH is committed to ensuring a fair, transparent and consistent approach to filling vacant posts. Appointments are made on merit following fair and open competition or through alternative mechanisms, within defined policy and procedure, following due consideration of the particular circumstances.

The senior staff covered in this report, i.e. SNH's management team, hold appointments, which are open-ended until they reach the normal retiring age. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

The Board consists of 12 members including the Chair. Board Members are appointed by Scottish Ministers in the same way as the Chair. Appointments are for a minimum of three years and recruitment is by open competition.

CHAIRMAN

The Chairman's appointment is pensionable on a part-time basis of three days a week. His total emoluments were £44,195 (2004–05: £43,117). His total accrued pension at 60, as at 31 March 2006 amounts to £3,822 (2004–05: £3,189), which equates to a real increase of £633 (2004–05: £590).

Pensionable service used to calculate accrued pension as at 31 March 2006 represents years' service payable from SNH's pension scheme including any added years or transfers in.

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

Board Member	Key	Emoluments	
		2005–06 £	2004–05 £
Keith Geddes CBE, Deputy Chair Main Board	1	17,650	8,847
Peter Chapman, Chair East Areas Board	1,4	19,202	17,529
Lady Isabel Glasgow, Chair West Areas Board	1,3	19,202	18,733
Nick Kempe	1	8,001	9,335
Alice Lambert, retired 31 March 2005	1	–	7,805
Professor Janet Sprent OBE, Chair SAC	1,5	15,469	12,489
Professor Susan Walker OBE, Chair Audit and Risk Management Committee**	1,6	9,313	8,910
Amanda Bryan, Chair North Areas Board**	1,2	20,887	19,360
Dr James Hunter CBE	1	8,001	7,154
Hugh Raven	1	8,001	7,154
Michelle Francis	1,4,6	8,594	–
Professor Phillip Thomas	1,6	8,594	–
Michael Scott, Deputy Chair Main Board, retired 31 March 2005		–	21,334
		142,914	138,650

* Professor Susan Walker retired as Chair of the Audit and Risk Management Committee on 31 March 2006. The new Chair is Professor Phillip Thomas.

† Includes £314 relating to childcare payments.

** Includes £1,685 relating to childcare payments.

Differences in emoluments of individual Board members reflect committee responsibilities and number of days worked in the year. No Board member received any bonus payments.

Key: 1 = Main Board 2 = North Areas Board 3 = West Areas Board
4 = East Areas Board 5 = Scientific Advisory Committee 6 = Audit and Risk Management Committee

MANAGEMENT TEAM

SNH's Chief Executive, Ian Jardine, was appointed on 1 April 2002 on a permanent basis with a six-month period of notice.

In 2005–06, he received total emoluments of £92,055 (2004–05: £89,809) comprising salary of £84,454 (2004–05: £82,393) and performance related bonus of £7,601 (2004–05: £7,416). Under the terms of his contract, all pay increases (excluding performance related bonus) are superannuable.

The performance bonus is determined in accordance with his contract of employment, which includes an entitlement to a bonus of up to 10% of his gross salary. The bonus is neither consolidated nor pensionable. It is tied to specified targets and objectives that are agreed between the Chief Executive and the Chairman, following consultation with the Board and having regard to the priorities set by Ministers. The Chairman in consultation with the Board determines the level of bonus. The performance bonus for 2004–05, assessed and paid in 2005–06 was 9% of gross salary, paid as a lump sum. In future, the Chairman's recommendation will also be passed to the Audit and Risk Management Committee for ratification.

The Chief Executive was an ordinary member of SNH's pension scheme, which is non-contributory, and he contributed to the Widows Pension Scheme at the standard rate of 1.5%.

SALARY AND PENSION ENTITLEMENTS

The salary and pension entitlements of SNH's management team in 2005–06 were as follows:

	Salary 2005–06 £000	Emoluments 2005–06 £000	Other Total 2005–06 £000	Total 2004–05 £000
Ian Jardine Chief Executive	80–85	5–10	90–95	90–95
John Thomson Director of Strategy & Operations (West)	65–70	–	65–70	65–70
Andrew Bachell Director of Strategy & Operations (East)	55–60	–	55–60	55–60
Jeff Watson Director of Strategy & Operations (North)	65–70	–	65–70	60–65
Joe Moore Director of Corporate Services	30–35 (60–65 full year equivalent)	–	30–35 (60–65 full year equivalent)	–
Ian Edgeler Director of Relocation	65–70	–	65–70	60–65
Colin Galbraith Director of Scientific and Advisory Services	60–65	5–10	65–70	60–65

Pensionable service used to calculate accrued pension as at 31 March 2006 represents years of service payable from SNH's pension scheme, including any added years or transfers in.

Colin Galbraith received emoluments of housing allowance of £3,100 and a bonus of £2,700.

SALARY

"Salary" includes basic salary, performance pay or bonus, overtime and any allowances subject to UK taxation.

PENSION BENEFITS

	Total accrued pension and related lump sum at age 60 at 31 March 2006	Real increase in pension and related lump sum at age 60	CETV at 31 March 2006	CETV at 31 March 2005	Real increase in CETV
	£000	£000	£000	£000	£000
Chairman					
John Markland	0–5 plus lump sum of 10–15	0–2.5 plus lump sum of 0–2.5	88	61	13
Management Team					
Ian Jardine	20–25 plus lump sum of 70–75	0–2.5 plus lump sum of 2.5–5	385	277	15
John Thomson	30–35 plus lump sum of 0–5	0–2.5 plus lump sum of 0–2.5	587	456	17
Andrew Bachell	5–10 plus lump sum of 25–30	0–2.5 plus lump sum of 2.5–5	153	104	17
Jeff Watson	20–25 plus lump sum of 55–60	0–2.5 plus lump sum of 2.5–5	400	296	28
Joe Moore	0–5 plus lump sum of 0–5	0–2.5 plus lump sum of 0–2.5	8	–	7
Ian Edgeler	10–15 plus lump sum of 30–35	0–2.5 plus lump sum of 2.5–5	227	164	24
Colin Galbraith	15–20 plus lump sum of 40–45	0–2.5 plus lump sum of 2.5–5	248	173	20

CIVIL SERVICE PENSIONS

Pension benefits are provided through the Principal Civil Service Pension Scheme (PCSPS). 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 after 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 set at the rate of 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 accounts 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 make contributions, SNH will match these up to a limit of 3% of 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 2005–06, employer's contributions of £3,545,000 (2004–05: £2,510,000) were payable to the PCSPS. These contributions were payable at one of four rates ranging from 16.2% to 25.6% of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full valuation. The rates will increase from 2006–07, to between 17.1% and 26.5%. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

CASH EQUIVALENT TRANSFER VALUE (CETV)

This 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. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits 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 include the value of any pension benefit in another scheme or arrangement, which the individual has transferred to the Civil Service Pension arrangements and for which the Civil Service 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 factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

REAL INCREASE IN 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.

Ian Jardine

Chief Executive and Accountable Officer:
27 September 2006

STATEMENT OF BOARD AND ACCOUNTABLE OFFICER'S RESPONSIBILITIES

SNH's Management Statement and Financial Memorandum with SEERAD, its sponsoring department, sets out the roles and responsibilities of the Board, the Chairman and Accountable Officer. It includes the following points:

Board

Board members have a corporate responsibility to Scottish Ministers for ensuring that SNH fulfils its statutory duties and the aims and objectives set by the Scottish Ministers, and for promoting the efficient and effective use of staff and other resources in accordance with the principles of Best Value.

Chairman

The Chairman is responsible to the Scottish Ministers, on behalf of the Board, for ensuring that SNH's policies and actions support delivery of its statutory functions and the wider strategic policies of the Scottish Ministers; and that the SNH's affairs are conducted with probity.

In addition, the Chairman will ensure that all members of the Board, when taking up office, are fully briefed on the terms of their appointment and on their duties, rights and responsibilities, and will advise the Scottish Ministers of the needs of SNH when Board vacancies arise, with a view to ensuring a proper balance of professional and financial expertise.

Accountable Officer

Under section 10 of the Natural Heritage (Scotland) Act 1991, SNH is required to prepare a statement of accounts for each financial year in conformity with a direction by Scottish Ministers, detailing the resources acquired, held or disposed of during the year and the use of resources by SNH during the year.

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

The Principal Accountable Officer of the Scottish Executive has appointed the Chief Executive as the Accountable Officer for SNH. As Accountable Officer, the Chief Executive is responsible to Scottish Ministers.

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

- observe the accounts direction issued by Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the *Government Financial Reporting Manual*, have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

The responsibilities of the Accountable Officer, including responsibility for the propriety and regularity of the public finances for which the Accountable Officer is answerable, for keeping proper records and for safeguarding SNH's assets, are set out in the Accountable Officers' Memorandum issued by the Principal Accountable Officer.

STATEMENT ON 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 the Scottish Ministers, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me.

I am also personally answerable to the Scottish Parliament in accordance with section 15 of the Public Finance and Accountability (Scotland) Act 2000. I am responsible for the propriety and regularity of financial transactions under my control and for the economical, efficient and effective use of resources provided to SNH, for ensuring that arrangements have been made to secure best value and for signing SNH's annual accounts. I am also responsible for providing the necessary assurances to the Principal Accountable Officer to enable them to sign the Statement on Internal Control contained within the Scottish Executive consolidated accounts. I have responsibility for ensuring that effective management systems are in place within SNH and that all risks are identified, assessed and managed appropriately.

The Scottish Public Finance Manual (SPFM) is issued by Scottish Ministers to provide guidance to the Scottish Executive and other relevant bodies on the proper handling of public funds. It is mainly designed to ensure compliance with statutory and parliamentary requirements, promote value for money and high standards of propriety, and secure effective accountability and good systems of internal control.

PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk rather than eliminate the risk of failure to achieve SNH's 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 the principal risks to the achievement of SNH's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically.

The process within SNH accords with the SPFM and has been in place for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts and accords with guidance from the Scottish Ministers.

RISK AND CONTROL FRAMEWORK

All bodies subject to the requirements of the SPFM must operate a risk management strategy in accordance with relevant guidance issued by the Scottish Ministers. The general principles for a successful risk management strategy are set out in the SPFM.

In SNH, all staff have responsibility for risk management by managing risks in their own areas of authority. Periodic review, reporting and actions are undertaken at a business unit level through to a corporate overview.

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

- robust risk management prioritisation and monitoring system based on risk ranking, likelihood and controls. This system is subject to annual internal audit review;
- regular review of the corporate risk register to evaluate risk and the appropriateness of controls. The register identifies risk owners who report quarterly on how they are managing the risks in their areas of responsibility, including progress reports on key projects. SNH's Management Team and the Audit and Risk Management Committee also evaluate these reports. An annual report is prepared for the SNH Board;
- embedding risk management in the daily decisions and activities undertaken by all staff. Risk awareness is included in employee induction and training programmes and assessed as part of the staff appraisal system.

SNH's Audit and Risk Management Committee (ARMC) receive reports from Internal Audit and Audit Scotland concerning internal control issues and recommendations and are notified of progress on actions to be taken to address any issues or weaknesses identified. The ARMC also considers the adequacy of arrangements for the assessment and management of risk and the adequacy of arrangements for corporate governance.

More generally, SNH is committed to a process of continuous development and improvement. In the period covering the year to 31 March 2006 and up to the signing of the accounts, SNH has:

- commenced a project to implement an electronic procurement system, which will increase compliance with purchasing and finance procedures and increase controls in these areas; and
- introduced an electronic document management system to improve the storage and management of corporate information.

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 managers within SNH who have responsibility for the development and maintenance of the internal control framework;
- the work of the internal auditors, who submit to SNH's ARMC regular reports which include the Head of Internal Audit's independent and objective opinion on the adequacy and effectiveness of SNH's systems of internal control together with recommendations for improvement;
- the ARMC which oversees the work of the internal auditors; and
- comments made by the external auditors in their management letters and other reports.

The Head of Internal Audit has prepared an annual report and assurance statement to me as Chief Executive and Accountable Officer which includes an overall assessment of the adequacy and effectiveness of risk management, control and governance within SNH. The overall opinion is that the programme of internal audits in 2005–06 has offered 'satisfactory' assurance that SNH continues to have a broadly sound framework of risk management, internal control and corporate governance ensuring the effective and efficient achievement of SNH's objectives.

During 2005–06, SNH undertook a comprehensive review of the risk management system that included benchmarking with other similar bodies. This review confirmed that SNH's system was working satisfactorily. However, during 2006–07, we will be implementing changes that will ensure that it is better integrated with SNH's planning and performance monitoring system and that we have appropriate contingency plans in place.

The Relocation project has been a major activity during 2005–06. The project has been audited throughout its lifetime by SNH's internal auditors, external auditors and the Scottish Executive through its Gateway Review process. During 2005–06, assurance was provided by internal audit and the SE Gateway Review Team that the project was being effectively managed across its various work streams and projects.

There were no formal investigations and preliminary enquiries during 2005–06, although advice was provided on buildings, information systems and equipment security incidents and issues. SNH's fraud response plan ensures that managers and staff have easy access to information on their responsibilities and obligations in the event of fraud being suspected, or identified.

An internal audit of the Efficient Government Initiative (EGI) during 2005–06 resulted in a "weak assurance". It was felt that a number of essential controls had not yet been established sufficiently, mainly relating to progress and performance measurement and project management. However, progress has already been made on these concerns and the Scottish Executive has increased its assessment to "green".

Ian Jardine

Chief Executive and Accountable Officer:
27 September 2006

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCOTTISH NATURAL HERITAGE, THE AUDITOR GENERAL FOR SCOTLAND AND THE SCOTTISH PARLIAMENT

I have audited the financial statements of Scottish Natural Heritage for the year ended 31 March 2006 under the Natural Heritage (Scotland) Act 1991. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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 BOARD, CHIEF EXECUTIVE AND AUDITOR

The Board and Chief Executive are responsible for preparing the Annual Report and the financial statements in accordance with the Natural Heritage (Scotland) Act 1991 and directions made thereunder by the Scottish Ministers. The Chief Executive is also responsible for ensuring the regularity of expenditure and receipts. These responsibilities are set out in the Statement of Accountable Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

I report my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with Natural Heritage (Scotland) Act 1991 and directions made thereunder by the Scottish Ministers. I also report 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 Annual Report is not consistent with the financial statements, if the body has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the body's compliance with the Scottish Executive's guidance. I report if, in my opinion, it does not comply with the guidance or if it is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the body's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Introduction and Background, Financial Overview and the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

I conducted my audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and receipts included 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 the body'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 and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud 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. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

OPINION

Financial statements

In my opinion

- the financial statements give a true and fair view, in accordance with Natural Heritage (Scotland) Act 1991 and directions made thereunder by the Scottish Ministers, of the state of affairs of Scottish Natural Heritage as at 31 March 2006 and of its deficit, total recognised gains and losses and cash flows for the year then ended; and
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Natural Heritage (Scotland) Act 1991 and directions made thereunder by the Scottish Ministers.

Qualified regularity opinion arising from limitation of 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.

Peter Tait CPFA

Assistant Director
Audit Scotland
Osborne House
1–5 Osborne Terrace
Edinburgh EH12 5HG
29 September 2006

Scottish Natural Heritage

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2006

	Note	2005-06 £000	2004-05 £000
Income			
Grant-in-aid received	2	58,451	57,547
External funding	3	2,576	2,785
EU Funding	3	488	410
Bequests		-	2
Income from activities	4	483	523
Other income	5	159	147
Capital asset fund and revaluation reserve	6	2,548	1,579
		64,705	62,993
Expenditure			
Staff costs	7	25,735	23,520
Other administrative costs	9	9,694	8,444
Programme costs	10	29,854	28,224
Provision for relocation including redundancy costs	20	110	590
Depreciation charges	6	1,749	1,579
Impairment charges	6	799	0
Interest on capital		217	503
		68,158	62,860
Operating (deficit)/surplus		(3,453)	133
Reversal of interest on capital		217	503
Transfer to Bequest Reserve		(3)	(5)
(Deficit)/surplus for the financial year		(3,239)	631

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 MARCH 2006

	Note	2005-06 £000	2004-05 £000
(Deficit)/surplus for the financial year		(3,239)	631
Net gain on revaluation of tangible fixed assets		1,663	324
Appropriation of bequest/bequest interest to bequest reserve	22	3	5
(Decrease)/Increase in share of JNCC reserves	22	(32)	2
Total recognised (losses)/gains for the financial year		(1,605)	962

The notes on pages 51 to 65 form part of these accounts.

Scottish Natural Heritage

BALANCE SHEET AS AT 31 MARCH 2006

	Note	2005-06 £000	2004-05 £000
Fixed assets			
Tangible fixed assets	13	15,785	14,446
Intangible fixed assets	13	43	–
		15,828	14,446
Current assets			
Stocks	14	25	34
Debtors	15	1,442	2,086
Cash at bank and in hand	16	2,311	4,456
		3,778	6,576
Creditors (due within one year)	17	(8,349)	(5,747)
Net current assets (liabilities)		(4,571)	829
Total assets less current liabilities			
		11,257	15,275
Creditors (due outwith one year)	18	(113)	(13)
Provisions for liabilities and charges	20	(5,911)	(8,158)
Total net assets		5,233	7,104
Financed by:			
Capital asset fund	21	10,652	10,825
Reserves	22	(5,419)	(3,721)
		5,233	7,104

Ian Jardine

Chief Executive and Accountable Officer
27 September 2006

The notes on pages 51 to 65 form part of these accounts.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2006

	Note	2005-06	2004-05
		£000	£000
Net cash (outflow)/inflow from operating activities	29	(2,850)	2,729
Returns on investment and servicing of finance			
Bank interest received	5	156	144
Interest received on bequest funds	5	3	3
		159	147
Capital expenditure and financial investment:			
Payments to acquire fixed assets	13	(1,749)	(2,177)
Receipts from sales of fixed assets		13	13
		(1,736)	(2,164)
Net cash (outflow)/inflow before financing		(4,427)	712
Financing			
Grants received and applied to purchase fixed assets	21	2,282	2,444
(Decrease)/Increase in cash	16	(2,145)	3,156

The notes on pages 51 to 65 form part of these accounts

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2006

1. Statement of accounting policies

1.1 Accounting Convention

The accounts have been prepared in accordance with the 2005–06 Financial Reporting Manual (*FReM*) issued by HM Treasury and the Accounts Direction issued by Scottish Ministers. The accounting policies in the manual follow UK generally accepted accounting practice (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where *FReM* permits a choice of accounting policy, the accounting policy has been selected, which has been judged to be the most appropriate to the particular circumstances of SNH for the purpose of giving a true and fair view. They have been applied consistently in dealing with items considered material in relation to the accounts.

The accounts have been prepared under the historical cost convention, modified to account for the revaluation of fixed assets at their value to the business by reference to their current costs.

1.2 Tangible Fixed Assets

In line with the Scottish Executive Finance Manual, regular professional valuations of land and property, with the exception of IT assets are carried out every five years. Published indices are used in the intervening years. The last valuation was undertaken as at 31 March 2006 for land and property by District Valuers of the Valuation Office Agency following the principles set out in the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors and acting in the capacity of External Valuers.

The threshold for capitalising assets is £10,000 for land and buildings, including improvements, and £3,000 for all other categories.

Tangible 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.

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 over their estimated useful lives. Assets under construction are carried at cost and transferred to the appropriate fixed asset category when completed and ready for use.

Land	Not depreciated
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
Licensed computer software	4 years
Other equipment	7 years
Vehicles	4 years
Furniture, fixtures & fittings	10 years

1.3 Intangible Fixed Assets

Purchased computer software licences are capitalised as intangible fixed assets. These are valued at the lower of depreciated replacement cost or open market value for existing use and depreciated over four years.

1.4 Heritage assets

On its creation in 1992, SNH took over ownership of a suite of National Nature Reserves from the Nature Conservancy Council, comprising land and some associated properties. These are treated as non-operational heritage assets where they are held in trust for the ongoing maintenance of the nation's heritage. SNH does not value these non-operational heritage assets or include them in the accounts, unless they are used operationally in the day-to-day provision of services such as certain visitor facilities and office accommodation. Detailed information on SNH's holdings of National Nature Reserves is available in SNH's publication, "Facts & Figures".

1.5 Leasehold Improvements

Improvements to leasehold properties and premiums paid on leasehold properties are valued at depreciated historic cost, subject to a capitalisation threshold of £10,000.

1.6 Operating leases

Costs relating to operating leases are charged to the income and expenditure account over the life of the lease.

1.7 Provisions

SNH is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. We provide for the present value of such future legal or constructive obligations at the balance sheet date on the basis of the best estimate required to settle that obligation. Notes 19 and 20 explain how we have provided for the future costs associated with management decisions on early severance or retirement of staff. Following the relocation of SNH's HQ functions to Inverness, associated exit training costs and relocation incentive grants payable to staff who chose to move are also included.

1.8 Stocks

SNH does not hold material levels of stocks. SNH's share of JNCC's stocks is included in the Balance Sheet, stated at the lower of cost or net realisable value.

1.9 Value Added Tax (VAT)

Irrecoverable VAT is charged to the income and expenditure account and included under the heading relevant to the type of expenditure. Irrecoverable VAT on the purchase of an asset is included in the capitalised purchase cost of the asset.

1.10 Joint Nature Conservation Committee (JNCC)

JNCC is the forum through which the three country conservation agencies – the Countryside Council for Wales (CCW), English Nature (EN), and SNH – deliver their statutory responsibilities for Great Britain as a whole, and internationally. These responsibilities, known as special functions, contribute to sustaining and enriching biological diversity, enhancing geological features and sustaining natural systems.

The special functions are principally:

- to advise ministers on the development of policies for, or affecting, nature conservation in Great Britain and internationally;
- to provide advice and knowledge to anyone on nature conservation issues affecting Great Britain and internationally;
- to establish common standards throughout Great Britain for the monitoring of nature conservation and for research into nature conservation and the analysis of the results; and
- to commission or support research which the Committee deems relevant to the special functions.

Following the Government's response to a review in 2002 of JNCC aimed at improving the organisation's efficiency and service delivery, the JNCC established a Company Limited by Guarantee, JNCC Support Company, to execute its strategic and business plans. The company employs staff and holds and manages funding and assets on behalf of the JNCC and is responsible for developing and delivering the JNCC's corporate and business plans.

As JNCC is jointly funded by the country agencies, SNH's share of its net assets has been presented in these accounts in the same proportion as the funding agreement between the country agencies.

1.11 Grant-in-aid

Grant-in-aid in respect of operating expenditure is credited to income in the period in which it is received. Grant-in-aid provided for capital expenditure is deferred in the balance sheet to a capital assets fund and released to the income and expenditure account over expected asset lives in line with the depreciation policy. This only covers the historical cost element of depreciation or impairment, the equivalent depreciation on any revalued element of asset value is released from the revaluation reserve.

1.12 Grants and management agreements

Grants and management agreements are accounted for as they are approved 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.

1.13 Research and development

All research and development expenditure is charged to the income and expenditure account.

1.14 Interest on capital

A charge, reflecting the cost of capital used by SNH is included in the income and expenditure account. It is calculated at the government's standard rate of 3.5% in real terms on the average carrying amount of all assets less liabilities.

1.15 Pensions

The provisions of the Principal Civil Service Pension Scheme (PCSPS) cover present and past employees. This defined benefit scheme is unfunded and non-contributory except in respect of dependants' benefits. SNH recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payments to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. SNH recognises the contributions payable for the year in respect of the defined contribution scheme.

Further information on pensions is contained in the remuneration report and Note 7 to the accounts.

1.16 Early departure costs

SNH is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. SNH provides in full for these costs when the early retirement has been approved.

1.17 Operating leases

Rentals applicable to operating leases are charged to the income and expenditure account as incurred.

1.18 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.

1.19 Big Lottery Fund

Funding receivable from the Big Lottery Fund is included under the designation "Fresh Futures" in the income and expenditure account to match the relevant expenditure incurred during the year. Funds received in excess of this 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 2005–06 was £60.750m (2004–05 – £60.01m). This appears in the accounts as follows:

	Note	2005–06 £000	2004–05 £000
Revenue Expenditure			
SNH – core operating funding		55,671	54,935
JNCC	11.1	1,800	1,712
Central Scotland Forest Trust (CSFT)		980	900
		58,451	57,547
Capital Expenditure			
SNH – core capital funding	13	2,282	2,444
JNCC	11.1	17	19
		2,299	2,463
Total Grant-in-aid received		60,750	60,010

Grant-in-aid received from SEERAD for JNCC and CSFT is ring-fenced within SNH's operating budget.

3. External Funding

	Note	2005–06 £000	2004–05 £000
Grant income			
Fresh Futures	12	2,049	2,081
EU Funding		488	410
Other		168	182
Partnership income		294	361
Sponsorship income		1	0
Other external funding		64	161
		3,064	3,195

There was no external funding received for the purposes of purchasing fixed assets in 2005–06.

Other grant income is shown net of an amount of £36,000 (2004–05: £380,346) received from Fresh Futures and incorporated in details of Fresh Futures expenditure (Note 12)

4. Income from activities

	2005–06 £000	2004–05 £000
Professional services	13	60
Managing resources	319	316
Pension and payroll	6	–
Other income from activities	145	147
	483	523

5. Other Income

	2005–06 £000	2004–05 £000
Bank Interest	156	144
Interest on bequest funds	3	3
	159	147

6. Released from Capital Asset fund and Revaluation Reserve

	Note	2005–06 £000	2004–05 £000
Capital Asset Fund			
Release to match historic depreciation for the year		1,749	1,512
Release of unexpended depreciation on asset disposals		–	1
Release to match cost of asset diminution		706	–
Total released from capital asset fund	21	<u>2,455</u>	<u>1,513</u>
Revaluation reserve			
Release to match depreciation on fixed asset revaluation		–	66
Release to match cost of asset diminution		93	–
Total released from revaluation reserve	22	<u>93</u>	<u>66</u>
Total released from capital asset fund and revaluation reserve		<u>2,548</u>	<u>1,579</u>

7. Staff costs (including Board members)

7.1 All employees

	2005–06 £000	2004–05 £000
Wages and Salaries		
Chairman	44	43
Main Board members	141	139
Areas and Advisory Board members	205	197
Management Team	451	398
All other staff	19,793	18,835
	<u>20,634</u>	<u>19,612</u>
Social security costs	<u>1,556</u>	<u>1,398</u>
Pension costs	<u>3,545</u>	<u>2,510</u>
Total staff costs	<u>25,735</u>	<u>23,520</u>

The 10.4% increase in staff costs is primarily due to:

- increases in the rate of employer contribution payable to the PCSPS;
- an increase of four in the average number of staff employed (full time equivalent);
- annual pay progression and pay increases; and
- an increase to the early retirement pension provision for approved early departures.

7.2 Pension costs

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

	Note	2005–06 £000	2004–05 £000
Accruing superannuation liability charges (ASLCs)		3,383	2,492
Other SNH pension costs		2	4
Net increase on early retirement provision	19	160	14
Total pension costs per Note 7.1		<u>3,545</u>	<u>2,510</u>

8. Average number of employees

The average number of full time equivalent persons employed during the year by occupational group was:

	2005-06	2004-05
	Number	Number
Senior management	6	6
Operational, professional and managerial	552	548
Administration and support	177	172
Estate workers, manual and domestic	26	31
	761	757

9. Other administrative costs

	2005-06	2004-05
	£000	£000
Staff related costs	1,643	1,146
Office and other accommodation	2,619	2,100
Travel	916	913
Communications	1,362	1,221
Supplies and services	1,338	1,318
Audit fee	59	57
Other administration costs	1,757	1,689
	9,694	8,444

The increase in other administrative costs is mainly due to relocation, including temporary accommodation in Inverness, the recruitment of new staff and their training.

10. Programme costs

	2005-06	2004-05
	£000	£000
Promotion	1,966	2,070
Research	4,487	4,465
Grants	9,416	8,937
Partnership funding	8,285	7,581
Management agreements	4,094	4,041
Managed Sites	1,606	1,130
	29,854	28,224

11. JNCC

11.1 Ring fenced grant-in-aid for JNCC

	2005-06	2004-05
	£000	£000
Ring fenced grant-in-aid received	1,817	1,731
<u>Less:</u> applied as capital expenditure	(17)	(19)
Grant in aid included in income and expenditure account	1,800	1,712

11.2 Contribution to JNCC expenditure

	2005-06 £000	2004-05 £000
Expenditure:		
Conservation support	936	727
Staff costs	1,137	1,017
Depreciation and impairment	29	29
Other operating costs	395	425
Notional costs	5	6
	2,502	2,204
Less Income:		
EU Funding	272	235
Income from activities	375	231
Released from Capital Asset Fund	29	33
	676	499
Net operating cost	1,826	1,705
Interest receivable	(5)	(4)
Gain on sale of fixed assets	-	3
Add back of notional costs	(5)	(6)
Retained (deficit)/surplus for year	(16)	14
Net expenditure per income and expenditure account	1,800	1,712

11.3 Reconciliation of movement in SNH's share of JNCC Reserves

	2005-06 £000	2004-05 £000
Share of JNCC net reserves at start of year	160	158
Movement in reserves position for year (Note 22)	(32)	2
Share of JNCC net reserves at end of year	128	160

12. Fresh Futures

During the year to 31 March 2006, 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" and its activities ceased in the latter part of the year. In final settlement, a repayment of grant was made to the BLF at the year-end.

The second programme is called "Transforming Your Space", which will cease on 31 March 2007.

The two "Fresh Futures" programmes are targeted to deliver £7.4 million to support projects that enable communities to understand, improve or care for their natural environment.

The funds are held separately as restricted funds 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 acts 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. The financial transactions for the two programmes were:

	2005-06 £000	2004-05 £000
Income		
Grants receivable from the Big Lottery Fund	1,259	2,682
Grant refunds	6	-
Interest receivable	26	18
	1,291	2,700
Funds applied (unapplied)	758	(619)
Income per income and expenditure account	2,049	2,081
Expenditure		
Administrative costs		
Salaries (incl. ERNIC and superannuation)	85	102
Other operating costs	39	38
	124	140
Grants		
Green Spaces for Communities	36	380
Open Grants Programme	1,793	1,235
Sustainable Communities Programme	96	326
	1,925	1,941
Expenditure per income and expenditure account	2,049	2,081
Reconciliation of funds balance		
Funds balance at the start of the year	(999)	(380)
Funds applied (unapplied) in year	757	(619)
Funds not applied at end of the year	(242)	(999)
Represented by -		
Debtors – advances made (Note 15)	-	6
Creditors – advances made (Note 15)	(5)	-
Creditors – general	(5)	-
Cash at bank (Note 16)	252	993
Creditors – income received in advance (Note 17)	(242)	(999)

13. Fixed Assets

Purchases of fixed assets in the schedule of £2,299,000 (2004-05: £2,463,000) appear in the cash flow statement as £1,749,000 after adjustment for fixed asset creditors.

The intangible assets are software licences held by SNH and JNCC.

	Land	Buildings	Leasehold Improvements	Computer Equipment	Vehicles	Other Equipment	Fixtures & Fittings	JNCC	Assets under Construction	Total Tangible Fixed Assets	Software Licences	JNCC	Total Intangible Fixed Assets
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation													
At 1 April 2005	2,515	8,131	1,197	7,246	2,110	4,533	908	270	-	26,910	-	-	-
Additions	-	247	154	766	111	144	104	15	720	2,261	37	1	38
Disposals	-	-	-	-	(32)	(30)	-	(1)	-	(63)	-	-	-
Transfers	200	(200)	-	-	-	-	-	(25)	-	(25)	-	25	25
Revaluation	61	2,014	-	-	7	123	33	1	-	2,239	-	-	-
Permanent diminution	-	(799)	-	-	-	-	-	(3)	-	(802)	-	(4)	(4)
At 31 March 2006	2,776	9,393	1,351	8,012	2,196	4,770	1,045	257	720	30,520	37	22	59
Depreciation													
At 1 April 2005	-	746	710	5,260	1,537	3,316	745	150	-	12,464	-	-	-
Charged in year	-	245	62	833	257	305	42	19	-	1,763	5	5	10
Disposals	-	-	-	-	(32)	(30)	-	(1)	-	(63)	-	(1)	(1)
Transfers	-	-	-	-	-	-	-	(7)	-	(7)	-	7	7
Backlog	-	454	-	-	2	90	29	-	-	575	-	-	-
Revaluation	-	-	-	-	-	-	-	4	-	4	-	-	-
Permanent diminution	-	-	-	-	-	-	-	(1)	-	(1)	-	-	-
At 31 March 2006	-	1,445	772	6,093	1,764	3,681	816	164	-	14,735	5	11	16
Net Book Value at 31 March 2006	2,776	7,948	579	1,919	432	1,089	229	93	720	15,785	32	11	43
Net Book Value at 31 March 2005	2,515	7,385	487	1,986	573	1,217	163	120	-	14,446	-	-	-

14. Stocks

	2005-06 £000	2004-05 £000
Share of JNCC stock	25	34

15. Debtors

	2005-06 £000	2004-05 £000
Trade debtors	180	270
Other debtors	174	591
Prepayments and accrued income	229	677
Claims due from European funding sources	324	175
Heritage Lottery Fund claims	31	94
Fresh Futures – advances made (Note 12)	–	6
Share of JNCC debtors	504	273
	1,442	2,086

Smaller amounts falling due after more than one year are included in other debtors and amount to £56,500 (2004-05: £55,000). These relate primarily to interest free loans to essential car users within SNH under a scheme approved by HM Treasury and approved housing advances for staff that have been permanently relocated.

16. Cash at bank and in hand

	2005-06 £000	2004-05 £000
Cash at bank and in hand	1,474	2,613
European Commission funds received in advance	505	747
Bequest funds	71	69
Fresh Futures (Note 12)	252	993
JNCC share	9	34
	2,311	4,456

During the year, SNH received no bequests. Interest of £3,000 (2004-05: £3,000) was received on bequest funds on deposit

17. Creditors due within one year

	2005-06 £000	2004-05 £000
Trade creditors	637	2,985
Value Added Tax	62	27
Other tax and social security	542	524
Project funds in advance	570	766
Provision for payment of pension to early retirees (Note 19)	45	22
Accruals	5,727	122
Fresh Futures – income received in advance (Note 12)	242	999
Fresh Futures – other creditors (Note 12)	10	–
Share of JNCC creditors	514	302
	8,349	5,747

The increase in creditors of £2,602,000 (2004-05: £2,354,000) is shown in the reconciliation of operating surplus to net cash flow (Note 29) as an increase of £1,859,000 (2004-05: £2,062,000) after adjustment for movements in fixed asset creditors (Note 13).

18. Creditors: amounts falling due after more than one year

	2005-06	2004-05
	£000	£000
Provision for payment of pension to early retirees (Note 19)	113	13
	113	13

19. Provision for payment of pension to early retirees

	2005-06	2004-05
	£000	£000
Opening balance at 1 April 2005	35	87
Increase to provision for future pension costs (Note 7.2):		
Employees retiring during current year	154	8
Increase to pensions payable to existing retirees	6	6
	160	14
Released to income and expenditure account for pension payments during year	(37)	(66)
Closing balance at 31 March 2006	158	35
Payable within 1 year	45	22
Payable outwith 1 year	113	13
	158	35

At the start of the year, there were five former employees in receipt of early retirement pensions. During the year, two further employees took early retirement on voluntary grounds agreed by SNH. Four reached normal retirement age leaving three 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

A provision has been made in full for employees leaving the organisation under early retirement or early severance terms, together with any associated exit training, following the relocation to Inverness. In addition, the provision includes the relocation incentive grant payable in two instalments to those staff relocating to Inverness. The provision represents the estimated future costs to SNH, discounted by the Treasury discount rate of 2.2 per cent in real terms, for both staff that have already left or moved and any staff that are known to be leaving or moving.

	Redundancy	Relocation	Total	Total
	£000	incentive	2005-06	2004-05
		grants and	£000	£000
		exit training		
		£000		
Relocation Provision				
Opening balance at 1 April 2005	7,100	1,058	8,158	7,600
Increase to provision	–	510	510	1,058
Transferred back to income and expenditure account (provision not required)	(400)	–	(400)	(468)
Charged to provision	(1,792)	(565)	(2,357)	(32)
Closing balance at 31 March 2006	4,908	1,003	5,911	8,158

21. Capital asset fund

	2005-06 £000	2004-05 £000
Balance at 31 March 2005	10,825	9,894
Funds received during the year for purchase of fixed assets (Note 2)	2,282	2,444
Released to income and expenditure account	(1,749)	(1,513)
Impairment in 2005-06	(706)	–
Balance at 31 March 2006	10,652	10,825

This fund represents payments received for the purchase of fixed assets after releases to the income and expenditure account 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 £1,749,000 (2004-05: £1,512,000) and unexpired depreciation on disposals of £nil (2004-05: £1,000). The difference between this and the total release of £2,548,000 (2004-05: £1,579,000) (Note 6) amounts to £217,000 (2004-05: £67,000). 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	Share of JNCC (Note 11) £000	Bequest Reserve £000	Income & Expenditure £000	Total 2005-06 £000	Reserves 2004-05 £000
Balance at 1 April 2005	3,532	160	69	(7,482)	(3,721)	(4,615)
(Deficit)/surplus for the year	–	(32)	–	(3,239)	(3,271)	633
Revaluation gain	2,240	–	–	–	2,240	322
Bequest funds received	–	–	3	–	3	5
Backlog depreciation	(577)	–	–	–	(577)	–
Release to income and expenditure: depreciation (Note 6)	(93)	–	–	–	(93)	(66)
Balance at 31 March 2006	5,102	128	72	(10,721)	(5,419)	(3,721)

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

23. Commitments under operating leases

As at 31 March 2006, SNH had the following annual commitments under operating leases:

	2005-06				2004-05			
	Land £000	Buildings £000	Other £000	Total £000	Land £000	Buildings £000	Other £000	Total £000
Expiry within:								
One year	1	387	24	412	–	397	24	421
Two to five years	1	176	3	180	1	346	3	350
After five years	15	349	–	364	8	1,092	–	1,100
	17	912	27	956	9	1,835	27	1,871

The significant decrease in operating lease commitments results from the decision to buy rather than lease Great Glen House in Inverness. Although at 31 March 2006, Ministers had not approved this decision, it has been excluded from the note as the decision to purchase was formally announced on 1 June 2006, prior to publication of these accounts.

24. Capital and other commitments

24.1 Capital

As at 31 March 2006, SNH had various commitments under its capital programme totalling £4,456,000 (2004–05: £3,094,000). This expenditure fell into the following categories:

	2005–06 £000	2004–05 £000
Authorised and contracted:	742	22
Authorised but not contracted:	3,714	3,072
	4,456	3,094

The authorised but not contracted figure includes £822,500 (2004–05: £2,812,000) in respect of the fitting out, furnishing and equipping of the new headquarters at Great Glen House, as detailed in the approved Project Plan.

24.2 Management Agreements

For management agreements concluded by 31 March 2006, commitments to continuing annual payments for 2006–07, under leases and management agreements, amount to £3,054,594 (2004–05: £3,450,000). An estimated £1,064,000 (2004–05: £1,260,000) refers to agreements entered into before 1 January 2000. These agreements are currently awaiting notification as approved State Aids.

24.3 Grants

Forward commitments on grant offers accepted as at 31 March 2006 covering the years up to and including 31 March 2010, amount to £12,815,462 (2004–05: £15,785,000) as follows:

	2005–06 £000	2004–05 £000
Payable within 1 year	7,499	8,534
Payable in 2–4 years	5,316	7,251
	12,815	15,785

25. Contingent Liabilities

No material contingent liabilities exist at 31 March 2006 (2004–05: £307,000).

26. Losses and special payments

The following losses and special payments are included in the income and expenditure account:

	2005–06 £000	2004–05 £000
Cash Losses	1	2
Losses of assets, stores and equipment	7	39
Fruitless payments and constructive losses	1	–
Claims waived or abandoned	6	1
Special Payments	1	–
	16	42

In 2005–06, the main losses were accident repairs to SNH owned vehicles and legal costs incurred in defending an action concerning the Scottish Borders Walks project.

27. Related party transactions

SNH is a non-departmental public body sponsored by SEERAD. SEERAD is regarded as a related party. During the year, SNH has had a number of material transactions with the department and with other entities for which it is regarded as the parent department, viz:

- Scottish Environment Protection Agency
- Loch Lomond and The Trossachs National Park
- Cairngorms National Park Authority

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

During the year, SNH entered into the following material transactions (over £5,000):

Name	Type of related party	Transaction
John Markland	SNH Chairman	Non-executive board member of Forward Scotland, which is in a project partnership with SNH to manage the Fresh Futures funding programme (see Note 12).
Lord Glasgow	Husband of main board member	Owner of Kelburn Castle and Country Centre which received £24,536 in SNH grant for Ranger Services in 2005–06
Professor Phillip Thomas	Main board member & Chairman of Audit & Risk Management Committee	Chairman of Central Scotland Forest Trust which received £1,136,992 in ring-fenced funding from SEERAD, paid via SNH, and direct SNH grant
Gordon Mann	Areas board member & member of Audit & Risk Management Committee.	Managing director of Crichton Development Company, which leases the first floor of Carmont House to SNH. Total payments in 2005–06 £60,527.

Except as indicated, none of the board members, management team or any other related parties has undertaken any material transactions with SNH during the year.

28. Key Financial Targets

SNH is required to operate within its capital and operating budgets for the year. These are set by its sponsoring department, SEERAD. In 2005–06 both financial targets were achieved, as demonstrated in the table below:

	2005–06			2004–05		
	Outturn £000	Budget £000	Variance £000	Outturn £000	Budget £000	Variance £000
Capital:						
Net additions	2,282	2,359	77	2,443	3,051	608
Operating:						
Net expenditure	64,452	64,726	274	58,992	61,542	2,550
Total resource budget	66,734	67,085	351	61,435	64,593	3,158

29. Reconciliation of operating (deficit)/surplus to net cash (outflow)/inflow from operating activities.

	2005-06	2004-05
	£000	£000
(Deficit) / surplus on operating activities	(3,453)	133
Bank interest	(156)	(144)
Bequest interest	(3)	(3)
Depreciation and impairment charge	2,548	1,579
Profit on sale of tangible fixed assets	(13)	(8)
Interest on capital	217	503
Release from capital asset fund	(2,455)	(1,513)
Movements to/(from) Reserves:		
Revaluation reserve	(93)	(66)
JNCC reserves	1	27
Bequest reserves	3	5
Decrease/(increase) in stock	9	(8)
Decrease/(increase) in debtors	644	(396)
Increase/(decrease) in creditors	2,148	2,062
(Decrease)/increase in provisions	(2,247)	558
Net cash (outflow)/inflow from operating activities	(2,850)	2,729

30. Financial instruments

FRS 13, "Derivatives and Other financial Instruments", requires disclosure of the role which financial instruments have had 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 business entities.

Liquidity risk

Scottish Ministers make provision for SNH's use of resources, for revenue and capital purposes, in its budget for each financial year. Resources and accruing resources may be used only for the purposes specified and up to the amounts specified in the budget. An overall cash authorisation is also agreed between SEERAD and SNH to operate for the financial year. SNH is not therefore exposed to significant liquidity risks.

Foreign currency risk

SNH minimises exchange rate risk on EU funded projects by identifying in the memorandum 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 partner's contributions to the overall project.

Interest-rate risk

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.

Fair values

There is no difference between the book value and fair value for the cash at bank shown in Note 16.

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 for the financial year ended 31 March 2006, and subsequent years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (*FReM*) which is in force for the year for which the statement of accounts are prepared.
3. The accounts shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial year, and of the state of affairs as at the end of the financial year.
4. This direction shall be reproduced as an appendix to the statement of accounts. The Direction given on 2 October 2002 is hereby revoked.

I. R. Hooper (Head of Countryside and Natural Heritage Division)

Signed by the authority of the Scottish Ministers

Dated 12 January 2006