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| Environment And Forestry Directorate  Natural Resources Division  T: 0131 314 6416  E: [keith.connal@scotland.gov.uk](mailto:keith.connal@scotland.gov.uk) |  |
| Mr Joe Moore  Interim Chief Executive Scottish Natural Heritage Great Glen House Leachkin Road Inverness  IV3 8NW |  |

Our ref: A17926943

29 September 2017 Dear Joe,

# BUDGET ALLOCATION AND MONITORING: 2017-2018

**Purpose**

I am writing, on behalf of the Scottish Ministers, to confirm the budget and associated grant in aid allocated to Scottish Natural Heritage (SNH) for 2017-2018, and to provide guidance on Ministerial priorities for the year ahead. This letter also sets out the arrangements for monitoring the budget and for (re)profiling and drawing down grant in aid. The use of resources must be in accordance with the agreed corporate and annual business plan, SNH’s framework document, and any relevant guidance issued by the Scottish Ministers, in particular the Scottish Public Finance Manual (SPFM). Relevant guidance may also include setting out, from time to time, the expectations for the way that SNH operates in support of Ministers’ policy aims and objectives for the public sector as a whole.

# Strategic Priorities and Context

SNH programmes and priorities for 2017-18 should continue to have a strong focus on delivery of the Scottish Government’s National Performance Framework, in particular the Government’s Purpose and the National Outcomes **1, 12, 14** and **16** (as well as **6, 10** and **11** that are relevant to the organisation’s wider remit), and support the Environment Climate Change and Land Reform portfolio’s overarching aim to build a strong and sustainable low carbon economy through:

* maximising the potential of, and enhancing, Scotland’s environment and natural resources;
* tackling climate change;
* supporting community empowerment and improving the way that land is owned, used and managed;
* supporting the marine environment; and,
* investing in the research base

The Scottish Government’s principal priorities for SNH in 2017-18 are set out in **Annex B** in terms of the National Outcomes that are most relevant to the organisation’s remit. The outcome measures in SNH’s Corporate Plan 2015-18 (updated in April 2017) will provide the means by which to assess SNH’s progress in contributing to the delivery of the National Outcomes in 2017-18.

Annex B is not intended to represent a comprehensive list of areas of activity for SNH to take forward during the year. SNH’s business plan for 2017-18 will perform that function, providing the necessary level of detail, including targets, to reflect the organisation’s wider activities.

The broad areas of priority identified in this letter are without prejudice to any changes which may be required following the conclusion of the Scottish

Government’s review of the National Performance Framework, the consideration by SNH of the priorities set out in the Programme for Government 2017-18, and any changes to priorities which might be required in light of the evaluation being made of a number of scenarios for the future relationship between Scotland and the European Union.

# Financial challenges and Public Service Reform

SNH should continue to assess the financial challenges that will need to be managed within the budget settlement for 2017-18, and prioritise its resources in order to achieve the objectives of the organisation’s Corporate Plan 2015-18 (and deliver its Business Plan 2017-18), meet its statutory functions and maintain the most important contributions it makes to the Scottish Government’s Purpose.

We anticipate that Spending Reviews will continue to be challenging for public sector organisations. SNH will need to take this into consideration in delivering its longer term priorities and be flexible in responding to any changes in Scottish Government priorities, working within potentially more challenging budget settlements beyond 2017-18 to enable the organisation to continue to contribute to the Scottish

Government’s Purpose in the most effective and efficient way possible.

Also important to the Scottish Government, in the context of meeting the challenge to deliver improved outcomes whilst making optimal use of available resources, is SNH’s contribution towards the commitment to drive forward public service reform.

This recognises public bodies’ crucial role in protecting and reforming public services, tackling inequality by empowering communities, investing in the workforce (by supporting Fair Work, Living Wage and full diversity of talent) and supporting a strong, sustainable economy.

# Working collaboratively

SNH should continue to look for opportunities for effective strategic engagement with a wide range of public, private and third sector partners as a mechanism for helping to deliver key priorities and efficiencies that support the achievement of the National Outcomes directly relevant to the organisation’s remit. We expect SNH to continue its engagement with Community Planning Partnerships (CPP) and fulfil its duties under Part 2 of the Community Empowerment (Scotland) Act 2015 to work with other partner bodies and communities to identify, resource and manage effective delivery of shared priority outcomes for their localities. SNH will also be expected to maintain its active participation in the Environment and Economy Leaders’ Group (formerly Rural Affairs, Food and Environment (RAFE) Delivery Board) by contributing to the delivery of the Group’s work plan.

# Budget

SNH’s detailed budget for 2017-18, disaggregated in terms of the relevant expenditure classifications on the HM Treasury database, is shown in **Annex A**. In summary, the budget is:

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| --- | --- | --- |
|  | £000s | Notes |
| Resource DEL | 43,127 |  |
| Ring-fenced (or “non cash”) DEL | 1,800 |  |
| Capital DEL | 1,500 |  |
| Total DEL | 46,427 |  |
| Expenditure classed as AME | 0 |  |
| Total budget | 46,427 |  |

 DEL is the “Departmental Expenditure Limit” as defined by HM Treasury. The Scottish Government’s DEL budget limits are determined by the Barnett formula and are not negotiable.

 Comprises wages and salaries and operating costs offset by trading and other resource income.

 Ring fenced DEL comprises depreciation, amortisation and impairment (if it does not qualify as AME – see below).

 Comprises capital grants and additions to non-current assets offset by the net book value of disposals of non-current assets.

 AME is “Annually Managed Expenditure”, which covers expenditure which HMT accepts is volatile and is therefore subject to different controls. Examples are some pension adjustments and some impairments.

Transfers of budgetary provision between the classifications in the table above would require the prior approval of Scottish Government Finance. Any proposals for such transfers should therefore be submitted to the sponsor team. Transfers of budgetary provision within the classifications in the table above may be undertaken without reference to the Scottish Government, subject to any constraints on specific areas of expenditure e.g. the approved pay remit.

Your assumed trading and other resource income is **£3.0 million** and the assumed net book value of disposals of non-current assets is **£0.070 million**. These amounts have been taken into account in arriving at the budget shown above. If the amounts realised or expected to be realised in-year are less than estimated, you shall, unless

otherwise agreed with the sponsor team, ensure a corresponding reduction in your gross expenditure so that the agreed budget is not exceeded. Excluding income resulting from gifts, bequests or donations, if the amounts realised or expected to be realised in-year are more than estimated, you must seek the prior approval of the sponsor team before using any excess to support additional expenditure.

# Specified Expenditure

SNH’s grant in aid includes provision for the Joint Nature Conservation Committee (JNCC). The agreed level of contribution for 2017-18 is **£1.183m**. SNH will retain

£0.096m to fund marine renewables advice in Scotland previously undertaken by JNCC. If JNCC fail to draw down the remaining balance of £1.087m, grant in aid figures will be reduced accordingly. SNH should plan for a contribution of up to

**£1.2m** towards the Scottish Rural Development Programme during 2017-18.

A provision of up to a maximum of **£0.050 million** is available in 2017-18 to meet additional costs incurred as a direct result of the relocation of SNH’s headquarters to Inverness.

# HM Treasury Budget Monitoring

Forecast outturn and spend to date for the financial year should be reported to the sponsor team by completing and submitting the budget forecast and monitoring spreadsheet issued monthly. We would welcome the spreadsheet continuing to be completed and submitted by the last full week of each month (subject to deadlines set by Scottish Government Finance). Where appropriate (e.g. for depreciation) costs may be calculated on the basis of one twelfth of the budget for each month. A completed spreadsheet providing the position at the end of the financial year (31 March 2018) should be submitted to the sponsor team by no later than **early May 2018** (subject to deadlines Scottish Government Finance need to set in relation to the end-year accounting process).

# Budget Revisions

Ministers have to manage the Scottish budget in the light of pressures and savings that may arise during the financial year. SNH may itself experience pressures and savings. Such factors may make it necessary for Ministers to make changes (upwards or downwards) to the budget and associated grant in aid for your organisation. Where, exceptionally, any changes have to be made I shall keep you informed of Ministers’ intentions and give you the opportunity to comment.

Some specific revisions to SNH’s baseline budget, which have already been agreed (totalling £6.497m, and excluding the £1.2m related to SRDP outlined above), are:

* **£6.057 million** (of £8 million) to fund projects through the Peatland Action Fund to deliver peatland restoration, conservation and management. The remaining £1.943m will be transferred to Forest Enterprise Scotland as the agreed level of funding awarded for its Peatland Action Fund application.
* **£0.173 million** to fund 50% of the grant awarded to The Conservation Volunteers (TCV) Scotland for work to deliver objectives for environmental volunteering and participation in the outdoors;
* **£0.100 million** to fund goose management schemes;
* **£0.067 million** to fund SNH to support work on EU exit analysis
* **£0.062 million** to fund resource for further work on the National Coastal Change Assessment
* **£0.038 million** to core fund Scottish Environment LINK;

We expect these transfers to SNH’s budget for 2017-18 to take place at Autumn Budget Revisions, subject to Parliamentary approval.

# Grant in Aid

As a result of current legislative provisions, Scottish Government funding for its sponsored bodies is shown in the annual Budget Act in terms of grant in aid i.e. the net cash figure required to support agreed budgets. The authorised grant in aid for SNH for 2017-18 is £44.627 million (£43.127m Resource DEL and £1.500m Capital DEL). We are grateful for the Grant in Aid profile provided for 2017-18. SNH should aim to submit an updated spreadsheet to the sponsor team by the last full week of each month (as part of budget monitoring reporting) providing details of grant in aid already drawn down, a profile of monthly grant in aid requirements for the remainder of the financial year and a note of the unrestricted cash reserves held at the end of the previous month.

The updated profiles will be used for monthly cash management forecasts provided to HM Treasury and as the basis for the payment of grant in aid - unless notification to the contrary is received by the sponsor team at least 10 days before payment is due to be made. The sponsor team will normally aim to make payments of grant in aid by the 5th of each month. Grant in aid should not be drawn down in advance of need. Unrestricted cash reserves held during the course of the year should be kept to the minimum level consistent with the efficient operation of the body - and the level of funds required to meet any liabilities at the year-end. At the end of the financial year, the sponsor team and SNH will formally agree the total grant in aid attributable to that particular period.

# Classification of Functions of Government

To meet HM Treasury reporting requirements an analysis of expenditure by the [Classification of the Functions of Government](http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=4) (COFOG) e.g. categories such as subsidiary services to Education, Manufacturing, Law courts, Transport etc. is needed for onward transmission to HM Treasury. For this purpose expenditure means gross expenditure, whether funded by grant in aid or by other income. The classification has already been established in respect of SNH (05.4.0 - environmental protection; protection of biodiversity and landscape), but should this need to change in the future, the sponsor team will engage with the organisation to agree a COFOG analysis.

# Issues Arising

If you have any questions arising from this letter, or if you foresee any financial issues developing in the course of the year, please do not hesitate to contact me or the sponsor team. The sponsor team will, where necessary, consult relevant Scottish Government Finance colleagues.

I am copying this letter to Mike Cantlay. Yours sincerely,

Keith Connal Deputy Director, Natural Resources Division signature

# Keith Connal

**Deputy Director, Natural Resources Division**

**ANNEX A**

**SCOTTISH NATURAL HERITAGE (SNH): DETAILED BUDGET ALLOCATION 2016-2017**

|  |  |  |
| --- | --- | --- |
|  | *Budget on HMT*  *database* | *HMT*  *Classification\** |
|  | *£000s* |  |
| (Gross) Operating costs | 46,127 | RDEL |
| Trading and other resource income (negative) | (3,000) | RDEL |
| Depreciation/Amortisation | 1,800 | Ring-fenced RDEL |
| Accruing pension liability (where agreed as being  classed as AME) | 0 | AME |
| Impairments (where agreed as being classed as AME) | 0 | AME |
| Capital grants | 0 | CDEL |
| Capital additions to non-current assets (including investments) | 1,570 | CDEL |
| Net book value of disposals of non-current  assets (including investments) (negative) | (70) | CDEL |
| Total net expenditure (as recognised by HMT) | 46,427 |  |

\* For a full explanation of HM Treasury’s budgeting rules see the current version of [Consolidated Budgeting Guidance.](http://www.hm-treasury.gov.uk/psr_bc_consolidated_budgeting.htm) “DEL” stands for Departmental Expenditure Limits, and is the more tightly controlled side of the government’s budget. It is split between resource (or revenue) “RDEL” and capital “CDEL”. Non cash budgets are ring fenced within RDEL, which means that (for example) any underspend on depreciation cannot be used to fund actual cash expenditure. “AME” stands for Annually Managed Expenditure, which covers expenditure which HMT accepts is volatile and is therefore subject to different controls.

# ANNEX B SCOTTISH NATURAL HERITAGE (SNH) – STRATEGIC PRIORITIES 2017-18

The SNH Corporate Plan 2015-18 update for 2017-18 details the organisation’s strategic priorities as agreed with the Cabinet Secretary for Environment, Climate Change and Land Reform. The following priorities represent planned contributions towards year three of the 2017-18 update and summarise the focus of SNH’s main activities across its four portfolios contained in its 2017-18 business plan.

***National Outcome 1 – We live in a Scotland that is the most attractive place for doing business in Europe***

SNH should continue to fulfil its role as adviser to regulators throughout the planning, land use change and marine development licensing systems in support of inclusive and sustainable economic growth. This includes work associated with the **development of marine and terrestrial renewables** and its advice to others such as **planning authorities and developers** to enable them to plan, make good decisions and invest in successful, resilient places, rich in natural capital, and which attract investment and job opportunities.

***National Outcome 12 – We value and enjoy our built and natural environment and protect it and enhance it for future generations***

In taking forward SNH’s key leadership role in supporting action and delivery against **Scotland’s Biodiversity Strategy (SBS)** and 2020 challenge, the focus of its activity in 2017 should be to continue to facilitate delivery of the Scottish Biodiversity Strategy’s (SBS) Route Map, driving forward the 6 Big Steps for nature and 12 priority projects and ensuring the pace of implementation matches the ambition of the Strategy. As part of progressing work on the Biodiversity Route Map, a priority should also be to support implementation of the Scottish Government’s **second Land Use Strategy** through projects that demonstrate the multiple benefits of an ecosystems approach.

Ongoing work by SNH during 2017-18 will be required in order to sustain and **improve the condition of protected nature sites** where this is most needed, notably upland and woodland sites, so that these areas provide an effective network for conserving wildlife in Scotland. SNH’s work with the Scottish Government and partners to deliver schemes under the **Scottish Rural Development Programme (SRDP) 2014-20** to enable agriculture and rural environment to deliver environmental benefits, should also include bringing priority features on designated sites into favourable condition.

SNH should work with partners and stakeholders to manage conflicts and minimise adverse impacts of wildlife, especially in relation to deer in uplands and woodlands. A particular focus during the year will be to **invest additional resources in managing the impacts of deer, sea eagles and geese**. SNH should also continue to **manage invasive and non-native species** and **tackle wildlife crime**, addressing especially the consequences of irresponsible behaviour associated with raptor persecution.

The main areas of priority for SNH in supporting marine policy in 2017-18 are to focus on helping the Scottish Government take forward the implementation of the Marine (Scotland) Act 2010 including in relation to the **delivery of a network of well-managed Marine Protected Areas**. The organisation should also continue its work on a framework for management and monitoring to deliver **good environmental status of Scotland's seas** as required under the Marine Strategy Framework Directive by 2020.

In addition to the key contribution which it makes to the delivery of National Outcome 12, SNH’s continuing engagement on creating better places, increasing and widening participation, and helping people to get outdoors and enjoy nature more easily should make a significant contribution to the delivery of other National Outcomes relating to: health and wellbeing; opportunity and young people; and, sustainable places and communities. During 2017-18, this should be achieved through: its leadership of the **ERDF Green Infrastructure scheme**, supporting strategic projects which will bring improvements to some of Scotland’s most disadvantaged communities; leading partnership delivery of the **National Walking & Cycling Network**, promoting active travel and better health; continuing to deliver the **Natural Health Service Action Programme** contributing to the improvement of people’s health and wellbeing; **helping to close the attainment gap** by creating outdoor learning opportunities in local green space for pupils in the most deprived areas; supporting delivery of **Central Scotland Green Network** and, **creating opportunities for communities** to generate more benefits from SNH’s National Nature Reserves through co-management and land transfer.

***National Outcome 14 – We reduce the local and global environmental impact of our consumption and production***

Building on the significant contribution made to **Peatland restoration** across Scotland over the past two years, SNH will continue to lead on administering the Peatland Action Programme to enable delivery of up to £8 million of restored peatland in 2017-18. SNH should maintain its exemplary leadership and commitment to its **climate change duties** by continuing to deliver against its low carbon vision and reporting to Ministers under the new Climate Change (Duties of Public Bodies: Reporting Requirements) (Scotland) Order 2015.

***National Outcome 16 – Our public services are high quality, continually improving, efficient and responsive to local people’s needs***

This National Outcome, together with Ministers’ commitment to drive forward **public service reform** provide both a general context within which SNH should test the effectiveness and efficiency of its work programmes and a specific commitment to securing efficient use of resources within its allocated budget to deliver value for money. This includes rolling forward delivery of the **3% annual efficiency target** in 2017-18 and reporting publicly on the actions undertaken and the results achieved; continuing to reduce overhead costs through **shared service initiatives**, office co- locations and energy efficiency measures; taking forward SNH’s Workforce Planning to enable staff to work in a more flexible and responsive manner; strengthening the organisation’s approach to communications; and, developing the organisation’s next

**Corporate Plan for 2018-22**, in consultation with Environment and Forestry Directorate’s sponsorship hub.