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| Francesca Osowska Chief Executive  Scottish Natural Heritage Great Glen House Leachkin Road Inverness  IV3 8NW |  |

4 April 2019

Dear Francesca,

# BUDGET ALLOCATION AND MONITORING: 2019-20

**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 2019-20 and to provide guidance on related matters. This letter also sets out the arrangements for monitoring the budget and for profiling (and, if necessary, reprofiling) expenditure and for drawing down grant in aid.

The use of resources must be in accordance with agreed Corporate and Business Plans, the SNH framework document, and any relevant guidance issued by the Scottish Ministers, in particular the Scottish Public Finance Manual (SPFM) and Finance Guidance Notes issued periodically.

Relevant guidance may also include the setting out, from time to time, of 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 2019-20 should continue to have a strong focus on delivery of the National Performance Framework1 (NPF), in particular the Purpose and the National Outcomes that are relevant to the SNH remit. SNH should continue to support the Environment, Climate Change and Land Reform portfolio’s overarching aim to protect and value Scotland’s environment and to build a strong and sustainable low carbon economy.

1 <https://nationalperformance.gov.scot/>

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Grant-in-aid is paid to enable SNH to fulfil its statutory functions and to deliver priorities as set out in SNH’s agreed Corporate Plan and annual Business Plan.

In delivering those plans, SNH should continue to explore, and articulate, how its work positively supports the Scottish Government’s policy outcomes, including as set out in the National Performance Framework.

# Budget

The 2019-20 allocation for SNH as shown in the Budget Act in terms of grant in aid is:

|  |  |  |
| --- | --- | --- |
|  | £000s | Notes |
| Resource DEL | 43,600 |  |
| Ring-fenced (or “non cash”) DEL | 1,900 |  |
| Capital DEL | 1,000 |  |
| Total DEL | 46,500 |  |
| Expenditure classed as AME | 0 |  |
| Total budget | 46,500 |  |

** *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.

# Trading and Other Resource Income

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.

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# 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 2019-20 is

£44.6 million. Grant in aid should be profiled (and, if necessary, reprofiled) and drawn down using the relevant spreadsheet. SNH should submit an update to the sponsor team by the **29th of each month** as part of the process to request drawdown of grant in aid, using the relevant spreadsheet accompanying this letter.

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 **7 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.

# Specified Expenditure

SNH’s grant in aid includes provision for the Scottish Government’s funding of the Joint Nature Conservation Committee (JNCC). The level of contribution for 2019-20 is expected to be **£1.118m**, subject to final confirmation and Ministerial agreement. This is a 3% reduction of £0.035m on the 2018-19 contribution, which should be used by SNH towards offsetting in- year transfers to SNH’s Resource-DEL budget. As agreed with JNCC, **£0.099m** *[to be confirmed]* of the 2019-20 JNCC contribution will be retained by SNH to fund marine renewables advice in Scotland previously undertaken by JNCC. If JNCC fail to draw down all the remaining balance of **£1.019m** *[to be confirmed]*, grant in aid figures will be reduced accordingly. SNH should also plan for a contribution of up to **£1.5m** towards the Scottish Rural Development Programme during 2019-20.

# Classification of Functions of Government

To meet HM Treasury reporting requirements we will also require an analysis of expenditure by the [Classification of the Functions of Government](https://unstats.un.org/unsd/iiss/Classification-of-the-Functions-of-Government-COFOG.ashx) (COFOG) e.g. categories such as subsidiary services to Education, Manufacturing, Law courts, Transport etc. for onward transmission to HM Treasury. For this purpose expenditure means gross expenditure, whether funded by grant in aid or by other income. Your sponsor team will seek to agree an estimated COFOG analysis of budgets at the start of the financial year.

After the year end the team shall ask you to provide a COFOG analysis of the actual expenditure.

# Budget Revisions

Ministers have to manage the Scottish budget in light of pressures and savings that may arise during the financial year and SNH may itself experience pressures and savings. Such factors may make it necessary for Ministers to make changes (upwards or downwards) to

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the budget and associated grant in aid for your organisation. A revision to SNH’s baseline budget which has already been agreed as an in-year transfer to SNH’s Resource-DEL budget is **£3 million** to support the delivery of peatland restoration, conservation and management through SNH’s Peatland Action Fund.

# Financial challenges

SNH should continue to assess the financial challenges that will need to be managed within the budget settlement for 2019-20, and prioritise its resources in order to achieve the objectives of the organisation’s Corporate Plan and deliver its Business Plan, meet its statutory functions and maintain the most important contributions it makes to Scottish Government objectives and priorities.

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 2019-20 to enable the organisation to continue to contribute to Scottish Government objectives in the most effective and efficient way possible.

# 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, to be completed and submitted by the last full week of each month (subject to deadlines set by Scottish Government Finance). Where appropriate, cost may be calculated on the basis of one twelfth of the budget for each month e.g depreciation.

A completed spreadsheet providing the position at the end of the financial year (31 March 2020) should be submitted to the sponsor team by early May 2020 (subject to deadlines Scottish Government Finance need to set in relation to the end-year accounting process).

# Delivering High Quality Public Services

Ministers continue to place great importance on public services managing their resources carefully and actively in order to deliver the best outcomes for people in Scotland. The Scottish Government expects every public body to deliver efficiency savings of at least three per cent during the course of 2019-20 and to report publicly on the action undertaken and the results achieved in accordance with duties set out in section 32 of the Public Services Reform (Scotland) Act 2010. All efficiency savings are available to be reinvested in SNH.

In considering options for delivering efficiencies, your organisation is encouraged to engage with other Environment and Economy Leaders’ Group public bodies (or other public bodies), to consider where a joint approach to efficiencies can be taken which also supports improved delivery and organisational effectiveness.

SNH should also maintain a strong commitment to its climate change duties in Part 4 of the Climate Change (Scotland) Act 2009 (this includes meeting the requirements of the Climate Change (Duties of Public Bodies: Reporting Requirements) (Scotland) Order 2015), and ensure it fulfils its duty under section 36 of the Wildlife and Natural Environment (Scotland)

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Act 2011 with respect to reporting on the actions it has taken to further the conservation of biodiversity.

Also important to the Scottish Government 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 National Outcomes directly relevant to the organisation’s remit. SNH will also be expected to maintain its active participation in the Environment and Economy Leaders’ Group by contributing to the delivery of the Group’s work plan.

# Digital Services

“[Realising Scotland’s full potential in a Digital World](https://www.gov.scot/publications/realising-scotlands-full-potential-digital-world-digital-strategy-scotland/) sets out the actions for Scotland including public bodies. In particular, the Cabinet Secretary confirms in the strategy that we will create the conditions which encourage continuous innovation and improvement in our public services. The approach demands that we collectively simplify and standardise ways of working across the public sector and deploy common technologies that can be built and procured once. In addition, we will create common digital platforms for services that will encourage Scottish public and voluntary sector organisations to innovate in the delivery of public services, and make better use of cloud-based solutions -cost reduction and service innovation.

All bodies should be aware of the Scottish Government [Technology Assurance Framework](https://resources.mygov.scot/standards/technology-assurance-framework/), which is mandatory and applies to new digital public services and new investments in technology. Please contact the Office of the Chief Information Officer if you would like to discuss the application of technology assurance within your organisation.

# Issues Arising

If you have any questions on your budget allocation, or if you foresee any financial issues developing in the course of the year, please do not hesitate to contact your sponsor team. The sponsor team will, where necessary, consult relevant Scottish Government Finance colleagues and take advice from me as SNH’s sponsor Deputy Director or from Bridget Campbell as sponsoring Director.

Yours sincerely,

Keith Connal Deputy Director, Natural Resources Division signature


# Keith Connal

**Deputy Director, Natural Resources Division**

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