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| Environment and Forestry DirectorateNatural Resources DivisionE: Cate.Turton@gov.scot |  |
| Francesca Osowska Chief Executive NatureScotGreat Glen House Leachkin Road InvernessIV3 8NW |  |

8 April 2022

Dear Francesca,

# BUDGET ALLOCATION AND MONITORING 2022-23

**Purpose**

I am writing, on behalf of the Scottish Ministers, to confirm the budget and associated grant in aid allocated to NatureScot for 2022-23 following the 2022-23 Scottish Budget process, to complete and submit details of proposed budget planning and drawdown information as well as set out arrangements for monitoring the budget and to provide guidance on related matters.

The use of resources must be in accordance with the agreed Corporate and Annual Operating Plans, NatureScot Framework Document and any relevant guidance issued by the Scottish Ministers, in particular the Scottish Public Finance Manual.

Relevant guidance may also include the setting out, from time to time, of expectations for the way that NatureScot operates in support of Ministers’ policy aims and objectives for the public sector as a whole.

# Ministerial Priorities

NatureScot programmes and priorities for 2022-23 should continue to have a strong focus on delivery of the [National Performance Framework (NPF)](https://nationalperformance.gov.scot/), in particular the Purpose and the National Outcomes that are relevant to the NatureScot’s remit. NatureScot should continue to support the Net Zero, Energy and Transport portfolio’s overarching aim to protect and promote Scotland’s environment and to build a strong and sustainable net-zero, nature positive, economy.

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Grant-in-aid is paid to enable NatureScot to fulfil its statutory functions and to deliver Scottish Ministers' strategic objectives which underpin their core purpose through the delivery of priorities as set out in the organisation’s agreed Corporate Plan and Annual Business Plan.

In delivering those plans, NatureScot 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

This section sets out the initial allocation per HM Treasury (HMT) classification. The 2022-23 allocation for NatureScot as shown in the Budget Act in terms of grant in aid is:

|  |  |  |
| --- | --- | --- |
|  | £000s | Notes |
| Resource | 45,611 |  |
| Capital | 1,800 |  |
| Financial Transactions | 0 |  |
| Total | 47,411 |  |
| Non-Cash | 2,150 |  |
| UK Funded AME | 0 | ⑤ |
| Total budget | 49,561 |  |

 Resource spend scores most current expenditure. It comprises wages and salaries and operating costs offset by trading and other resource income.

 Capital spend comprises both Indirect Capital (capital grants to the public and private sector) and Direct Capital (additions to non-current assets and intangibles, offset by the net book value of expected disposals).

 Financial Transactions comprises loans given which must go “beyond the public sector boundary” to individuals or entities in the private sector.

 Non-cash comprises both Ringfenced funding (mainly depreciation) and SG AME Non-Cash (mainly provisions; other examples include pension liabilities, capitalised interest). The non- cash element of funding cannot be used for general expenditure.

⑤ UK Funded AME is only provided for specifically agreed items. The main examples are Lottery income and expenditure, some pension liabilities and Corporation Tax.

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

Your revised trading and other resource income is estimated at £3.000m and the assumed net book value of disposals of non-current assets is £0.916m. 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 approval and discuss the financial impact with the sponsor team before using any excess to support additional expenditure.

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# Budget changes

The Scottish Government is responsible for ensuring that the overall Scottish budget is managed effectively and within the limits set by the Scottish Parliament and HMT. Core Scottish Government Directorates and sponsored/arms-length bodies, such as NDPB’s, must therefore comply with the Scottish Public Finance Manual. This includes completion of the Accountable Officer template in support of robust decision making, including assessment of value for money and affordability, including ensuring adequate audit trails and evidence are available to support transparency and public scrutiny for spending decisions.

# Budget Scoring and IFRS 16

IFRS 16 Leases is being implemented from 1 April 2022. This potentially changes the accounting treatment of leases held by public bodies, both as a lessee and a lessor. The budget position in the table above excludes transition to IFRS 16, and is written under the basis of the previous lease treatments described by IAS 17. Transition arrangements are being agreed with HMT and the final budget reclassifications will be confirmed after receipt of the UK Main Estimates. We expect to include budget reclassifications to public bodies who require them as part of the Autumn Budget Revision.

# Budget Revisions

Ministers have to manage the Scottish budget in the light of pressures and savings that may arise during the financial year and NatureScot 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.

Any agreed budget revisions will be processed through the Autumn and Spring Budget Revisions which are presented to Parliament during the financial year.

# 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/Actual Expenditure HMT monitoring spreadsheet issued each month. A completed spreadsheet providing the position at the end of the financial year 2022/23 should be submitted to the sponsor team by as soon as possible in April 2023 (subject to deadlines Scottish Government Finance need to set in relation to the end-year accounting process).

It is essential that this exercise is completed each month and submitted to the sponsor team by the dates advised to allow the sponsor team and SG Finance to fully evaluate returns.

This information is required for submission to SG DG Assurance Boards and SG Corporate Board for their considerations of the overall SG financial position and also for required reporting to HMT.

# 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

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required to support agreed budgets. The authorised cash grant in aid for NatureScot for 2022-23 is **£47.411 million**. Grant in aid should be (re)profiled and drawn down using the relevant spreadsheet in the attached Excel workbook, Annex B. A profile has been provided with NatureScot’s first grant claim for 2022-23 and you should thereafter submit an updated profile to the sponsor team by no later than **25th day of each month** as part of subsequent claims, 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 (setting aside historic reserves).

The updated profiles will be used for monthly cash management forecasts provided to HMT 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 day** 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 NatureScot will formally agree the total grant in aid attributable to that particular period. It is important to maintain a reconciliation of grant in aid against HMT budgets.

# Specified Expenditure

NatureScot’s grant in aid includes provision for the Scottish Government’s funding of the Joint Nature Conservation Committee (JNCC). Although NatureScot has set out its spending plans for this financial year, similar to recent years, we are yet to be advised by Defra on the level of contribution that the Scottish Government will be expected to make. However, early indication suggests that the overall contribution to the JNCC for 2022-23 by Defra and Devolved Administrations will change from 2021-22 contribution. NatureScot should therefore plan for a contribution to JNCC’s Grant in Aid of a minimum of £1.117 million from the provision within its 2022-23 budget. This is subject to final confirmation and Ministerial agreement. As with previous years, the expectation is that up to £0.099m (to be confirmed) of the 2022-23 JNCC contribution will continue to be retained by NatureScot to fund the provision of advice on off-shore marine renewable developments in Scotland previously undertaken by JNCC. If JNCC fail to draw down all the remaining balance of £1.018m (to be confirmed), grant in aid figures will be reduced accordingly.

It has been agreed by the Scottish Government’s Agriculture Policy Division that for 2022-23 NatureScot can retain its annual contribution of £1.5 million towards the Scottish Rural Development Programme. This should be used to support the National Test Programme and development of the Biodiversity Audit, the scaling up of the Natural Capital Pilot Programme (NCAPP) (particularly Piloting an Outcomes Based Approach (POBAS) and development of the Biodiversity Audit), and the partnership to deliver the Agri-Environment Climate Scheme (AECS).

# Financial challenges

NatureScot should continue to assess the financial challenges that will need to be managed within the budget settlement for 2022-23, and prioritise its resources in order to achieve the objectives of the organisation’s Corporate Plan and deliver its Annual Operating Plan, meet

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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. NatureScot 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 2022-23 to enable the organisation to continue to contribute to Scottish Government objectives in the most effective and efficient way possible.

# Delivering High Quality Public Services

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

Of on-going importance to the Scottish Government is NatureScot’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

NatureScot 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. NatureScot 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.

# 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. The sponsor team will, where necessary, consult relevant Scottish Government Finance colleagues.

Yours sincerely,



# Cate Turton

**Deputy Director, Natural Resources Division Annexes:**

A – Detailed Budget allocation per HMT classification

B – Grant in Aid profile and drawdown - spreadsheet (accompanying letter)

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# ANNEX A

**DETAILED BUDGET ALLOCATION 2022-23**

|  |  |  |
| --- | --- | --- |
|  | *Budget on**HMT**database* | *HMT**Classification\** |
|  | *£000s* |  |
| Wages and salaries | 28,058 | Resource |
| (Gross) Operating costs | 20,553 | Resource |
| Trading and other resource income (negative) | (3,000) | Resource |
| Depreciation | 2,150 | Non-CashRingfenced |
| Amortisation | 0 | Non-CashRingfenced |
| Impairment | 0 | Non-Cash Ringfenced |
| Provisions | 0 | AME Non-Cash |
| Accruing pension liability | 0 | Non-Cash (UK Funded AME) |
| Capital grants | 0 | Capital |
| Capital additions to non-current assets (including investments) | 2,716 | Capital |
| Net book value of disposals of non-currentassets (including investments) (negative) | (916) | Capital |
| Loans to the private sector | 0 | Financial Transactions |
| Total net expenditure (as recognised by HMT) | 49,561 |  |

\* For a full explanation of HM Treasury’s budgeting rules see the current version of [Consolidated budgeting guidance.](https://www.gov.uk/government/collections/consolidated-budgeting-guidance)

Any accruals for staff benefits will score as DEL, in line with the latest guidance from Treasury with their PES Paper (2020) 08.

Non cash budgets are ring fenced 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.

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