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| Environment and Forestry DirectorateNature DivisionE: DDND@gov.scot |  |
| Francesca Ososwka OBE Chief Executive NatureScotGreat Glen House Leachkin Road InvernessIV3 8NWVia e-mail: ceo@nature.scot |  |

23 April 2024 Dear Francesca,

# BUDGET ALLOCATION AND MONITORING 2024-25

**Purpose**

I am writing, on behalf of the Scottish Ministers, to confirm the budget and associated grant in aid allocated to NatureScot for 2024-25 following the 2024-25 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 corporate plan, NatureScot’s 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 2024-25 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 NatureScot’s remit. NatureScot should support the overarching aims of the Wellbeing Economy, Net Zero and Energy and the Rural Affairs, Land Reform and Islands portfolios to protect and promote Scotland’s environment and to build a strong and sustainable net-zero, nature positive, economy.

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 2022-26 and Annual Business Plan 2024-25.

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.

Finally, as discussed in the meeting of 25 January 2024 with Director for Environment and Forestry (EnFor), 5% of the resource budget for 2024-25 should be used to deliver initiatives that will yield long term efficiencies in 2025-26 and beyond. This should be built into your Business Plan and should be costed. The initiatives are not prescriptive, but could include, for example, initiatives aligned to Public Service Reform, more efficient service delivery or restructuring. Your planning could allow for contributions towards shared priorities and initiatives as identified through the Environmental Public Services Review commissioned by the Economy and Environment Leadership Group.

# Budget

This section sets out the initial allocation per HM Treasury (HMT) classification and represents the budgetary position as set out in the overall Scottish Government Budgetary process. The 2024-25 allocation for NatureScot as shown in the Budget Act in terms of grant in aid is:

|  |  |  |
| --- | --- | --- |
|  | £000s | Notes |
| Resource | 55,602 |  |
| Capital | 7,598 |  |
| Financial Transactions | 0 |  |
| **Total SG Funded AME** | **63,200** |  |
| Non-Cash (including IFRS 16 AME Depreciation) | 2,409 |  |
| UK Funded AME | 0 | ⑤ |
| **Total budget** | **65,609** |  |

 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, also capital leases additions which are ringfenced).

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

 Non-cash comprises Ringfenced funding (mainly depreciation). Non-cash elements of funding cannot be used for general expenditure.

⑤ UK Funded AME (Annually Managed Expenditure) is only provided for specifically agreed items. The main examples are provisions, impairments, capitalised interest, some pension liabilities and Corporation Tax.

Similar to last year, this allocation includes baseline transfers from Nature Division’s and Marine Directorate’s programme budgets. These are set out at Annex B.

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 revised trading and other resource income is estimated at **£5.702 million** and the assumed net book value of disposals of non-current assets is **£0.035 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 approval and discuss the financial impact with the sponsor team before using any excess to support additional expenditure, complying with relevant Scottish Government spending controls as required.

# Budget Scoring and IFRS 16

IFRS 16 Leases was implemented from 1 April 2022. This changed the accounting treatment of leases held by public bodies, both as a lessee and a lessor. From 2024-25, budget requirements for accounting for leases under IFRS 16 have been included in the baseline budget, if applicable.

Cash drawdowns will be required for the regular lease payments, therefore the following table shows a reconciliation of budget position to working capital requirements.

|  |  |
| --- | --- |
|  | £000s |
| **Total Budget** | **65,609** |
| Less Non-Cash budget\* | (2,409) |
| Less UK Funded AME budget | 0 |
| Less Capital for new leases | (798) |
| Less Resource Interest on leases | (15) |
| Add contracted lease payments | 613 |
| **Total cash requirement** | **63,000** |

\*including IFRS 16 AME Depreciation of £46k

# 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 NDPBs, must therefore comply with the Scottish Public Finance Manual. This includes adherence to any in-year financial management and governance controls, such as Accountable Officer spending controls, and ensuring appropriate assessment of value for money and affordability is undertaken, and that adequate audit trails and evidence are available to support transparency and public scrutiny for spending decisions.

# 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 Monitoring spreadsheet issued each month in line with the budget monitoring timetable. A completed spreadsheet providing the position at the end of the financial year 2024-25 should be submitted to the sponsor team in April 2025, in line with year-end deadlines set by Scottish Government Finance.

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 meetings 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 required to support agreed budgets. The authorised cash grant in aid for NatureScot for 2024-25 is **£63.000 million**. Grant in aid should be (re)profiled and drawn down using the relevant spreadsheet in the Excel workbook accompanying this letter. An initial profile has been provided with NatureScot’s first grant in aid claim for 2024-25 and you should thereafter submit an updated profile to the sponsor team by no later than **25th of each month** as part of the grant claim, 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 **7th 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. For the interim, NatureScot should plan for a contribution to JNCC’s Grant in Aid of at least the same level as 2023-24 from the provision within its 2024-25 budget. This should include the additional

£0.139m funding the Scottish Government has allocated (as a baseline transfer) to cover the increased costs of JNCC’s species surveillance scheme work. 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 2024-25 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.

In previous years, NatureScot made a contribution of up to £1.5 million each year to the administration of the Scottish Rural Development Programme’s (SRDP) Agri-Environment Climate Scheme (AECS) and to fund the Farming with Nature Programme. In October 2023, ARE Director, George Burgess, confirmed this allocation could be retained by NatureScot and would no longer be a requirement of the Scottish Government’s Agricultural budget. This recognises NatureScot’s role in the post-SRDP agricultural support framework for nature restoration and recovery, including the organisation’s on-going support through the Farming with Nature Programme.

# Financial challenges

NatureScot should continue to assess the ongoing financial challenges that will need to be managed within the budget settlement for 2024-25, and prioritise its resources in order to achieve the objectives of the organisation’s Corporate Plan and deliver its Annual 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. 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 2024-25 to enable the organisation to continue to contribute to Scottish Government objectives in the most effective and efficient way possible.

# Public Service Reform

With the uncertainties and constraints in the economic and fiscal outlook, the Scottish Government continues to looks to NatureScot to maintain its contribution towards the commitment to drive forward public service reform. This has already been set out above by means of the 5% resource efficiency savings expected in-year which should be reinvested into future planning, streamlining and building resilience within NatureScot and across EnFor Bodies. Public bodies are expected to test and exhaust all options for efficiency savings.

# Working collaboratively

NatureScot should continue to proactively seek opportunities for effective strategic engagement with public, private and third sector partners to deliver key priorities and efficiencies that support the achievement of National Outcomes directly relevant to the organisation’s remit. NatureScot is also expected to continue its positive participation in the Environment and Economy Leaders’ Group by contributing to the delivery of the Group’s work plan, including support for Scottish Government initiatives on public service reform.

# 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, Nature Division**

***For and on behalf of Scottish Ministers***

# Annexes:

A – Detailed Budget allocation per HMT classification

B – Baseline transfers to NatureScot’s Budget

C – Grant in Aid profile and drawdown spreadsheet – accompanying letter

# ANNEX A

**DETAILED BUDGET ALLOCATION 2024-25**

|  |  |  |
| --- | --- | --- |
|  | *Budget on HMT**database* | *HMT**Classification\** |
|  | *£000s* |  |
| Wages and salaries | 37,533 | Resource |
| (Gross) Operating costs | 23,771 | Resource |
| Trading and other resource income (negative) | (5,702) | Resource |
| Depreciation | 2,363 | Non-Cash Ringfenced |
| Amortisation | X | Non-Cash Ringfenced |
| Impairment | X | Non-Cash Ringfenced |
| IFRS 16 AME Depreciation – Peppercorn Leases | 46 | AME Non-Cash |
| Accruing pension liability | 0 | Non-Cash (UK Funded AME) |
| Capital grants | 5,000 | Capital |
| Capital additions to non-current assets (including investments) | 2,633 | Capital |
| Net book value of disposals of non-current assets (including investments) (negative) | (35) | Capital |
| Loans to the private sector | 0 | Financial Transactions |
| Total net expenditure (as recognised by HMT) | 65,609 |  |

\* 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.

**ANNEX B**

**Baseline transfers from Nature Division’s and Marine Scotland’s programme budgets.**

|  |  |  |  |
| --- | --- | --- | --- |
| **Baseline Transfer** | **From SG Budget** | **2024-25****Resource (£k)** | **2024-25****Capital (£k)** |
| Nature Restoration Fund | Nature Division | 1,750 | 5,000 |
| JNCC – species surveillance scheme |  | 140 |  |
| SE Link |  | 50 |  |
| TCV Scotland |  | 170 |  |
| Scottish Biodiversity Information Forum data |  | 85 |  |
| Species on the Edge programme |  | 100 |  |
| African/Eurasian Waterbird Agreement |  | 25 |  |
| Goose management (Orkney) |  | 25 |  |
| Scotwind licensing | Marine Directorate | 1,750 |  |
| **TOTAL** | **4,095** | **5,000** |