

Dr Ian Jardine
Chief Executive,
Scottish Natural Heritage
Great Glen House
Leachkin Road
Inverness
IV3 8NW

Our ref: A14142994
29 April 2016

Dear Ian,

BUDGET ALLOCATION AND MONITORING: 2015-2016

Purpose

I am writing, on behalf of the Scottish Ministers, to confirm the final budget and associated grant in aid allocated to Scottish Natural Heritage (SNH) for 2015-2016. This letter also confirms the arrangements for monitoring the budget and for (re)profiling and drawing down grant in aid that have been in place during the year. The use of resources must have been 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.

Budget

SNH's detailed (original) budget for 2015-16, disaggregated in terms of the relevant expenditure classifications on the HM Treasury database, is shown in **Annex A**. The final budget position, taking into account in-year adjustments to the budget, in summary is:

	£000s	Notes
Resource DEL	50,036	① ②
Ring-fenced (or "non cash") DEL	3,080	① ③
Capital DEL	1,200	① ④
Total DEL	54,316	①
Expenditure classed as AME	0	⑤
Total budget	54,316	

- ① 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.
- ② Comprises wages and salaries and operating costs offset by trading and other resource income.
- ③ Ring fenced DEL comprises depreciation, amortisation and impairment (if it does not qualify as AME – see below).
- ④ Comprises capital grants and additions to non-current assets offset by the net book value of disposals of non-current assets.
- ⑤ 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 **£2.8 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 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 JNCC. The agreed level of contribution for 2015-16 is **£1.283m**. If JNCC fail to draw down the full amount, grant in aid figures will be reduced accordingly. SNH’s agreed contribution towards the Scottish Rural Development Programme for 2015-16 is **£1.5m**.

A cash provision of up to a maximum of **£0.063 million** is available in 2015-16 to meet additional costs incurred as a direct result of the relocation of SNH’s headquarters to Inverness.

It has been agreed that SNH can incur expenditure, classed as Annually Managed Expenditure (AME), up to **£0.343 million** in 2015-16. This relates to the estimated value of impairments on works of art at Kinloch Castle, Isle of Rum which is owned by SNH; and the impact of certain provision movements

HM Treasury Budget Monitoring

We are grateful for the monthly reporting of forecast outturn and spend to date for the financial year. A completed spreadsheet providing the position at the end of the financial year (31 March 2016) should be submitted to the sponsor team by no later than 6 May 2016. A final outturn return will also be required following the completion of the audit of SNH’s accounts.

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 had to be made I have endeavoured to keep you informed of Ministers' intentions and give you the opportunity to comment.

Some specific revisions to SNH's baseline budget, which have been agreed during the year are:

- **£2.160 million** to support peatland restoration by providing advice to land managers and developing demonstration sites (the remaining £1.190m of £3.350m allocated to fund a peatland action scheme administered by SNH in 2015-16 was transferred to Forest Enterprise Scotland to support a programme of peatland restoration on land it manages);
- **£0.100 million** to fund deer management groups
- **£0.100 million** to fund goose management schemes
- **£0.194 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;
- **£0.076 million** to fund staff costs on Scottish Marine Protected Areas Network and costs of survey work in Sound of Barra
- **£0.054 million** to fund work on an assessment of national coastal change in Scotland
- **£0.038 million** to core fund Scottish Environment LINK.

These transfers to SNH's budget for 2015-16 took place at Autumn and Spring Budget Revisions following Parliamentary approval. They are set out in more detail in Annex B, together with other adjustments to SNH's budget.

Whilst no adjustment has been made to SNH's Ring-fenced DEL budget, it is acknowledged that SNH's forecast outturn of £1.865m against this non-cash budget is expected to be significantly less than its allocation for 2015-16.

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 2015-16 is **£51.236 million**. However, it has been agreed that SNH will draw down as cash grant in aid all but £0.650m of the revised Resource DEL budget allocation and all but £0.100m of the Capital DEL budget allocation. This is to enable these funds to be redeployed to other areas of priority work within the Scottish Government. These amounts can therefore be discounted from any underspend arising against SNH's revised Resource DEL and Capital DEL budget allocations at the end of the financial year.

We are grateful for the submission of updated spreadsheets to the sponsor team as part of monthly budget monitoring each month which provided 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 have been used for monthly cash management forecasts provided to HM Treasury and as the basis for the payment of grant in aid. The sponsor team have made payments of grant in aid on or as near to the 5th of each month and on the basis of grant in aid not being drawn down in advance of need. As with previous years, unrestricted cash reserves held during the course of the year should have been 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](#) (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, please do not hesitate to contact me or the sponsor team. The sponsor team will, where necessary, consult relevant Scottish Government Finance colleagues.

Yours sincerely,



Keith Connal
Deputy Director, Natural Resources Division

SCOTTISH NATURAL HERITAGE (SNH): DETAILED BUDGET ALLOCATION 2015-2016

Original Budget

	<i>Budget on HMT database</i>	<i>HMT Classification*</i>
	<i>£000s</i>	
(Gross) Operating costs	51,614	RDEL
Trading and other resource income (negative)	(2,800)	RDEL
Depreciation/Amortisation	3,080	Ring-fenced RDEL
Accruing pension liability (where agreed as being classified 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)	1,235	CDEL
Net book value of disposals of non-current assets (including investments) (negative)	(35)	CDEL
Total net expenditure (as recognised by HMT)	53,094	

* For a full explanation of HM Treasury's budgeting rules see the current version of [Consolidated Budgeting Guidance](#). "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.

SCOTTISH NATURAL HERITAGE (SNH): BUDGET ALLOCATION 2015-16 – ADJUSTMENTS MADE AT AUTUMN AND SPRING BUDGET REVISIONS

Adjustments at Autumn Budget Revisions

	£000s
Resource DEL (original)	48,814
<ul style="list-style-type: none"> • Transfer to SNH to fund work on and administration of the Scottish Government Peatland Action Fund to deliver peatland restoration, conservation and management • Transfer to SNH to part fund a grant award to TCV Scotland to be administered by SNH to help deliver objectives for environmental volunteering and participation in the outdoors. • Transfer to SNH to fund deer management groups • Transfer to SNH to fund goose management schemes • Transfer to SNH to fund work on an assessment of national coastal change in Scotland • Transfer to SNH for the core funding of Scottish Environment LINK to be administered by SNH to provide a consolidated input into policy development on behalf of its membership of environmental NGOs 	800 194 100 100 53 38
Resource DEL (revised)	50,099

Adjustments at Spring Budget Revisions

	£000s
Resource DEL (revised)	50,099
<ul style="list-style-type: none"> • Transfer to SNH to fund work on and administration of the Scottish Government Peatland Action Fund to deliver peatland restoration, conservation and management • Transfer to SNH to fund staff costs on Scottish Marine Protected Areas Network and costs of survey work in the Sound of Barra • Transfer to SNH to fund work on an assessment of national coastal change in Scotland • Transfer from SNH to Directorate for Agriculture, Food and Rural Communities to contribute to the SRDP to fund the delivery of Rural Priorities Scheme under the Programme for improvements to biodiversity and protected nature sites. 	1,360 76 1 (1,500)
Resource DEL (revised)	50,036