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Our ref: A16826504
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Dear Ian,

BUDGET ALLOCATION AND MONITORING: 2016-17

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 2016-17. 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 should 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 have included 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 2016-17, 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 was:

	£000s	Notes
Resource DEL	44,670	① ②
Ring-fenced (or "non cash") DEL	1,800	① ③
Capital DEL	1,200	① ④
Total DEL	47,670	①
Expenditure classed as AME	192	⑤
Total budget	47,862	

- 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.

SNH’s assumed trading and other resource income was **£3.0 million** and the assumed net book value of disposals of non-current assets was **£0.180 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 2016-17 was **£1.223m**. This represents a modest reduction on the Scottish Government’s planned contribution for this financial year. It was agreed that a proportion of this (£18,000) should be used by SNH to provide additional financial support to the Edinburgh and Lothian Greenspace Trust to enable it to maintain the activities making a particular contribution to Central Scotland Green Network (CSGN) and so ensure the Trust contributes to Programme for Government 2016 commitments with respect to CSGN.

SNH’s agreed contribution towards the Scottish Rural Development Programme for 2016-17 was **£1.5m**.

A cash provision of up to a maximum of **£0.050 million** was available in 2016-17 to meet additional costs incurred as a direct result of the relocation of SNH’s headquarters to Inverness.

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 2017) should be submitted to the sponsor team by no later than the first week of May 2017 (subject to deadlines Scottish Government Finance may subsequently

need to set in relation to the end-year accounting process). 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:

- **£0.400 million** to support peatland restoration as well as capacity building, monitoring and promotion, to help meet commitments to reduce carbon emissions and tackle climate change;
- **£0.180 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
- **£0.055 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 2016-17 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.

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 2016-17 was **£45.870 million**. However, it was agreed that SNH would draw down as cash grant in aid all but **£0.400m** of the revised Resource DEL budget allocation and all but **£0.100m** of the Capital DEL budget allocation. This was 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 and a profile of monthly grant in aid requirements for the remainder of the financial year.

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.

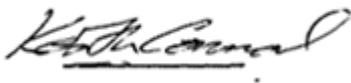
Classification of Functions of Government

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, 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 2016-17

Original Budget

	<i>Budget on HMT database</i>	<i>HMT Classification*</i>
	<i>£000s</i>	
(Gross) Operating costs	48,397	RDEL
Trading and other resource income (negative)	(3,000)	RDEL
Depreciation/Amortisation	1,800	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)	1,380	CDEL
Net book value of disposals of non-current assets (including investments) (negative)	(180)	CDEL
Total net expenditure (as recognised by HMT)	48,397	

* 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 2016-17 – ADJUSTMENTS MADE AT AUTUMN AND SPRING BUDGET REVISIONS

Adjustments at Autumn Budget Revisions

	£000s
Resource DEL (original)	45,397
<ul style="list-style-type: none"> • 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 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 • 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 	180 100 55 38 (1,500)
Resource DEL (revised)	44,270

Adjustments at Spring Budget Revisions

	£000s
Resource DEL (revised)	44,270
<ul style="list-style-type: none"> • Transfer to SNH to fund work on and administration of the Peatland Action Fund to deliver peatland restoration, conservation and management. 	400
Resource DEL (revised)	44,670