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Dear Ian,

BUDGET ALLOCATION AND MONITORING: 2012-2013

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 2012-2013, and to provide guidance on Ministerial priorities for the year ahead. This letter also sets out the arrangements for monitoring the budget and for (re)profiling and drawing down grant in aid. The use of resources must be 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. 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.

Ministerial Priorities

SNH programmes and priorities for 2012-13 should continue to have a strong focus on delivery of the Scottish Government's Purpose and the National Outcomes relevant to the organisation's wider remit, and support the Rural Affairs and Environment portfolio's overarching aim to grow the rural economy through:

- Enhancing our natural resources;
- Supporting renewables;
- Community empowerment; and
- Tackling climate change.

Delivering all this in the face of significant cuts in public expenditure presents an enormous challenge, none more so than for SNH where we acknowledge that it has had to accommodate tough budget settlements over the period from 2010 to 2012. Operating within

a reducing budget (over the next 3 years) will affect what SNH can do as an organisation. It will need to focus on the key priorities that help most to meet its statutory obligations and to deliver the Scottish Government's Purpose.

The work that SNH has undertaken to review its programme delivery has been valuable in prioritising its activities across the organisation's broad remit and is set out in SNH's Corporate Plan 2012-1015, approved by Scottish Ministers on 28 March 2012.

It will be essential for Scottish Government and SNH to maintain their close working relationship and communications during this challenging period to help deliver Ministers' priorities. This will be particularly important during 2012-13 as the newly created Environment and Forestry, and Agriculture, Food and Rural Payments Directorates establish themselves and SNH's organisational restructuring consolidates.

SNH's work to support the delivery of National Outcomes 1, 12, 14 and 16 will provide the main focus for its contribution to achieving the Purpose. The Scottish Government's principal priorities for SNH in 2012-13 are set out in Annex B in terms of these National Outcomes. The benefits of the organisation's work in support of the other National Outcomes are also valuable, in particular 6, 10 and 11, which are acknowledged in the Annex. The Indicators of Success appearing in SNH's Corporate Plan 2012-15 (and replicated in the table in Annex B for ease of reference) have been identified for each of these National Outcomes and will provide the means by which to measure SNH's performance in contributing to their delivery in 2012-13.

It should be born in mind that what is contained in the Annex is not meant to represent a comprehensive list of areas of activity for SNH to take forward during the year. SNH's business plan for 2012-13 will perform that function, providing the necessary level of detail, including targets, to reflect the organisation's wider activities.

Budget

Your detailed budget for 2012-2013, disaggregated in terms of the relevant expenditure classifications on the HM Treasury database, is shown in Annex A. In summary, your budget is:

	£000s	Notes
Resource DEL	53,194	①②
Ring-fenced (or "non cash") DEL	3,080	①③
Capital DEL	1,500	①④
Total DEL	57,774	①
Expenditure classed as AME	0	⑤
Total budget	57,774	

- 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 £1.856m and the assumed net book value of disposals of non-current assets is £0.005m. 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 2012-2013 is £1.487 million. If JNCC fail to draw down the full amount, grant in aid figures will be reduced accordingly. Agreement on SNH's contribution to the Scottish Rural Development Programme (SRDP) in 2012-2013 is currently being finalised, but will be between £1.6 million and £2.0 million.

A provision of up to a maximum of £0.172 million is available in 2012-13 to meet additional costs incurred as a direct result of the relocation of SNH's headquarters to Inverness.

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 in the accompanying Excel workbook. Initial forecasts should be provided **by 13 April 2012** with the spreadsheet being completed and submitted monthly thereafter. Where appropriate (e.g. for depreciation) costs may be calculated on the basis of one twelfth of the budget for each month. A completed spreadsheet providing the position at the end of the financial year (31 March 2013) should be submitted to the sponsor team by **20 April 2013**.

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

Some specific revisions to SNH's baseline budget, which have already been agreed in principle, are:

- £0.050 million to fund work on monitoring beavers on Tayside which forms the first of 3 years of funding totalling £0.150 million that has been agreed by Ministers; and,
- £0.137 million from Marine Scotland to support staff resource costs and work in relation to the Marine Protected Areas project.

In principle agreement has also been reached for Scottish Government to share 50% of the costs for the provision of science and research expertise to SNH until 31 July 2014. Details of the additional resources to be transferred to SNH in 2012-13, 2013-14 and 2014-15 will be dealt with separately to this letter.

We expect these transfers of funds for 2012-13 to take place at Autumn Budget Revision, subject to Parliamentary approval.

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 2012-2013 is £54.694 million. Grant in aid should be (re)profiled and drawn down using the relevant spreadsheet in the accompanying Excel workbook. An initial profile should be provided by **13 April 2012** with the figures being updated monthly, as necessary. You should submit an updated spreadsheet to the sponsor team at the beginning of each month 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.

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 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 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.

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

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

I am copying this letter to Bob McIntosh, Jonathan Pryce, Linda Rosborough, David Wilson and John Mason

Yours sincerely



Keith Connal
Deputy Director, Natural Resources Division

Scottish Natural Heritage (SNH): DETAILED BUDGET ALLOCATION 2012-2013

	<i>Budget on HMT database</i>	<i>HMT Classification*</i>
	<i>£000s</i>	
(Gross) Operating costs	55,050	RDEL
Trading and other resource income (negative)	(1,856)	RDEL
Depreciation/Amortisation	3,080	Ring-fenced RDEL
Accruing pension liability (where agreed as being classed 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)	1,505	CDEL
Net book value of disposals of non-current assets (including investments) (negative)	(5)	CDEL
Total net expenditure (as recognised by HMT)	57,774	

* 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) – STRATEGIC PRIORITIES 2012-13

National Outcome 1 – We live in a Scotland that is the most attractive place for doing business in Europe

In 2012-13, the Scottish Government plans to increase the priority given to securing the opportunities provided by renewable energy as part of its ambitions to become a low carbon economy. Work associated with the **development of renewables, particularly marine energy**, should therefore continue to be regarded as a high priority for SNH. It should contribute environmental expertise to advise Government on how best to achieve Scotland's renewable energy target sustainably, and in a way that gives due consideration to the country's biodiversity and landscape, to relevant European and domestic legislation and to relevant international targets.

SNH should continue to contribute to the implementation of a **modernised planning system to support sustainable economic growth** and ensure that new developments take proportionate account of the natural heritage. We recognise the continuing resource pressures associated with SNH's role as statutory adviser within the planning system. This should be the driver for: more strategic engagement with planners and developers, providing advice at an early stage on major development proposals; the provision of advice that is proportionate and focussed; and placing further emphasis on building capacity in planning authorities.

National Outcome 6 – We live longer, healthier lives

SNH's work with partners to increase participation in **outdoor recreation, volunteering and outdoor learning** also make a significant contribution to National Outcome 6 relating to improving people's health and well being. SNH should pursue key opportunities to **raise awareness about access** and encouraging more visits to the outdoors, especially Scotland's protected places.

National Outcome 10 & 11 –

10. We live in well-designed, sustainable places where we are able to access the amenities and services we need

11. We have strong, resilient and supportive communities where people take responsibility for their own actions and how they affect others

SNH's work on taking forward the development of the **Central Scotland Green Network (CSGN)** in partnership with FCS will be a valuable contributor to the delivery of National Outcomes 10 and 11. A key factor for SNH will be to maintain the involvement of Central Belt local authorities in the national initiative against a background of budget reductions. SNH should continue to use Community Planning Partnerships and Single Outcome Agreements as the primary mechanism for engaging with local authorities and communities to deliver a range of benefits for people and nature.

National Outcome 12 – We value and enjoy our built and natural environment and protect it and enhance it for future generations

The conservation of Scotland's biodiversity should be an intrinsic part of all the work SNH does and in partnership with the public, private and third sectors. The ecosystem approach should continue to provide a strong basis for much of the organisation's work across all of its programmes.

A key priority for SNH therefore will be to lead on the development and adoption of a refreshed **Scottish Biodiversity Strategy (SBS)** to deliver Scotland's biodiversity targets and fulfil the country's contribution to the UN Convention on Biological Diversity (CBD). The Strategy should support mainstreaming biodiversity considerations into land use and development policies, and include measures for ecosystem health that support the establishment of the National Ecological Network, in which SNH is a lead partner, and build natural capital. SNH's involvement in refocusing local action from Local Biodiversity Action Partnerships (LBAPs) to help deliver biodiversity actions in line with the refreshed SBS will be an important factor in meeting the target to halt biodiversity loss by 2020.

Improving the condition of Scotland's **protected nature sites** remains a priority area of work for SNH in view of their importance in helping to meet biodiversity targets and having a positive effect on the local economy. SNH should complete the project to develop a coherent, integrated and strategic approach to the planning, management and implementation of its role as lead delivery partner of favourable condition for protected sites in Scotland. The strategic approach should be implemented in 2012-13 and aimed at bringing the natural features of SSSI and Natura sites into, and maintaining them in, favourable condition for the foreseeable future at a sustainable level of cost.

Delivering the current **SRDP Rural Priorities Scheme** should remain a priority for SNH, working closely with Scottish Government and Forestry Commission Scotland. This should include continuing to provide advice and guidance to help land managers contribute to the achievement of national outcomes through SRDP. SNH will be expected to engage fully in the development and implementation of the next SRDP, pursuing simpler and more flexible environmental measures. Agreement on SNH's financial contribution to the Programme in 2012-13 is currently being finalised, but will be between £1.6 million and £2.0 million.

SNH will be expected to continue its supporting role to help deliver the Land Use Strategy, in partnership with other public bodies, and to work with Scottish Government to influence the Common Agricultural Policy (CAP) reform.

SNH should continue integrating the **new functions and duties of the Wildlife and Natural Environment Act 2011** to help deal with some of the most pressing issues in Scotland's countryside in order to maximise the associated environmental and economic benefits, while minimising irresponsible or damaging practice. Taking forward work associated with: deer management; Invasive Non-Native Species; wildlife crime and delivering a customer focused **wildlife licensing service** should therefore be a priority for SNH in 2012-13.

SNH should also ensure a full evaluation of its merger with Deer Commission for Scotland is completed and laid in the Scottish Parliament in 2012.

Scottish Government's marine policy commitments remain a high priority for Ministers. **Promoting sustainable offshore wind and marine renewable developments**, establishing marine planning and taking forward **marine nature conservation work** are all priorities that will place significant demand on SNH's capacity in 2012-13. We value highly SNH's ongoing input to marine policy including their work towards identification of a suite of **Marine Protected Areas** by end of 2012. It will be more important than ever for SNH, Marine Scotland and JNCC to work closely in order to ensure that resources, capacity and expectations are agreed and managed across the organisations to enable efficient and effective delivery of Ministerial priorities in relation to Scotland's coasts and seas.

National Outcome 14 – We reduce the local and global environmental impact of our consumption and production

SNH should maintain its role in guiding the management of the natural heritage in a way which best responds to **impacts and implications of climate change**. It should continue its work to prioritise those ecosystems, habitats and species that are most sensitive and vulnerable to these changes, and take actions which support Scotland's ambition for a low carbon economy, specifically developing natural capacity for long-term carbon storage in peatland, soil and marine systems.

We look to SNH to maintain its high level of compliance and good greening practice for other organisations to follow in order to demonstrate its leadership and strong commitment to its climate change duties.

National Outcome 16 – Our public services are high quality, continually improving, efficient and responsive to local people's needs

The changes that SNH has made – in terms of restructuring and moving to a programme based approach – and plans to make about how it undertakes its work are evidence of the organisation's positive response to Ministers' commitments to **public service reform**. In 2012-13, SNH should contribute to fulfilling these through:

- Continuing to play a full and active part in the SEARS partnership and maintaining constructive and effective engagement with its stakeholders and partners across all its programmes in order to help deliver natural heritage objectives;
- Ensuring staff are motivated, supported and have opportunities to learn and develop;
- Continuing to apply Best Value principles to its business activities and to improve service delivery;
- Maintaining the organisation's success in delivering annual efficiency savings, as well as continuing to track improving efficiency across its work programmes; and,
- Supporting preventative spend, for example, through work programmes directly involved in enhancing health and avoiding environmental damage

SNH Indicators of Success 2012-13

The operating framework for SNH is provided by the Government Economic Strategy (published 12 September 2011, the Spending Review 2011 (published on 21 September 2011) and National Outcomes and Indicators underpinning the National Performance Framework (published on 14 December 2011).

National Outcomes	National Performance Indicators - SNH reportable	Indicators of Success 2012/13
1. We live in a Scotland that is the most attractive place for doing business in Europe		<ul style="list-style-type: none"> Promote sustainable development through recognition of natural asset values in the refreshed National Planning Framework and ensuring supporting published guidance for renewable energy development continues to meet customer needs.
6. We live longer, healthier lives	Increase people's use of Scotland's outdoors	<ul style="list-style-type: none"> Deliver new recreational, volunteering & outdoor learning opportunities, particularly targeted at young people and under-represented groups, to contribute to increasing people's use of Scotland's outdoors.
10. We live in well-designed, sustainable places where we are able to access the amenities and services we need		<ul style="list-style-type: none"> Support the work of Community Planning Partnerships, measured by our level of engagement and use of the suite of local outcome indicators for the environment in future single outcome agreements. Lead, with FCS, the development of CSGN, measured by progress on delivering key commitments.
11. We have strong, resilient and supportive communities where people take responsibility for their own actions and how they affect others		<ul style="list-style-type: none"> More people will be taking active steps to help look after the environment, measured by their involvement in volunteering in the outdoors (including "citizen science"), other pro-environment behaviours, and in planning and managing their local environments.
12. We value and enjoy our built and natural environment and protect it and enhance it for future generations.	Improve the condition of protected nature sites Increase the abundance of terrestrial breeding birds: Biodiversity	<ul style="list-style-type: none"> Secure a growth in positive management of the natural heritage with a particular emphasis on increasing the number of rural development contracts under RP09 that replace Natural Care management schemes. Submit proposals to Ministers on the number and location of nature conservation Marine Protected Areas

<p>14. We reduce the local and global environmental impact of our consumption and production</p>	<p>(Reduce Scotland's carbon footprint)</p>	<ul style="list-style-type: none"> • Reduce the local and global environmental impact of our consumption and production by beating your 4% target for Carbon Management Plan
<p>16. Our public services are high quality, continually improving, efficient and responsive to local people's needs</p>		<ul style="list-style-type: none"> • By further development of SNH's web services and sharing our data with other organisations we will increase the species and environmental information available to the public

