

NATURAL ENGLAND BOARD



Meeting # 1
17 October 2006

Item M3

Title: Financial Report

Purpose

The purpose of this report is to update Board members on:

- Our current assessment of Natural England's budget position for 2006/7 and 2007/8 and the key financial pressures faced by Natural England
- The financial position at 31 August and forecast to 30 September 2006.

Recommendations

It is recommended that the Board note our assessment of the current financial position for Natural England.

Background - Budget Position 2006/7 & 2007/8

At the Board meeting on 13 September, Board members received an update on the budget position for 2006/7 and the key financial pressures faced by Natural England. As a result of these pressures, Natural England and the founding bodies were unable to lift the moratorium on all uncommitted spend until funding solutions were in place to manage back the forecast overspend.

We have been working closely with officials in our sponsoring Directorate Living, Land and Seas who have now agreed to fund the following pressures:

- £4.5m of additional delivery costs within Rural Development Service (RDS)
- £4.1m unbudgeted Corporate Services costs in the Countryside Agency (CA)
- Around £0.3m in non-recoverable VAT relating to RDS that can no longer be recovered due the Natural England's Vat status.

On 20 September, the Chair and Chief executive met the Minister, Barry Gardiner, to consider not only the budget for 2006/7 but also to take a preliminary view on the budget for 2007/8. The Minister was concerned about Natural England's position on the budget cuts and, while there was no possibility of reversing the £12.9m cut for 2006/7, he agreed in principle to reinstate that cut in 2007/8 subject to an offset of £6.5m for efficiencies assumed in the Natural England Business case. In addition, the minister agreed that costs and efficiencies estimated at around £2m relating to Genesis would be identified as an addition to the base budget for 2007/8.

A series of meetings have been held with senior officials in both Living Land & Seas and central finance team to agree resolution of the outstanding budget issues for 2006/7 and agree a budget for 2007/8 ahead of the official Natural England launch on 11 October when the Secretary of State is due to make a public statement.

An agreement has been reached in principle on IBM E-nabling and shared services that these services should be budget – neutral i.e. should prices for these services be greater than current budget provision, then Defra finance will cover the additional charges once these are known. On the matter of VAT becoming unrecoverable to Natural England as an NDPB, Defra finance have agreed to cover this VAT (around £2.2m in 2006/7) should recovery not be possible though a range of solutions which are currently being pursued. On the transfer of budget for RDS corporate Services costs we have agreed in principle £16.4m against the original budget of £16.6m. We are working hard to secure an agreement on all budget issues before the launch on the 11 October which can be reflected in an exchange of letters between the Secretary of State and the Chair. An update will be given at the Board Meeting.

On the basis that the pressures are resolved by the launch, then we will be able to lift the moratorium and agree the allocation of remaining uncommitted programme funds. In addition, we have been advised that the 2-year £1.85m bid to Ben Bradshaw, Minister for Local Environment, Marine & Animal Welfare, for the survey programme to underpin establishment of the Marine Protected Areas network has been agreed.

Financial Position at 31 August and Forecast to 30 September 2006

Annex 1 sets out a summary financial statement for the founding bodies and a consolidated position for Natural England for the five months to 31 August and a forecast for the 6 months to 30 September 2006. These figures are the most up to date information available. The accounts for the founding bodies to the 30 September are currently being prepared. The National Audit Office will carry out the final audit of the pre vesting results in late October/ November.

The key messages are largely unchanged from July.

Performance against Budget

- Year to date (YTD) running costs, mostly pay, are on budget overall. Rural Development Service (RDS) is overspending on temporary staff to cover Environmental Stewardship processing, but this is offset by savings on unfilled posts in Countryside Agency (CA). The half-year forecast has fallen from £63.7m in July to £61.6m.
- YTD Programme costs are running £9.3m (28%) below budget due to a mix of budget uncertainty and slippage on the programme. English Nature (EN) is broadly on budget, with CA and RDS well behind. The underspend is expected to decrease to £8m (20 %) at 30 September.
- YTD income is £0.9m (15%) below budget and predicted to be £1.4m (18%) below budget at the half-year mark. The shortfall arises mainly in CA and is linked to external funding and slippage on programme spends. This is being investigated.

Programme Commitments

With the moratorium on new programme commitments in effect, there is a hold on £25.1m of programme spend in CA and EN, representing 43% of their combined budget for the year.

Budget for Second Half of 2006/7

As a result of the continuing net under-spend, the resource budget available to Natural England in the second half year is expected to increase from the July estimate of £98.6 to £103.2m, compared to the aggregate first half-year's utilisation of £84.9m. We are working on establishing the detailed budget for the second half of 2006/7 which will be included in the next financial report to the Board which will be produced from our new single financial management system operated by Defra Family Shared Services Directorate.