

NATURAL ENGLAND BOARD

Meeting 2
5 December 2006



Paper No: **NEB P06 02**

Title: **Chief Executive Report**

Sponsor: **Dr Helen Phillips, Chief Executive**

1. Purpose

1.1 The purpose of this paper is to update the Board on Natural England's strategic delivery and financial performance since the last meeting.

2. Recommendations

2.1 It is recommended that the Board:

1. Notes the summary of the current strategic issues;
2. Notes our performance in delivery against our Strategic Direction;
3. Notes our assessment of the current financial position for Natural England and proposals for the management of the 2006/7 budget.

3. Report

3.1 Strategic Issues

The Chief Executive will provide a verbal update on the following strategic issues:

- EU delay in approval of the Rural Development Programme will require contingency arrangements in order to ensure progress on biodiversity and other objectives is maintained.
- Establishment of two central processing centres for agri-environment schemes has improved delivery efficiency and reduced Natural England's risk.
- Input into the Defra Strategy Refresh process and CSR07 and process aims to secure a positive budget outcome in future years.
- Update on Thames Basin Heaths
- Outcomes from the Public Accounts Committee hearing into open access
- The Marine Bill will not be introduced in the current session of Parliament
- Advocacy of Natural England position on Lyme Bay
- Stakeholder engagement continuing to build at a national and regional level.
- Heath and Safety Policy being implemented across the organisation
- Health campaign announcement
- Union partnership agreement
- E-nable contract signed

3.2 Delivery on our Strategic Direction

- 3.2.1 At its last meeting, the Board considered a report on progress in delivering on our Strategic Direction by the founding bodies in the first six months of the financial year. The attached report (Annex 1) provides an overview of Natural England's delivery through to 30 October, taking into account the budget settlement with Defra.
- 3.2.2 The overall position is that Natural England's delivery is satisfactory, although key risks are being actively managed in all four outcome areas. The outlook is however generally improving.

Outcome 1

Delivery of activities to conserve and enhance the natural environment has been a focus of management attention and is satisfactory. The delivery agri-environment payments and improving the condition of SSSIs has been a particular priority. These activities are now broadly on track although some risk remains, particularly in relation to the SSSI target.

Outcome 2

Core work on increasing access to the natural environment is underway. Finalising the agreement with the BIG Lottery fund and work on National Nature Reserves and National Trails have been priorities. Whilst progress overall is good, work is needed to accelerate progress in improving access to information on access to the natural environment.

Outcome 3

Progress in promoting the sustainable use of the natural environment has improved and is now satisfactory. Some delays have been experienced in the Catchment Sensitive Farming project and work is needed to accelerate work with Port Authorities on habitat creation.

Outcome 4

Progress of our work to influence decisions which affect the future of the natural environment is satisfactory and expected to improve as projects are scoped and get underway. Work on climate change has been a key priority and is progressing well.

3.3 Financial position at 30 September 2006

Budget Position 2006/7 and 2007/8

- As Board members will recall Natural England faced budget pressures in 2006/7 of over £30m. These pressures were resolved and concessions were achieved after protracted negotiations between Executive Directors and DEFRA officials and between the Chair and Chief Executive and the Minister. In the light of these favourable negotiations the moratorium on programme spend was lifted in October.
- We were advised to expect an indicative 2007/8 budget before the end of October, but this has been delayed and Defra is now expected to issue the budget by Christmas. The Secretary of State met the Chairs and Chief Executives of the Defra delivery bodies on 23 November to discuss the budget position. Board members will be updated on developments at the Board meeting.

Financial Position at 30 September 2006

- Annex 2 sets out a summary financial statement for the founding bodies and a pro forma consolidated position for Natural England for the six months to 30 September. The September

figures are currently being audited by the National Audit Office and no major issues have so far emerged. As indicated at the last Board meeting, we are unable to provide October figures for this meeting since the accounting system only went live during the month.

- The outturn at 30 September was £91.9m or £0.8m higher than forecast. This small variance on the forecast equates to less than 1% and is due to a combination of overspends on non-pay running costs and programme costs, a shortfall on income, and an underspend on staff costs.
- At 30 September there remained £58.0m (63%) of the programme budget unspent, of which £38.6m (42%) was committed and £19.4m (21%) still uncommitted. The moratorium on programme spend was lifted in October. Comparison of the YTD actual and the full year budget for running costs suggests that the budget falls some £7.5m short of need if the second half-year spend were the same as for the first half. We have since released £9m of the uncommitted programme which, after allowing £7.5m towards running costs, leaves a contingency of about £3m. Therefore the budget is more or less in balance but we shall continue to monitor it in order to maximise use of resources for programme spend and achievement of Grant in Aid.
- Natural England has been vested against a background of tumultuous change in its financial systems and structure. The Oracle accounting system is new to the majority of staff, as is the relationship with DEFRA Shared Services which provides transaction processing and there have been many staff changes. Against this background setting up robust financial management and reporting quickly is a major challenge. Nevertheless, we are putting things together for robust budgetary control and financial reporting for the remainder of 2006/7 and beyond.