

Natural England

Management Statement and Financial Memorandum

Document History

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Natural England

Management Statement and Financial Memorandum

Contents	Paragraph
Introduction	1-9
Founding Legislation	10
Classification	11-13
Outcomes	14-20
Objectives and Targets	21-24
Responsibilities and accountabilities	
The Secretary of State	25
The Accounting Officer of Defra	26-30
The sponsoring team in Defra	31-33
The Chairman of Natural England	34-39
Natural England's Board	40-43
The Chief Executive's role as Accounting Officer of Natural England	44-46
Joint Nature Conservation Committee	47
The Chief Executive's role as Consolidation Officer	48-50
Delegation of duties	51
The Chief Executive's role as Principle Officer for Ombudsman cases	52
Planning, budgeting and control	
The corporate plan	53-57
The business plan	58
Publication of plans	59
Reporting performance to the Department	60-64
Budgeting Procedures	65
Internal Audit	66-70
Additional Departmental access to Natural England	71
External Accountability	
The annual report and accounts	72-75
External audit	76-78
VFM examinations	79
Staff management	80
Reviewing the role of Natural England	81-82
Extract from Defra's Five Year Strategy	Annex A
Partnership with the Environment Agency and Forestry Commission	Annex B
Financial Memorandum	Annex C

Introduction

1. This management statement and its associated financial memorandum have been drawn up by Defra in consultation with Natural England.
2. Subject to the legislation noted below, the management statement sets out the broad framework within which Natural England will operate, in particular:
 - Natural England's overall aims, objectives and targets in support of Defra's strategic aims and current Public Service Agreements (PSAs);
 - the rules and guidelines relevant to the exercise of Natural England's functions, duties and powers;
 - the conditions under which any public funds (including EU funds) are paid to Natural England;
 - how Natural England is to be held to account for its performance.
3. However, the management statement and financial memorandum do not convey any legal powers or responsibilities.
4. The associated financial memorandum sets out in greater detail certain aspects of the financial provisions which Natural England shall observe.
5. The document will be reviewed periodically by Defra and Natural England. In addition, it will be confirmed annually that it forms the right basis for preparing the Corporate Plan.
6. Natural England or the Secretary of State may propose amendments to this document at any time. Any such proposals by Natural England will be considered in the light of evolving departmental policy aims, operational factors and the track record of Natural England itself. The guiding principle will be that the extent of flexibility and freedom given to Natural England will reflect both the quality of its internal controls and its operational needs.
7. The Secretary of State shall determine what changes, if any, are to be incorporated in the document. Legislative provisions shall take precedence over any part of the document. Significant variations to the document will be cleared by Defra with the Treasury or Cabinet Office as appropriate.
8. Any question regarding the interpretation of the document shall be resolved by the Department after consultation with Natural England and, as necessary, with the Treasury and/or the Cabinet Office. Copies of this document and any subsequent substantive amendments will be placed in the Libraries of both Houses of Parliament. Copies will also be made available to members of the public on Natural England's and Defra's websites.

9. The working relationship between Defra and Natural England is more diverse than set out in this formal document. There is an associated “Partnership Agreement” which aims to capture methods of working together and the values which we want to see demonstrated. It can be viewed on our web sites.

Founding legislation

10. The purpose, functions, duties and powers of Natural England are set out in Part 1 and Schedule 1 of the Natural Environment and Rural Communities Act 2006.

Classification

11. For policy/administrative purposes Natural England is classified as an executive non-departmental public body.
12. For national accounts purposes Natural England is classified to the central government sector.
13. References to Natural England include all its subsidiaries and joint ventures that are classified to the public sector for national accounts purposes. If such a subsidiary or joint venture is created, there shall be a document setting out the arrangements between it and Natural England (see financial memorandum).

Outcomes

14. Natural England’s purpose is set out in Clause 2 of the Act:
 - (1) Natural England’s general purpose is to ensure that the natural environment is conserved, enhanced and managed for the benefit of present and future generations, thereby contributing to sustainable development.
 - (2) Natural England’s general purpose includes—
 - (a) promoting nature conservation and protecting biodiversity,
 - (b) conserving and enhancing the landscape,
 - (c) securing the provision and improvement of facilities for the study, understanding and enjoyment of the natural environment,
 - (d) promoting access to the countryside and open spaces and encouraging open-air recreation, and
 - (e) contributing in other ways to social and economic well-being through management of the natural environment.
15. Subsection (1) sets out that Natural England’s general purpose is to ensure that the natural environment is conserved, enhanced and managed for the benefit of present and future generations, thereby contributing to sustainable development. The terms “natural environment” and “benefit” are not defined but are meant to be broad

and encompassing, going wider than the specific purposes listed in subsection (2), so that the natural environment could be found in towns in open spaces as well as in the countryside. The reference in subsection (1) to sustainable development indicates that Natural England should seek solutions which, while achieving environmental benefits, also provide long-term economic and social benefits, and avoid untoward economic and social impacts.

16. Subsection (2) lists specific matters covered by the general purpose. Those are the purposes inherited from the Countryside Agency and English Nature and the aims of the Rural Development Service. Subsection (2) is not intended to be a comprehensive list. Natural England will be able to pursue anything which falls within its general purpose.
17. Subsection (2)(a) provides that the general purpose includes promoting nature conservation and protecting biodiversity. "Nature conservation" is defined in clause 30 of the Act as the conservation of flora, fauna or geological or physiographical features.
18. Subsection (2)(b) sets out a purpose of conserving and enhancing the landscape. This includes, but goes wider than, conserving the natural beauty of the landscape. It could for example cover conserving field boundaries (such as hedgerows and dry stone walls), and monuments, buildings and sub-surface archaeological features which contribute to the landscape. Natural England will be able to conserve and enhance the English landscape for aesthetic, cultural and historic purposes as well as those carried out for habitat protection purposes.
19. Subsection (2)(c) and (d) provides that Natural England's general purpose includes securing the provision and improvement of facilities for the study, understanding and enjoyment of the natural environment, as well as encouraging open-air recreation and promoting access to the countryside and open spaces. 'Facilities' is a broad term and, taken together with Natural England's other powers, includes information and services. It is not intended that Natural England shall play a role in the provision of facilities for team games. Any activities which might duplicate or overlap with the work of Sport England should be discussed with them. 'Open spaces' are found in urban as well as rural areas. Natural England shall work closely with ODPM, CABI, Groundwork and others in this field to ensure that its contribution is complementary.
20. Subsection (2)(e) provides that Natural England's general purpose includes contributing in other ways to social and economic well-being through management of the natural environment. Natural England will want to work closely with a range of partners in the socio-economic field to establish its approach and priorities in this area. It will be especially valuable for Natural England to work with the Commission for Rural

Communities to understand how management of the natural Environment can contribute towards tackling disadvantage in rural areas.

Objectives and targets

21. Defra agrees Natural England's performance framework and its objectives and key targets through the corporate and business planning process, in the light of the Department's strategic aims and Public Service Agreements. The corporate and business plans should show the contribution which Natural England will make to Defra's strategic outcomes as set out in its Five Year Strategy (annex A).
22. Natural England has broad and diverse terms of reference. It will play a range of roles.
 - it is one of the main public sources of unbiased evidence and expertise on the natural environment.
 - it is one of the principal means by which Government delivers commitments it has made to conserve and enhance the natural environment and help people to enjoy and gain benefit from it.
 - it is an independent champion of the natural environment, inspiring public support and holding the Government and others to account for their actions
 - it is an innovator; exploring long term options; experimenting with new approaches.
23. These roles require a variety of relationships between Natural England and Defra. An important function of the corporate and business plans is to set out the terms of the relationship in each area. For example:
 - there may be a Service Level Agreement relating to shared corporate services.
 - there will be a Service Level Agreement specifying how Defra and other departments can access Natural England's professional and technical expertise for use in policy development and assessment. There must be routes for obtaining this which are - and are seen to be - independent of Natural England's role as champion and advocate.
 - where Natural England is the main delivery vehicle for one of Defra's strategic outcomes, the corporate plan will be sufficiently precise to give the Secretary of State confidence that the agreed outputs will be achieved on time and to cost.
 - in Natural England's role as champion and innovator, it will be sufficient simply to secure agreement through the corporate plan for high level outcomes.
24. Further information on Natural England's relationships with the Environment Agency and Forestry Commission, and regional and local partnerships is set out at Annex B.

Responsibilities and accountabilities

The Secretary of State

25. The Secretary of State is accountable to Parliament for the activities and performance of Natural England. His/Her responsibilities include:
- agreeing Natural England's strategic objectives and the policy and performance framework within which Natural England will operate (as set out in this management statement and financial memorandum, corporate and business plans and associated documents);
 - keeping Parliament informed about Natural England's performance;
 - approving the amount of grant-in-aid to be paid to Natural England, and securing Parliamentary approval;
 - carrying out responsibilities specified in the founding legislation including appointments to the Board, approving the terms and conditions of Board members, appointment of the first Chief Executive, approval of the appointment of subsequent Chief Executives and laying of the annual report and accounts before Parliament.

The Accounting Officer of Defra

26. The Permanent Secretary, as Defra's principal Accounting Officer, is responsible for the overall organisation, management and staffing of the sponsor Department and for ensuring that there is a high standard of financial management in the Department and Defra family as a whole.
27. The principal Accounting Officer is accountable to Parliament for the issue of any grant-in-aid to Natural England.
28. The principal Accounting Officer designates the Chief Executive of Natural England as Natural England's Accounting Officer, and may withdraw the accounting officer designation if he/she believes that the incumbent is no longer suitable for the role.
29. In particular the principal Accounting Officer shall ensure that:
- Natural England's strategic aim(s) and objectives support the Department's wider strategic aim[s] and current PSA;
 - the financial and other management controls applied by the Department to Natural England are appropriate and sufficient to safeguard public funds and for ensuring that Natural England's compliance with those controls is effectively monitored ("public funds" include not only any funds granted to Natural England by Parliament but also any other funds generated by approved activities or falling within the stewardship of Natural England);
 - the internal controls applied by Natural England conform to the requirements of regularity, propriety and good financial management;
 - any grant-in-aid to Natural England is within the ambit and the amount of the Request for Resources and that Parliamentary authority has been sought and given.

30. The responsibilities of a departmental Accounting Officer are set out in more detail in Annex 4.1 of Government Accounting.

The sponsoring team in Defra

31. Within the Department, the Sponsorship, Landscape & Recreation Division is the sponsoring team for Natural England. It is the primary source of advice to the Secretary of State on the discharge of his/her responsibilities in respect of Natural England and the primary point of contact for Natural England in dealing with the Department. The sponsoring team will carry out its duties under the Director of Wildlife, Countryside and Land Use who will have primary responsibility for overseeing the activities of Natural England, in consultation, as necessary, with the departmental Accounting Officer.
32. The sponsoring team will advise the Secretary of State on:
- an appropriate framework of objectives and targets for Natural England in the light of the Department's wider strategic aims and current PSAs;
 - an appropriate budget for Natural England in the light of the Department's overall public expenditure priorities;
 - how well Natural England is achieving its strategic objectives and whether it is delivering value for money.

Further information on this role will be found in the Partnership Agreement.

33. In support of the departmental Accounting Officer the sponsoring team shall:

on performance and risk management -

- monitor Natural England's activities on a continuing basis through an adequate and timely flow of information from Natural England on performance, budgeting, control and risk management, including early sight of Natural England's Statement on Internal Control;
- address in a timely manner any significant problems arising in Natural England, whether financial or otherwise, advising the departmental Accounting Officer to make such interventions as the Department judges necessary;
- periodically carry out a risk assessment of Natural England's activities to inform the Department's oversight of Natural England; make proposals for strengthening these arrangements if necessary; and amend the management statement accordingly. The risk assessment will take into account the nature of Natural England's activities; the public monies at stake; the body's corporate governance arrangements; its financial performance; internal and external auditors' reports, the openness of communications between the body and the Department; and any other relevant matters;

on communication with Natural England -

- keep Natural England informed of relevant Government policy in a timely manner; advise on the interpretation of that policy; and issue specific guidance to Natural England as necessary;
- bring concerns about the activities of Natural England to the attention of the Chief Executive, seeking explanations and assurances that appropriate action has been taken.

The Chairman of Natural England

34. The Chairman is appointed by the Secretary of State in accordance with the Code of Practice issued by the Commissioner for Public Appointments. Appointments are for a fixed period of three years on initial appointment. A serving Chairman may be reappointed to serve a second term. Only in exceptional circumstances would a reappointment for a third term be agreed and only following an open competition.
35. The Chairman is responsible to the Secretary of State. The Chairman shall aim to ensure that Natural England's policies and actions support the wider strategic policies of the Secretary of State; and that Natural England's affairs are conducted with probity. The Chairman shares with other Board members the corporate responsibilities set out below and in particular for ensuring that Natural England fulfils the aim[s] and objectives set by the Secretary of State.
36. The Chairman has a particular leadership responsibility on the following matters:
 - formulating the Board's strategy;
 - ensuring that the Board, in reaching decisions, takes proper account of guidance provided by the Secretary of State or department;
 - encouraging high standards of propriety;
 - representing the views of the Board to the general public.
37. The Chairman shall also:
 - ensure that all members of the Board, when taking up office, are fully briefed on the terms of their appointment and on their duties, rights and responsibilities, and receive appropriate induction training, including on the financial management and reporting requirements of public sector bodies and on any differences which may exist between private and public sector practice;
 - advise the Secretary of State of the needs of Natural England when Board vacancies arise, with a view to ensuring a proper balance of professional and financial expertise;
 - regularly assess the performance of individual Board members and make those assessments available to the Secretary of State when they are being considered for re-appointment to the Board.
38. The Chairman shall also ensure that a Code of Practice for Board Members is in place, based on the Cabinet Office's model Code of

Practice for Board Members of Public Bodies. The Code shall commit the Chairman and other Board Members to the Nolan seven principles of public life, and shall include a requirement for a comprehensive and publicly available register of Board Members' interests.

39. Communications between the Board and the Secretary of State will normally be through the Chairman. The Chairman will ensure that the other Board members are kept informed of such communications.

Natural England's Board

40. The Board Members are appointed by the Secretary of State in accordance with the Code of Practice issued by the Commissioner for Public Appointments. The Chairman will be invited to serve on the appointment panel. Appointments are for a fixed period of up to three years on initial appointment. A serving member may be reappointed to serve a second term. Only in exceptional circumstances would a reappointment for a third term be agreed and only following an open competition.
41. In addition to members appointed by the Secretary of State following open competition, the Chief Executive of Natural England shall be an *ex-officio* member of the Board of Natural England. The success of this arrangement will be reviewed in May 2008.
42. The Board has corporate responsibility for ensuring that Natural England fulfils the aims and objectives set by the Secretary of State and for holding the Chief Executive to account for the efficient and effective use of staff and other resources by Natural England. To this end, and in pursuit of its wider corporate responsibilities, the Board shall:
- establish the overall strategic direction of Natural England within the policy and resources framework determined by the Secretary of State;
 - ensure that the Secretary of State is kept informed of any changes which are likely to impact on the strategic direction of Natural England or on the attainability of its targets, and determine the steps needed to deal with such changes;
 - ensure that any statutory or administrative requirements for the use of public funds are complied with; that the Board operates within the limits of its statutory authority and any delegated authority agreed with the sponsor Department, and in accordance with any other conditions relating to the use of public funds; and that, in reaching decisions, the Board takes into account guidance issued by the sponsor Department;
 - ensure that the Board receives and reviews regular financial information concerning the management of Natural England; is informed in a timely manner about any concerns about the activities of Natural England; and provides positive assurance to the Department that appropriate action has been taken on such concerns;
 - embed and enforce high standards of corporate governance at all times, including by using the independent audit and risk management

- committee to advise the Board and provide it with assurance on risk management, internal control and governance.
- appoint, with the Secretary of State's approval, a Chief Executive to Natural England and, in consultation with the Department, set a framework for assessing the performance of the Chief Executive which gives due weight to the proper management and use of public monies.
 - assess the performance of the Chief Executive against the agreed framework and approve an appropriate level of bonus.
43. Individual Board members shall act in accordance with their wider responsibility as Members of the Board – namely to:
- comply at all times with the Code of Practice (above) that is adopted by Natural England and with the rules relating to the use of public funds and to conflicts of interest;
 - not misuse information gained in the course of their public service for personal gain or for political profit, nor seek to use the opportunity of public service to promote their private interests or those of connected persons or organisations;
 - comply with the Board's rules on the acceptance of gifts and hospitality, and of business appointments;
 - act in good faith and in the best interests of Natural England.

The Chief Executive's role as Accounting Officer of Natural England

44. The Chief Executive of Natural England is designated as Natural England's Accounting Officer by Defra's Accounting Officer.
45. The Accounting Officer of Natural England is personally responsible for safeguarding the public funds for which he/she has charge; for ensuring propriety and regularity in the handling of those public funds; and for the day-to-day operations and management of Natural England.
46. As Accounting Officer the Chief Executive shall exercise the following responsibilities in particular:

on planning and monitoring -

- establish, in agreement with the Department, Natural England's corporate and business plans in the light of the Department's wider strategic aims and current PSA;
- inform the Department of Natural England's progress in helping to achieve the Department's policy objectives and in demonstrating how resources are being used to achieve those objectives;
- ensure that timely forecasts and monitoring information on performance and finance are provided to the Department; that the Department is notified promptly if material overspends or underspends are likely and that corrective action is taken; and that any significant problems, whether financial or otherwise, are notified to the department in a timely fashion;

on advising the Board -

- advise the Board on the discharge of its responsibilities as set out in this document, in the founding legislation and in any other relevant instructions and guidance that may be issued from time to time;
- advise the Board on Natural England's performance compared with its aims and objectives;
- ensure that financial considerations are taken fully into account by the Board at all stages in reaching and executing its decisions, and that standard financial appraisal techniques are followed as far as this is practical;
- take action as set out in Natural England Accounting Officer Memorandum if the Board, or its Chairman, is contemplating a course of action involving a transaction which the Chief Executive considers would infringe the requirements of propriety or regularity or does not represent prudent or economical administration or efficiency or effectiveness;

on managing risk and resources -

- ensure that a system of risk management is maintained to inform decisions on financial and operational planning and to assist in achieving objectives and targets;
- ensure that an effective system of programme and project management and contract management is maintained;
- ensure that all public funds made available to Natural England including any approved income or other receipts are used for the purpose intended by Parliament, and that such monies, together with Natural England's assets, equipment and staff, are used economically, efficiently and effectively;
- ensure that adequate internal management and financial controls are maintained by Natural England, including effective measures against fraud and theft;
- maintain a comprehensive system of internal delegated authorities which are notified to all staff, together with a system for regularly reviewing compliance with these delegations;
- ensure that effective personnel management policies are maintained;

on accounting for Natural England's activities -

- sign the accounts and be responsible for ensuring that proper records are kept relating to the accounts and that the accounts are properly prepared and presented in accordance with any directions issued by the Secretary of State;
- sign a Statement of Accounting Officer's responsibilities, for inclusion in the annual report and accounts;
- sign a Statement on Internal Control regarding Natural England's system of internal control, for inclusion in the annual report and accounts;

- ensure that effective procedures for handling complaints about Natural England are established and made widely known within Natural England;
- act in accordance with the terms of this document and with the instructions and guidance in *Government Accounting* and other instructions and guidance issued from time to time by the Department, the Treasury and the Cabinet Office - in particular, the Treasury documents *The Responsibilities of an NDPB's Accounting Officer* and *Regularity and Propriety*, both of which the Chief Executive will receive on appointment. Section IX of the attached financial memorandum refers to other key guidance;
- give evidence, normally with the Accounting Officer of the sponsor Department, when summoned before the Committee of Public Accounts on the use and stewardship of public funds by Natural England;

Joint Nature Conservation Committee

47. The Chief Executive of Natural England in his or her role as Accounting Officer includes, together with the Chief Executives of the Countryside Council for Wales, Scottish Natural Heritage and the Permanent Secretary of the Department of Environment for Northern Ireland that of Joint Accounting Officer for the Joint Nature Conservation Committee. In that role the Chief Executive must ensure that the Managing Director of the Joint Nature Conservation Committee has in place and maintains a sound system of internal controls that support the policies, aims and objectives of the JNCC, that proper financial records are maintained and that annual accounts are properly prepared and presented in accordance with any directions issued by the Secretary of State. Further information on this role is contained in your Accounting Officer letter.

The Chief Executive's role as Consolidation Officer

48. For the purposes of Whole of Government Accounts the Chief Executive of Natural England is normally appointed by the Treasury as Natural England's Consolidation Officer.
49. As Natural England's Consolidation Officer the Chief Executive shall be personally responsible for ensuring the timely and efficient preparation of accurate consolidation information that sets out the financial results and position of Natural England, for arranging for its audit and for sending the information and the audit report to the Principal Consolidation Officer nominated by the Treasury.
50. As Consolidation Officer the Chief Executive shall comply with the requirements of the Consolidation Officer Memorandum and shall, in particular:
- ensure that Natural England has in place and maintains sets of accounting records that will provide the necessary information for the consolidation process;

- prepare the consolidation information (including the relevant accounting and disclosure requirements and all relevant consolidation adjustments) in accordance with the consolidation instructions and directions [“Dear Consolidation Officer” (DCO) and “Dear Consolidation Manager” (DCM) letters] issued by the Treasury on the form, manner and timetable for the delivery of such information.

Delegation of duties

51. The Chief Executive may delegate the day-to-day administration of his/her Accounting Officer and Consolidation Officer responsibilities to other employees in Natural England through written delegations. However, he/she shall not assign absolutely to any other person any of the responsibilities set out in this document.

The Chief Executive’s role as Principal Officer for Ombudsman cases

52. The Chief Executive is the Principal Officer for handling cases involving the Parliamentary Commissioner for Administration. As Principal Officer he/she shall inform the Permanent Secretary of the sponsor Department of any complaints about Natural England accepted by the Ombudsman for investigation, and about Natural England’s proposed response to any subsequent recommendations from the Parliamentary Ombudsman.

Planning, budgeting and control

The corporate plan

53. Consistent with the timetable for public spending reviews Natural England shall submit annually to the Department for approval a draft of Natural England’s updated corporate plan covering three years ahead. Natural England will have agreed with the Department the issues to be addressed in the plan and the timetable for its preparation.
54. The plan will reflect Natural England’s statutory duties and, within those duties, the priorities set from time to time by the Secretary of State. In particular, the plan will demonstrate how Natural England contributes to the achievement of Defra’s Strategic Outcomes and PSA targets.
55. The corporate plan will set out:
- Natural England’s principal objectives, associated resources and key performance targets for the three forward years, and its strategy for achieving those objectives;
 - a review of Natural England’s performance in the preceding financial year together with comparable outturns for the previous 2 years, and an estimate of performance in the current year;
 - alternative scenarios to take account of factors which may significantly affect the execution of the plan but which cannot be accurately forecast;

- Other matters as agreed between the Department and Natural England, to include an analysis of Natural England's customers and associated service standards and how the benefits of the Modernising Rural Delivery Programme (outcome and financial) relevant to Natural England will be achieved and sustained by being embedded into day to day business.
56. The main elements of the plan - including the key performance targets - will be agreed between the Department and Natural England in the light of the Department's decisions on policy and resources taken in the context of the Government's wider public expenditure plans and decisions.
57. In reaching annual decisions on Natural England's rolling corporate plan and in monitoring progress, the Department will aim to give Natural England greater planning certainty by observing the principles set out in paragraph 15 of PES(2000)25 concerning three year planning and end year flexibility (EYF). These principles are summarised in paragraph 29 of the financial memorandum.

The business plan

58. The first year of the corporate plan, amplified as necessary, will form the business plan. The business plan will be updated to include targets and milestones for the year immediately ahead and will be linked to budgeting information so that resources allocated to achieve objectives and their associated outputs can readily be identified by the Department.

Publication of plans

59. Subject to any commercial considerations the corporate and business plans will be published.

Reporting performance to the Department

60. Natural England will operate management information and accounting systems which enable it to review in a timely and effective manner its financial and non-financial performance against the budgets and targets set out in its agreed corporate and business plans.
61. Natural England will take the initiative in informing the Department of changes in external conditions which make the achievement of objectives more or less difficult, or which may require a change to the budget or objectives set out in the corporate or business plans.
62. Natural England's performance in helping to deliver Ministers' policies, including the achievement of key objectives, will be reported to the Department on a three-monthly basis at least. Performance will be formally reviewed twice yearly by officials of the Department. The Secretary of State will meet the Board formally each year to discuss

Natural England's performance, its current and future activities and any policy developments relevant to those activities.

63. Natural England will adopt a set of service standards, consistent with Defra's corporate standards, which will show how services will be delivered to its direct customers and report progress against these standards to the Department every six months and in the annual report.
64. Natural England's performance against key targets will be reported in Natural England's annual report and accounts.

Budgeting procedures

65. Natural England's budgeting procedures are set out in the financial memorandum.

Internal audit

66. Natural England will establish and maintain arrangements for internal audit in accordance with the Treasury's Government Internal Audit Standards. Natural England will consult the Department to ensure that the latter is satisfied with the competence and qualifications of the Head of Internal Audit and the requirements for approving appointment in accordance with Government Internal Audit Standards (GIAS) 5.2.
67. Natural England will set up an independent audit and risk management committee as a committee of its Board in accordance with the Cabinet Office's Guidance on Codes of Practice for Public Bodies and the Treasury's Audit Committee guidance.
68. Natural England will arrange for periodic quality reviews of its internal audit in accordance with the GIAS. The Department will consider whether it can rely on these reviews to provide assurance on the quality of internal audit. However, the Department reserves a right of access to carry out independent reviews of internal audit in Natural England.
69. The annual report, audit strategy, periodic audit plans and annual audit report, including Natural England's Head of Internal Audit's opinion on risk management, control and governance will be forwarded as soon as possible to the sponsoring team who will consult the Head of Internal Audit as appropriate. The Department's Internal Audit Service reserves the right to receive a copy of any other document which the Defra Head of Internal Audit considers necessary, including where the service is contracted out.
70. In addition, Natural England will forward to the Department an annual report on fraud and theft suffered by Natural England; notify any unusual or major incidents as soon as possible; and notify any changes to internal audit's terms of reference, the audit committee's terms of reference or Natural England's Fraud Policy and Fraud Response Plan.

Additional Departmental access to Natural England

71. In addition to the right of access referred to above, the Department will have a right of access to all Natural England's records and personnel for purposes such as sponsorship audits and operational investigations.

External accountability

The annual report and accounts

72. After the end of each financial year Natural England will publish an annual report of its activities together with its audited annual accounts. The report will also cover the activities of any corporate bodies under the control of Natural England. A draft of the report will be submitted to the Department two weeks before the proposed publication date.
73. The report and accounts will comply with the Treasury guidance contained in the Finance Reporting Manual (FRM). The accounts will be prepared in accordance with the relevant statutes and the specific Accounts Direction issued by the Department.
74. The report and accounts will outline Natural England's main activities and performance during the previous financial year and set out in summary form Natural England's forward plans. Information on performance against key financial targets will be included in the notes to the accounts, and will therefore be within the scope of the audit.
75. The report and accounts will be laid before Parliament and made available on the Internet, in accordance with the guidance on the procedures for presenting and laying the combined annual report and accounts as prescribed in Chapter 13 of NDPB Annual Reports and Accounts Guidance.

External audit

76. The Comptroller and Auditor General (C&AG) audits Natural England's annual accounts. For the purpose of audit the C&AG has a statutory right of access to relevant documents as provided for in the Government Resources and Accounts Act 2000, including by virtue of any Order made under section 25(8) of that Act.
77. The C&AG has agreed to consult the Department and Natural England on who - the NAO or a commercial auditor - will undertake the actual audit on his behalf. The final decision rests with the C&AG.
78. The C&AG has agreed to share with sponsor Departments information identified during the audit process and the audit report (together with any other outputs) at the end of the audit. This will apply, in particular, to issues which impact on the Department's responsibilities in relation to financial systems within Natural England. The C&AG has also agreed, where asked, to provide Departments and other relevant bodies with

Regulatory Compliance Reports and other similar reports which Departments may request at the commencement of the audit and which are compatible with the independent auditor's role.

VFM examinations

79. The C&AG may carry out examinations into the economy, efficiency and effectiveness with which Natural England has used its resources in discharging its functions. For the purpose of these examinations the C&AG has statutory access to documents as provided for under section 8 of the National Audit Act 1983. In addition, Natural England will provide, in conditions to grants and contracts, for the C&AG to exercise such access to documents held by grant recipients and contractors and sub-contractors as may be required for these examinations; and will use its best endeavours to secure access for the C&AG to any other documents required by the C&AG which are held by other bodies.

Staff management

80. Natural England will have responsibility for the recruitment, retention and motivation of its staff. To this end Natural England will ensure that:
- its rules for the recruitment and management of staff create an inclusive culture in which diversity is fully valued; where appointment and advancement is based on merit; and where there is no discrimination on grounds of gender, marital status, sexual orientation, race, colour, ethnic or national origin, religion, disability, community background or age;
 - the level and structure of its staffing, including gradings and numbers of staff, is appropriate to its functions and the requirements of efficiency, effectiveness and economy;
 - the performance of its staff at all levels is satisfactorily appraised and Natural England's performance measurement systems are reviewed from time to time;
 - its staff are encouraged to acquire the appropriate professional, management and other expertise necessary to achieve Natural England's objectives;
 - proper consultation with staff takes place on key issues affecting them;
 - adequate grievance and disciplinary procedures are in place;
 - whistleblowing procedures consistent with the Public Interest Disclosure Act are in place;
 - a code of conduct for staff is in place based on the Cabinet Office document *Model Code for Staff of Executive Non-Departmental Public Bodies*.

Reviewing the role of Natural England

81. Natural England will be reviewed periodically, in accordance with the business needs of the Department and of Natural England.

82. The next review of Natural England will take place in 2011. Terms of reference will be agreed with the Board of Natural England no later than 1 January 2011.

Extract from Defra's Five Year Strategy

Strategic Outcomes sought under each Strategic priority

- **Sustainable development** promoted across Government, in the UK and internationally, as measured by:
 - the achievement of positive trends in the Government's headline indicators of sustainable development;
 - the UK's progress towards delivering the World Summit on Sustainable Development commitments, notably in the areas of sustainable consumption and production, chemicals, biodiversity, oceans, fisheries and agriculture;
 - progress towards internationally agreed commitments to tackle climate change; and
 - improved local environmental conditions and cleaner streets, city centres and countryside, with reduced levels of litter, fly tipping and abandoned vehicles.

Climate change and energy

Meeting the challenge of climate change

- Reduction in the UK's contribution to global climate change by cutting our greenhouse gas emissions
- Reduction in global greenhouse gas emissions to avoid dangerous climate change, and international promotion of adaptation to unavoidable climate change

- Every home adequately and affordably heated
- UK successfully adapting to unavoidable climate change
- Risk from flooding and coastal erosion managed in a way which furthers sustainable development
- Cleaner air through meeting the targets in the National Air Quality Strategy

Sustainable consumption and production

Breaking the link between economic growth and environmental degradation and resource use through promoting and enabling more sustainable patterns of consumption and production

- Programmes in place to decouple economic growth from environmental degradation and unsustainable resource use
- Protection of human health and the environment by minimising amounts of waste produced and getting as much value as possible out of what is left by re-use, recycling or composting and the recovery of energy

Protecting the countryside and natural resource protection

Creating a robust policy framework and evidence base in order to promote the sustainable use and enhancement of the country's natural heritage and ecosystems

- Protect and enhance the natural environment, now and for future generations, and establish a robust framework for future development decisions that respect environmental constraints
- More and better access to the natural environment for recreation, especially for those who find it difficult to enjoy the health and well being benefits which access to nature can bring
- Good water quality and a good water environment, with a sustainable balance between water supply and demand

Sustainable Rural Communities

Encouraging sustainable regeneration in disadvantaged rural areas, promoting social inclusion and reducing deprivation. Ensuring higher quality, more accessible public services to rural communities

- Vibrant enterprise across rural England, with resources better targeted to help reduce gap in productivity between least well performing quartile of rural areas and the English median; rural social exclusion tackled wherever it occurs, with fair access to services and affordable housing

Sustainable Farming & Food, including Animal Health & Welfare

Helping to create a sustainable food and farming supply chain serving the market and the environment; putting in place systems to reduce risks of animal diseases, and being ready to control them when they occur

- more customer focused, competitive and sustainable farming
- more competitive and sustainable food industry
- further CAP reform
- animal health and the welfare of kept animals improved, and society, the economy and the environment protected from the impact of animal diseases, through sharing the management of risk with industry

Partnership with the Environment Agency and Forestry Commission

The functions of Natural England are distinct from those of its major partners – the Environment Agency and Forestry Commission - and give Natural England focus and direction. But its purpose and powers are sufficiently wide to enable Natural England to operate successfully now and in the future, and are designed not to constrain it - for example, to allow it to deliver environmental outcomes with the Environment Agency as its leading partner. Natural England will work together with the Environment Agency to take forward solutions which maximise both biodiversity and flood prevention improvements. And through advice to farmers on farming practices Natural England will contribute to making the natural environment more resilient to climate change.

More generally, Natural England, the Environment Agency and Forestry Commission will work closely together, joining forces or allowing others to lead where this makes sense from the customer perspective and in terms of delivering outcomes most effectively and efficiently. In some cases, Natural England will be the lead body; in others it will be the Environment Agency or Forestry Commission.

The necessary strong and transparent partnership between Natural England, the Environment Agency and the Forestry Commission will be achieved through working level agreements between the three bodies, including a 3-way Memorandum of Understanding.

Regional and local

Natural England will be a strong environmental partner at both national and regional level. Natural England and its sister organisations – the Environment Agency and Forestry Commission – will work together to ensure that their collective influence is brought to bear in a coherent and unified manner to make maximum impact in the advice they give to Government and others at national, regional and local level. The Environment Agency and Natural England will work particularly closely, as equal partners, alongside the Forestry Commission, in delivering the Government's environmental priorities.

The Secretary of State has the power to delegate Defra functions to any designated body, subject to mutual agreement in writing. Designated bodies have a corresponding power to delegate Defra related functions to each other by mutual agreement and with the Secretary of State's consent. Bodies designated in the Act include Defra family bodies, local authorities and national park authorities. This will remove many of the obstacles to the wider adoption of the practice of nominating "lead delivery agents" amongst partnerships to improve clarity and effectiveness for customers.

The intention is to enable Defra and its main delivery agents, of which Natural England is one, to be more responsive in the future to the changing needs of customers, wider stakeholders, and evolving policies. This will bring new flexibility, better customer service, improved accountability and help to make devolution of delivery a reality, in line with the Prime Minister's principles of public sector reform.

Regionally, this will be assisted by the development of the regional rural delivery frameworks. These frameworks, under Government Office leadership, bring together the main regional partners responsible for delivering environmental (and social and economic) outcomes. Natural England will be an important contributor and will use the frameworks in determining the needs and priorities of each region in an integrated way, and to help partners work together on putting sustainable development into practice.

At a sub-regional level, documents such as community strategies and national park management plans will give essential legitimacy to the local priorities which Natural England pursues.

Natural England Financial Memorandum

Contents	Paragraph
Introduction	1-3
Natural England's income and expenditure-general	
The Departmental Expenditure Limit (DEL)	4
Expenditure not proposed in the budget	5
Procurement	6-9
Competition	10-11
Compliance checks	12-13
Value for money	14
Receipts and Payments	15
Novel, contentious or repercussive proposals	16
Risk Management	17-19
Wider Markets	20
Fees and Charges	21
Natural England's Income	
Grant in Aid	22-28
End-year flexibility	29
Receipts from sale of goods or services	30-31
Fines, taxes and other receipts	32
Interest earned	33-35
Unforecast changes in in-year income	36-37
Build-up and draw-down of deposits	38-39
Proceeds from disposal of assets	40
Gifts and bequests received	41-42
Receipts from EC	43-45
Receipts from the National Lottery distributive bodies	46-47
Other third party funding	48
Relationship with the Rural Payments Agency	49
Borrowing	50
Reserves	51
Expenditure on Staff	
Chief Executives and Directors and Staff of Equivalent Rank	52
Pay and Conditions of Service	53-55
Pensions; redundancy/compensation	56-58
Non-staff expenditure	
Capital Expenditure	59-61
Transfer of funds within budgets	62
Lending, guarantees, indemnities; contingent liabilities; letters of comfort	63-64
Grant schemes	65-66
Loan Schemes	67-68
State aids	69
Gifts made, write-offs, losses and other special payments	70-71
Leasing	72-73
Land and Buildings	74
Public/Private Partnerships	75-76
Subsidiary companies and joint ventures	77-78

JNCC expenditure	79-80
Financial investments	81
Unconventional financing	82
Commercial insurance	83-85
Role in Emergency	86
Management and Disposal of Fixed Assets	
Register of Assets	87
Disposal of Assets	88-91
Recovery of grant-financed assets	92-94
Sale, purchase, leasing or renting of land	95-97
Budgeting Procedures	
Setting the annual budget	98-101
General conditions for authority to spend	102
Providing monitoring information to the department	103-108
Year-end position	109
Banking	
Banking arrangements	110-111
Compliance with instructions and guidance	
Relevant documents	112
Review of financial memorandum	113
Schedule 1	Categories of expenditure
Schedule 2	Timetable for submission of key financial information to Defra
Schedule 3	Grant-in-aid guidance note and claim form
Schedule 4	Financial delegations
Schedule 5	Approval of capital expenditure, grants & loan schemes above delegated limits
Schedule 6	Approval of special payments and gifts above delegated limits
Schedule 7	Approval of the write-off of losses falling within and above the delegated limit
Schedule 8	Grant guidance
Schedule 9	Format for report on single tenders
Schedule 10	Natural England's relationship with the Rural Payments Agency and the arrangements for the ERDP monies.

Introduction

1. This financial memorandum, which forms part of the management statement for Natural England, sets out in greater detail certain aspects of the financial framework with in which Natural England is required to operate.
2. The terms and conditions set out in the combined management statement and financial memorandum may be supplemented by guidelines or directions issued by the Secretary of State in respect of the exercise of any individual functions, powers and duties of Natural England.
3. Natural England shall satisfy the conditions and requirements set out in the combined document, together with such other conditions as the Secretary of State may from time to time impose.

Natural England's income and expenditure – general

The Departmental Expenditure Limit (DEL)

4. Natural England's current and capital expenditure form part of the Department for Environment, Food and Rural Affairs' resource DEL and capital DEL respectively.

Expenditure not proposed in the budget

5. Natural England shall not, without prior written departmental approval, enter into any undertaking to incur any expenditure which falls outside Natural England's delegations or which is not provided for in Natural England's annual budget as approved by the department.

Procurement

6. Natural England's expenditure on goods, services and works will be conducted in accordance with the requirements of Government Accounting, the public procurement rules, the Framework for Sustainable Development on the Government Estate, the EC Treaty and any other relevant EU or international procurement rules. Natural England's procurement policies shall also reflect guidance from the Office of Government Commerce, including *Procurement Policy Guidelines*.
7. Staff undertaking procurement and contracting activity will be qualified to the extent demanded by the complexity and value of the expenditure being committed.

8. Procurement and commercial contracting will be conducted in accordance with the Ethical Code of the Chartered Institute of Purchasing and Supply.
9. Periodically and wherever practicable the NDPB's procurement shall be benchmarked against best practice elsewhere and contracted out where this would achieve better value for money.

Competition

10. Contracts shall be placed on a competitive basis and tenders accepted from suppliers who provide best value for money overall.
11. Where there's no reasonable alternative (for example, for certain specialist or fixed price services) or in cases of extreme urgency (for example, to remove a risk to public safety) contracts may be let by single tender action. Where this is proposed, Natural England must keep under consideration that letting any contract non-competitively carries the risk of challenge under the transparency and equality of treatment provisions of the EC Treaty, and must be seen also in the light of the Freedom of Information Act and the Environmental Information Regulations. Natural England shall send to Defra after each financial year a report for that year explaining any contracts above £100,000 in which competitive tendering was not employed. The format for the report is at Schedule 9. Further details of the evidence needed to support a case by Natural England for an increase in the delegated limit is at Schedule 4.

Compliance Checks

12. Every 6 months (i.e. at the end of July and at the end of January) Natural England must submit to Defra a random list of 100 contracts from which up to ten shall be selected for a compliance check.
13. Similarly, Defra shall require Natural England to submit a random list of 100 single tendered contracts every six months from which up to 10 will be selected for a compliance check. These checks will take place at the end of September and at the end of March.

Value for money

14. Procurement by Natural England of works, equipment, goods and services shall be based on value for money, i.e. quality (in terms of fitness for purpose) and delivery against price. Where appropriate, a full option appraisal shall be carried out before procurement decisions are taken.

Receipts and Payments

15. Natural England shall collect receipts and pay all matured and properly authorised invoices in accordance with the terms of contracts or within 30 days of receipt of valid invoices for goods, services and works

requested by Natural England as provided for in Annex 16.2 of Government Accounting. Natural England shall comply with the British Standard for Achieving Good Payment Performance in Commercial Transactions (BS 7890), and with the Late Payment of Commercial Debts (Interest) Act 1998 as amended.

Novel, contentious or repercussive proposals

16. Natural England shall obtain the approval of Defra before incurring expenditure which is or might be considered novel or contentious, in the context of its statutory purposes. Relevant factors in judging novelty and contentiousness will include:
 - a. precedent – an action unlike anything which its predecessor bodies had done;
 - b. significant change in the scale of operation or funding of any initiative or particular scheme previously approved by Defra;
 - c. change of policy or practice which has wider financial implications (e.g. because it might prove repercussive among other public sector bodies) or which might significantly affect the future level of resources required.

Risk Management

17. Natural England shall ensure that the risks it faces are dealt with in an appropriate manner, in accordance with relevant aspects of best practice in corporate governance, and shall develop a risk management strategy in accordance with the Treasury guidance *Management of Risk: A Strategic Overview*.
18. Natural England shall adopt and implement policies and practices to safeguard itself against fraud and theft, in line with Treasury's guide *Managing the Risk of Fraud*.
19. Natural England shall take all reasonable steps to appraise the financial standing of any firm or other body with which it intends to enter into a contract or to give grant or grant in aid.

Wider Markets

20. In accordance with the wider markets policy Natural England shall seek to maximise receipts from non-Exchequer sources provided that this is consistent with (a) Natural England's statutory purpose (b) its corporate plan as agreed with the department.

Fees and Charges

21. Fees or charges for any services supplied by Natural England shall be determined in accordance with the Treasury's *Fees and Charges Guide*.

Natural England's Income

Grant in aid

22. Payments of grant-in-aid will normally be made monthly in advance and always according to demonstrated need following receipt of a written grant-in-aid claim from Natural England. A guidance note on the procedure and template for claiming grant-in-aid is at Schedule 3. The application shall certify that the conditions applying to the use of grant in aid have been observed to date and that further grant in aid is now required for purposes appropriate to Natural England's functions.
23. Natural England should have regard to the general principles enshrined in Chapter 9 of *Government Accounting* that it should seek grant in aid according to need.
24. Cash balances accumulated during the course of the year from grant in aid or other Exchequer funds shall be kept at the minimum level consistent with the efficient operation of Natural England. Grant in aid not drawn down or accrued by the end of the year shall lapse. However, where draw-down of grant in aid is delayed to avoid excess cash balances at year-end, Defra will make available in the next financial year – subject to approval by Parliament of the relevant Estimates provision – any such grant in aid which is required to meet any liabilities at year end, such as accruals, provisions and other creditors.
25. Defra will pay grant-in-aid to Natural England from its Resource Estimate agreed by Parliament.
26. Natural England must only apply its grant-in-aid to the purposes set out in the published Resource Estimates against which Parliament voted the provision.
27. Grant-in-aid shall be paid on such terms and conditions as the Secretary of State thinks fit.
28. Schedule 10 sets out the arrangements for the Rural Development Programme in England (RDPE) monies.

End-year flexibility

29. As set out in PES (2000)²⁵, Defra will set firm multi-year plans and cascade end-year flexibility (EYF) on budgets where possible. In particular, Defra will aim to:
 - a. agree, ahead of the year in question, a rolling three-year budget, fixed for at least the first year and with indicative amounts for subsequent years;

- b. consider at that point Natural England's likely entitlement to EYF against the overall departmental position (having regard to any loss of EYF as a result of Departmental Expenditure Limit (DEL) Reserve claims made by the department) and ministerial priorities;
- c. adjust (if necessary) and confirm the amount of EYF when accurate information is available in the Public Expenditure Outturn White Paper, taking account of outturn and of any DEL Reserve claims which might limit the EYF entitlement of the department itself.

Receipts from sale of goods or services

- 30. Receipts from the sale of goods and services (including certain licences where there is a significant degree of service to the individual applicant), rent of land, and dividends are classified as negative public expenditure in national accounts and are therefore normally offset against the DEL (i.e. they provide additional DEL spending power).
- 31. If there is any doubt about the correct classification of a receipt, Natural England shall consult the department, who will consult the Treasury as necessary.

Fines, taxes and other receipts

- 32. Most fines and most taxes (including levies and some licenses) are not negative public expenditure and do not provide additional DEL spending power. Such receipts shall either be surrendered to the department or, if retained, shall either reduce the need for grant in aid or, if used to finance additional expenditure by Natural England, shall require additional DEL cover from Defra.

Interest earned

- 33. Under the Treasury's Consolidated Budgeting Guidance from 2006-07 (13 December 2005) any interest earned by Natural England on its assets scores as near-cash Resource DEL.
- 34. The cost of capital scores as non-cash resource DEL.
- 35. Any interest earned on cash balances arising from grant in aid or other Exchequer funds shall be treated as a receipt from an Exchequer source. Depending on the budget treatment of this receipt, and its impact on Natural England's cash requirement, it may lead to commensurate reduction of grant in aid or be required to be surrendered to the Consolidated Fund via Defra.

Unforecast changes in in-year income

36. If the negative DEL income realised or expected to be realised in-year is less than estimated, Natural England shall, unless otherwise agreed with Defra, ensure a corresponding reduction in its gross expenditure so that the authorised provision is not exceeded.
37. If the negative DEL income realised or expected to be realised in the year is **more** than the figure included in the agreed budget for the year, is available for general purposes and is above a *de minimis* level of £1 million for the whole year, the board may apply to Defra to retain the excess income for specified additional expenditure within the current financial year without an offsetting reduction in DEL resource budget or grant in aid. Defra shall consider such applications, taking account of competing demands for resources. If an application is refused the DEL resource budget and the associated grant in aid shall be commensurately reduced. (These arrangements are subject to the provisions set out in paragraphs 88-91 below). Unforecast negative DEL income below the *de minimis* level may be retained by Natural England without need for application to Defra. Unforecast negative DEL income which is not available for general purposes, but is strictly limited to use for specific additional projects only, may also be retained by Natural England without need for application to Defra.

Build-up and draw-down of deposits

38. Natural England shall comply with the rules that any DEL expenditure financed by the draw-down of deposits counts within DEL and that the build-up of deposits may represent a saving to DEL (if the related receipts are negative DEL in the relevant budgets).
39. Natural England shall ensure that it has the necessary DEL provision for any expenditure financed by draw-down of deposits.

Proceeds from disposal of assets

40. Disposals of land and buildings are dealt with in paragraphs 88-91 below.

Gifts and bequests received

41. Natural England is free to retain any gifts, bequests or similar donations. These shall be treated as receipts. Natural England will be allowed to carry these forward from one year to the next without detriment to their resource budget.
42. Before proceeding in this way, Natural England shall consider if there are any associated costs in doing so or any conflicts of interests arising.

Natural England shall keep a written record of any such gifts, bequests and donations and of their estimated value and whether they are disposed of or retained.

Receipts from the EC

43. Receipts from the European Community (if retained by Defra/Natural England) provide additional DEL spending power for Natural England.
44. Receipts from the EC will be regarded as additional to DEL Resource budgets if best estimates of them, described by type and amount, have been included in the corporate plan, forecast in Natural England's budget estimates submission for the relevant year and taken into account in the Defra's Departmental Expenditure Limit. Any receipts from the EC that have not been the subject of prior notification are subject to paragraphs 36-37 on forecast in-year income and may need to be reported to Defra to assess whether any adjustment should be made to the DEL Resource budget.
45. Unspent balances of EC receipts may be carried forward from one year to another.

Receipts from the National Lottery distributive bodies

46. The Lottery distributive bodies will not normally support projects which are already part of a continuing public expenditure programme and Natural England may, therefore, retain Lottery receipts providing that they are for projects which Natural England would not have otherwise undertaken or paid for with grant in aid. Natural England shall observe the following arrangements:
 - a. Natural England shall produce a forecast of Lottery receipts, in respect of approved projects both in its corporate plan and budget submission; and
 - b. the amount of Lottery grant actually received in the financial year shall be recorded in Natural England's accounts.
47. Defra shall be notified if receipts in excess of forecast levels are anticipated in any year, but the presumption is that such receipts would be retained. Unspent balances of Lottery receipts may be carried forward from one year to another.

Other third party funding

48. Natural England may receive third party funds including grants available to the private sector e.g. landfill operators under the Landfill Tax Credit Scheme and the Aggregates Levy Sustainability Fund. Disbursement of

the funds is to be made in line with the rules of each scheme –
Schedule 5, Paragraph 8.

Relationship with the Rural Payments Agency

49. Schedule 10 sets out Natural England's relationship with the Rural Payments Agency.

Borrowing

50. Natural England shall observe the rules set out in 29.5.1-9 of *Government Accounting* when undertaking borrowing of any kind. Natural England shall seek the approval of Defra to ensure that it has any necessary authority and budgetary cover for any borrowing or the expenditure financed by such borrowing. Medium or long term private sector or foreign borrowing is subject to the value-for-money test in *Government Accounting*.

Reserves

51. No grant or grant in aid shall be paid into any reserve held by Natural England. Funds in any reserve may be a factor for consideration when grant in aid is determined. [Note: this does not relate to the accounting treatment of government grants for capital expenditure which are transferred to the Government Grant Reserve in accordance with the Financial Reporting Manual guidance.]

Expenditure on Staff

Chief Executives and Directors and Staff of Equivalent Rank

52. The approval of Defra is required to the system of pay, terms and conditions of Chief Executives and any other staff not covered by the pay remit. Any proposal to pay outside the normal application of this system shall need the prior approval of Defra.

Pay and Conditions of Service

53. Terms and conditions for staff of Natural England are those set out in its Employee Handbook. Natural England shall provide Defra with a copy of the Handbook and subsequent amendments.
54. Natural England may pay to Board members such remuneration and allowances as the SoS may determine. Reasonable expenses shall be reimbursed.
55. Natural England shall seek the approval of Defra for its pay remit which will meet any requirements imposed by Treasury.

Pensions; redundancy/compensation

56. Natural England's staff shall be eligible for a pension provided by membership of the Principal Civil Service Pension Scheme (PCSPS).
57. Staff may opt out of the occupational pension provided by Natural England.
58. Approval is required from Defra for any proposal by Natural England to move from the existing pension arrangements, or to instigate any redundancy programme (though not for individual cases within such a programme once it has been agreed), or to pay any redundancy or compensation for loss of office outside such agreed redundancy programmes. Proposals on severance payments must comply with DAO (GEN) 11/05. Any member of staff treated outside of this arrangement could be viewed as a novel or contentious payment (paragraph 16).

Non-staff expenditure

Capital Expenditure

59. Subject to being above an agreed capitalisation threshold, all expenditure on the acquisition or creation of fixed assets shall be capitalised on an accruals basis. Expenditure to be capitalised shall include:
 - a. the acquisition, reclamation or laying out of land;
 - b. the acquisition, construction, preparation or replacement of buildings and other structures or their associated fixtures and fittings; and
 - c. the acquisition, instalment or replacement of movable or fixed plant, machinery, vehicles and vessels; and
 - d. all customised or bespoke IT software, other purchased software or Licences and in-house developed software, including internal IT staff costs associated with the development of the IT Software, should be capitalised. Capitalisation of Internal Staff Costs is subject to the criteria laid out in Chapter 3.8 (Capitalisation of internal costs and bought-in services) of the Treasury resource Accounting Manual. Note: Land and buildings classified as non-operational Heritage assets located on designated conservation areas are not capitalised.
60. Proposals for large-scale individual capital projects or acquisitions will normally be considered within Natural England's corporate planning process. Applications for approval by Defra and if necessary the Treasury shall be supported by a business case and formal notification that the proposed project or purchase has been examined and duly authorised by the board. On approval, Defra will specify the nature of the updates it requires on the progress of individual projects.

61. Within its approved overall resources limit, Natural England shall have delegated authority to spend up to £5 million on any individual capital project or acquisition. Beyond that delegated limit (Schedule 4), Defra's prior authority must be obtained before expenditure on an individual project or acquisition is incurred, as set out in the attached Schedule 5. Details of the evidence needed for an increase in the delegated limit are at Schedule 4.

Transfer of funds within budgets

62. Unless financial provision is subject to specific departmental or Treasury controls (e.g. where provision is ring-fenced for specific purposes), transfers between budgets within the total capital DEL budget, or between budgets within near-cash DEL budget or between budgets within non-cash resource DEL budget, do not need departmental approval. Transfers from capital to resource or from non-cash to near cash resource may be requested from Defra. These requests will be considered depending on the financial situation, and Treasury rules will apply.

Lending, guarantees, indemnities; contingent liabilities; letters of comfort

63. Natural England may make loans to its employees under normal terms and conditions of employment (e.g. to cover the purchase of season tickets).
64. Natural England shall not, without Defra's prior written consent, lend money, charge any asset or security, give any guarantee or indemnities or letters of comfort, or incur any other contingent liability (as defined in Chapter 26 of *Government Accounting*), whether or not in a legally binding form.

Grant schemes

65. Grants paid by Natural England shall comply with the generic administrative practices applicable to all public funding (see Schedule 8). In particular Natural England shall have regard to any arrangements approved by the Secretary of State and Treasury in pursuance of:
- Natural England's grant making powers as set out in the Natural Environment and Rural Communities Act 2006,
 - Section 53 of the Finance Act 1996 for Landfill Tax contributions, where Natural England funds (10% of) third party contributions to environmental programmes supported by the Landfill Tax Credit Scheme.

66. Natural England may make grants in connection with any of the activities covered in its corporate plan and business plan. Where there is an intention to offer grants routinely in response to applicants for a particular purpose, a separate "grant scheme" should be drawn up to supplement the general rules applying to all grants. These grant scheme notes will be used as the main reference document for both Natural England officers delivering the grants and interested customers, clearly setting out the goals and objectives of the grant scheme and any non standard elements relating to the rules governing the grants offered. This grant scheme will be agreed in dialogue between those responsible for national delivery of the grants and the relevant policy officers in Defra. Any new grant scheme should typically be introduced with Defra's approval as part of the Corporate Planning cycle.

Loan Schemes

67. Natural England will agree any proposed new loan schemes with Defra before entering into firm arrangements.
68. The terms and conditions shall include a requirement on the recipient to maintain records in relation to the loan to ensure that these are readily available for inspection by Natural England, Defra and the C&AG.

State aids

69. Natural England operates in an area of high risk for contravention of state aids rules. Natural England is responsible for identifying at the earliest possible moment whether or not a proposed form of assistance is likely to contravene state aids rules, and seeking the necessary advice and approvals.

Gifts made, write-offs, losses and other special payments

70. Proposals for making gifts and other special payments (including write-offs) outside the delegated limits set out in Schedule 4 to this document must have the prior approval of Defra (Schedule 6/7). Details of the evidence needed for an increase in the delegated limit are at Schedule 4.
71. Gifts made by management to staff are subject to the requirements of DAO (GEN)13/01 and the associated Cabinet Office guidance on non-pay awards.

Leasing

72. Prior departmental approval must be secured for all property and finance leases. Natural England must have capital DEL provision for

finance leases and other transactions which are in substance borrowing (paragraph 50 above).

73. Before entering into any lease (including an operating lease), Natural England shall demonstrate that the lease offers better value for money than purchase.

Land and Buildings

74. As stated in the Memorandum of Understanding between Defra Estates and Natural England, Defra will hold land and buildings on behalf of Natural England, other than the national nature reserve estate and its associated infrastructure.

Public/ Private Partnerships

75. Natural England shall seek opportunities to enter into Public/Private Partnerships where this would be more affordable and offer better value for money than conventional procurement. Where cash flow projections may result in delegated spending authority being breached, Natural England shall consult Defra.
76. Any partnership controlled by Natural England shall be treated as part of Natural England in accordance with UK Generally Accepted Accounting Principles and consolidated with it. Where the judgement over the level of control is a close one, Defra will consult the Treasury (who may need to consult with the Office for National Statistics over national accounts treatment).

Subsidiary companies and joint ventures

77. Natural England shall not establish subsidiary companies or joint ventures without the express approval of Defra. In judging such proposals, the department will have regard to Defra's wider strategic aims, objectives and current Public Service Agreement (PSA).
78. Any subsidiary company or joint venture controlled or owned by Natural England shall be consolidated with it in accordance with UK Generally Accepted Accounting Principles for public expenditure accounts purposes. Where the judgement over the level of control is a close one, Defra will consult the Treasury (who may need to consult with the Office for National Statistics over national accounts treatment). Unless specifically agreed with Defra and the Treasury, such subsidiary companies or joint ventures shall be subject to the controls and requirements set out in this management statement and financial memorandum, and to the further provisions set out in the supporting documentation.

JNCC expenditure

79. The Joint Nature Conservation Committee (JNCC) was re-established by Part 2 of the Natural Environment and Rural Communities Act 2006. The UK conservation agencies (Natural England, the Countryside Council for Wales, Scottish National Heritage and the Council for Nature Conservation and the Countryside) may only discharge their functions under Section 34 for UK and international matters jointly through the JNCC. The JNCC's funding arrangements are set out in paragraph 14 of schedule 4 to the 2006 Act. The agreed share of the budget to be contributed by the Department, via Natural England, will be explicitly ring-fenced in Natural England's financial settlement letter.
80. The Accounting Officers of Natural England, Scottish Natural Heritage, the Council for Nature Conservation and the DOE Northern Ireland share responsibility for overall expenditure on the JNCC and it has been agreed that the Accounting Officer for Natural England shall have lead responsibility for the JNCC. The additional Accounting Officer responsibilities mirror those outlined in paragraphs 26-30 of the Management Statement. The Comptroller and Auditor General audits the JNCC accounts.

Financial Investments

81. Natural England shall not make any investments in traded financial instruments without the prior written approval of Defra, nor shall it aim to build up cash balances or net assets in excess of what is required for operational purposes. Equity shares in ventures which further the objectives of Natural England shall equally be subject to departmental approval unless covered by a specific delegation.

Unconventional financing

82. Unless otherwise agreed with Defra, Natural England shall not enter into any unconventional financial arrangement.

Commercial Insurance

83. Natural England shall not take out any insurance without the prior approval of Defra, other than third-party insurance required by the Road Traffic Act and any other insurance which is a statutory obligation or which is permitted in 30.3.2a-d of *Government Accounting*.
84. Should a major loss occur, Defra will consider with Natural England what adjustments should be made, if any, to the financial settlement and/or to the targets and actions set out in the corporate and business plans.

85. A Certificate of Exemption for Employer's Liability Insurance has been issued to Natural England.

Role in Emergency

86. Defra shall have a written agreement, in the form of a Memorandum of Understanding, with Natural England about the circumstances in which, in the case of an emergency, an appropriate adjustment to budget out of Defra's funds and/or adjustment to Natural England's targets shall be considered.

Management and Disposal of Fixed Assets

Register of Assets

87. Natural England shall maintain an accurate and up-to-date register of its fixed assets. In line with Treasury requirements, Natural England shall maintain an asset management plan which will demonstrate how it intends to use its assets to support its aims and objectives; and in which it will set out future asset disposal and acquisition plans. A copy of this updated asset management plan will be sent annually to Defra. When consistent with its main functions and responsibilities, Natural England will also seek opportunities to promote efficient asset utilisation, including the sharing or joint ownership of assets with other bodies.

Disposal of Assets

88. Natural England shall dispose of assets which are surplus to its requirements. Assets shall be sold for best price, taking into account any costs of sale and in accordance with *Government Accounting*, Chapter 24, DAO letters and the requirements of the Office of Government Commerce.
89. Natural England shall normally retain the receipts derived from the sale of assets provided that:
- a. Defra is content for Natural England to retain these receipts and not reduce grant-in-aid accordingly;
 - b. the net book value of the asset(s) disposed of is used to finance other capital spending;
 - c. the profit/loss on disposal is treated as non-cash resource DEL as required by the Treasury Consolidated Budgeting Guidance
 - d. Defra receives prior notification of expected sales receipts so that they may be included in the relevant parliamentary Estimate as non-budget Appropriations-in-Aid; and
 - e. total sales in any financial year do not exceed 3% of Natural England's grant-in-aid (see PES (98)5).

90. If, notwithstanding the above, Natural England plans to dispose of assets which have been purchased, improved or developed with Exchequer funds and the receipts amount to more than £1 million, or where the planned disposal has unusual features of which Parliament should be aware, Parliamentary approval shall also be secured before the receipts can be reinvested. The receipts shall therefore be notified to Defra, which shall then submit an Estimate seeking approval for the receipts to be appropriated in aid by Defra and for a corresponding increase in Natural England's grant in aid. If the proposed new investment exceeds Natural England's relevant delegated authority Defra's approval will be needed.
91. If the criteria in paragraph 89 above are not met, any receipts shall be dealt with in line with the rules on surplus in-year receipts (paragraph 37 above).

Recovery of grant-financed assets

92. Where Natural England has financed expenditure on capital assets by a third party, Natural England shall make appropriate arrangements to ensure that any such assets above a value of £2000 are not disposed of by the third party without Natural England's prior consent.
93. Natural England shall therefore ensure that such conditions are sufficient to secure the repayment of the Exchequer's due share of the proceeds of the sale, in order that funds may be surrendered to the department.
94. Natural England shall ensure that if the assets created by grants made by Natural England ceased to be used by the recipient of the grant for the intended purpose, a proper proportion of the value of the asset shall be repaid to Natural England for surrender to Defra. The amounts recoverable under the procedures in paragraphs 87-88 above shall be calculated by reference to the best possible value of the asset and in proportion to the Exchequer's original investment(s) in the asset.

Sale, purchase, leasing or renting of land

95. Unless prior Departmental approval to do otherwise is obtained, Natural England shall use the services of, and act in accordance with, the advice of suitably qualified private sector valuers selected from a list of Defra and OGC Framework Contractors, or the District Valuer in connection with transactions involving the sale, purchase, leasing or renting of land or property or associated rights. This requirement applies to Natural England's direct expenditure and any grant or loan payments it makes.

96. Prior to the disposal of any heritage asset (not valued in Natural England's balance sheet) Natural England must:
 - obtain professional advice as to the open market value of the site;
 - document the justification for the method of disposal chosen or accepting less than market value;
 - seek the approval of Defra where any discount exceeds £350,000 for sales or £75,000 annually for leases.
97. Prior to the disposal of any other land and building declared surplus, Natural England will first register the property with Defra, English Partnerships (in the case of freehold property) and the Office of Government Commerce.

Budgeting Procedures

Setting the annual budget

98. Each year, in light of decisions by Defra on Natural England's updated draft corporate plan (paragraphs 53-57 of the Management Statement), Defra will send to Natural England:
 - a. A formal statement of the annual budgetary provision allocated by Defra in the light of competing priorities across the department and of any forecast income approved by Defra. It will detail DEL resource and capital as well as grant-in-aid; and
 - b. a statement of any planned change in policies affecting the Natural England.
99. Natural England's approved annual business plan will take account both of its approved funding provision and of any forecast receipts, and will include a budget of estimated payments and receipts together with a profile of expected expenditure and of draw-down of any departmental funding and/or other income over the year. These elements will form part of the approved business plan for the year in question (paragraph 58 in the Management Statement).
100. Natural England may not exceed the budget limits set by Defra. Controls apply in respect of alteration of the balance between resource and capital budgets. Any movement from capital to resource budgets or from non-cash to near-cash resource will require prior approval from Defra. Requests such as these will be considered depending on the financial situation, and Treasury rules will apply. Prior approval from Defra will also be required for any movement, over a *de minimis* level of £1 million per year, from near-cash resource to capital budgets. Natural England shall classify its income and expenditure according to the categories agreed with Defra.

101. Any grant in aid provided by the department for the year in question will be voted in the department's Estimate and will be subject to Parliamentary control.

General conditions for authority to spend

102. Once Natural England's budget has been approved by Defra (and subject to any restrictions imposed by the Statute/the Secretary of State/this document) Natural England shall have the authority to incur expenditure approved in the budget without further reference to the department, on the following conditions:
- a. Natural England shall comply with the delegations set out in Schedule 4 of this document. These delegations shall not be altered without the prior agreement of Defra;
 - b. Natural England shall comply with the conditions set out in paragraph 16 above regarding novel, contentious or repercussive proposals;
 - c. inclusion of any planned and approved expenditure in Natural England's budget shall not remove the need to seek formal departmental approval where any proposed expenditure is outside the delegated limits or is for new schemes not previously agreed;
 - d. Natural England shall provide Defra with such information about its operations, performance individual projects or other expenditure as the department may reasonably require (paragraph 103-109 below).

Providing monitoring information to the department

103. At the beginning of April each year, Natural England shall provide Defra with an expenditure profile of the forthcoming financial year. The profile shall identify its forecast expenditure at individual expenditure classification level.
104. Natural England shall provide Defra with a monthly monitoring report in a format which Defra will provide, at expenditure classification level showing:
- actual spend;
 - an analysis of the cumulative outturn against forecast indicating proposed action when necessary;
 - spending forecasts for the remaining months and details of the forecast outturn by resource headings for the year.
105. Natural England will provide the sponsor team with the monthly monitoring return within eleven working days of the start of each month as from April 2007 and will work towards and endeavour to meet that target from October 2006. The requirements of this paragraph will be subject to review in September 2007.

106. Natural England shall provide Defra with, as a minimum, information on a monthly basis which will enable the satisfactory monitoring by the department of:
 - a. Natural England's cash management;
 - b. its draw-down of any grant in aid
 - c. any other data required from time to time for the HMT Monitoring Systems, in addition to that set out in paragraph 103 above.
107. Natural England shall provide Defra, as soon as practicable, each month with a copy of the financial report prepared for the NE executive board.
108. Natural England shall also provide Defra with a quarterly balance sheet statement.

Year-End Position

109. Natural England shall provide Defra with each financial year's draft year-end resource accounts by the end of May each year. The timetable for submission of the final signed accounts shall be agreed annually between Natural England and Defra, and is expected to be in good time to allow copies to be laid before Parliament before the summer recess.

Banking

Banking Arrangements

110. Except insofar as banking arrangements are provided through the Shared Services Organisation, Natural England's Accounting Officer is responsible for ensuring that Natural England's banking arrangements are in accordance with the requirements of Government Accounting and the Treasury guidance document *Departmental Banking: A Manual for Government Departments*. In particular, he/she shall ensure that the arrangements safeguard public funds and are carried out efficiently, economically and effectively.
111. He/she shall therefore ensure that:
 - a. these arrangements are suitably structured and represent value for money, and are reviewed at least every two years, with a comprehensive review, usually leading to competitive tendering, at least every five years;
 - b. sufficient information about banking arrangements is supplied to the department's Accounting Officer to enable the latter to satisfy his/her own responsibilities (paragraphs 44-46 of the Management Statement);

- c. Natural England's banking arrangements shall be kept separate and distinct from those of any other person, NDPB or organisation;
- d. adequate records are maintained of payments and receipts and adequate facilities are available for secure storage of cash.

Compliance with instructions and guidance

Relevant documents

112. Natural England shall comply with Government guidance and instructions, including the following:
- a. *Government Accounting*, including in particular the Accounting Officer memorandum for NDPBs (reproduced in Annex 8.2 of *Government Accounting*);
 - b. *Non-departmental Public Bodies – a Guide for Departments* (the "NDPB Guide"), issued by the Cabinet Office;
 - c. *Government Internal Audit Standards*, issued by the Treasury;
 - d. *Managing the Risk of Fraud*, issued by the Treasury;
 - e. Government Financial Reporting Manual
 - f. the *Fees and Charges Guide*, issued by the Treasury;
 - g. *Departmental Banking: A Manual for Government Departments*, issued by the Treasury;
 - h. relevant "Dear Accounting Officer" (DAO) letters, issued by the Treasury;
 - i. *Regularity and Propriety*, issued by the Treasury;
 - j. the Consolidation Officer memorandum, issued by the Treasury;
 - k. relevant "Dear Consolidation Officer" (DCO) letters, issued by the Treasury;
 - l. Treasury Green Book

Review of financial memorandum

113. This financial memorandum is expected to be reviewed initially after three years and following the review of Natural England's functions in 2011.

Schedule 1 – Categories of Expenditure

Natural England's Categories of Expenditure shall be as follows:

RESOURCE DEL	CAPITAL DEL
Subsidies to the private sector (profit making firms) (C10)	Profit/loss on sale of other tangible capital (X16)
Current expenditure on goods and services, and receipts (B35)	Book value on sale of other tangible capital (E16)
Current grants to the private sector (persons and not for profit bodies) (D10) (EU grants for revenue expenditure netted off under this heading.)	Expenditure on the purchase of existing buildings. (E10)
Current transfers abroad (D20)	Book value on sale of existing buildings (E11)
	Cap grants to the private sector- persons and non-profit-making bodies (G20)
Pay (A15)	Formation of tangible capital: Dwellings, other new construction, vehicles (E15)
	Capital grants to the private sector – companies (G10)
Income from services (B35)	Purchase of land (E06)
	Profit and loss on sales of existing buildings (X11)
RESOURCE AME	
Depreciation under RAB (B90)	
Cost of Capital charges under RAB (B99)	
Interest paid to or received from the private sector (S10)	
Provisions for pensions for staff where body has theme release (L16)	
Provisions for pensions for staff where body has theme: take-up and revaluations (L15)	
Impairments of fixed assets (B95)	

N.B Joint Nature Conservation Committee (JNCC) – see paragraphs 79-80
 These categories of expenditure include Natural England's ring fenced contribution to the JNCC. This contribution will be split appropriately between Resource and and Capital DEL and Resource AME.

Schedule 2 - Timetable for submission of key financial information to Defra

<p>April</p> <p>April and each successive month Within 11 working days</p> <p>Third week of April and each successive month</p>	<p>Provide an expenditure profile of the forthcoming financial year (para 103)</p> <p>Provide an annually updated asset management plan (para 87)</p> <p>Provide a monitoring report at individual expenditure classification level (para 104) showing:</p> <ul style="list-style-type: none"> • Actual spend • An analysis of the cumulative outturn against budget indicating proposed actions when necessary • Spending forecasts for the remaining months giving a forecast outturn for the year <p>Application for grant in aid for following month, including information of cash management and draw down of grant in aid. (paragraphs 22 and 106)</p>
<p>May</p> <p>End of May</p>	<p>Reports on write-offs, losses, special payments and gifts (paragraph 70)</p> <p>Draft resource accounts and analytical review for the preceding financial year (para 109)</p>
<p>First week in June</p> <p>June</p>	<p>Draft annual report to be submitted two weeks before publication (paragraph 72 Management Statement)</p> <p>Annual review of internal audit and opinion to be submitted to the sponsor team. (paragraph 69 Management Statement)</p>

	Annual report on fraud and theft. (paragraph 70 Management Statement)
December	<p>Draft Corporate Plan for the following year setting out targets and resource requirements (para 53 of Management Statement).</p> <p>Draft Business plan to include, for the following financial year (para 58 of Management Statement):</p> <ul style="list-style-type: none"> • a budget of estimated payments and receipts • a profile of expected expenditure • a profile of draw-down of grant in aid to nearest £ million
31 March	Final draft of Corporate Plan setting out targets and planned resource expenditure for the following year (paragraph 53 Management Statement)

Schedule 3 - Grant-in-aid guidance note and claim form

As set out in paragraph 22 payments of grant-in-aid will normally be made monthly in advance according to demonstrated need following receipt of a grant claim from Natural England. In calculating grant-in-aid requirements, Natural England shall take into account any cash surpluses or losses arising from previous grant-in-aid claims. Natural England's grant-in-aid claims to Defra shall set out:

- a. its profiled cash requirement for the current financial year with an appropriate explanation of any changes;
- b. the cash grant-in-aid from Defra that it has received during the current financial year;
- c. the forecast cash requirement for the month concerned;
- d. the estimated cash balance currently held by Natural England; and
- e. Natural England's cash grant-in-aid requirement for the month concerned including the date(s) on which the grant-in-aid is required.

Claims shall normally be submitted to Defra not less than 7 days before the end of the month immediately prior to that for which grant is being claimed. The format for the claim is below.

Natural England

Cash grant-in-aid draw down request

For: _ month/year _

£K

Total Cash grant-in-aid to date

Forecast Cash requirement for _ month _

Less estimated cash balance @ _ month _

Cash advance required for _ month _

I certify that conditions applying to the use of funds to date, as set out in the Financial Memorandum, have been observed and further funds are required for the proper exercise of Natural England's functions, as approved by Defra where necessary.

Signature

Date

Schedule 4 – Financial Delegations

As referred to in Paragraphs 11, 61, 70 and 102.

Capital Expenditure

Individual project delegation Limit	Approvals Process
Up to £5 million	May be approved by Natural England, although authority to proceed with building projects (other than the National Nature Reserves estate) shall be obtained through the Sponsor team from Defra's Estates Division for minor works and building projects between £0.5M and £5M.
Between £5 million and £100 million	As above plus approval must be sought from the Defra Permanent Secretary via the Finance Director.
Over £100 million	As above plus approval must be obtained from Treasury.

Other Expenditure

Expenditure Type	Delegated Limit (per annum)
Grants	£10m total or £1m
Loans	The delegation level for loans will be set when the loan scheme is approved. See paragraph 67
Gifts	£10,000 (gifts by management to staff will be subject to the requirements of DAO(GEN) 13/01 and the associated Cabinet Office guidance on non-pay rewards);
Special payments, other than gifts	£100,000
Write off of losses	£100,000 – (Further details in Schedule 7)

Cases above these limits require Defra's prior approval. Please refer to Schedules 5, 6 and 7 below for further details.

Increases in Delegated Limits

Should Natural England want to increase the levels of the delegated limits set out in this schedule, they will need to submit a business case to Defra. Depending on the proposed change, this may need to be approved by the Permanent Secretary and, in some cases, the Treasury.

Schedule 5 –Approval of capital expenditure and grants and loan schemes above delegated limits

As referred to in Paragraphs 48 and 61.

1. This schedule describes the information which Defra will need in order to consider for approval expenditure above the delegated limits set out in Schedule 4. It also advises on timing.

Information required

2. Name of project, location, programme or function(s) to which it relates and proposed start and completion dates.
3. A description of the project, stating in non-technical terms what it is intended to achieve (including key aims and objectives), why Natural England considers it is necessary and how it will contribute to the outcomes identified in the Natural England corporate plan.
4. Details of funding, including where appropriate source and amount of non grant in aid funding, broken down between financial years and public and private sector, over the life of the project.
5. Detailed cost breakdown and present value of total gross cost.
6. Alternative options considered, including “do nothing”, whether the preferred option is cheapest in net present value terms, and if not why it is nonetheless preferred. The full appraisal should normally be attached and in accordance with the Treasury Green Book procedure.
7. For projects with a life beyond the funding period, especially where assets are created, an assessment of longer term viability/sustainability.
8. Details of how the project will be managed and how its success will be evaluated, what targets and performance indicators have been identified and what monitoring will be carried out.

Timing

9. Natural England shall submit formal proposals for projects above delegated limits in good time to allow full consideration by Defra. It should normally allow at least 15 working days before a decision is required and, for larger, more complex or contentious projects, at least 25 working days is recommended. Defra may require other information to be provided in order to enable it to make a decision. The key to smooth approval, however, will be the involvement at the earliest stage when a major grant project is being discussed.

Schedule 6 - Approval of Special Payments and Gifts above delegated limits

As referred to in Paragraph 70

1. Requests for departmental approval of special payments and gifts shall include the following information, which shall also be taken into consideration by Natural England for cases within its delegated limits:
 - a. the nature and value of the payments.
 - b. the frequency of payments: e.g. are they one off or regular.
 - c. what will they achieve for Natural England: e.g. do they represent value for money.
2. Natural England shall submit proposals for projects above delegated limits in good time to allow full consideration by Defra. It should normally allow at least 15 working days before a decision is required.

Schedule 7 - Approval of the write-off of losses falling within and above the delegated limit

As referred to in Paragraph 70

1. Requests for approval to write off losses in excess of the delegated limit shall be set out under the headings below. This format shall also be used by Natural England in dealing with cases falling within its delegated limit. All cases involving fraud - proven or suspected - must be referred to Defra immediately they come to light, irrespective of the amount involved. This requirement applies both to cases involving a member of Natural England and to those involving a third party (e.g. grant recipient or contractor).
 - a. The amount of the loss.
 - b. How and when it occurred.
 - c. Who was primarily responsible.
 - d. Was it caused by negligence.
 - e. Is there a suspicion of fraud.
 - f. Have the police been informed.
 - g. Is criminal prosecution, or are civil proceedings, proposed.
 - h. Can insurance be claimed.
 - i. What other steps can be taken to recover the loss.
 - j. What steps are necessary to prevent a recurrence.
 - k. Any other relevant information.
 - l. Conclusion and recommendations.

Schedule 8 - Grant guidance

As referred to in Paragraph 65

Introduction

1. Grants paid by Natural England shall comply with administrative practices applicable to all public funding. The guidance set out here subsumes the Department's 1986 guidance on financial management principles to be observed in direct grants to voluntary bodies (known as the "Solesbury Principles") and associated practice notes issued in August 1988. These general principles should be applied to all grants, which include revenue and capital grants to voluntary bodies, private sector undertakings and individuals, local authorities and other public bodies. Natural England should also have regard to the guidance in *Promoting value for money from grants (National Audit Office, 1991)*.

Aims and Objectives

2. Natural England shall set out for applicants the aims and objectives relevant to the grant scheme. Grants to voluntary organisations should only be offered towards the costs of specific activities or defined projects which are relevant to Natural England's own aims and objectives, as set out in its corporate plan.

Criteria

3. Grants should be made available for a fixed term, normally not exceeding three years. The continuance of grant to the second or third (or any subsequent) years should, however, be made subject to satisfactory performance and compliance with grant conditions. Where Natural England is funding a project which is innovative or developmental and expected to continue if successful, the proportion of expenditure supported by grant in the second and subsequent years should normally be tapered. It should be made clear that there can be no commitment to renew the grant after the initial period has expired.
4. Natural England funding should not displace funding more properly provided by some other agency or Department and must not be used to circumvent the eligibility criteria of other organisations' schemes. If more than one public sector organisation has a policy interest in the work that justifies the provision of funding, each public funding body should aim to grant-aid specific elements of the project (see also paragraph 10 below). So far as it is practicable, separate and clearly identifiable outputs must be established in such circumstances.
5. No voluntary body should be allowed to rely 100% on Exchequer¹ funding for a project: for other organisations combined Exchequer funding of any project

¹ Exchequer funds = central government's central financing arrangements, based on the Consolidated Fund and National Loans Fund and managed by the Treasury and the Bank of England. (Glossary entry, Government Accounting, Annex 24.4 paragraph 2.)

should not normally exceed 50% of eligible costs. When calculating the proportion of costs met by the Exchequer, the following points should be taken into account:

- a. grants from the National Lottery distribution bodies are treated as non-public sector funds (notwithstanding the National Accounts classification);
 - b. in cases which involve grant for land purchase, where a contribution is also made by the National Heritage Memorial Fund (NHMF), the NHMF contribution shall not be counted as Exchequer funding. In such cases the ceiling on the Natural England or other Exchequer input shall be 50% of total cost;
 - c. although EC funding is an Exchequer source of funding, EC funds may be used to provide matching funding for Natural England's grants.
6. Purchase of land by a voluntary body, at a price more than 10% above open market valuation by the District Valuer, or other suitably qualified and independent private sector valuer, shall be ineligible for grant support from Natural England. In cases where the price equals or does not exceed the open market valuation by more than 10% grant will be limited to the percentage rate on the valuation specified for the grant scheme, not the actual selling price, leaving the purchaser to cover the shortfall. In cases where the price is less than open market valuation grant will be calculated on the actual selling price.

Applications

7. No grant shall be offered without the receipt of a duly completed application form, designed to be used in conjunction with a scheme of appraisal. Applicants are entitled to clear guidance about the standards Natural England will work to and the conditions that will be applied in considering their applications. The details sought from an applicant should include:
- a. the nature, status and purpose of the body, including details of past, present and planned activities;
 - b. financial position (e.g. annual accounts and whether, and by whom, these are audited);
 - c. a description of the proposed project to be part funded and how it will help to achieve stated Natural England objectives;
 - d. an explanation of alternative funding sources investigated;
 - e. the planned project budget, setting out income and expenditure forecasts for each year, including other sources of funding, whether public or private sector;
 - f. expected results expressed as targets (quantified if possible) and beneficiaries;

- g. how results will be identified and monitored;
- h. whether volunteers are to be used;
- i. number of staff involved and their cost of employment;
- j. whether there is clear evidence of financial hardship likely to warrant an advance payment of grant.

Appraisal

- 8. Applications should be checked in detail against the grant scheme criteria and evaluated in terms of:
 - a. relevance to Natural England's aims, objectives and priorities;
 - b. economy, effectiveness and value for money of the work proposed;
 - c. monitoring arrangements;
 - d. competence and financial viability of the organisation/individual.
- 9. Natural England should provide clear desk instructions for appraising applications. Checklists should correspond with published criteria and other rules to establish general eligibility.
- 10. For grants of more than £10,000, if the applicant is seeking support from a number of other public bodies, the proposed package of support should first be considered as whole, with consultation between funding partners where appropriate, to ensure that the project gives good value for the public sector input (for example, in terms of leverage ratios). If this initial assessment shows that value for money will be obtained, Natural England should then consider and determine its contribution in terms of its own objectives and targets. Checks should be made to ensure that funding from multiple sources does not lead to double funding of individual items.
- 11. Natural England should ensure that there is separation of duties between appraisal of applications and approval of offers.

Grant Offers and Conditions

- 12. Grants should only be offered where the proposed project would not otherwise proceed or when Natural England's participation as a funder would be particularly advantageous.
- 13. Applications in respect of projects which have already started, or which are completed, may not be considered for grant support.
- 14. Grants must be formally offered and accepted in writing. Grant offers should specify the project details and should include the conditions under which the grant is being given. In accordance with specific scheme guidance, grant conditions should:

- a. require that Natural England funds must not be used for party political advocacy;
 - b. require that Natural England's grant is acknowledged in any publicity material produced by the grant recipient about the aided project;
 - c. reflect any uncertainties identified (e.g. that second and third year funding is subject to satisfactory progress and compliance with other grant conditions);
 - d. require that if cost variations are allowed these should be restricted to a predetermined limit (e.g. 10%; if this is breached, the whole application should be reassessed for value for money);
 - e. set out the appropriate procedures for verifying that the grant has been spent for the purposes intended;
 - f. set out the circumstances under which the grant may be withheld or required to be repaid, such as in the event of overpayment, failure to carry out the agreed work, failure to fulfil other grant conditions, change in ownership or control of the organisation, etc;
 - g. include arrangements for clawback of grant in the event that assets purchased with a Natural England grant are sold (Annex 24.4 to Chapter 24 of *Government Accounting* refers) and, in the case of grant to charitable bodies, take suitable steps to protect the position of the Exchequer (see paragraph 34 of that Annex).
15. For grants of more than £25,000, where alternative sources of income (including receipts earned) are in prospect, grants should be tapered to ensure that there is an incentive to obtain funds from other sources and to avoid double funding. This should be normal practice for initial grants for innovative ventures. "Pump-priming" grants need to be matched by commitments to raise funds from elsewhere on an agreed timetable. Where the objectives of the scheme include encouraging partnership with the private sector, the payment of grant should be made conditional on the raising of contributions from non-government sources.

Grant Claims

16. Payments of Grants are to be:
- a. submitted on Natural England's standard claim form
 - b. paid quarterly in arrears

The exception to this rule is in respect of where a payment of up to 25% of the grant can be paid in advance where there is clear evidence of 'financial hardship'.

NOTE: In all cases where a grant recipient fails to carry out work for which grant was given, or to carry it out to the required standard, Natural England shall claw back the grant.

17. Advance Payments may be made against grant offers made to 'Voluntary and Community' groups where formally requested. The general maximum advance is set at 50% with the maximum penultimate payment set at 75%.
18. Where Grants are awarded for projects of more than 1 year in duration then the advance payment is limited to the maximum of the yearly cost and not the overall project cost.
19. Levels of internal delegation for authorising grant claims should be defined. Desk instructions should cover arrangements for handling variations and late claims.

Monitoring and evaluation

20. Natural England shall monitor performance to determine whether the agreed project outcomes are being achieved and whether the project continues to represent value for money by examination of progress reports on and, where practical, the inspection of the agreed project. The frequency and nature of such inspections should normally be set out in scheme guidance notes and should be in proportion to the absolute or percentage size of individual grants. Wherever possible, monitoring criteria should be agreed in advance of offering a grant. They should relate directly to main project features (e.g. budget, final output targets, other fund raising) and may need to address new issues (e.g. variations, renewal of funding). A specific nominated officer within Natural England should be responsible for monitoring progress and expenditure and ensuring compliance with the grant conditions for each project.
21. The grant recipient shall agree with Natural England:
 - a. someone to be responsible for the overall management of the project work and to report progress;
 - b. someone (who may be the same person) to be responsible for the financial arrangements for the project including the submission of claims and financial information such as accounts.
22. Natural England shall verify that the grant has been spent for the purposes for which it was given, and in accordance with the conditions to which it was subject. This verification may be provided by means of either:
 - a. a report from a Natural England employee with the necessary expertise; or
 - b. the production of a verifiable statement from a person with the necessary expertise (e.g. a professional accountant) confirming an independent examination of payments and receipts; or
 - c. a report from a Registered Auditor; or
 - d. a certificate provided by a surveyor or architect, or by a relevant professional who can demonstrate membership of a body which requires professional indemnity insurance as a condition of membership;

providing that Natural England's statutory auditor is satisfied that the verification procedures followed are appropriate and adequate for the type of grant in question.

23. If monitoring gives rise to questions of regularity or propriety, Natural England shall undertake a thorough investigation of the case. If it is confirmed that there has been irregularity or impropriety, or if such suspicions remain, the case should be reported to Defra.
24. Where relevant, evaluation of programmes/projects should be conducted in time to inform any applications for further funding, based on:
 - a. the success of the funded activity in its own terms (targets, costs etc);
 - b. the continuing relevance to the aims and objectives of Natural England;
 - c. any alternative means of achieving the same objectives;
 - d. the competing demands of new projects;
 - e. the performance of the body to which the grant has been made.
25. Review arrangements should be consistent with the scale and/or percentage of funding provided. For small or short term grants, monitoring reports will suffice.

Schedule 9 - Format for report on single tenders

1. Paragraph 11 of the Financial Memorandum calls for a report each May on contracts over £100,000 which were let by single tender.

2. The report shall contain the following information in respect of each contract:

a. Name of project, location, programme or function(s) to which it relates, name of contractor, cost; and

b. justification for single tender action.

Schedule 10 – Natural England’s relationship with the Rural Payments Agency and the arrangements for the RDPE monies

As referred to in Paragraphs 28 and 49.

1. Defra has overall responsibility for rural development and agri-environment scheme policy. As part of the Rural Development Programme in England (RPDE), Natural England will be responsible for targeting and managing certain agri-environment and Energy Crops schemes on the Department’s behalf. Natural England will be accountable for how these funds are spent and will include this activity in their Corporate Plan. The budget for the RDPE will be held by Defra and will therefore not form part of Natural England’s grant in aid. Defra will delegate the authority to Natural England’s Chief Executive Officer to enable Natural England to enter into contracts under the Programme’s agri-environment schemes and to authorise claims on existing contracts up to specified limits.
2. The Rural Payments Agency is responsible for paying eligible agri-environment claims and accounting for those payments in accordance with EU legislation. The Rural Payments Agency must therefore ensure that those paying agency functions delegated to Natural England fully meet accredited paying agency obligations. Defra will delegate authority to the Rural Payments Agency to make payments from Defra’s RDPE budget on eligible claims on contracts as authorised by Natural England. Defra will account for RDPE domestically in its Interim and Year-End Accounts.
3. The relationship between Defra, Natural England and the Rural Payments Agency is specified in a Service Level Agreement (SLA). This sets out the functional delegations to Natural England, in respect of administration of agri-environment schemes in accordance with EU legislation and accreditation criteria. Natural England undertake to meet the specified requirements in carrying out any delegated functions. The SLA also sets out the financial risk of disallowance which Natural England may attract. As a general principle, in the event of disallowances incurred as a direct result of failure by Natural England to fulfil its obligations in the administration of RDPE, Defra will consider, on a case by case basis, whether it would be appropriate for part or all of the penalty to be deducted from the resources Defra makes available to Natural England, taking into account Natural England’s ability to meet those penalties and the implications for its other programmes.