

NATURAL ENGLAND BOARD

Meeting 5
6 June 2007

Paper No: **NEB P07 18**

Title: **Chief Executive's Report**
Sponsor: **Dr Helen Phillips, Chief Executive**

1. Purpose

- 1.1 The purpose of this paper is to provide the Board with a summary of current strategic issues and a full end of year summary of Natural England's performance for 2006 – 2007.

2. Recommendations

- 2.1 It is recommended that the Board:
1. Notes the summary of the current strategic issues;
 2. Notes our performance of delivery against our Strategic Direction;
 3. Notes the unaudited financial position for Natural England for 2006/07;
 4. Agrees that the Audit Committee on 18 June is delegated authority to recommend that the Annual Report and Accounts are signed off by the Chief Executive/Accounting Officer;
 5. Notes the balanced budget position for 2007/08;
 6. Notes that there are no items requiring Board approval to comply with the Financial Memorandum and Scheme of Delegation.

3. Report

3.1 Strategic Issues

- 3.1.1 The Chief Executive will provide a verbal report on the following current strategic issues:
- Rural Development Programme for England approval;
 - Review of Environmental Stewardship;
 - Launch of consultation on coastal access;
 - Launch of the Planning White Paper;
 - Launch of the Energy White Paper;
 - Defra renew;
 - Outcome of spending review.

3.2 Delivery on our Strategic Direction

- 3.2.1 A report of Natural England's performance for 2006-2007 is provided at Annex 1. The report covers the full year and is presented as a balanced scorecard. The scorecard includes four key elements:
- Delivery against our Strategic Direction;
 - Our positioning profile and identify;
 - Our people and innovation; and

- Our business performance.

3.2.2 The scorecard provides a snapshot of the organisation's overall performance throughout the year. In line with the Board's decision at the October meeting, assessments have been made against where we expected to be by the end of the year, rather than where we would like to be.

3.2.3 A summary of our 2006 – 2007 performance and key highlights in each of the four areas is outlined below.

3.3 Delivery against our Strategic Direction

3.3.1 Natural England delivered on all of the targets in our Strategic Direction with the exception of the SSSI target.

Key highlights include:

3.3.2 Outcome 1

- We delivered Environmental Stewardship (ES) within 97% of the UK budget and 95% of the EU budget including Classic schemes;
- A new RDPE budget which provides £2.9b over 7 years for ES including over £500m for the High Level Scheme;
- We secured £1.6m of additional funding to carry out marine survey work to provide the evidence base for the establishment of marine protected areas.

3.3.3 However, the delivery of the SSSI target across all partners of the SSSI target milestone fell short by 3% (75% against 78%).

3.3.4 Outcome 2

- We worked with key stakeholders to develop and provided advice to the Government on the best way of improving access to the coast;
- We launched the Health Campaign and developed a programme with health professionals to promote access and use of the natural environment;
- We developed a £25m programme to improve access for the most deprived communities.

3.3.5 Outcome 3

- We developed our position on CAP reform and progressed the agenda with the Environment Food and Rural Affairs Committee, the NFU and through the Defra Strategy Refresh and Future of Farming initiatives;
- We established and commenced delivery of the Catchment Sensitive Farming Project;
- We provided significant input into planning at all levels, including Regional Spatial Strategies and also successfully delivered regulatory functions such as wildlife management.

3.3.6 Outcome 4

- The Marine White Paper includes the establishment of marine protected areas and marine spatial planning;
- The Draft Climate Change Bill includes adaptation;
- We have ensured that green infrastructure strategies are in place for all major growth areas;
- We established the Natural England Multiple Objectives (NEMO) project in nine pilot catchments and also developed four climate change pilot projects.

4. Our positioning profile and identify

- We have established ourselves as a new organisation with a new purpose;
- We are developing a clear and distinctive voice on a range of current and emerging issues;
- Our launch attracted good publicity and was followed up by good media coverage on coastal access and the health campaign;
- Adverse media coverage through a period of dramatic change has been limited;
- We are building a solid relationship with Defra and are engaging constructively across their agenda;
- We entered into a new partnership agreement with the unions.

5. Our people and innovation

- We established the Executive Leadership Group and put in place new management arrangements for all 2,500 staff to create the teams we need to deliver on our Strategic Direction;
- We delivered induction training for all 120 managers;
- We involved all 2500 staff in the on-going development of our performance management system;
- We established our transition programme to continue to engage staff and continue to build our culture and performance as an organisation.

6. Our business performance

- Our forecast outturn for the year is within £75k of our Grant in Aid budget - less than 0.1% variance;
- Our £12.9m budget cut for 2006/7 was restored in 2007/8;
- We delivered on our £3m target for efficiency savings;
- We established our corporate governance framework;
- We have established our carbon footprint and put in place a carbon accounting system;
- Our finance and payroll systems have operated effectively.

7. Financial Forecast for 2006/07 and budget for 2007/08

7.1 Board Members will be aware that this has been a challenging financial year with:-

- £12.9m reduction in budget announced in year;
- the need to have a 4 month moratorium on spend whilst we resolved over £30m of unfunded pressures;
- implementation of a new financial system and associated processes from October, with the need for all staff to get quickly up to speed on their new roles and the new processes to ensure uncommitted budget was aligned to Strategic Direction priorities and effective reporting and monitoring of the budget was in place;
- Over £22.m (28%) of the programme remained to be spent in March.

7.2 Consequently, it is pleasing to report that the forecast outturn for the year is within £75k of our Grant In Aid budget which is less than a 0.1% variance. We have also fully spent the MRD budget of £15m held by Defra. This is a significant achievement.

7.3 Annex 2 sets out the unaudited summary financial statement for the consolidated position for Natural England for the year to 31 March 2007, including the founding bodies' expenditure. The outturn is subject to external audit of the Annual Report and Accounts by NAO commencing on 21 May and scrutiny by the Audit Committee on 18 June prior to being laid before Parliament by the summer recess.

7.4 It was signalled in the report of the Audit Committee meeting on 27 March (NEB P07 13) at the April Board meeting that the Board is recommended to agree that the Audit Committee

on 18 June is delegated authority to recommend that the Annual Report and Accounts are signed by the Chief Executive/Accounting Officer. This is necessary because the June Board meeting is too early as the Annual Report and Accounts have not been finalised and audited and the July Board meeting is too late because of the timing of the Parliamentary recess.

- 7.5 We have utilised all of our 2006/07 Grant in Aid budget, which is an improvement on the small underspend of £2m (less than 1%) forecast at the last Board. As signalled at the last meeting we have carried out a more detailed review of the significant accruals of over £12m which has improved the outturn. We have identified, in carrying out quality checks on the financial reports from Defra Shared Services Directorate to support the production of the Annual Report and Accounts, miscoding of expenditure between running costs and programme spend on the monitoring reports. This has not altered the net spend. This was not revealed when we were monitoring the budget on a high level basis not least as we had significant spend and accruals in March. The reports have been amended so that expenditure is correctly allocated and orders reviewed so that coding is correct for 2007/08 spend.
- 7.6 Natural England is continuing to work with Defra's Shared Services Directorate to improve the service Natural England receives especially around the provision of management information. The quality of this service has been less than satisfactory in April and May and has hindered the production of the year end accounts, caused significant rework and has caused a general lack of confidence. These issues have been formalised with Defra. It is still our intention to agree a Service Level Agreement once reporting metrics and standards of service can be agreed.
- 7.7 At the April Board meeting, the Board was advised that the task of balancing the 2007/08 budget between the potential calls on programme expenditure and the agreed programme expenditure budget was underway. As indicated in the Board update:-
- We reached agreement on a balanced budget within the overall budget envelope of the corporate plan;
 - We established a project to develop the process of using HLS to deliver contributions to the SSSI PSA;
 - We have re-inforced budgets in key areas for Natural England, which will avoid risks to our reputation, to continuity of key partnerships, to contractual commitments, and will strengthen new areas that are significant for our future;
 - We have achieved this by adjusting other budgets in a number of areas where we still have flexibility in the way we achieve our targets and have options in how we use programme funds.

8. Scheme of Delegation

- 8.1 There are no items requiring Board approval at this meeting to comply with the Financial Memorandum and Scheme of Delegation. There have been no approvals by the Chair under delegation from the Board since the last meeting.