

# Natural England Board

Meeting 8  
12 December 2007



Paper No: **NEB PU08 03**

Title: **Hard Choices 2008/9**

Sponsor: **Helen Phillips, Chief Executive**

## **1. Purpose**

1.1 To seek advice from the Board on the hard choices facing Natural England in response to the indicative budget for 2008/9 proposed by Defra.

## **2. Recommendation**

2.1 It is recommended that the Board seek to minimise the impact on our heartland activities and therefore agree to explore further a combination of options 2 and 4.

## **3. Background**

- 3.1 Natural England's budget is approximately £24.5 million less than that of the founding bodies as a result of an £8 million budget reduction in December 2005, £13.5 million of merger efficiencies and a further reduction of £3 million as a consequence of the Treasury Zero Based Review.
- 3.2 Natural England's GIA for 2007/8 is £181 million. We are also in receipt of a further £24.5 million for a range of Defra funded initiatives. A break down of our GIA expenditure, RDPE expenditure and initiative funding is provided at Annex 1.
- 3.3 Natural England currently has a high proportion of fixed and semi-fixed costs that cannot easily be reduced in the short term. These include in particular staff, and the IBM IT contract and Shared Services contracts which Natural England were required to take up at vesting. Together these account for 72% of our current budget.
- 3.4 On 14<sup>th</sup> November, Defra verbally advised us that our indicative GIA for 2008/9 will be approximately £174 million. This is a flat cash settlement minus the £5m in (anticipated) merger efficiency savings, £1.5 million for marine survey work and £0.5m in capital expenditure, for which we were successful in securing one off funding in 2007/8.
- 3.5 Our indicative GIA would also see continued pressure in future years. Without any strategic action, our activity expenditure would reduce by a further £7m to £36m by 2010/11.

3.6 We are therefore once again fire fighting to secure a budget in the short term that allows Natural England to operate. However we believe that it is essential that we take a strategic long term view of the options available, so that we are not faced with a similar scale of hard choices in future years.

#### **4. Impact of indicative budget**

4.1 Four options have been examined in response to the indicative budget:

- Reduction in activity expenditure
- Re-balance of staff and activity expenditure
- Reduction in scope of Natural England's remit
- Functional changes across the Defra network

A summary of these options is outlined below.

##### Option 1: Reduction in activity expenditure

4.2 The first option involves reducing our activity expenditure to achieve a balanced budget. The impact of the indicative budget on Natural England's existing activities is a reduction of £12.5 million. This includes approximately £4.5m of unfunded cost pressures linked to the delivery of our existing efficiency programme (estates rationalisation, web-based service delivery and invest to save for carbon reduction). An outline of how these savings could be achieved is provided at Annex 2.

##### Option 2: Re-balance of staff and activity expenditure

4.3 The second option seeks to adjust the balance between staff and activity expenditure in order to minimise the impact on our heartland activities such as Local Biodiversity Partnerships, National Trails and Bridleways and AONB's and our work on NNRs.

4.4 The £12.5 million of savings required to maintain these activities would have to be achieved through a reduction in activity expenditure of £6.9m, plus a £5.6m reduction in staff costs. The impact of this option on existing activity expenditure is also outlined in Annex 2.

4.5 Any decision to reduce staff numbers cannot be taken lightly. Our delivery is underpinned by the skills and experience of our staff. Our staff survey indicated that only 19 percent of staff currently feel secure in their role. A one off reduction in numbers handled sensitively but delivered quickly would be the least damaging. We would also need to be transparent about any further reductions that may be required.

4.6 At vesting we reduced staff numbers by approximately 160 through a combination of a voluntary redundancy programme and vacancy management.

Recent reviews of our External Affairs and Corporate Services functions will result in a further reduction of 100 staff.

- 4.7 A further reduction in staff numbers of between 120 and 150 would have to be made through a programme of redundancies to achieve the savings in staff costs necessary to minimise the impact on our expenditure on activities which are central to our purpose.
- 4.8 In order to deliver the savings required, we would need to freeze all remaining uncommitted expenditure in 2007/8 to generate up to 50% of the £9 - £11 million required to fund the redundancies necessary. The remaining 50% would have to be funded from the 2008/9 budget, which would impact on staff training and development, estates rationalisation and some areas of delivery. Our current recruitment freeze on team members (to help with redeployment from our current External Affairs and Corporate Services reviews), would also have to be expanded to all staff immediately.

#### Option 3: Reduction in scope of Natural England's remit

- 4.9 In order to reduce the impact on existing activities any further we would have to consider fundamental changes to the scope of Natural England's remit. It would not be possible to deliver the vision for the integrated delivery of landscape, access and biodiversity that was intended when we were established.
- 4.10 We would have to cease work on a wide range of initiatives including climate change adaptation, input into the direction of CAP reform, shaping green infrastructure, ecosystem services, economic valuation of the natural environment and promoting the links between health and the environment.
- 4.11 We would also have to reduce the level of resources going into halting loss of biodiversity beyond 2010 in order to focus on immediate delivery, increasing the value for money from agri-environment schemes and expanding the opportunities for people to experience and enjoy the natural environment.
- 4.12 There would be very significant consequences of this option which would require a wholesale redesign of the organisation and reversing of a number of recent decisions such as the establishment of the Chief Scientists Team. In addition, because the programme element of this area of our work is small, it would have a big impact on our influence and reputation and still require a reduction in staff numbers by a minimum of 300. This option could not be achieved without substantial funding from Defra for redundancies.

#### Option 4: Functional changes across the Defra network

- 4.13 Natural England was established as lean organisation from the outset, having delivered significant cash and staff savings both at vesting and through our existing efficiency programme.

4.14 Three factors which have significantly contributed to the scale of the problem are:

- the fact that Natural England has been required to deliver cash releasing savings from its efficiency programme and our GIA has been reduced accordingly. This contrasts strongly with the situation for other NDPBs who are able to use efficiency savings to offset increases in pay and other costs.
- the investment required to deliver our efficiency targets, such as IT improvements and estates rationalisation has also had to be funded from within our GIA.
- the requirement to spend such a significant amount of our GIA on Shared Services and IBM compared to the standard of service that is being provided in exchange.

4.15 As a result we should consider more radical options such as the potential to realign functions across the Defra network. This could involve halving the size of our recently established Integrated Scheme Services Team of 400 staff, whilst transferring some of our scheme payment functions and staff to the Rural Payments Agency (RPA) in exchange for taking on some responsibilities for on-farm inspections.

4.16 There could be considerable efficiency savings as a result of such changes, particularly given the fact that the RPA is currently planning to recruit significant numbers of new staff. Defra is however key to securing such an outcome as they would have to agree to an appropriate apportionment of savings made through such changes.

## Annex 1 : Natural England Budget 2007/8

Natural England's Core Grant in Aid (GIA) for 2007/8 is £181 million. This is broadly divided into four categories, staff, activity spend (programme) fixed running costs and capital. In addition in 2007/8 we deliver £321m through agri-environment schemes funded under the Rural Development Programme for England (RDPE). The breakdown of our GIA and RDPE expenditure is as follows:

Staff	£84 million
Activity expenditure	£51 million
Fixed running costs	£43 million
Capital	<u>£3 million</u>
<b>Core GIA</b>	<b>£181 million</b>
RDPE	<u>£321 million</u>
<b>TOTAL</b>	<b><u>£502 million</u></b>

As part of the conditions under which Natural England was established, we were required from vesting to be part of Defra's wider efficiency programme. This requires us to take a range of corporate service from existing Defra contracts and services. The two major elements of this require us to pay £13 million for IT costs and £17 million for Defra Shared services (including finance, payroll, HR and estates).

In addition we are currently in receipt of a further £24.5 million for 2007/8 for the delivery of a range of Defra initiatives including:

Catchment Sensitive Farming	£11 million
Aggregates levy funding	£5 million
Farm advice and demonstration	£3 million
Environment action fund (biodiversity)	£3 million
Marine monitoring	£1.5 million
Agri-environment monitoring	<u>£1 million</u>
<b>Total initiative funding (2007/8)</b>	<b><u>£ 24.5 million</u></b>

## Annex 2 : Activity reduction to meet indicative budget

Area of expenditure	Reduction on 07/08 funding	
	Option 1	Option 2
<b>Biodiversity</b>		
Funding of Local Biodiversity Partnerships and Local Records Centres maintained.  Reduction in project funding.  Impact: significant number of small projects with VCO partners will not continue.	- £700k  (-23%)	Funding maintained
Existing Wildlife Enhancement Scheme commitments met  New commitments restricted to a very small budget for exceptional cases  Impact: will require SSSI target to be achieved through HLS agreements	- £4.1m  (-37%)	-£4.1 m  (-37%)
<b>National Trails and Bridleways</b>		
Funding for essential maintenance retained.  Elimination of all non essential maintenance  Impact: no further work on new trails or extensions to existing trails.	- £2m  (-57%)	Funding maintained
<b>Statutory Access</b>		
Core statutory functions maintained  All proactive work on access halted.  Impact: meeting statutory obligations only	- £2.1m  (- 36%)	-£2.1m  (- 36%)
<b>AONBs</b>		
Core funding to AONBs maintained  Reduction in Sustainable Development Fund and Project  Impact: Very limited resources to deliver AONB programme	-£1.9m  (- 18%)	Funding maintained
<b>NNRs</b>		
Funding for essential maintenance retained.  Elimination of all non essential maintenance  Impact: no improvements in NNR condition or facilities	- £1m  (-38%)	Funding maintained
<b>Research</b>		
Reduction in research  Impact: significant number of small projects will not continue	-£0.7m  (-34%)	-£0.7m  (-34%)
<b>Total reductions on 07/08 budget</b>	<b>-£12.5m</b>	<b>- £6.9m</b>