



Annual Report and Accounts

1 April 2011 to 31 March 2012

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Natural England

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1 April 2011 to 31 March 2012

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Foreword

Last year saw the publication of the Government's *Natural Environment White Paper* (NEWP) – the first in 20 years. This landmark document emphasised the huge value of a resilient natural environment and the vital role it plays both in improving people's lives and in underpinning economic growth. Our work this year, in collaboration with others, has focused on helping make the exciting vision set out in the NEWP a reality.

There are now 12 new Nature Improvement Areas and 47 new Local Nature Partnerships, giving local people and partnerships the responsibility to shape their local environment. Local communities are now involved in the management of nearly half of all National Nature Reserves (NNRs), a number that continues to rise. The extended events programme on NNRs welcomed over 100,000 visitors last year.

Working closely with the Department of Health, we successfully transferred the Walking for Health Project, which supports over 60,000 regular walkers, to the Ramblers, with funding of £1.9 m from Macmillan Cancer Support – changing the landscape of local service delivery.

The condition of England's premier wildlife sites has continued on its upward trajectory, and with the support of landowners, sites are slowly but surely moving from recovering into favourable condition.

Our local advisors completed a record number of new Higher Level Stewardship (HLS) agreements in 2011-12, putting record levels of investment into the rural economy, including the largest ever HLS agreement covering 16,000 hectares of the New Forest National Park and an 11,000 hectare agreement with 360 commoners on Dartmoor.

We're delighted that so many of our 'classic' agreement holders are choosing to keep land in environmental management. 86% of former Environmentally Sensitive Area and Countryside Stewardship Scheme land has been converted into Environmental Stewardship agreements. This is a testament to the increasing flexibility and simplicity of Environmental Stewardship schemes and our improving working relationship with farmers and landowners.

We continue to transform our regulatory services and the way we provide statutory advice through the planning system, so that it is easier for people to do the right thing for the natural environment.

Restoring habitats, revitalising landscapes, transforming green spaces, and sustaining the natural environment all require action at a landscape scale. From moorland top to seabed, all that we've achieved this year has been delivered with and through others, and we are hugely grateful for the experience and expertise, determination and dedication of staff and partners.

We have responded to the Government's ask of us for substantial reform. We have worked more collaboratively with colleagues in Defra and other Government bodies, achieving more together. We have also continued to deliver the promised back office savings.

We recognise the importance of taking the time to listen to local views, to understand what makes businesses and communities tick, to search out the common ground and find shared solutions to the big issues of the day. If collectively we fail in this, the natural environment will suffer.

Our customer and partner survey results tell us that we provide a good service for people and for nature. The majority of our partners rated our impartiality, fairness, trustworthiness and evidence-based approach highly. But we know there is more that we can and must do, especially with our marine stakeholders. We are confident that by listening more carefully to local expertise, by working more closely with others, and by growing the coalition of partners delivering for the natural world, we can deliver the step change in conservation that is so urgently needed.



Poul Christensen
Chair,
Natural England

David Webster
Interim Chief Executive,
Natural England

Introduction

Natural England was created under an Act of Parliament – the Natural Environment and Rural Communities Act 2006.

Our 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”.

This includes:

- promoting nature conservation and protecting biodiversity;
- conserving and enhancing the landscape;
- securing the provision and improvement of facilities for the study, understanding and enjoyment of the natural environment;
- promoting access to the countryside and open spaces and encouraging open-air recreation; and
- contributing in other ways to social and economic well-being through management of the natural environment.

Our duties and powers under this general purpose are wide ranging. For example, we may undertake research, give advice to any public authority or person, and publish information about our work. All of our work is carried out under this and other environmental legislation (including EU and international obligations) and within the Government’s policy framework.

We work to achieve four complementary strategic outcomes:

- A healthy, well-functioning natural environment.
- People are inspired to value and conserve the natural environment.
- Sustainable use of the natural environment.
- A secure environmental future.

Our *Corporate Plan 2011/15* describes 16 key performance indicators that we need to deliver to achieve our outcomes. These indicators respond to the full range of government policies and programmes, and the *Annual Report and Accounts* describe our performance against those indicators.

We are here to secure a healthy natural environment for people to enjoy, where wildlife is protected and England's traditional landscapes are safeguarded for future generations.



© Natural England/Michael Hammett

Outcome 1

A healthy, well-functioning natural environment

Why we are doing it

Natural England has been charged with conserving and enhancing the natural environment for its intrinsic value, because landscapes and wildlife enrich people's lives, for the services that healthy functioning ecosystems supply and for the economic prosperity that they bring.

People value the natural environment because of the inspiration it provides and the spiritual nourishment it offers. The importance of biodiversity is the resilience that it creates; a complex web of relationships that are mutually sustaining, where removal of any one component compromises the whole. Landscapes are our windows into this complexity and are understood by people at every scale, from the intimacy of a private garden to the sweep of our uplands. While the marine environment is largely hidden from us, it is no less inspirational.

Not only do people enjoy the natural environment for its intrinsic beauty and leisure opportunities, they rely on it for a host of everyday services that are central to their lives. Healthy soils absorb and store harmful greenhouse gases and filter our water supply, naturally and cheaply. Lakes, rivers and wetlands have the capacity to reduce flooding and provide habitat for internationally important bird populations. Even the food we eat is dependent on the health of the pollinating species which inhabit our countryside.

The large membership of environmental organisations such as the RSPB, the Wildlife Trusts and the National Trust is testament to the value people attach to our natural environment. The UK National Ecosystem Assessment and international research such as 'The Economics of the Environment and Biodiversity' study

have confirmed that the natural environment carries significance beyond intrinsic value. We understand better the services that the natural environment delivers to people and we are beginning to place an economic value, both on those ostensibly 'free' services and on the consequences of losing them.

Government's priority is to ensure that our distinctive landscapes and the wildlife they support are robust and resilient. Coherent ecological networks are needed on land and at sea in order to adapt to, and accommodate, current changes and future pressures such as food security, development and climate change.

Highlights for 2011-12

- 1 Over a million hectares of land is designated as Sites of Scientific Interest (SSSIs), and over 96% of this area is now in a favourable or recovering condition, which exceeds the target established for this year. In addition to this, we also achieved a net increase of over 7,300 hectares of SSSI in favourable condition.
- 2 Over 100 partnership agreements have been established that seek to deliver species recovery interventions. Species Recovery Projects of particular note include those for the great bustard, curlew, short-haired bumblebee, pool frog, freshwater pearl mussel, fen raft spider and field cricket.
- 3 A range of research and monitoring projects have been established for rare orchids, fungi and bryophytes; from our habitat based projects, one of particular note is the Red Squirrel Project which is targeting use of the English Woodland Grant Scheme to support red squirrel habitats.
- 4 Our advice to the Terrestrial Biodiversity Group has contributed to the delivery plan for protected sites, habitat, species and ecosystem services component of the Biodiversity 2020 delivery plan.
- 5 We delivered more than 90,000 hectares of land in priority habitat management through Higher Level Stewardship options, exceeding the target by 12%.
- 6 We assisted Defra in successfully selecting 12 Nature Improvement Areas, and have established and managed the development grant programme for aspiring Local Nature Partnerships, both being key deliverables of the *Natural Environment White Paper*.
- 7 We promoted the restoration of ecological networks at landscape scale, by supporting our partners in a further 25 landscape scale delivery projects.
- 8 We have produced Key Facts & Data for 150 (of 159) National Character Areas, thereby providing evidence to support local decision taking; landscape scale restoration; and the development of Nature Improvement Areas.
- 9 Delivery of our statutory advice on Marine Conservation Zones is on track against the revised timetable, as are the regional MCZ project impact assessment materials and feedback about the quality and content of the materials submitted to date has been positive.
- 10 Good progress is being made with the designation of Studland to Portland potential Special Area of Conservation, which is part of the broader establishment of a network of protected areas known as Natura 2000.



© Natural England/Charlie Hedley

Outcome 2

People are inspired to value and conserve the natural environment

Why we are doing it

Natural England is charged with conserving the natural environment as a resource for people to study, understand and enjoy. We are also responsible for promoting access to the countryside and open spaces and encouraging open-air recreation.

The natural environment gives people a sense of place, pride and identity. It offers opportunities for recreation and enjoyment, which provide a wide range of health and social benefits. Defra's National Ecosystem Assessment states that cultural services arising from access to good quality greenspace contribute to positive mental health, childhood development and physical health. Outdoor recreation can encourage individuals and communities to participate in the conservation and enhancement of the natural environment in a variety of ways, from monitoring garden bird populations to clearing polluted ponds.

The benefits are underlined by the *Natural Environment White Paper* which recognises that:

- Connection with the natural environment makes people happier and healthier.
- People using the natural environment make a major contribution to local economies.

The White Paper calls for better understanding of people's motivations and requirements of the natural environment, especially young people where there is increasing evidence of disconnection from the natural world. It suggests that everyone should be able to benefit from a healthy natural environment and that any barriers to this need to be removed. The White Paper also recognises that citizens,

neighbourhoods, communities and civil society all have an important role to play in protecting and enhancing our natural environment.

Highlights for 2011-12

- 1 The Weymouth Bay coastal access report was approved by the Secretary of State in January, and the coastal path project was awarded the Inspire Mark, as a non commercial sponsor of the 2012 Games, by the London Organising Committee of the Olympic Games.
- 2 The Weymouth and Portland Green Infrastructure (GI) project, one of four GI partnership projects in our London 2012 programme, has delivered in excess of 200 km of new green infrastructure and leveraged in £3 m in funding.
- 3 We have worked closely with local and national partners to increase the quantity and improve the quality of green space, whilst successfully delivering a number of projects that have enabled communities to be involved in the management of their local green space. This includes seven new country park accreditations, two successful Local Access Forum national conferences, delivery of Access to Nature, and involvement in a number of local projects.
- 4 National Trails are the gold standard for public access to the countryside, and over the year we have consulted widely with our partners about updating the management arrangements for National Trails, to safeguard this national tourism asset and the wide ranging benefits they provide.

- 5 We continue to work with highway authorities, land owners and other stakeholders to establish the UK's first purpose built long distance bridleway. The 205 mile southern section of the Pennine Bridleway is now complete over at least 97% of its length and will be formally opened in June 2012.
- 6 We have worked with partners to develop an ambitious demonstration project, Natural Connections, which will trial a new and innovative approach to the delivery of Outdoor Learning. It aims to significantly increase the number of school age children experiencing the full range of benefits that come from learning in natural environments.
- 7 Working closely with the Department of Health, we successfully transferred the Walking for Health Project, which supports over 60,000 regular walkers, to the Ramblers Association, with funding of £1.9 m from Macmillan Cancer Support. This is an excellent example of a Big Society divestment to the third sector.
- 8 The Access to Nature scheme has enabled 862 communities to invest in and sustainably manage their local natural places, to better meet the needs of the local people and wildlife. We have invested in almost 7,000 networks and access links between natural places, which has enabled over half a million people to have better access to the natural environment. The impact of its successful delivery has attracted a further £1.37 million from the Big Lottery Fund. We have reviewed our aims for the series of National Nature Reserves that we manage. With the involvement of partner organisations, we have prepared a destination statement for these sites that will ensure they contribute fully to commitments in the *Natural Environment White Paper* and Biodiversity 2020.
- 9 Local communities are involved in the management of 43% of our National Nature Reserves (NNRs) and we intend to increase this further. This participation ranges from thriving 'friends of' groups contributing specialist knowledge and additional resources for NNRs, to networks of volunteers who work alongside our staff in keeping sites in good order.
- 10 We have run a programme of 2010 events on the National Nature Reserves, enabling over 100,000 children and adults to have a direct experience of the benefits that a rich natural environment provides. Feedback obtained from attendees to these events has been universally very positive. We have increased the proportion of these events delivered jointly with other partners to 60%.



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Outcome 3

Sustainable use of the natural environment

Why we are doing it

Natural England's statutory role in the planning system, our regulatory role in respect of protected sites and species, and our delegated authority to deliver part of the government's Rural Development Programme for England (RDPE) give Natural England a unique role in making progress towards sustainable use and management of our land.

High quality landscape, biodiversity and access provision depends on planned, sustainable land use to secure well-functioning ecosystems. The National Ecosystem Assessment (NEA) identifies the range of benefits we get from our natural environment and well-functioning ecosystems. We are continuing to explore these, and the markets which can be built around them.

Farmers and land managers provide the stewardship of the land, shaping landscapes and delivering many of the benefits rehearsed by the NEA. These benefits are, in part, enabled and encouraged by agri-environment schemes now being implemented by over half of England's farmers. Sustainable economic growth and development at national and community level requires approaches to planning and land management which recognise the benefits we get from the natural environment. Effective local planning that enables communities to understand the value of their environment is the key place where this join-up can be developed and delivered, and will be essential to implementation of the *Natural Environment White Paper*.

The Government expects the planning system to address the needs of the natural environment and the services it delivers whilst supplying the homes, business, infrastructure and thriving local places that the country needs for its long term prosperity and wellbeing. The *Natural Environment White Paper* makes it clear that local decision-makers, farmers and land managers are central to achieving society's ambitions for biodiversity, landscape and our natural resources. Biodiversity 2020 begins to describe how we can achieve these new partnerships.

Highlights for 2011-12

- 1 We have successfully completed 2,383 new Higher Level Stewardship (HLS) agreements in 2011-12, more than in any previous year. We further improved our HLS delivery, offering £44 m of new HLS, which was greater than any previous year's offer. Working closely with Defra within their overall RDPE 2007-13 budget, we were able to respond positively to the increased demand from farmers for HLS and bring forward HLS applications from 2012-13 into 2011-12.
- 2 With targeted support of customers, 86% of former Environmentally Sensitive Areas Scheme (ESA) and Countryside Stewardship Scheme (CSS) land was converted into Environmental Stewardship agreements, with an increasing proportion going into Higher Level Stewardship.

- 3 We have completed a Higher Level Stewardship Agreement with the Forest of Dartmoor Commoners Association. The site covers over 11,000 hectares of upland grassland, heath and bog in Devon, the majority of this is recognised as nationally or internationally significant wildlife habitat and the agreement will secure its good management for the next 10 years. The agreement emphasises the importance of a partnership approach: over 360 commoners will be involved in delivering the agreement.
- 4 We have established a 10 year ELS/HLS agreement across all the city commons owned by the City of London Corporation, covering a total of 467 ha. The agreement, which covers habitat and access improvement, includes three Sites of Special Scientific Interest: Ashstead Common, Farthing Downs and Riddlesdown, and four other sites including Coulsdon Common, Kenley Common, Spring Park and West Wickham Common.
- 5 The Catchment Sensitive Farming Programme engaged farmers managing 540,000 hectares of land in priority catchments, and 1,336 farmers undertook farm infrastructure works to mitigate diffuse pollution from agriculture through Catchment Sensitive Farming capital grants totalling £12 m.
- 6 Using targeted farm advice through our Entry Level Stewardship Training and Information Programme (ETIP), we achieved our target for making Entry Level Stewardship more effective by increasing the update of priority options for farm wildlife, farmland birds, resource protection and the historic environment.
- 7 We have reduced the Higher Level Stewardship (HLS) unit costs by 23 per cent over the year, well in excess of our efficiency target. We achieved this through organisational efficiencies, staff reductions, and improved processes and processing times.
- 8 Through close working with our partners we have secured 3,386 ha of new priority habitat and Green Infrastructure (GI), delivering ecosystem services through the planning system, thereby contributing to Sustainable Development. This exceeds our target of 3,000 ha.
- 9 We continued to make a strong contribution to cross-governmental regulatory reform initiatives including the Red Tape Challenge. In our follow-up action to the Penfold and Autumn Statements, we produced Natural England's 'Statutory Agency Improvement Plan', setting out the organisation's ambition and progress against substantial reform commitments.
- 10 As part of our regulatory improvement programme for customers we developed risk based licensing and used customer case studies to identify issues and solutions in our contribution to the Habitats Regulations review.
- 11 Our negotiation of 5,716 UELS (Uplands Entry Level Stewardship) agreements covering 854,261 hectares of Severely Disadvantaged Areas (SDAs) land is ahead of profile and marks a significant contribution to the positive management of the English Uplands.



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Outcome 4

A secure environmental future

Why we are doing it

Natural England is the statutory adviser to government on the natural environment and requires sound evidence to inform that advice. Good evidence is the basis for good decisions. Our role is to mobilise evidence from our own sources and from others; present it in compelling and accessible ways; and make it available to shape our own decisions and those of partners, communities, businesses and individuals across the country.

As an evidence-based organisation we have experts across the environmental sciences, as well as in economics, social science and regulation. Our role in advising on land use and management and in managing National Nature Reserves gives us a strong scientific base and practical land management expertise. As a result our advice at all levels, from local community to partners and government, is firmly rooted in evidence and experience.

The factors that affect the natural environment are complex and changing rapidly. Delivering the ambition of the *Natural Environment White Paper* and Biodiversity 2020 requires individuals, communities and government to make choices that are affordable and meet local and national needs, yet which do not compromise the resilience and services provided by the natural environment. These choices require an understanding of the pressures from climate change (with increasing temperatures, storms, flooding and drought) and demographic change (resulting in water stress and increased competition for land use for energy, food and development).

Our use of the ecosystems approach and our understanding of climate change impacts will ensure that our advice today secures the natural environment for tomorrow. Information and evidence will help us to anticipate, monitor and respond properly to these pressures.

Highlights for 2011-12

- 1 We exceeded our target to ensure that the evidence from 50% of our evidence projects was directly available on-line.
- 2 Approximately 4,000 customers a day throughout the year were using our web-based mapping services, and they created over 1 million maps for themselves during the course of the year.
- 3 In excess of 2,000 technical environmental publications were made available through the new on-line catalogue, which was used by over 11,000 people in the first two months since launch.
- 4 We have developed and implemented a suite of evidence standards, ensuring our compliance with the Government Chief Scientist's guidelines for the use of evidence.
- 5 We have collated a comprehensive Climate Change Risk Assessment, in keeping with the requirements of the Climate Change Act 2008, and this is now informing a programme of action across all our functions.



Visitors to the Natural England partnership stand, LAMMA event

© Natural England/Neil Henderson

Excellent Public Body

Why we are doing it

Our approach to delivering our four Outcomes is underpinned by our desire to be an Excellent Public Body. We continually strive to develop the capacity, confidence and culture of our organisation and people to deliver on the ambitious agenda set out for the natural environment.

Highlights for 2011-12

- 1 We have delivered efficiencies of £18 million (11 per cent) in line with our revised Grant in Aid allocation, whilst delivering on our environmental commitments and delivery priorities. We have implemented our plans swiftly in response to the Spending Review to provide clarity both to stakeholders and staff, and these plans included the implementation of a new organisational structure in April 2011. At the end of March 2012 we had 565 (21 per cent) fewer staff than at 1 April 2010 with a further 30 staff either in redeployment or planning to leave under the voluntary redundancy programme. In addition we have continued to implement efficiencies through closure of offices, procurement savings, benchmarking and continual improvement of process.
- 2 An all staff survey received an 80% response to the question "considering everything, I think that Natural England is a good place to work". This exceeded our target of 70%, and represents a significant improvement on the previous year.
- 3 We held over 40 'Our Organisation, Our Future' road shows with staff, to build everyone's understanding of our refreshed role and priorities and the ways in which we will work together to deliver on these.
- 4 We have increased the number of channels through which we gather customer feedback from an annual survey to point of service feedback, customer panels, and complaints monitoring. Our customer survey showed that 82% of all land management customers are satisfied with the quality of service they receive from us. However, only 57% of land use customers are satisfied and only 55% of regulation customers. Our target for all sectors was 73%.
- 5 We continue the drive towards customer service excellence, where we will benchmark ourselves against and aim to get accreditation from the Cabinet Office's Customer Service Excellent standard. We have already achieved this for our Customer Services Team and expect to have achieved it for our major business functions by the end of the calendar year.
- 6 Our target for the year was that at least 70% of our partners would see us as practical, helpful, trustworthy and impartial. Our partner survey showed that 77% of partners agree that we can be trusted in what we say; 71% agree that we are helpful in encouraging, enabling and supporting others to understand and take action for the natural environment; and 78% agree that we are impartial and fair to the people and organisations that we deal with in carrying out our work for the natural environment. However, only 63% agreed that we are practical in the way we carry out our regulatory responsibilities. These results also mask some important findings in specific sectors, such as amongst marine stakeholders, where we have a particular challenge to re-build confidence in our work.

Target Setting and Performance Assessment in Natural England

Natural England is committed to continually improving its performance through setting and agreeing challenging targets which are aligned to our Outcomes.

Our *Corporate Plan* for 2011-15 provided the framework for establishing the in-year indicators which cover all objectives and include efficiency targets. The development of the *Corporate Plan* involves a process of inform and challenge by senior officials in Defra to ensure the draft plan we present to our non-Executive Board is measurable, ambitious and will provide good value for the public money allocated to it. Before publication, our plan, its key performance indicators and budgets are approved by Defra Ministers. As a result, our performance indicators focus on things that are directly attributable to our work to allow the Board and Ministers to assess the value we add.

We then assess and report progress against our agreed indicators at least quarterly, both to our Board and Ministers. Natural England has a rigorous quarterly reporting process overseen at Executive Director Level. External Stakeholders are involved in our performance reviews and provide further insight and challenge, which in turn allows the Chief Executive to present a full performance report to the non-Executive Board meeting after the end of each quarter.

We publish these quarterly reports on our website and report high level progress through eight impact indicators and against our main objectives to the Secretary of State and Defra's Supervisory Board.

Progress against our Key Performance Indicators

Our commitment expressed in the 2011-15 *Corporate Plan* highlighted the 16 Key Performance Indicators (KPIs) that we would report on, both to our Board and Defra, on a quarterly basis. These indicators span each of our four Outcomes, plus Excellent Public Body and the subsequent extracts record our delivery against the 2011-12 target.

We use tight tolerances for measuring our performance against all of our indicators, which are reflected in the following table.

| | | |
|---|-------------|--|
|  | Green | 100 per cent or over of the expected performance |
|  | Amber Green | Less than 99 per cent of expected performance |
|  | Amber Red | Less than 90 per cent of expected performance |
|  | Red | Less than 80 per cent of expected performance |



Our performance across the 16 KPIs in our *Corporate Plan* shows that nil were assessed as 'Red' (<80 per cent of expected performance); two were assessed as 'Amber Red' (<90 per cent of expected performance); two were assessed as 'Amber Green' (<99 per cent of expected performance); and 12 were assessed as 'Green' (at 100 per cent or over). Therefore, nearly 88 per cent of the KPIs in our *Corporate Plan* are either 'Green' or 'Amber Green' at the end of Quarter Four.

Outcome 1: A healthy, well-functioning natural environment

Landscape and Biodiversity: *We increase the area of Sites of Special Scientific Interest (SSSIs) in favourable condition whilst maintaining 95 per cent area in favourable or recovering condition.*

(Metric: 5,000 hectares)

**Quarter Four
Performance**

Green

At the end of March we had achieved a net increase of 7,342 ha in favourable condition. This represents 37.2 per cent of Sites of Special Scientific Interest (SSSI) area against a 1 April baseline of 36.6 per cent. The 2011-12 planned outcome has been exceeded by 2,342 ha. 96.6 per cent of SSSI area is currently in favourable or recovering condition, so we continue to maintain condition above 95 per cent which is also a key requirement of the indicator.

The gain in the area of SSSI in favourable condition is the net result of 10,994 ha moving to favourable condition during the year against slippage of 3,652 ha out of favourable condition. This illustrates the ongoing challenges in predicting outcomes for this work, and the need to proactively manage risks to achieving favourable condition and maintaining recovery.

Our work with the Major Landowners Group has progressed well including a more proactive approach to risk management. The remit of the national Major Landowners Group has also been revised to reflect their key role in contributing to the Biodiversity 2020 Delivery Plan, and also the ambition to develop the contribution that SSSIs can make to the wider suite of biodiversity outcomes.

Landscape and Biodiversity: *We work with partners to improve the status of threatened species.*

(Metric: maintain and develop the species recovery programme)

**Quarter Four
Performance**

Green

This work has two strands which are to facilitate development of the Delivery Plan for the species outcomes for Biodiversity 2020, and to deliver Natural England's ongoing Species Recovery Programme (SRP).

Two key steps have been taken to support development of the Delivery Plan through the Terrestrial Biodiversity Group (TBG), which we chair on behalf of Defra. The task and finish group of key partners has completed its report on the definition of the Biodiversity 2020 species outcome. This report will be discussed at the Terrestrial Biodiversity Delivery Group in May. It will be important in developing partner consensus on the species delivery priorities and approach going forward. We have also continued our work with partners to develop a more complete list of levers to further species conservation, and progressed a number of pilot projects to test the feasibility of using habitat-based approaches. Both pieces of work will be used to develop a more coherent Delivery Plan with partners through Quarters One and Two of 2012-13.

Our SRP has delivered all of its outputs in 2011-12. 108 partnership agreements have delivered a range of species recovery interventions. Examples include: progressing re-introduction projects for great bustard, curlew, short-haired bumblebee, pool frog, freshwater pearl mussel, fen raft spider and field cricket; research and monitoring projects for rare orchids, fungi and bryophytes; and habitat based projects, such as that for the Red Squirrel Project which is targeting use of the English Woodland Grant Scheme. The next key step into 2012-13 will be to refine and develop the role of the SRP as part of the wider Delivery Plan.

Landscape and Biodiversity: *We work with partners to increase the area and improve the quality of our priority habitat networks at the landscape scale.*

(Metric: increasing extent and improving condition of priority habitat networks)

**Quarter Four
Performance**

Green

This work comprises two key components which are to bring more priority habitat into favourable management through agri-environment schemes and to establish and develop the Delivery Plan for the protected sites, habitats, species and ecosystem outcomes within Biodiversity 2020 through the Terrestrial Biodiversity Group (TBG).

During 2011-12 we exceeded the 80,000 ha Biodiversity Action Plan priority habitat management delivery target for HLS by 10,000 ha. This is as a direct result of our efforts to focus HLS agreements to support priority outcomes as reported earlier. Work is well advanced both nationally and locally to confirm and deliver the agri-environment contribution to 2012-13.

Through our chairing of the TBG, we have been able to provide Defra with a first draft Delivery Plan for the protected sites, habitat, species and ecosystem services components. Defra have signed off the Delivery Plan and await Cabinet Office clearance to publish this. Good relations have been developed with national partners on the TBG, and we continue to work with all members on a 1:1 basis to confirm their delivery contributions in 2012-13 and beyond. Strong consensus has been established on how to develop the Delivery Plan further, and an agreed programme of actions is in place to progress this.

| | | |
|---|--|---------------------|
| <p>Landscape and Biodiversity: <i>We support local partnerships in setting integrated landscape and biodiversity objectives for their area and promote restoration of ecological networks at landscape scale.</i></p> <p><i>(Metric: proportion of landscape-scale partnerships successfully delivering integrated outcomes against locally agreed objectives)</i></p> | <p>Quarter Four Performance</p> | <p>Green</p> |
|---|--|---------------------|

We have assisted Defra to successfully select 12 Nature Improvement Areas, and have set up and managed the development grant programme for aspiring Local Nature Partnerships. Both of these are key deliverables of the *Natural Environment White Paper*.

We have promoted the restoration of ecological networks at landscape scale by supporting our partners in a further 25 landscape scale delivery projects which have met the objectives set in their delivery plans. The year-end RAG status is green.

We provide evidence in support of Nature Improvement Areas and landscape scale restoration through Natural Character Area (NCA) profiles. Key Facts & Data for 150 of the 159 NCAs was produced by the end of March and Key Facts & data will be published in web format during May for all NCAs.

Marine: Substantial completion of the designation of a Marine Protected Area network in English territorial waters.

(Metric: advice and recommendations submitted to Defra)

**Quarter Four
Performance**

Amber Red

Marine Conservation Zones:

We are on track to deliver the statutory advice on Marine Conservation Zones (MCZs) to the revised timetable. Our performance assessment reflects that the evidence assessments required to develop the advice were more complex than anticipated and delayed progress by two weeks. We have met the 18 May (draft advice) and are on track to meet the 18 July (final advice) deadlines.

Delivery of the regional MCZ project impact assessment materials are on track and feedback from Defra economists about the quality and content of the materials submitted so far has been positive. The MCZ Project Board has agreed a plan with Defra to strengthen the assessment of benefits of MCZ designation within the agreed timescale.

Our outlook for this work is also 'Amber Red' as we have minimal resilience in staff capacity. Stakeholders continue to contact us with concerns about the MCZ recommendations. There are limited resources to respond to these concerns, resulting in the potential for reputational risk. However, following a number of meetings with concerned parties and other actions being progressed, the amount of correspondence and negative press has reduced.

We have agreed with Defra to continue to report on MCZs (as part of a new Marine KPI) to the Supervisory Board during 2012-13.

We have made good progress with the Studland to Portland potential Special Area of Conservation, which will be submitted to Defra in July as agreed. On Special Protection Areas (SPAs), informal dialogue and awareness-raising is now anticipated to start in May. The slight delay is to ensure that all material is ready that will not have an effect on the ultimate timetable. Handling plans are being developed as appropriate.

Outcome 2: People are inspired to value and conserve the natural environment

Access and Engagement: *We work with others to increase the opportunities for people to access and engage with the natural environment.*

(Metric: progress across the ten work areas)

**Quarter Four
Performance**

Green

Working with the Department of Health, Macmillan Cancer Support and the Ramblers, the handover of the Walking for Health Project to the Ramblers concluded on 31 March 2012 which represents the successful completion of Big Society divestment to the third sector or other non-governmental interests.

Working closely with local and national partners to increase the quantity and improve the quality of green space, we have delivered on a number of projects and initiatives enabling communities to be involved in the management of local green space. This includes seven new country park accreditations, two successful Local Access Forum national conferences and involvement in a number of local projects.

The Access to Nature scheme has enabled almost 900 communities to invest in and sustainably manage their local natural places, to better meet the needs of the local people and wildlife, which far exceeds our original target.

We have worked with a large consortium of partners to develop an ambitious demonstration project, Natural Connections, which will trial an innovative approach to the delivery of Outdoor Learning, for school age children.

Outcome 3: Sustainable use of the natural environment

Land Management: *We increase the percentage of agricultural land in Higher Level Stewardship.*

(Metric: increase of 250,000 hectares)

**Quarter Four
Performance**

Amber Red

We completed 2,383 new Higher Level Stewardship (HLS) agreements in 2011-12 – more than any previous year's performance. We also met and exceeded the corresponding HLS finance target – £44 m of new HLS, again greater than any previous year and exceeded our targets for HLS outcomes and the conversion of classic agreements.

However, this KPI is measured in HLS area, rather than outcomes, numbers or spend. In formal terms, we finished below profile at 201,000 ha compared to 250,000 ha. This is because we consulted and agreed with Defra to continue to focus on securing high-priority outcomes through HLS, such as farmland birds and water options that are more expensive and tend to be on smaller sites.

We continue to work closely with Defra on this KPI. The corresponding indicator for 2012-13 has been set at 200,000 ha, to achieve a better balance between outcomes and area. In order to achieve better outcomes from HLS we have introduced many more quantified outcome indicators for new agreements in 2012-13, plus assessment and customer contact standards for existing agreements.

Land Management: We reduce the unit cost of Higher Level Stewardship delivery.

(Metric: 9 per cent reduction)

**Quarter Four
Performance**

Green

The Higher Level Stewardship (HLS) unit costs have reduced by up to 23 per cent (20 per cent when IT costs are included) over the year. This is well in excess of the efficiency target. Our performance was achieved through the implementation of our organisational efficiencies and headcount reductions and improved processes and processing times over the course of the year.

The table below shows the cost of delivery compared to amount spent on HLS for the five years to end of 2011-12. Between 2010-11 and 2011-12 we have reduced the cost per £ delivered on HLS by 30 per cent from 12p/£1 to 8p/£1.

| | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|-----------------------------------|---------|---------|---------|----------|---------|
| HLS spend | £35.6 m | £53.3 m | £63.4 m | £100.3 m | £142 m |
| Admin Cost excl IT | £5.9 m | £7.1 m | £9.9 m | £12.2 m | £11.3 m |
| Admin cost per £ spent on HLS (£) | 0.17 | 0.13 | 0.16 | 0.12 | 0.08 |

Land Use: We work with others to secure new priority habitat & Green Infrastructure, delivering ecosystem services through the planning system.

(Metric: 3,000 hectares with objectives in place)

**Quarter Four
Performance**

Green

Through working with others, we have secured 3,386 ha of new priority habitat and Green Infrastructure (GI), delivering ecosystem services through the planning system, thereby contributing to Sustainable Development. This exceeds our target of 3,000 ha.

We have made very significant in year improvements, including higher delivery productivity in terms of hectares per member of staff; greater leverage from our investments in terms of hectares per £; a stronger delivery pipeline into 2012-13; and tighter delivery focus in terms of developing the pipeline into spatial priority areas. We have also clarified the extent of delivery on non-utilisable agricultural area land, i.e. land which is not eligible for agri-environment funding. Overall, this represents very significant progress and provides a cost effective means of underpinning a significant proportion of our 2020 England Biodiversity Strategy priority habitat targets.

We have also worked closely with Defra on the development of the GI Partnership and are facilitating work strands covering valuation of GI and large scale delivery to enhance ecological networks. The specific products by these groups will enable us to engage more fully with partners and customers.

Regulation: We reduce the costs to those we regulate year on year.

(Metric: 2 per cent reduction)

**Quarter Four
Performance**

Green

We have met the two per cent reduction target which equates to savings of £118,000 to our customers. Looking beyond the metric, we continued to make a strong contribution to cross-governmental regulatory reform initiatives including maintaining a high level of very positively received support into Defra during the Red Tape Challenge. In our follow-up action to the Penfold and Autumn Statements, we produced Natural England's 'Statutory Agency Improvement Plan', setting out the organisation's ambition and progress against substantial reform commitments.

We progressed priority improvements like risk-based licensing and, in our contribution to the Habitats Regulations review; we focused on using case studies to identify issues and solutions. We have finalised a Regulatory Improvement Programme and scoped work with partners on the planning-licensing interface. We started work with our customer panel on regulatory costs, and secured IT enhancements to facilitate better, more transparent reporting. Anticipating the Secretary of State's consent to charge for discretionary services, implementation planning towards a September 2012 launch is underway.

Outcome 4: A secure environmental future

Evidence and Analysis: *Our evidence is accessible to local communities to facilitate local decision-making.*

(Metric: 50 per cent available online)

**Quarter Four
Performance**

Green

We have exceeded our target for making evidence available on-line achieving 53 per cent against a target of 50 per cent.

Our new publications catalogue is now providing improved access to technical and scientific publications with 1,992 documents now available. More people have used our interactive mapping services (MAGIC and Nature on the Map). We formally adopted the Open Government License from 1 April resulting in a further removal of restrictions on availability and use of evidence.

We have piloted interactive maps to secure input from local communities to building evidence and have run workshops to secure local evaluation of monitoring evidence of the impacts of Environmental Stewardship. We will continue to make more evidence available, produce more information on the results of our evidence work and develop ways to secure more direct involvement from local communities in providing and evaluating evidence.

Excellent Public Body

Natural England will strive to develop the capacity, confidence and culture to deliver on the ambitious agenda set out for the natural environment.

Customer Services: *Our main customer groups are satisfied with our services.*

(Metric: 73 per cent of people agree)

**Quarter Four
Performance**

Amber Green

Our drive to improve our customer service continues. We have increased the number of channels through which we gather customer feedback from an annual survey to point of service feedback, customer panels, and complaints monitoring.

Our latest live Customer Feedback data for our main customer groups are as follows:

- Environmental Stewardship (ES): 84 per cent are satisfied or very satisfied;
- Wildlife Licensing: 93 per cent are satisfied or very satisfied;
- Land Use Planning: 88 per cent are satisfied or very satisfied;
- Entry Level Stewardship on-line: 99 per cent are satisfied or very satisfied.

Across our main customer base, therefore, the weighted average performance is currently 91 per cent against our target of 73 per cent. The public sector benchmark for similar organisations is 83 per cent.

However, while feedback shows that many customers have a good experience of Natural England at the point of transaction, our customer survey, carried out in February 2012, which for the first time included customers outside the land management sector, tells a more challenging story. Our land management customers show 84 per cent satisfaction levels (with only 5 per cent dissatisfied), whilst levels of satisfaction are more variable for our land use planning customers (local authorities, developers, consultants) with around 57 per cent per cent satisfaction and our wildlife licensing customers where levels of satisfaction were at 55 per cent. We are analysing this new insight and talking to these customers to understand the difference between our customer survey figures and our live feedback, and to agree improvement actions for both customer groups.

At the heart of our action plans is the drive towards customer service excellence where we will benchmark ourselves against and aim to get accreditation from the Cabinet Office's Customer Service Excellent standard. We have already achieved this for our Customer Services Team and expect to have achieved it for our major businesses by the end of the calendar year.

Integration: *Our partners are satisfied with the quality of the working relationship they have with us.*

(Metric: 75 per cent of people agree)

**Quarter Four
Performance**

Amber Green

Results from our partner survey, which took place in February 2012, indicate that 70 per cent of partners are satisfied with the quality of the working relationship they have with us. This exceeds the benchmark for similar organisations of 68 per cent, but falls short of the 75 per cent target we set ourselves at the start of the year.

While we can put some of the shortfall down to changes to our business model in the early part of the year and reductions in the funding we have been able to offer some partners, the survey results are consistent with feedback we've had from Defra, from our industry groups and customer panels and through other forums. This shows that we must continue to change the way we do business so that we are more focused on relationship building with our partners, really understand their concerns, search out the common ground and find appropriate solutions to issues.

The feedback from our partner surveys, together with feedback from other forums, will now be included in our business plans so we can continue to change the culture of our business to improve our performance in this crucial area. We are focusing, in particular, on improving our relationships with upland stakeholders, fishermen and developers, and maintaining our good relationships with farmers and their representative bodies.

External Affairs: *Our partners think we live up to our ambitions of being practical, helpful, trustworthy and impartial.*

(Metric: 70 per cent of people agree)

**Quarter Four
Performance**

Green

Our annual Partner Survey confirmed that we exceeded our 2011-12 performance target with 72 per cent of our partners agreeing that we live up to our ambitions of being practical, helpful, trustworthy and impartial. This is particularly pleasing in the context of our significant organisational change this year. We are analysing the survey data to ensure we develop appropriate actions for 2012-13.

We continue to use Industry Groups to build trust with our key sectoral partners and to agree solutions to Government priorities for the natural environment. We held the second Developer Industry Group meeting, which included discussion on the Habitats Directive for which we received very positive feedback, including from the Minister. We also held the first Land Management Industry Group meeting and the second Access and Engagement Advisory (Industry) Group meeting.

Finance: *We deliver £18 million of the £44.2 million of agreed efficiency savings.*

(Metric: £ of efficiency)

**Quarter Four
Performance**

Green

As at 31 March we had delivered efficiencies of £18 m and we therefore met the efficiency target for the year. Natural England implemented our Performance and Efficiency programme to deliver the Spending Review 2010 savings as planned by April 2011. We removed our regional structures and organised delivery at a local level along functional lines to better align delivery to outcomes.

As part of this process we launched a voluntary redundancy programme in early 2011 and the continued operation of tight manpower controls has reduced headcount by 530 full time equivalents (FTEs) (20 per cent) since April 2010. A further 30 staff are scheduled to leave under the voluntary redundancy programme.

We have continued to implement efficiencies through closure of offices, procurement savings, benchmarking and continual improvement of processes. Our early actions give us confidence that the efficiencies promised in the Spending Review 2010 are on track to be delivered in 2012-13.

Organisational Development: *Our staff say Natural England is a good place to work.*

(Metric: 70 per cent of people agree)

**Quarter Four
Performance**

Green

We ran our annual all-staff survey during February and March and 80 per cent of our staff responded positively to the question “Considering everything, I think that Natural England is a good place to work”. These both significantly exceed the 70 per cent target we set ourselves and represent an improvement on our 70 per cent performance of twelve months ago. This indicates that our staff feel more positive about Natural England as a place to work and is supported by similar improvements in response to questions about confidence, commitment and pride in the organisation as well as the working environment and the way staff feel they are treated with fairness and respect. Although we have also seen significant increases over the last year in the level of positive responses to questions around individual and team morale, we believe that there is still more to do, particularly as responses also indicate that workloads are too heavy.

We have engaged all our staff face to face through the ‘Our Organisation, Our Future’ road shows to build understanding of our refreshed role and priorities and the ways in which we will work together to deliver on these. We also introduced some key new enabling tools around core-behaviours and skills frameworks that will be implemented this year as part of our existing performance management system. These events enabled our leadership to emphasise the necessary behaviours and approach we need to deliver our priorities and understand our approaches to develop and improve staff skills, capabilities and capacity.

Annual Management Report

History and statutory background

Natural England was established on 30 March 2006 when selective provisions of the Natural Environment and Rural Communities Act 2006 were activated under Statutory Instrument 2006 (NERC Act 2006) Number 1176 (C.40) Natural Environment England & Wales, Natural Environment Northern Ireland, Rights of Way England. Natural England became fully functional on 1 October 2006 as a result of the merger of English Nature, the majority of the Countryside Agency (the remainder formed the Commission for Rural Communities) and the Rural Development Service (RDS) which was formerly part of the Department for Environment, Food and Rural Affairs (Defra).

Natural England is predominantly financed by annual Grant in Aid (GIA) from Defra. The financial statements are prepared in a form determined by the Secretary of State for Environment, Food and Rural Affairs, with the approval of the Treasury.

In accordance with the Natural Environment and Rural Communities Act 2006, 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".

Natural England's general purpose includes:

- promoting nature conservation and protecting biodiversity;
- conserving and enhancing the landscape;
- securing the provision and improvement of facilities for the study, understanding and enjoyment of the natural environment;
- promoting access to the countryside and open spaces and encouraging open-air recreation; and
- contributing in other ways to social and economic well-being through management of the natural environment (these may in particular be carried out by working with local communities).

Our duties and powers under this general purpose are wide ranging. For example, we may undertake research, give advice to any public authority or person, and publish information about our work.

All of our work is carried out under this and other environmental legislation (including EU and international obligations) and within the Government's policy framework.

Financial commentary

Natural England is predominantly funded by Defra and therefore our funding agreement operates within the context of the Comprehensive Spending Reviews (CSR) which H M Treasury agrees with each Government Department. The 2011-12 financial year was the first year of the CSR 2010 settlement for Defra which covers the spending plans for the four year period 2011-12 to 2014-15.

The settlement reflects a £44.2 m reduction in Natural England's core GIA over the four years 2011-2015. This represents a 21.5 per cent cut in our overall budget and a 30% cut in the portion of the budget which we directly manage (the other portion of our budget relates to recharges for services provided centrally by Defra such as Shared Services who provide financial and HR transaction processing, IT and Estates).

To address the new funding constraints for the SR2010 period, Natural England established a Performance and Efficiency Programme (PEP) to carry out a thorough review of all of our processes and costs. Through this change programme we established a new business model which is designed along functional delivery lines to improve accountability, responsibility, and customer service. We have removed the regional delivery structures and the resulting model enables us to deliver with fewer staff. We continued using the old business model until 31 March 2011 and the new structure was subsequently implemented on 1 April 2011.

We have taken the necessary steps and difficult decisions concerning our staff resource to allow us to deliver the full set of ambitions in our *Corporate Plan*. We are seeking to maintain a flexible workforce through a combination of fixed term contracts and tight manpower controls. Through a combination of voluntary redundancy and stringent manpower controls, our staff numbers have reduced by 455 in the year to 2,291.

The redundancy costs associated with the new business model were recognised in the 2010-11 accounts through the establishment of a provision. These redundancy costs were paid out during 2011-12 when the staff left Natural England. We had a balanced budget in 2011-12, as Defra provided a proportion of funding for the redundancies as part of the settlement. We will have to continue to deliver on our planned efficiencies over the whole CSR 2010 period if we are to manage within the challenging funding reduction. The tight manpower controls and reductions in discretionary spend we are operating will be continued throughout the period. Spending controls which were implemented by the Cabinet Office in May 2010 have continued to be applied throughout the year with strict controls on recruitment,

use of temporary staff, use of consultants, IT projects, advertising and marketing, and property leases.

In accordance with H M Treasury's Financial Reporting Manual (FRoM), the GIA due to Natural England for 2011-12 cannot be shown as income, and instead appears in the Revenue Reserve. The underlying performance for the year to 31 March 2012 was that against our core GIA budget under our control we had a small overspend on revenue of £0.4 m (0.2%) and a small underspend on our capital budget of £0.2 m (4.2%).

Natural England owns 19,571 hectares of land comprising all or part of 147 National Nature Reserves (NNRs). As these NNRs are classified as heritage assets, from the 2010-11 accounts, these were brought onto Natural England's Statement of Financial Position in accordance with the FRoM and relevant Financial Reporting Standard (prior to this they were disclosed only as a note to the accounts).

The non-operational NNR land and buildings are reported in the Statement of Financial Position at fair value. The NNRs generally consist of the land itself and the buildings which include offices and facilities for visitors and NNR staff. These 'support' buildings are not classified as heritage assets, and, for this reason, are treated in accordance with IAS 16 as other non current property, plant and equipment (further details on heritage assets can be found in note 9 to the accounts).

Available resources

The principal resource available to Natural England is its people. The investment we make in our people is described in the Employees section of this report. In addition, the relationship with key partners is vital to the success of Natural England's business. Natural England invested £4.5 m (2010-11 £2.9 m) in additional fixed assets to contribute to the delivery of its business objectives. Over and above this, Natural England manages directly, or through partners on behalf of the nation, 94,365 hectares of NNRs.

Future developments and the impact on Natural England as a going concern

A detailed consideration of what Natural England has achieved, including implications for the future, is given for each outcome of the organisation in the earlier sections of this report.

The Statement of Financial Position at 31 March 2012 shows net assets of £57 m. This includes heritage assets of £59 m included in the Statement of Financial Position to meet the requirements of FRS 30. If the heritage asset valuation is excluded then Natural England's financial position shows a net deficit of £2 m. This reflects the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from Natural England's other sources of income, may only be met by future grants or GIA from Natural England's sponsoring department, Defra. This is because, under the normal conventions applying to parliamentary control over income and expenditure, such grants may not be issued in advance of need.

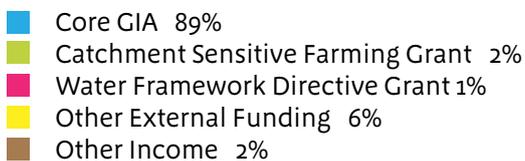
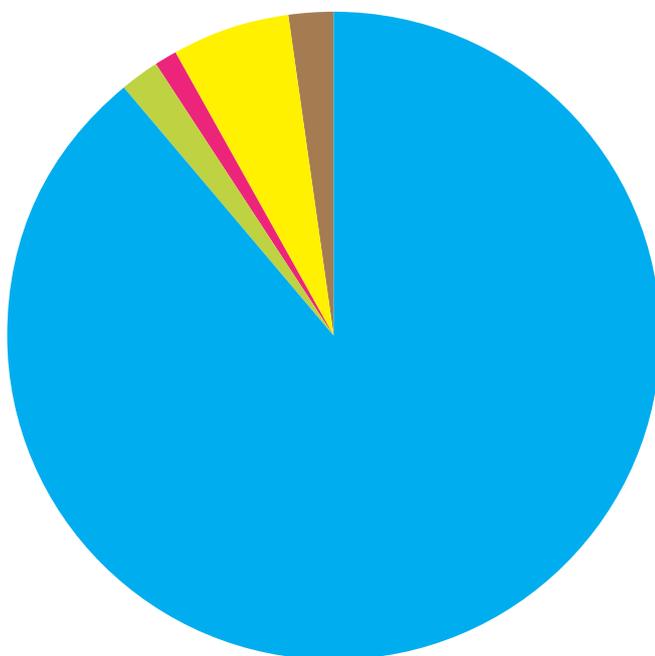
We have a balanced budget for 2012-13 as Defra were able to confirm this in line with the Comprehensive Spending Review. Our *Corporate Plan 2012-15* has been prepared on the basis that Defra will be able to fund our indicative settlements.

GIA for 2012-13, taking into account the amounts required to meet Natural England's liabilities falling due in that year, has already been included in Defra's estimates for that year, which have been approved by Parliament and continuing support is anticipated from Defra. We would expect that the liabilities due in later financial years primarily for IBM and Estates will similarly be met by the Department. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Financial performance summary

a) Where the money to fund Natural England comes from

Natural England's main source of funding is GIA from Defra. In 2011-12 Natural England's total GIA to 31 March 2012 was £202 m which made up 92% of its gross income. A breakdown of the remainder is shown in note 7 of the accounts. The full analysis is shown below:

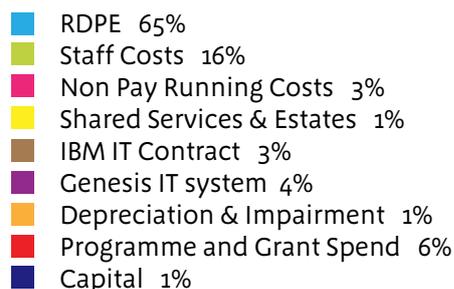
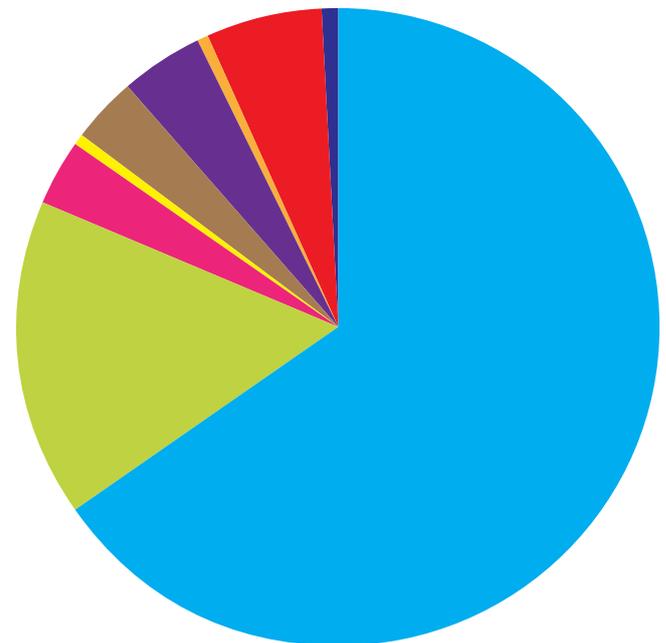


Total income £219.3 m

Natural England delivers its outcomes for the natural environment through a variety of sources including GIA and other income it receives, but also through partnerships with other organisations that fund work for the natural environment directly.

b) The main areas the money is spent on

Natural England is also responsible for the management and delivery of the RDPE programme, which represented a further £415 m (£405 m 2010-11) paid to landowners and farmers for the environmental benefits delivered in 2011-12.



This graph incorporates Rural Development Programme for England (RDPE) programme expenditure, which is integral in the delivery of our objectives. This programme spend is accounted for by Defra, but Natural England incurs the cost of delivering this programme directly.

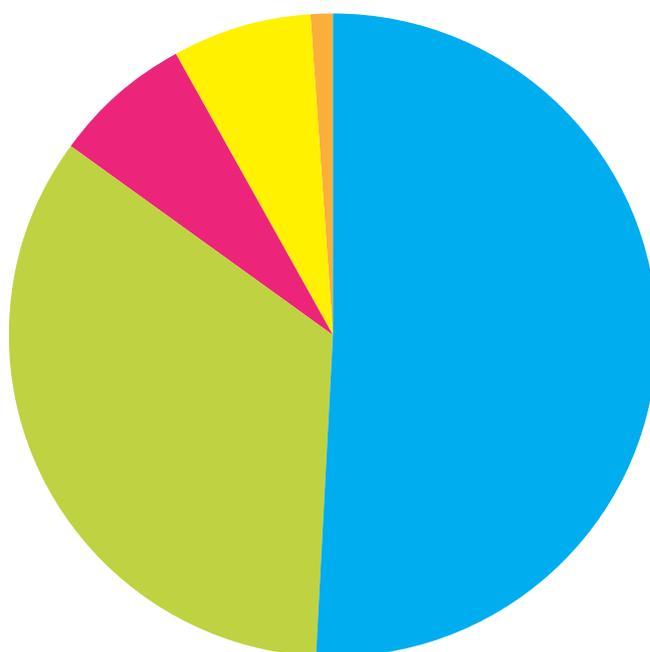
Total expenditure

| | |
|-----------------|---------|
| Natural England | £220 m |
| RDPE | £415 m |
| | ----- |
| | £ 635 m |
| | ----- |

A detailed breakdown of Natural England's main categories of staff costs, other operating costs, programme, grant and information and publicity expenditure can be seen in the notes 5.1 and 6 to the accounts.

c) How the programme and grant expenditure relates to our outcomes

The programme and grants expenditure can be further analysed in terms of how it has helped us to achieve our main objectives, as outlined in this report as follows.



- A healthy, well-functioning natural environment 51%
- People are inspired to value and conserve the natural environment 34%
- Sustainable use of the natural environment 7%
- A secure environmental future 7%
- Excellent Public Body 1%

Total Programme and Grant Expenditure £37.3 m

The analysis above is the direct expenditure on our outcomes, excluding staff and overhead costs.

Research and development

Natural England spent £4.6 m (£7.2 m in 2010-11 restated) on science and evidence gathering in 2011-12. However, in addition, we co-ordinated delivery of £1.1 m of ES monitoring activities covered by RDPE technical assistance funding, and £1.0 m was provided to support local record centres and species recovery projects through our biodiversity delivery programmes – both of these had been funded through our evidence programme in previous years. Major areas of spend in 2011-12 were Marine, Biodiversity and Land Management, but also included Landscape, Access & Engagement and Climate Change. Funds were targeted at those areas that are essential to deliver the organisation's strategic outcomes. Most of this spend was on monitoring our sites and interventions and surveillance of the state of our natural environment, but we also funded research to tackle specific priority evidence needs.

The costs arising from developing an intangible asset (both internal and external) are capitalised if and only if, a number of criteria as outlined in International Accounting Standard 38 are met. No development expenditure in relation to the creation of intangible assets was capitalised in either 2011-12 or 2010-11.

All non-capitalised development expenditure and all research expenditure are written off in the year they occur to the Statement of Comprehensive Net Expenditure.

Payment of trade and other payables

Government has a commitment to pay suppliers within 10 days and we aim to meet this target wherever possible. During 2011-12 99% (97% 2010-11) of Natural England's payments to suppliers met these criteria.

As at 31 March 2012 the amount owed to trade payables compared to the total sum invoiced by suppliers during 2011-12, expressed as a number of days is 12.8 days (9.5 days 2010-11).

Natural England is also subject to the Late Payment of Commercial Debts (Interest) Act 1998, which gives small firms with 50 or less employees a statutory right to interest for the late payment of commercial debts. Natural England incurred no late payment interest during 2011-12 or in the previous two years.

Employees

People are Natural England's most valuable resource. By valuing and respecting each individual we aim to create an organisation where the inclusive culture retains and attracts skilled and innovative people who have the talent to turn our organisational goals into reality. Valuing others will also mean we give an excellent service to the wide range of individuals and customers that we interact with.

Natural England has established a firm commitment to Diversity and Equality helping all employees to work together to build an inclusive environment. The Interim Chief Executive is the Executive Diversity and Equality Champion for Natural England and is supported by a steering group comprising Director level champions with a range of Diversity Ambassadors embedded in teams. This year we have provided a series of on-line training courses covering diversity for our people to use. We made another submission to Stonewall (Britain's leading lesbian, gay and bisexual equality organisation) Top 100 employers and improved our placement on previous years, retained the 'two ticks' symbol and have undertaken a benchmarking exercise with Opportunity Now.

Natural England ensures that it has fair employment terms for its employees. We have published our Workforce Monitoring Data on our website to meet the requirements of the Equality Act. The Equality Duty means that as a public body we should understand the potential effects of our activities on different people and we will use Equality Impact Assessments (EqIA) on all significant new policies, projects, practices, plans or programmes that affect people's experiences of Natural England as a service provider and/or as an employer to understand this.

Natural England's policy is to ensure all internal communications activity is transparent and timely, providing fair and accurate information to everyone. Our communications are inclusive and appropriate for the wide range of diversity represented amongst our people, therefore appealing to differing cultures and learning styles, and accessible via appropriate formats. Our communications are also supportive of Natural England's desire for sustainable ways of working and the Green Travel policy.

We have had two main learning and development priorities this year. The first was to help develop the skills required for those undertaking new roles within the revised business model. The second was to establish an infrastructure to ensure that our approach to Learning and Development was properly aligned to current and future business needs and priorities. We developed 22 Skills Frameworks this year which went live on 2 April 2012 and the first of these has been accredited by the Institute of Ecology and Environmental Management (IEEM). The Learning and Development Directory has therefore been redesigned to link to and support the Skills Frameworks. In addition we have invested in the development of our Leadership and have

introduced a framework of 6 core behaviours which are embedded in our refreshed Performance Management system.

We started the year with 63 people in the Redeployment Pool who were supported by a dedicated team of six Redeployment Officers whose prime purpose was to help identify internal and external opportunities for redeployees. Natural England provided training on interview skills and CV writing etc. Numbers in the pool have steadily reduced through the year as positive outcomes have been found through new roles internally and externally or where redeployees have decided to leave on voluntary terms. Seven people were assigned to roles at the organisation-level assignment process in March. We have only five people remaining in the pool who may leave on Voluntary or Compulsory Redundancy terms during 2012-13. The work we have done on redeployment has been widely recognised by Defra HR, our Trade Unions and Cabinet Office as a best practice model.

Natural England's management and the Trade Unions (Public and Commercial Services [PCS], Prospect and the First Division Association [FDA]) continue to have open, positive and constructive dialogue, both through the mechanism of the National Joint Group and through the partnership approach, which was reviewed and approved this year. The close working relationship is based on mutual trust and understanding which, while respecting the sometimes differing priorities, is highly valued by both parties. It provides a valuable opportunity to address issues of mutual concern at the earliest point and within an environment that supports both pragmatic and innovative approaches during a time of changing priorities.

During 2011-12, Natural England employees incurred an average of 4.2 days of sick leave (4.5 days in 2010-11 and 4.9 days 2009-10). This remains below the overall civil service average, of around 7.1 days per employee per year.

Social Community Statement

Natural England and its predecessor bodies have historically sought to engage diverse communities in England. We do this through our volunteer network and other access and engagement forums and we benefit greatly from the enrichment and learning that their involvement brings.

Natural England is committed to improving the service we give to our customers and aims to provide the highest possible standard of service. The new Customer Service Excellence (CSE) programme has been established to focus on the way Natural England engages with its customers, listens to their feedback and uses this insight to improve our services and ways of working. This programme will drive customer service improvements by establishing clear customer standards for all our products and services and will work with every team in Natural England to ensure that a customer focused culture is central to the development and delivery of all Natural England's business. We will measure our progress through the externally assessed CSE Accreditation Standard, service standard targets and ongoing customer feedback.

Natural England is committed to contributing to achieving a strong, healthy and just society. We aim to do so by promoting personal wellbeing, social cohesion and inclusion and creating equal opportunity for people in existing and future communities through access and engagement with the natural environment.

Sustainability and Environmental Reporting

The achievement of sustainability is through 'Sustainable Development' which is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

In 2009 we reported for the first time on our environmental performance, particularly our progress towards our target to reduce our operational carbon emissions by 50% by the end of 2010. Our 2009-10 *Annual Report* reflected the new sustainability reporting guidance adopted by the Government's Financial Reporting Manual (FRoM) see http://www.hm-treasury.gov.uk/frem_sustainability.htm for more information. In 2010-11 not all aspects required in the reporting framework were monitored, but we have since developed a methodology and reporting system for many of these missing items during 2011-12. Natural England's Sustainability and Environmental report is attached at Annex 1.

Pensions

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme. Natural England is unable to identify its share of the underlying assets and liabilities because it is part of a larger civil service scheme. The scheme actuary valued the scheme as at 31 March 2007. For 2011-12 employer's contributions were payable to the PCSPS at one of the four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The contribution rates are set to meet the cost of the benefits accruing during 2011-12 to be paid when the member retires and not the benefits paid during this period to existing pensioners. Employees joining after 1

October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Further details are described in paragraph 1.21.1 of the Accounting Policies and note 5.4

Poul Christensen CBE (Chair) is included in a separate pension scheme set up by Defra, which is described as 'by analogy to the main scheme'. An actuarial valuation has been carried out by the Government Actuary Department as at 31 March 2012 and the present value of the scheme liabilities is included within Natural England's Statement of Financial Position. Further details are described in the Remuneration Report and note 5.5.

Corporate Governance

Natural England aims for the highest standards in corporate governance. Natural England has throughout the year had risk management and review processes in place so as to be able to review the effectiveness of our system of internal control. Natural England has prepared a Governance Statement for 2011-12 (see pages 52 to 62), which shows that Natural England is compliant with guidance on governance.

Public Sector Information Holders

Natural England is a Public Sector Information Holder, and has complied with the cost allocation and charging requirements set out in H M Treasury and Office of Public Sector Information guidance.

Personal Data Related Incidents

Government should provide particular protection for personal data whose release or loss could harm or cause distress to individuals.

Natural England has established governance structures to ensure that information assets are handled appropriately. These include identifying risk owners, undertaking quarterly risk assessments and providing training to key staff. Information data handling courses are embedded in induction processes and the staff development framework and all staff are required to complete level 1 online information handling course and an annual refresher course.

There have been no reportable incidents of personal information data loss during the year.

Responsibility for the direction of Natural England

1 Non Executive Board

Each Member of the Board of Natural England is appointed by the Secretary of State for Environment, Food and Rural Affairs, typically for a term of three years. Members may be considered for re-appointment in accordance with guidance from the Office of the Commissioner for Public Appointments. Legislation provides for the appointment of no less than nine and up to sixteen Members. At 31 March 2012 there were 9 Members including the Chair.

The composition of the Board for 2011-12 was as follows:

Mr Poul Christensen CBE – Chair
Professor David Hill – Deputy Chair
Dr Helen Phillips – Chief Executive (to 29 February 2012)
Mr William Cockbain (from 1 October 2011)
Mr Peter Allen (to 30 September 2011) MBE
Ms Catherine Graham-Harrison OBE
Mr Tony Hams OBE (to 30 September 2011)
Dr Joe Horwood

Mr Doug Hulyer
Professor David Macdonald CBE
Mr Nigel Reader CBE (from 1 June 2011)
Mr Andy Wilson

We would like to thank two of our former Board Members, Mr Tony Hams and Mr Peter Allen, for their valuable contribution to the development of Natural England.

Full details concerning the Members of the Board are given in the Board Members' section of this report. The Audit and Risk Committee is chaired by Nigel Reader CBE, the other members are Andy Wilson and David Hill.

The Science Advisory Committee is chaired by David Macdonald, the other members are David Hill and Joe Horwood. Board members also participate in Board Outcome Groups which shape future direction and policy of our four outcomes.

Board Members complete Natural England's Register of Interests, which is open for public inspection at its meetings and is included as part of this report. Accountability Statements are in place for the Chair, Board Members and each of the other main roles in the organisation's structure. There are usually four Board meetings, held annually, in public. Further workshops, seminars and site visits are arranged on topical issues.

2 Executive Management Board

The composition of the management board from 1 April 2011 was as follows:

Dr. Helen Phillips – Chief Executive (to 29 February 2012)
Mr David Webster – Interim Chief Executive (from 1 March 2012) previously Executive Director Capability
Mr Jim Smyllie – Executive Director Delivering with Communities

Mr Guy Thompson – Executive Director Customer Services, Integration and External Affairs

Mr Andrew Wood – Executive Director Science and Evidence

Mr Paul Lambert – Acting Executive Director Capability (from 1 February 2012)

As our first Chief Executive we would like to thank Dr Helen Phillips for the significant contribution she made in the successful creation and development of Natural England. Mr David Webster was appointed as Interim Chief Executive on 1 March 2012.

Accounts direction

The accounts have been prepared in a form determined by the Secretary of State for the Department for Environment, Food and Rural Affairs with the approval of the Treasury in accordance with Schedule 1, Section 24(3) of the Natural Environment and Rural Communities Act 2006. Natural England was issued with its accounts direction on 27th September 2006.

Auditor

Under Schedule 1, Section 24(4) of the Natural Environment and Rural Communities Act 2006, the Comptroller and Auditor General shall examine, certify and report on the statements of account.

The cost of work performed by the auditor for statutory audit work in respect of the financial year 2011-12 is £130 k for the Annual Accounts audit (2010-11 £150 k).

So far as I am aware, there is no relevant audit information of which Natural England's auditors are unaware and I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that Natural England's auditors are aware of that information.

Remuneration report

Appointments

All appointments to the Board are made on behalf of the Secretary of State for Environment, Food and Rural Affairs, the appointments are made in accordance with the Code of Practice for Ministerial Appointments to Public Bodies issued by the Office of the Commissioner for Public Appointments. Appointments are normally made for a period of three years.

Directors are appointed on merit on the basis of fair and open competition in accordance with the Constitutional Reform and Governance Act 2010. The Chief Executive and Executive Directors are employed under permanent contracts.

Senior staff appointment information and remuneration is reported in the tables below. Exit packages, where paid to senior staff are shown in this report and the staff exit costs are disclosed in note 5.3.

Salary

'Salary' includes gross salary, overtime and any other allowance to the extent that it is subject to UK taxation.

Board Members' remuneration is determined by Defra.

Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year in which they become payable to the individual. The timing of the appraisal process means that within the 2011-12 financial statements, bonuses for 2011-12 performance cannot be disclosed down to bonuses for individuals, relating to 2011-12 performance.

For this reason, the remuneration report discloses in 2011-12 bonuses paid for 2010-11 performance and for comparative, bonuses paid in 2010-11 based on 2009-10 performance.

Cash Equivalent Transfer Values (CETV)

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

The real increase in the value of the CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

If compensation is due it would be paid in accordance with the Civil Service Compensation Scheme.

Remuneration policy

Senior staff fall into two groups, the Chief Executive and Executive Directors. Natural England does not have a separate Remuneration Committee. All decisions relating to the Chief Executive's remuneration including performance bonuses are taken by the full Board and the Chief Executive determines Executive Directors' remuneration packages. The Board Members' remuneration is set by Defra. The Chief Executive's and Executive Directors' remuneration is determined by:

- Using the Government's Job Evaluation System (JESP), for jobs falling within the Senior Civil Service cadre.
- A performance management framework, which determines pay awards and performance bonuses through the assessment of performance based on contribution at three levels:
 - Organisation;
 - Team;
 - Individual.

The Chief Executive and Executive Directors are required to provide three months' notice of their intention to leave. Board Members are required to provide one month's notice.

Remuneration (audited information)

The remunerations reported are actual expenditure incurred in the year, where a Board Member has been in post for less than a year the full year equivalent value is shown in the note to the table below.

| Board Members | Period of appointment | 2011-12 Days service | 2011-12 Remuneration £000 | 2010-11 Remuneration £000 |
|---------------------------|-----------------------|----------------------|-------------------------------|------------------------------|
| Chair | | | | |
| Poul Christensen CBE | To 31/12/2012 | 156 | 70 - 75 | 70 - 75 |
| Deputy Chair | | | | |
| David Hill | To 30/09/2012 | 52 | 15 - 20 | 15 - 20 |
| Members | | | | |
| Peter Allen | To 30/09/2011 | 18.5 | 5 - 10 <small>note a</small> | 10 - 15 |
| William Cockbain | To 30/09/2014 | 18.5 | 5 - 10 <small>note b</small> | Nil |
| Catherine Graham-Harrison | To 31/12/2014 | 37 | 10 - 15 | 10 - 15 |
| Tony Hams | To 30/09/2011 | 21.5 | 5 - 10 <small>note c</small> | 10 - 15 |
| Nigel Reader CBE | To 31/05/2014 | 31 | 10 - 15 <small>note d</small> | Nil |
| Joe Horwood | To 30/09/2012 | 37 | 10 - 15 | 10 - 15 |
| Doug Hulyer | To 30/05/2014 | 37 | 10 - 15 | 15 - 20 |
| David Macdonald | To 30/09/2014 | 37 | 10 - 15 | 10 - 15 |
| Andy Wilson | To 31/12/2014 | 34 | 10 - 15 | 10 - 15 |
| Christopher Pennell | To 30/09/2010 | 0 | Nil | 5 - 10 <small>note e</small> |
| Lynn Crowe | To 30/09/2010 | 0 | Nil | 5 - 10 <small>note f</small> |

No bonuses, performance related pay or benefits in kind were paid in either 2011-12 or 2010-11.

| Note | Period | | Actual Remuneration £'000 | Full Year Equivalent £'000 |
|------|------------|------------|---------------------------|----------------------------|
| | From | To | | |
| a) | 01/04/2011 | 30/09/2011 | 5 - 10 | 10 - 15 |
| b) | 01/10/2011 | 31/03/2012 | 5 - 10 | 10 - 15 |
| c) | 01/04/2011 | 30/09/2011 | 5 - 10 | 10 - 15 |
| d) | 01/06/2011 | 31/03/2012 | 10 - 15 | 10 - 15 |
| e) | 01/04/2010 | 30/09/2010 | 5 - 10 | 15 - 20 |
| f) | 01/04/2010 | 30/09/2010 | 5 - 10 | 10 - 15 |

Dr Helen Phillips was an ex-officio member of the Board until 29 February 2012 in addition to her role as Chief Executive. Her disclosures are included under the Executive Directors section.

Board Members have no entitlement to bonuses, performance related pay, pension contributions or other benefits (except the Chair who has a separate pension scheme set up by Defra which is described as 'by analogy to the main scheme').

Remuneration (audited information)

The salaries reported are actual expenditure incurred in the year, where an Executive Director has been in post for less than a year the full year equivalent value is shown in the note to the table below.

| | Appointment date | 2011-12 | | 2010-11 | |
|--------------------------------|------------------|-----------------------------|------------------------------|-----------------------------|------------------------------|
| | | Salary £000 | Performance related pay £000 | Salary £000 | Performance related pay £000 |
| Chief Executive | | | | | |
| Helen Phillips | 27/02/2006 | 125 - 130 ^{note a} | 15 | 140 - 145 | 13 |
| Interim Chief Executive | | | | | |
| David Webster | 01/03/2012 | 10 - 15 ^{note b} | Nil | 95 - 100 | Nil |
| Executive Directors | | | | | |
| Jim Smyllie | 01/10/2008 | 85 - 90 | 13 | 85 - 90 | 11 |
| Tom Tew | 16/04/2007 | N/A | N/A | 75 - 80 ^{Note e} | 11 |
| Guy Thompson | 19/06/2006 | 95 - 100 | 13 | 90 - 95 | 11 |
| Paul Lambert | 01/02/2012 | 10 - 15 ^{note c} | Nil | N/A | Nil |
| Robin Tucker | 15/09/2008 | N/A | N/A | 125 - 130 ^{Note f} | 11 |
| David Webster | 04/09/2006 | 90 - 95 ^{note d} | 13 | 95 - 100 | 11 |
| Andrew Wood | 01/04/2007 | 95 - 100 | 13 | 95 - 100 | 11 |

No Benefits in kind were paid in either 2011-12 or 2010-11.

| Note: | Period | | Actual Salary 2011/2012 £'000 | Full Year Equivalent 2011/2012 £'000 |
|-------|------------|------------|-------------------------------|--------------------------------------|
| | From | To | | |
| a) | 01/04/2011 | 29/02/2012 | 125 - 130 | 140 - 145 |
| b) | 01/03/2012 | 31/03/2012 | 10 - 15 | 120 - 125 |
| c) | 01/02/2012 | 31/03/2012 | 10 - 15 | 85 - 90 |
| d) | 01/04/2011 | 29/02/2012 | 90 - 95 | 95 - 100 |
| e) | 01/04/2010 | 28/02/2011 | Nil | 80 - 85 |
| f) | 01/04/2010 | 28/02/2011 | Nil | 110 - 115 |

The Non Executive Board agrees the Chief Executive's performance objectives each year, scrutinises the performance of the organisation quarterly at each open Board meeting, and at the end of the year assesses the performance of the Chief Executive against the agreed framework and performance objectives and approves an appropriate level of non-consolidated performance pay. This process is in accordance with the requirements of Natural England's Management Statement. On this basis the Chief Executive, who is on a permanent contract, is eligible to receive a non-consolidated performance payment of up to a maximum of 15% of their current salary. Along with other senior staff in the Civil Service this is currently capped at a maximum of £15 k per annum.

The non-consolidated performance related pay of the other Executive Directors was determined by the Chief Executive and under the contracts allows for a payment up to a maximum of 15% of salary. In 2011-12 consideration was given to guidance issued by Cabinet Office on the levels of non consolidated performance payment for Senior Staff. The Chief Executive took these principles into consideration and capped the level of payments due to the Executive Directors at £12.5 k. The total performance related payments paid in 2011-12 for 2010-11 performance was £65 k (2010-11 £79 k).

Pension Benefits (audited information)

| | Total accrued pension at age 60 at 31 March 2012 and related lump sum (LS) £000 | Real increase in pension and related lump sum at age 60 £000 | CETV at 31 March 2012 £000 | Restated CETV at 1 April 2011 ^{Note a} £000 | Real increase in CETV £000 |
|--------------------------------|---|--|----------------------------|--|----------------------------|
| Chair | | | | | |
| Poul Christensen CBE | 5 - 10 | 0 - 2.5 | 89 | 68 | 17 |
| Chief Executive | | | | | |
| Helen Phillips | 25 - 30 | 2.5 - 5 | 375 | 328 | 18 |
| Interim Chief Executive | | | | | |
| David Webster | 50 - 55 | 2.5 - 5 | 724 | 665 | 4 |
| Executive Directors | | | | | |
| Jim Smyllie | 20 - 25 / LS 60-65 | 0 - 2.5 | 464 | 427 | 1 |
| Guy Thompson | 5 - 10 | 0 - 2.5 | 95 | 76 | 10 |
| Paul Lambert | 10 - 15 | 0 | 212 | 200 | 3 |
| Andrew Wood | 40 - 45 | 0 - 2.5 | 818 | 752 | 0 |

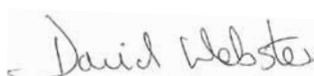
No employer contributions were paid to partnership pension accounts in 2010-11. Board Members are not entitled to join the PCSPS pension scheme.

Note a: The actuarial factors used to calculate CETVs were changed in 2011/12. The CETVs at 31 March 11 and 31 March 12 have both been calculated using the new factors, for consistency. The CETV at 31 March 11 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

Median Pay

| | 2011-12 | 2010-11 |
|------------------------------------|-----------------|-----------------|
| Highest Earners total remuneration | £150 k - £155 k | £150 k - £155 k |
| Median total remuneration | £29,882 | £29,884 |
| Ratio | 5.0 | 5.1 |

The median total of the workforce has remained consistent over the two year period.



David Webster
Accounting Officer and Interim Chief Executive

18 June 2012

Statement of Accounting Officer's Responsibilities

Under Schedule 1, Section 24(2) of the Natural Environment and Rural Communities Act 2006, Natural England is required to prepare for each financial year a Statement of Accounts in the form and on the basis set out in the Accounts Direction.

The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Natural England and of its net operating costs, changes in taxpayers' equity and cash flows for the financial year.

In preparing the Statement of Accounts, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- Observe the Accounts Direction issued by H M Treasury, including the relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis.
- Make judgements and estimates on a reasonable basis.
- State whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed and disclose and explain any material departures in the financial statements.
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that Natural England will continue in operation.

The Accounting Officer of Defra has designated the Chief Executive of Natural England as Accounting Officer of Natural England. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding Natural England's assets, are set out in *Managing Public Money*, published by H M Treasury.

David Webster, Interim Chief Executive

Governance Statement

1 Introduction

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Natural England's policies, aims and objectives, whilst safeguarding the public funds and organisational assets for which I am personally responsible in accordance with the responsibilities assigned to me in *Managing Public Money*. I am also required to ensure that Natural England complies with the relevant codes of corporate governance which in our case is "*Principles of Good Governance in Executive NDPBs*" issued by the Cabinet Office. This Governance Statement covers the full year and whilst there has been a change in Accounting Officer during the year, I have received appropriate assurances from the previous Accounting Officer.

2 Governance Framework

The Natural England Board's role is to set the strategy and approve the direction of the body. A Strategic Statement outlines how the Board will discharge its responsibility which includes compliance with corporate governance principles as laid down by H M Treasury. Governance arrangements are currently detailed in the Management Statement which outlines accountabilities and responsibilities, planning, budgeting and control and external accountabilities. These two statements when taken together act as the Board Operating Framework. These documents are supported by the Financial Memorandum which sets out the financial framework within which Natural England is required to operate.

The Management Statement and Financial Memorandum have been in place since vesting in 2006 and are in the process of being revised to bring them into line with guidance provided in *Managing Public Money* and to reflect changes that have taken place since vesting. As part of this review the two documents are being brought together in a single Framework Document. The process for agreeing this new document is nearing completion and the document will be signed off by Natural England and Defra in the first half of 2012-13. This Framework document will be supported by a revised Policy Partnership Agreement with Defra that will describe how we work together. We have a Delivery Framework which outlines what we will achieve for the natural environment.

The Natural England Board comprises the Chair and eight other non-executive members appointed by the Secretary of State. The Chief Executive of Natural England was an ex officio member until 29th February 2012. We maintain records of members' attendance at Board meetings which are referred to in assessing performance. The minutes, showing attendance at meetings together with the agenda and papers considered are available on the Natural England website at:

www.naturalengland.org.uk

Standard agenda items at Board meetings include the Chief Executive's Report (covering delivery on the Corporate Plan, financial position, compliance, Rural Development Programme for England [RDPE] and strategic issues) and reports received from its committees. The following are examples of some of the other topics which were discussed at the Board meetings in 2011-12; further information is available on the website.

- Control of Bovine TB – This updated the Board on the status of the Defra consultation and next steps; the Board reviewed and agreed Natural England’s proposed response to the Defra consultation. The Board also noted the implementation of the licensing regime following the policy statement and the timescales for the pilot phases.
- Marine Conservation Zones –The Board was provided with a progress report on the MCZ regional projects. (MCZs are a new approach to marine protection and will contribute towards the Government’s commitment to establish a representative and ecologically coherent UK Marine Protected Area network by 2012).
- Government Red Tape Challenge – As part of the government’s better regulation agenda the Red Tape Challenge is a regulatory burden review programme and website inviting the public and business to submit views on government regulations looking particularly to reduce impacts on business. The Board were updated on the Red Tape Challenge, and provided input to our recommended approach and engagement across our Better Regulation Initiatives.
- Candidate Special Areas of Conservation (cSAC) review – This shared the findings and recommendations of the Defra independent review of evidence and advice relating to identification of marine cSAC. The Board noted the actions Natural England is already undertaking to improve processes for the use of evidence in the marine function and in the business as a whole; these actions will fully meet the recommendations arising from the review.
- Charging for Services – The Board approved the introduction of charges for a range of discretionary services that relate to planning, licensing and consenting activities and agreed that ministerial approval be sought.

Committees

The Board has established two committees; the Science Advisory Committee (SAC) and the Audit and Risk Committee (ARC). Annually the Board reviews and approves the terms of reference for these committees and a Board member chairs each committee.

The SAC is an advisory committee to the Board and has an important role in advice, and the challenging and reviewing of our science and evidence. It provides advice to the Board on the integrity and relevance of our overall evidence programme and of prospective research. In addition it provides a link between the Board, our staff and the wider research community ensuring that Natural England is kept aware of current and emerging relevant issues in the natural and social sciences. The Committee discusses aspects of our business where science and evidence are at the forefront of our interventions. It provides scrutiny of our summaries of evidence and challenge to our use and generation of evidence. The Committee includes two Board members in addition to its Chair and whilst it does not provide a separate report to the Board a summary note is provided of each meeting to SAC members. The SAC chairman has requested informal briefing notes on items where an upcoming Board topic may benefit from recent SAC discussion. This briefing was related to scientific consideration of ecological networks, our work with volunteer biological recorders and our evidence strategy and independent review programme. During

the year the Committee reviewed summaries of evidence for our work in Marine, Landscape, Ecosystems Approach, Climate Change and Geodiversity. Other areas that have been discussed include our work on the Natural Environmental White Paper and the National Ecosystem Assessment.

The objective of the ARC is, through challenge, scrutiny, monitoring and advice, to assist the Board to fulfil its corporate governance responsibilities and to ensure that an appropriate control environment is maintained by Natural England, with principal focus on:

- Overseeing the strategic processes for risk, control and governance including the production of this Governance Statement and the Annual Report and Accounts.
- Reviewing compliance with Government Accounting Directions, the Financial Memorandum and other relevant legal and regulatory requirements particularly in relation to statutory compliance and financial management.
- Oversight and evaluation of an effective internal and external audit function.
- Oversight of assurances relating to corporate governance requirements and assessment of the internal control framework.
- Reviewing the Strategic Risk Register and evaluating and endorsing the effectiveness of systems for assessing and managing risk.
- Assessing the effectiveness of anti-fraud policy and procedures and fraud reporting.
- Ensuring that the recommendations made by the internal and external auditors are properly considered by officials and appropriate action is taken in good time.

- Reviewing Health and Safety policy and procedures through consideration of an annual report from the Head of Health and Safety to receiving assurance that Natural England is managing its Health and Safety risks.

- Reviewing the totality of assurance available to Natural England.

At the start of 2011-12 the ARC comprised five members, four of whom were non-executive members of the Board. The other, to meet Treasury guidance, was an external member who had financial accounting experience. From October 2011 a new Chairman was appointed who had the necessary financial experience and so the external member's term of office was not renewed. At the same time the Board agreed to a proposal that the Committee should consist of three Board members and this took effect from October 2011.

In discharging its function of advising and assisting the Board to carry out its governance role, the Committee provides support to me in the form of objective advice on the systems of internal control within the organisation and constructive challenge to the assurances available that financial and risk management controls and systems are adequate and functioning well.

The Chair of the ARC participates in the regular meetings that Defra holds where the Chairs of the audit committees from across the network get together to discuss a range of risk related topics. Current and upcoming topics are considered and individual bodies' approaches to issues are shared. To ensure that Defra has sight of any issues the Department's Head of Internal Audit has an open invitation to attend Natural England's ARC meetings.

The Board receives copies of the ARC minutes and regular reports from the Chairman on the work of the Committee including an annual report usually at its September meeting which summarises the activities that the ARC has been involved in. As Accounting Officer I have taken assurance from the Committee's Annual Report for 2011-12, which was produced in time to inform this Governance Statement. I am comforted by the Committee's opinion that the totality of assurance available to myself as Accounting Officer and to the Board is sufficient to support us in our respective governance roles.

General Governance

Executive governance is delivered through the Executive Board; the Operations Group, Evidence Group and the Governance Group together with Director's leading their teams.

The Governance Group was established in 2010-11 and is made up of a cross section of Directors from across the business whose remit it is to oversee day to day governance, risk and internal issues. This group meets monthly.

We have in place Financial and Non-Financial Schemes of Delegation; guidance on regularity and propriety, anti-fraud policy and procedure together with a whistle blowing procedure to comply with the Public Interest Disclosure Act 1998.

Natural England has a full internal audit service with an inhouse Head of Internal Audit and internal and externally controlled audit resources. External assistance was provided up to 2011-12 by Price Waterhouse Coopers and from 2012-13 will be provided by RSM Tenon, who also provide assurance to others in the Defra network.

In accordance with standard requirements, the Head of Internal Audit provides an annual opinion on Natural England's systems of internal control with reference to control, risk and governance. He bases his opinion on a range of reviews that were approved by the Chief Executive and endorsed by the ARC. For 2011-12, the opinion provides a moderate level of assurance, in line with earlier years' assessments.

3 Board Performance

In line with best practice the approach taken for 2011-12 was based on a standard self assessment questionnaire developed by the NAO which we amended to reflect Natural England's operational methods. This questionnaire was issued to Board members in January 2012 and the results discussed at an NAO facilitated board workshop at the end of February 2012. The topics covered were; board objectives, strategy & remit; performance management; relationship with stakeholders; risk management; ARC, audit and reporting and the boardroom.

The results of the assessment concluded that we have an effective Board. Most questions had generated a positive answer from all participants, and after discussion of the exceptions Board Members felt this to be a fair reflection of the Board's performance. There were a few areas identified for action and a plan to implement these actions produced. The focus for the Board looking ahead will be to follow up on and implement the identified improvement areas, contribute some wider thinking on performance and in effectiveness terms, moving from good to very good.

The ARC conducts an annual review of its own effectiveness through a questionnaire and an NAO facilitated workshop which tests the conclusions and identifies actions for improvement. For 2011-12 this review took

place at the March 2012 meeting with the overall conclusion that the ARC was operating effectively. A number of actions were identified and the ARC will review its effectiveness by reviewing progress on these actions throughout the coming year and will continue to reflect on its effectiveness at the end of each meeting. Through the forum of Defra's ARC Chairs' Network it will look to benchmark its performance in 2012-13 and to share and adopt identified best practice.

Performance management is exercised through the Executive Board, Operations Group, Evidence Group, the Governance Group and Programme and Project Boards. Team Plans are in place with individual teams which allocate responsibility for meeting the corporate targets in our *Corporate Plan*. The performance of each team is measured each quarter against targets in the Corporate Performance Management System and performance status is generated by the system. Quarterly reviews of each team are undertaken by Directors who monitor performance, assess progress against targets, highlight risks to delivery and identify corrective action. Monthly or weekly reporting is implemented where delivery is at risk against a major target.

Each quarter a report of Natural England's performance against its objectives and forward look is presented to the Defra Supervisory Board.

4 Corporate Governance Compliance

Natural England is required to comply, or explain any non-compliance, with the *Corporate Governance Code* or explain any non-compliance. This outlines requirements in a number of topic areas and I consider that Natural England has complied with the code as evidenced below;

Accountability

The accountability of Natural England and the Secretary of State is set out in our existing governance documentation which is being updated in the Framework Document. We comply with the principles set out in *Managing Public Money* and any spending controls that are put in place. I am the Accounting Officer for the organisation and my role is defined in my appointment letter of 16 February 2012. I chair the Executive Board that has overall responsibility for executive governance. This responsibility is devolved through the scheme of delegation to the individual directors and their teams, all of whom interact to provide appropriate governance over delivery.

Roles and Responsibilities

This is comprehensively described in the governance documents and covers the sponsoring department and team, the Board, its Chairman and its members. Further reference to this is also made in this governance statement.

Effective Financial Management

Each year, after examination by NAO and scrutiny by the ARC on behalf of the Board, we publish our Annual Report & Accounts in accordance with H M Treasury guidance. As outlined elsewhere in this statement, risk management arrangements are in place as part of the internal control systems with internal and external audit services also being received.

Communications and Transparency

Our key stakeholders have been identified and we have in place appropriate communication channels with them. We are committed to openness, our Board meetings are held in public and papers published on our Internet site. In accordance with the transparency agenda we publish expenditure data on our website and provide information that goes on the "Direct Gov" website via Defra. We have

in place correspondence and complaints handling procedures.

Conduct and Behaviour

The Strategic Statement outlines the principles relating to the Board. We have in place a code of conduct for the Board which was reviewed and updated in February 2012; this is published on our website. Similarly we have a code of conduct for our staff and we test check compliance with this during our internal governance compliance process. We maintain and regularly update a register of interests and related party transactions for the Board and staff. During the year we introduced a refreshed set of core behaviours that we expect our staff to demonstrate which form part of our performance management from 2012-13.

Internal Control

As Accounting Officer I have responsibility for reviewing the effectiveness of internal control. This review is informed by the Executive Directors, Directors, Governance Group, Heads of Teams, Team Delivery Managers/Leaders who are responsible for the development and maintenance of the internal control framework. This is supported by the work of Internal Audit, comments made by the external auditors in their management letter and other reports and advice from the ARC and Board.

To monitor and evidence compliance, assurance is sought twice yearly through internal governance compliance questionnaires which are signed off by Executive Directors, Directors, Heads of Teams, Information Asset Owners and also by Shared Services Directorate (SSD). The questionnaires have been updated from last year to reflect the changes to management responsibilities and arrangements that came into effect in April 2011. These questionnaires require staff to make an evidenced assessment about the adequacy of the control framework that has been in place throughout the period,

highlighting any areas of control weaknesses and identifying improvement action plans. The results from these statements form part of the review of compliance by the ARC, myself as Accounting Officer and the Board.

With structural changes in management arrangements being introduced in April 2011 a not unexpected dip in compliance results was seen early in the year but there has been steady improvement recorded as the year progressed. The overall results for the year show the number of responses that entirely agree that the controls were operating correctly to be 89% which, whilst slightly below last year's level of 93%, showed an improvement from the half year position. This slight drop from last year was not unexpected but the trend is improving.

Within the specific categories of the compliance questionnaire the majority of responses followed the pattern as described above. However, we have identified some aspects where we will be seeking an improvement;

A number of our functions only "partially agree" that business continuity and emergency response plans are in place and tested. Plans are in place to improve this situation during quarter 1 in 2012-13 and;

Control over local assets and inventory has improved during the year but was still only 79% "entirely agreeing" with 5% "partially agreeing" in the coming year to formalise plans.

In addition to the above, compliance targets have been set for key business processes and are monitored on a monthly or quarterly basis. During the year these targets were raised each quarter rising from an initial 90% at the start of the year to 95% for the final quarter. By quarter 4, of the four measures monitored, one was ahead of target, one close to target and two behind target. Of the latter only one was

significantly at variance with the target which was in relation to late submissions of expense claims, 11% compared to the target of 5%. We will be looking to improve this performance in 2012-13.

For the services that Natural England receive from SSD there is a specific control questionnaire. The services received are set out in a Service Level Agreement (SLA) and supported by a series of key performance indicators. The majority of responses received were "entirely agree" with the remainder "partially agree" reflecting a steady state service provision with little or no development change.

A standard part of our control processes is a regular review undertaken by Internal Audit providing an assessment of the level of assurance over the governance compliance reporting process. For 2011-12, this review provided a suitable level of assurance over the interim process with only minor improvements suggested. These improvements were built into the final governance compliance reporting process for the year.

5 Risk Assessment

The Board has approved the Risk Management Assessment Framework and reviewed actions taken to manage the Strategic Risk Register (SRR). We are undertaking a zero-based review of the Board's role in risk management, this process commenced at the March 2012 ARC meeting and was taken forward at the May 2012 Board meeting in a specific workshop. The Executive Board consults with the Directors and other staff to inform their review of the SRR.

Our approach to risk is influenced by our key functions and duties as a Non-Departmental Public Body (NDPB). We are prepared to take considered risks to deliver some innovative

work but have a lower risk appetite in areas where there are explicit statutory duties.

The Risk Control Framework seeks to embed risk management in the business processes. Visibility of risks has been recognised as important for monitoring and controlling against the risk appetite for Natural England. Therefore the following controls are in place;

- A strategic risk register is reviewed by the Executive Board and the ARC on a quarterly basis and by the Board at least annually but more frequent exposure to the Board has been agreed from 2012-13. Consultation also takes place with stakeholders and partners in producing the SRR.
- A risk management action plan, with named risk owners, is produced for each risk with actions shown to mitigate and manage the risks.
- Subsidiary risk registers are produced at project and team level.
- Quarterly performance reviews are undertaken by Directors who assess risk as part of the balanced scorecard for each team.

To ensure that a consistent approach to risk management is followed throughout Natural England we have introduced a risk and issues management standard that defines our approach. This was launched on the 19 April 2012 with an appropriate induction and training programme held during April and May.

Areas that are currently considered to be of particular risk and our {response} in mitigating them as detailed on the current Strategic Risk Register are:

- RDPE/Common Agricultural Policy Reform. Uncertainty about future funding levels in particular for Environmental Stewardship. Lack of clarity on the extent and timing of changes to existing agreements required to align to any Pillar 1 greening and/or new RDPE requirements. Late completion of EC process results in delays to the start of new programme. *{A CAP 2014+ Programme to co-ordinate our contribution to the Defra project was established; scenario's on handling the uncertainty developed with Defra; continuing to work on alternative funding mechanisms; establishing a joint Programme Board with Defra to progress work on new programme design and implementation.}*
- Collaborative Working. Failure to collaborate effectively with other Arms Length Bodies such as Forestry Commission (FC) and Environment Agency (EA) to remove duplication, improve customer service and efficiency of operations. *{Established a joint group with EA and the FC to provide a steer for collaboration opportunities; undertook an organisational mapping project to understand respective statutory duties, current programmes and customers; produced a shared portfolio of current collaborative initiatives; developed a communications and engagement plan.}*
- Decision making/evidence. Insufficient evidence and/or poor communication of such results in a successful challenge on critical/high profile issues. *{Reviewed our compliance with Government Office of Science guidelines as represents codification of good practice; production of evidence standards; established a strategy for the development of scientific/technical capability, produced guidelines on the way Natural England uses science/evidence.}*
- Marine. Specialist staff resource shortfalls impacts on MCZ targets and other marine. *{Project plans revised with full risk mitigation and associated resources, recruitment of additional staff resource is underway; joint discussions with Defra and relevant bodies on potential for synergies and cost efficiencies across the marine delivery chain.}*
- Benefits Realisation. Failure to implement the business model results in the necessary financial savings and improved flexibility not being achieved. *{Budgets for 12-13 are balanced and programme priorities aligned with available resource; Performance & Efficiency Programme has been implemented; supporting strategies such as the Work Force Planning Strategy have been developed to achieve flexibility; engagement with Defra for a strategic steer for the corporate plan.}*

Information Risk and Assurance

Natural England is not a major holder of protected personal or otherwise sensitive information. However, we are aware that failure to manage information risks can have an adverse impact on our reputation. We work closely with others in the Defra network allowing common issues to be addressed in a consistent manner and best practice and experience to be shared.

We comply with all required Information Management controls. As a recognised delivery partner, we submitted to Defra our 2011-12 annual assessment against the Cabinet Office's Information Assurance Maturity Model and our 2011-12 compliance and evidence sheets for the Cabinet Office's Security Policy Framework Return. The Executive Director - Capability operates as Natural England's Senior Information Risk Owner (SIRO) and is informed by our Information Asset Owners (IAO) information risk assessment exercise undertaken in conjunction with our governance compliance assessment. IAOs are responsible for the confidentiality, integrity and availability of key information assets. The Information and IT security specialists contribute by assessing and addressing overarching background information risks and work closely with others in the Defra network allowing common issues to be addressed in a consistent manner and best practice and experience to be shared.

Our assessment for 2011-12, against the Information Assurance Maturity Model has shown that in two areas – internal risk assessment process and compliance by our third parties – whilst we have good processes in place we need to do more to ensure those processes are fully effective. We have confidence in compliance with information assurance and security requirement by our

major suppliers but have recognised that for some of the smaller organisations we share our information with, more could be done to gain appropriate assurances that they comply with their contractual requirements.

Our assessment for 2011-12, against the Security Policy Framework is that of the twenty mandatory controls; sixteen we were “fully compliant”, for three “largely compliant” with the remaining one being “not applicable”.

There were two reportable incidents with personal information during the year but they did not involve data loss, these were;

- A spreadsheet was sent to a partner in error but when contacted the partner organisation confirmed that this had been deleted without being opened; and
- A newsletter was distributed to volunteers which included all the recipient email addresses instead of just their own.

6 Significant governance or internal control issues

A number of control issues were reported in the 2010-11 statement on internal control and their status as 31 March 2012 is as follows:

- Business continuity planning, awareness and testing;
Improvements have been noted during the year in the production of team BCPs, the topic is now included in the governance compliance questionnaire for improved monitoring although there are still some on-going issues that remain to be addressed, and these are picked up in the 2011-12 section below.
- Assurance on controls operated by SSD;
Against the specific failures raised last year the control environment has improved due to the identified actions being taken, however some new issues arose during the year which are covered below.
- Challenges to data and evidence through increased external scrutiny;
The issues identified have been mitigated through the implementation of corporate standards in respect of risk/issues and evidence together with the cSAC review hence this is not regarded as an issue for 2011-12.
- Estates recharges from Defra;
Despite taking forward the identified actions of promptly raising concerns and closer working together with Defra estates in order to improve the quality and timeliness of information, issues have continued to cause concern in this area and this is picked up in the following section.

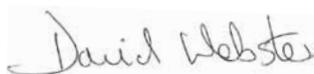
The areas where we have identified internal control issues for 2011-12 are as follows:

| Description of Control Event | Management Action |
|--|--|
| <i>Business Continuity Plans including emergency cover for key roles</i> | |
| <p>Lack of awareness of and the testing of such plans within the functions.</p> <p>Overall our IT systems and infrastructure are governed by contracts with IBM and Defra. These do not include disaster recovery contracts with the respective suppliers as the costs outweigh the benefits.</p> <p>Our IT infrastructure and those of our suppliers (SSD, Defra IT and Estates) are also vulnerable to a single point of failure at the IBM data centre.</p> | <p>Teams are required to ensure that they have in place updated plans by the end of Q1 in 2012/13 and staff are familiar with them. The plans are to be tested during Q2. These actions will be validated through a specific reference in the Governance Compliance Questionnaire process that takes place at the end of Q2.</p> <p>Key infrastructure and the Genesis and Oracle systems are subject to support arrangements with IBM and ATOS Origin. As stated we cannot currently afford to purchase a service that gives a guaranteed recovery commitment and we consider the costs outweigh the benefits. This will be reviewed at each contract renewal date.</p> |

| Description of Control Event | Management Action |
|--|---|
| <i>Those back office services provided by SSD are not by definition controllable by Natural England and there been some failures in the control framework;</i> | |
| <p>An incident required the Oracle system to be restored to a previous version resulting in the system being unavailable for a number of days and some loss of previously entered data. This was identified through reconciliations and re-entered thus ensuring the integrity of the data.</p> <p>A process exists whereby SSD alerts Natural England of exceptional items in payments runs being made to ensure that Natural England's cash forecasting has covered them. On one occasion this process was not followed and resulted in Natural England not having sufficient cash to cover the transaction thereby required an emergency transfer from Defra.</p> | <p>Reason for restore under investigation and a Root Cause Analysis being carried out. Lessons Learned exercise to be undertaken. These actions are being taken forward by SSD.</p> <p>Further control process checks identified and put in place where SSD check with Natural England before authorising payment runs.</p> |
| <i>Natural England occupies office and property that is owned and leased by Defra.</i> | |
| <p>Natural England was not notified until the end of Q3 by Defra that the Estates recharges were going to be less than expected, this led to a significant underspend against the estates budget.</p> | <p>Concerns have been raised with Defra estates and a proposal has been put forward for a fixed charge to be agreed for 12/13 for costs not under Natural England's control. This is being considered across the Defra network.</p> |
| <i>Control of assets and inventory</i> | |
| <p>Local asset inventory records have not been kept up to date on small value items which could result in losses.</p> | <p>Local asset inventories to be migrated to a central record by Q3, training will be carried out alongside the new process and compliance checks made via the governance questionnaire process.</p> |

There were no ministerial directions given during the year.

I was appointed Accounting Officer on 1 March 2012 replacing Helen Philips. In order to provide this opinion for the period 1 April 2011 to 31 March 2012, I have received advice and assurances from various sources including; Helen Phillips as outgoing Accounting Officer, the Executive Board, the Audit and Risk Committee, Internal Audit, External Audit together with the Directors through their annual assurance returns. I was a member of the Executive board during the year under review and have used my knowledge/involvement from this to form my overall opinion.



David Webster
Accounting Officer and Interim Chief Executive
18 June 2012

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of Natural England for the year ended 31 March 2012 under the Natural Environment and Rural Communities Act 2006. These comprise the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, and Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and Auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Natural Environment and Rural Communities Act 2006. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to Natural England's circumstances and have been consistently applied and adequately

disclosed; the reasonableness of significant accounting estimates made by Natural England; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on Regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on Financial Statements

In my opinion:

- the financial statements give a true and fair view of the state of Natural England's affairs as at 31 March 2012 and of the net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Natural Environment and Rural Communities Act 2006 and Secretary of State directions issued thereunder.

Opinion on Other Matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Natural Environment and Rural Communities Act 2006 and Secretary of State directions issued thereunder; and
- the information given in the Annual Management Report, included within the Annual Report and Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with H M Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse

Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

28 June 2012

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or

Statement of Comprehensive Net Expenditure for the year ended 31 March 2012

| | Notes | 2011-12 £000 | Restated 2010-11 £000 |
|---------------------------------------|-------|-----------------|-----------------------------|
| Expenditure | | | |
| Staff costs | 5.1 | 85,376 | 120,559 |
| Depreciation & Amortisation | 6 | 4,195 | 4,461 |
| Other expenditure | 6 | 109,855 | 119,837 |
| Total Expenditure | | 199,426 | 244,857 |
| Income | | | |
| Income from activities | 7 | (12,753) | (9,889) |
| Other income | 7 | (4,823) | (9,369) |
| Total Income | | (17,576) | (19,258) |
| Net Expenditure | | 181,850 | 225,599 |
| Interest receivable | | (8) | (4) |
| Net Expenditure after interest | | 181,842 | 225,595 |

Other Comprehensive Expenditure

| | | | |
|---|-----|----------------|----------------|
| Net loss on revaluation of Property Plant and Equipment | 8.1 | 4,875 | 2,068 |
| Net (gain)/loss on revaluation of Intangibles | 8.2 | 0 | (0) |
| Net gain on revaluation of heritage assets | 9 | (2,309) | (4,776) |
| Net (gain)/loss on revaluation of Agricultural Biological Assets | 10 | (9) | 0 |
| Net gain on pensions provision | 5.5 | (2) | (5) |
| Total Comprehensive Expenditure for the year ended 31 March 2012 | | 184,397 | 222,882 |

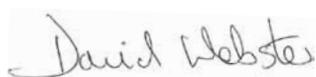
The accounting policies and notes on pages 71 to 123 form part of these financial statements.

Statement of Financial Position as at 31 March 2012

| | Notes | 31 March 2012 £000 | Restated 31 March 2011 £000 | Restated 1 April 2010 £000 |
|--|-------|-----------------------|-----------------------------------|----------------------------------|
| Non-current assets: | | | | |
| Property, plant and equipment | 8.1 | 23,900 | 30,475 | 35,692 |
| Intangible assets | 8.2 | 3,591 | 1,580 | 2,174 |
| Heritage assets | 9 | 59,132 | 56,822 | 52,046 |
| Agricultural biological assets | 10 | 95 | 68 | 71 |
| Trade and other receivables | 15.2 | 7 | 11 | 21 |
| Total non-current assets | | 86,725 | 88,956 | 90,004 |
| Current assets: | | | | |
| Assets classified as held for sale | 11 | 0 | 356 | 0 |
| Inventories | 14 | 86 | 76 | 78 |
| Trade and other receivables | 15.1 | 5,602 | 5,275 | 16,199 |
| Cash and cash equivalents | 16 | 19,451 | 7,933 | 14,395 |
| Total current assets | | 25,139 | 13,640 | 30,672 |
| Total assets | | 111,864 | 102,596 | 120,676 |
| Current liabilities: | | | | |
| Trade and other payables | 17.1 | (42,704) | (36,237) | (55,557) |
| Provisions | 18.2 | (3,880) | (19,603) | (5,558) |
| Total current liabilities | | (46,584) | (55,840) | (61,115) |
| Non-current assets plus/less net current assets | | 65,280 | 46,756 | 59,561 |

| | Notes | 31 March 2012 £000 | Restated 31 March 2011 £000 | Restated 1 April 2010 £000 |
|--------------------------------------|-------|-----------------------|-----------------------------------|----------------------------------|
| Non-current liabilities: | | | | |
| Provisions | 18.2 | (1,223) | (2,792) | (1,703) |
| Pension provision | 18.1 | (215) | (195) | (399) |
| Other payables | 17.2 | (7,133) | (9,899) | (13,738) |
| Total non-current liabilities | | (8,571) | (12,886) | (15,840) |
| Assets less liabilities | | 56,709 | 33,870 | 43,721 |
| Reserves | | | | |
| Capital Reserve | 23 | 35,203 | 40,245 | 45,267 |
| Revaluation Reserve | 24 | 51,515 | 49,055 | 44,716 |
| Revenue Reserve | 25 | (30,009) | (55,430) | (46,262) |
| | | 56,709 | 33,870 | 43,721 |

The accounting policies and notes on pages 71 to 123 form part of these financial statements.



David Webster
Accounting Officer and Interim Chief Executive
18 June 2012

Statement of Cash Flows for the year ended 31 March 2012

| | Notes | 2011-12 £000 | Restated 2010-11 £000 |
|---|-----------|------------------|-----------------------------|
| Cash flows from operating activities | | (181,842) | (225,595) |
| Net deficit after interest | | | |
| Adjustment for non cash items | | | |
| - depreciation & amortisation | 8.1 & 8.2 | 4,195 | 4,461 |
| - impairment | 13 | 0 | 319 |
| - (surplus)/ loss on disposal of assets net of Proceeds | 6 | (193) | 632 |
| - provisions provided for in year net of write backs | 18 | (908) | 16,933 |
| - employee benefit annual leave accrual | | (97) | (316) |
| - IFRIC 12 write down of lease | | 5,443 | (2,197) |
| (Increase)/Decrease in trade and other receivables | 15 | (323) | 10,934 |
| (Increase)/Decrease in Inventories | 14 | (10) | 2 |
| Increase/ (Decrease) in trade payables | 17 | 6,634 | (18,206) |
| Use of Provisions | 18 | (16,364) | (2,002) |
| Net cash outflow from operating activities | | (183,465) | (215,035) |

| | Notes | 2011-12 £000 | Restated 2010-11 £000 |
|---|-----------|-----------------|-----------------------------|
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 8.1 | (1,932) | (2,931) |
| Purchase of intangible assets | 8.2 | (2,605) | 0 |
| Increase/ (Decrease) in non current payables | 17 | (2,766) | (3,839) |
| Proceeds of disposal of property, plant and equipment | | 579 | 117 |
| Proceeds of disposal of intangibles | | 0 | 0 |
| Net cash outflow from investing activities | | (6,724) | (6,653) |
| Cash flows from financing activities | | | |
| Interest | | 8 | 4 |
| Grants from parent departments | 25 | 201,699 | 215,222 |
| Net financing | | 11,518 | (6,462) |
| Net increase/(decrease) in cash and cash equivalents in the period | 16 | 11,518 | (6,462) |
| Cash and cash equivalents at the beginning of the period | 16 | 7,933 | 14,395 |
| Cash and cash equivalents at the end of the period | 16 | 19,451 | 7,933 |

The accounting policies and notes on pages 71 to 123 form part of these financial statements.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2012

| | Notes | Restated Capital Reserve (Note 23) £000 | Restated Revaluation Reserve (Note 24) £000 | Restated Revenue Reserve (Note 25) £000 | Total Reserves £000 |
|--|-------|---|---|---|---------------------|
| Restated balance at 31 March 2011 | | 40,245 | 49,055 | (55,430) | 33,870 |
| Changes in Taxpayers Equity 2011-12 | | | | | |
| Grant from Parent | | 0 | 0 | 201,699 | 201,699 |
| Transfers between reserves | | 0 | (417) | 417 | 0 |
| Comprehensive Expenditure for the year | | 0 | 0 | (181,842) | (181,842) |
| Movements in reserves | | | | | |
| Other non current asset movements | | (5,042) | 0 | 5,066 | 24 |
| Increase in bequests | | 0 | 0 | 81 | 81 |
| In year revaluations | | 0 | 2,877 | 0 | 2,877 |
| Balance at 31 March 2012 | | 35,203 | 51,515 | (30,009) | 56,709 |

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2011

| | Restated Capital Reserve (Note 23) £000 | Restated Revaluation Reserve (Note 24) £000 | Restated Revenue Reserve (Note 25) £000 | Restated Total Reserves £000 |
|--|---|---|---|------------------------------|
| Restated balance at 31 March 2010 | 45,267 | 44,716 | (46,262) | 43,721 |
| Grant from Parent | 0 | 0 | 210,722 | 210,722 |
| Transfers between reserves | 0 | (565) | 565 | 0 |
| Comprehensive Expenditure for the year | 0 | 0 | (225,595) | (225,595) |
| Movements in reserves | | | | |
| Other non current asset movements | (5,022) | 0 | 5,111 | 89 |
| Increase in bequests | 0 | 0 | 29 | 29 |
| In year revaluations | 0 | 4,904 | 0 | 4,904 |
| Balance at 31 March 2011 | 40,245 | 49,055 | (55,430) | 33,870 |

Notes to the Financial Statements

Statement of accounting policies

1 Basis of accounting

These Financial Statements have been prepared in accordance with the 2011-12 *Government Financial Reporting Manual (FReM)* issued by H M Treasury and the accounts direction issued by the Secretary of State, in accordance with Schedule 1, Sections 23 and 24 of the Natural Environment and Rural Communities Act 2006. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of Natural England, for the purpose of giving a true and fair view has been selected.

The particular policies adopted by Natural England are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Significant judgements and estimation uncertainty

In the process of applying Natural England's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

1.1.2 Indexation of Non-Current Assets

Between professional quinquennial revaluations, all freehold Land and Building are updated annually where material using indices as stated in notes 1.4 & 1.6. Depreciation of these assets is spread across the deemed useful economic life, which also requires the use of judgement.

1.1.3 Employee Benefit Accrual

Natural England recognises a liability and expense for unused annual leave which is accrued to individual staff members at the reporting date in accordance with IAS 19 'employee benefits'. This has been calculated based on unused annual leave for a sample of 100 employees and requires the use of estimation and judgement.

1.2 Accounting Convention

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of property, plant and equipment, intangible assets and inventories. Revaluation of non-current assets is taken to a Revaluation Reserve. Impairments are taken to the Revaluation Reserve where a balance exists for the asset, otherwise they are charged in year to the Statement of Comprehensive Net Expenditure. The particular accounting policies adopted by Natural England are described below.

1.3 Going Concern

The Statement of Financial Position at 31 March 2012 shows net assets of £57 m. This includes heritage assets of £59 m included in the Statement of Financial Position to meet the requirements of FRS 30. If the heritage asset valuation is excluded then Natural England's financial position shows a deficit of £2 m. This reflects the inclusion of liabilities falling due in future years (including a provision for severance and early retirement costs for which a provision of £2.9 m remains) which, to the extent that they are not to be met from Natural England's other sources of income, may only be met by future grants or GIA from Natural England's sponsoring department, Defra. This is because, under the normal conventions applying to parliamentary control over income and expenditure, such grants may not be issued in advance of need.

GIA for 2012-13, taking into account the amounts required to meet Natural England's liabilities falling due in that year, has already been included in the Defra estimates for that year, which have been approved by Parliament and there is no reason to believe that the department's future sponsorship and future parliamentary approval will not be forthcoming. We would expect that the liabilities due in later financial years primarily for IBM and Estates will similarly be met by the Department. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

1.4 Non-Current Property, Plant and Equipment Assets and Depreciation

1.4.1 Recognition and valuation

Non-current property, plant and equipment assets are carried at fair value, stated at the lower of replacement cost and recoverable amount. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of an asset is based on its present location and condition.

Natural England has set a capitalisation threshold of £5 k for assets except for land. The cost of individual items below this threshold is charged directly to the Statement of Comprehensive Net Expenditure.

Subsequent expenditure on an asset is capitalised if the criteria for initial capitalisation are met, i.e. if it is probable that economic benefits will flow to Natural England, and the cost of the expenditure can be reliably measured.

Each component of an asset with a value deemed material to the total fair value of the asset and with a materially different useful life is capitalised and depreciated separately. All other assets are carried at fair value at depreciated historical cost. Up to 31 March 2009, short life assets such as vehicles were updated annually by means of a desk top review, using *Price Index Numbers for Current Cost Accounting* published by the Office for National Statistics. Agreement was reached with our auditors that from 1 April 2009, Natural England would stop indexing short life assets on a yearly basis, as the sums involved were immaterial.

1.4.2 Service Concession Arrangements (IFRIC12)

Defra has entered into a contract with IBM for the supply of IT services, and Natural England is party to this contract. The contract is for a term of eight years from February 2010. The contract falls within the scope of IFRIC 12 and is disclosed within the accounts as a service concession arrangement. A lease liability has been included to reflect the capital value payments to IBM to lease IT infrastructure assets throughout the duration of the 8 year contract. A matching asset has been raised to reflect the benefit that the Department will derive from having access to IBM's IT infrastructure assets. Depreciation has been applied on a straight line basis consistent with the department's depreciation policy. These IT infrastructure assets, which consist of laptops, servers and hardware, are classed as one tangible service concession asset under property, plant and equipment.

1.5 Depreciation

Depreciation is provided on all non-current property, plant and equipment assets other than land and assets classified as held for sale. The rates applied are calculated to write off the cost or valuation of each asset evenly over its expected useful life. Standard write off periods are shown below although alternative lives may be used where relevant information is available to ascribe an expected useful life:

| | |
|-------------------------------------|---------------|
| Freehold buildings | 50 years |
| Improvements to leasehold buildings | 10 years |
| Computer equipment | 3 to 5 years |
| Plant and other equipment | 5 to 10 years |
| Vehicles | 5 years |

An asset under construction at the financial year end is not depreciated until the asset is brought into service.

1.6 Intangible Non-Current Assets and Amortisation

An intangible asset is an identifiable non-monetary asset without physical substance (for example, software developed in-house, or by third party, software licences, websites that deliver services and development expenditure). Natural England holds various software licences, which were capitalised at purchase cost where this was in excess of capitalisation thresholds. Such assets are revalued only where it is possible to obtain a reliable estimate of their market value. They are reviewed annually for any impairment, to ensure they are not carried in the Statement of Financial Position above their recoverable amounts.

Intangible assets are assumed to have a finite useful life. Amortisation is provided on software licences at rates calculated to write off the cost or valuation of each asset evenly on a straight line basis, over its expected finite useful life. The standard write off period is 5 years although alternative lives may be used where relevant information is available to ascribe a more appropriate expected useful life.

1.7 Research and Development

All of our development and research expenditure is written off in the year to the Statement of Comprehensive Net Expenditure.

1.8 Heritage assets

FRS 30 'Heritage Assets' was implemented from 1 April 2010. A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture'.

NNRs are defined as land that is held in support of our strategic outcome to support a healthy natural environment and continue to ensure that our rich biodiversity thrives across the landscape, with ecosystems and habitats resilient to climate change. Although NNRs are open to the public for quiet recreation, they are held principally for their contribution to knowledge and culture. Our NNRs meet the criteria for heritage assets.

Heritage assets can be operational or non-operational. Non-operational heritage assets are those that are held primarily for their contribution to knowledge and culture and are not held for operational purposes, the main example being the NNR land. Operational heritage assets are those which as well as being held for their contribution to knowledge and culture are also used to provide other services. Natural England has one operational heritage asset – Parsonage Down Farm.

Where the NNR land has buildings attached to it, this will generally include visitor and information centres, offices for NNR staff and toilet facilities. These operational 'support' buildings are not classified as heritage assets, and are held generally for administrative purposes. They have therefore been classified as operational assets and have been treated in accordance with IAS 16 as other non-current property, plant and equipment.

Further details around the ownership and management of our NNRs are shown in Note 9.

1.8.1 Valuation

Heritage asset land and buildings are reported in the Statement of Financial Position at fair value, stated at market value. The land will be periodically revalued every five years by our internal valuers. The buildings will

be periodically revalued every five years by an external valuer. In between these revaluations, values are updated annually where material, using indices from the Property Market Report issued by the Valuation Office.

Any surplus or deficit on valuation of the NNRs compared to their historic cost is recognised in the Revaluation Reserve, and is reported in the Statement of Other Comprehensive Expenditure and Statement of Changes in Taxpayers' Equity.

In line with FRS 30, the heritage assets were initially valued at 1 April 2010 by internal and external valuers, in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Manual (the Red Book).

The land element of the NNRs is not depreciated. Buildings are depreciated on a straight line basis over their useful lives, which are deemed to be 50 years, but an alternative life may be ascribed if this is considered more suitable.

Livestock on the reserves is treated in accordance with IAS 41 Agriculture and is separately recognised in the Statement of Financial Position.

1.8.2 Acquisitions

Acquisitions are made by purchase or donation. Purchases are initially recorded at cost and donations are recorded at current value ascertained by Natural England's internal valuers with reference, where possible, to commercial market prices. The values of assets whether purchased or donated are reflected in the Revenue Reserve.

1.9 Agriculture Biological Assets

In line with IAS 41 Agriculture, biological assets are separately recognised in the Statement of Financial Position. The biological assets held by Natural England are the breeding cows and sheep held on NNRs and these are measured at fair value less costs to sell. The fair value of the cattle and sheep is the price for the livestock in the relevant market less transport and other costs of getting the cattle to that market. Biological assets are not depreciated, but revalued at the end of each reporting period, and changes in fair value less costs are included in the Statement of Comprehensive Net Expenditure. Lambs born close to the Statement of Financial Position date are not valued as valuations are unreliable until lambs reach maturity.

1.10 Impairment

The objective of impairment is to ensure that non-current assets are carried at no more than their recoverable amount. The carrying amounts of Natural England's Property, Plant and Equipment, Agricultural Biological Assets, heritage assets and finite life intangible assets are reviewed at each Statement of Financial Position date to establish whether there are any indications of impairment. There are 2 types of impairment;

- those caused by consumption of economic benefits; and
- those from a general fall in prices.

From 2010-11 Natural England adopted H M Treasury's interpretation to IAS 36 (Impairment of assets) which was introduced to align the budgeting and accounting treatment in line with H M Treasury's Clear line of Sight Project which aligned budgeting, estimates and resource accounting across Government.

This interpretation meant that;

- Impairments from a general fall in prices are charged against the Revaluation Reserve where the asset has previously been revalued, with any excess of impairment over revaluation being charged to the Statement of Comprehensive Net Expenditure (no change here as per previous practice).
- All impairments caused by consumption of economic benefits/ loss of economic value will continue to be charged to the Statement of Comprehensive Net Expenditure in full. However any amount in the Revaluation Reserve relating to the impaired asset should be removed from the Revaluation Reserve and credited to the Revenue Reserve. Hence a transfer is made between the Revaluation Reserve and the Revenue Reserve to realign the Revaluation Reserve to IFRS (the interpretation).

1.11 Inventories

Farm stock bred for sale is capitalised and covered above in 1.9 where it is treated as agricultural biological assets. Other farm stock has been valued at cost.

For other stocks Natural England uses the lower of cost and estimated net realisable value.

The stock valuation is adjusted for obsolete stock which is considered to be those stocks with levels of over 12 months' worth of sales remaining and where it is considered unlikely that there will be any future income flow.

1.12 Financial Instruments

Natural England holds few financial instruments, aggregated into classes based on their nature. The majority of these relate to contracts for non-financial items in line with Natural England's expected purchase and usage requirements and is therefore not exposed to considerable credit, liquidity or market risk. The financial instrument classes are described below:

1.12.1 Financial Assets

Trade receivables fall into this category. These are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables do not carry any interest and are recognised and carried at the lower of their original invoiced value or recoverable amount. Provision is made when there is objective evidence that the asset is impaired. Balances are written off to the Statement of Comprehensive Net Expenditure when the probability of recovery is assessed as being remote, or it is uneconomic to do so.

1.12.2 Available Assets for Sale

These are non derivative financial assets that are classed as available for sale on initial recognition or are not categorised in line with any other financial asset classification. They are measured at fair value, with all unrealised gains or losses on disposal recognised in the Statement of Comprehensive Net Expenditure.

1.12.3 Financial Liabilities

These comprise trade and other payables and financial liabilities. They are initially recognised at fair value of consideration received less directly attributable transaction costs. Trade payables are not interest bearing and are stated at their nominal value.

1.12.4 Managing Risk in Financial Instruments

Natural England seeks to eliminate or minimise its exposure to interest rate and exchange rate risk by not making investments other than those described in Note 12 and by making formal agreements with partners as to how shortfalls or surpluses will be covered. Liquidity risk is managed through the management of GIA funding in accordance with the Financial Memorandum.

1.13 Taxation

Natural England is recognised by Her Majesty's Revenue and Customs as a charity for the purpose of Section 505, Income and Corporation Taxes Act 1988. Natural England is a body corporate and is liable to Corporation Tax on any investment income and trading profits.

1.14 Value added Taxation (VAT)

Natural England has charitable status for VAT purposes. Most of the activities of Natural England are outside the scope of VAT and in general output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of non-current assets. Where output tax is charged, or input tax is recoverable, the amounts are stated net of VAT.

As Natural England makes exempt supplies for VAT it has partially-exempt status. Natural England uses an agreed formula to enable the quarterly calculation of the amount of reclaimable input tax.

Natural England receives GIA from Defra and this has been treated as non-business income for the purposes of VAT.

1.15 Grant in Aid (GIA)

GIA received to support revenue expenditure is treated as a contribution from controlling parties and is credited to the Revenue Reserve. Grants for capital expenditure are also credited to the Revenue Reserve.

1.16 Grants Receivable

Natural England receives grant funding from the European Union, the Rural Payments Agency and the Forestry Commission. Government grants received to support revenue expenditure are treated as contributions from controlling parties and are credited to the Revenue Reserve.

GIA for capital works is credited to the Revenue Reserve.

Funding received from the European Union (EU) is released from the Deferred EU Grant Reserves to match project expenditure during the year.

1.17 Grants Payable

Financial assistance by way of grant may be given to any person or organisation to undertake any activity which Natural England is empowered to undertake, including the purchase of land. Grants are included as expenditure in the obligation to pay the grant. The offer of a grant payment is usually tied to a specific year of account and it is solely at the discretion of Natural England whether an unclaimed grant is carried into the next financial year. Offers of grants towards the employment of staff may be made on a diminishing basis over a three or four year period.

Operating income relates directly to the operating activities of Natural England.

Income is recognised net of VAT, and includes National Lottery grants, contributions from conservation partners, and income from National Nature Reserves.

1.18 Cash and Cash Equivalents

Natural England uses the Government Banking Service (GBS – see note 16 for further information) for all its accounts and manages them in accordance with H M Treasury's Banking Stewardship Guidance. The policy is to restrict the holding of cash balances.

1.19 Short Term Investments

Short term investments relate to bequest funds held in a separate Citibank account. These funds are available on immediate terms.

1.20 Treatment of Foreign Exchange Differences

Transactions which are denominated in a foreign currency are translated into sterling at the spot rate. The spot exchange rate is the exchange rate at the date of the transaction. Any gains or losses on exchange are taken to the Statement of Comprehensive Net Expenditure in the year in which they are incurred.

1.21 Employee Benefits

1.21.1 Pension Arrangements

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), full details of which can be found in note 5.4 and the Remuneration Report.

Although the PCSPS is a defined benefit scheme, those covered by the scheme recognise the cost of the elements on a systematic and rational basis over the period during which it benefits from employees' services, by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS.

The Chair is entitled to a pension scheme but is prohibited from joining the PCSPS. Individual schemes were set up, described as "by analogy to the PCSPS". Any ongoing liability arising from this arrangement will be borne by Natural England. The liabilities arising under this arrangement have been accounted for and disclosed in accordance with IAS 19 "Employee Benefits".

1.21.2 Early Departure Costs

Natural England is required to meet the additional costs of benefits beyond the normal PCSPS benefits in respect of certain qualifying employees who retire early. These benefits conform to the rules of the PCSPS. Natural England bears the costs of these benefits until normal retiring age of the employees retired under the Early Retirement Scheme.

The total pension liability up to normal retiring age, in respect of each employee is charged to the Statement of Comprehensive Net Expenditure, in the year in which the employee takes early retirement and a provision for future pension payments is created. Pensions and related benefits payments to the retired employee are then charged annually against the provision.

1.21.3 Other Employee Benefits

Natural England recognises a liability and expense for all other employee benefits, including unused annual leave, accrued at the Statement of Financial Position date,

provided these amounts are material in the context of the overall staff costs. No other material employee benefits were accrued at the Statement of Financial Position date.

1.22 Leases

A finance lease is one which transfers substantially all the risks and rewards of ownership to the lessee. If a leasing arrangement is in force for a substantial period of the useful expected life of the asset, then the lessee is assumed to carry all of the risk. An operating lease is a lease other than a finance lease.

The determination of whether an arrangement is, or contains a lease, is based on the substance of that arrangement. This assessment is based on whether the arrangement is dependent on the use of a specific asset and conveys the right to use the asset. Natural England evaluates contractual arrangements in accordance with the above criteria as laid down in IAS 17.

Both the asset value and liability to pay future rentals under a finance lease are discounted at the interest rate implicit in the lease to derive the present value. Assets obtained under a finance lease are revalued and depreciated over the shorter of the lease term or the expected useful life. Natural England does not have any material finance lease commitments.

All payments arising under operating leases are charged to the Statement of Comprehensive Net Expenditure in the year in which they are incurred.

Where Natural England occupies a property that is leased by Defra, there is a future commitment that is consistent with arrangements containing a lease as defined by IFRIC 4.

1.23 Provisions

Natural England provides for obligations arising from past events where it is probable that it will be required to settle the obligation and a reliable estimate can be made. This is in accordance with IAS 37. Future costs have not been discounted unless they are significant.

1.24 Machinery of Government (MOG) Changes

MOG changes which involve the merger of 2 or more departments into a new department, or the transfer of functions or responsibility of one part of the public service sector to another, are accounted for using merger accounting where material, in accordance with the FReM. See below details for MOG change for 2011-12 period in section 3 below.

1.25 Contingent Liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37, Natural England discloses for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of *Managing Public Money*.

Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament.

2 Disclosure of IFRSs in issue not yet effective

Natural England has reviewed the IFRSs in issue but not yet effective, to determine if it needs to make any disclosures in respect of those new IFRSs that are or will be applicable. References to 'new IFRSs' includes new interpretations and any new amendments to IFRSs and interpretations. It has been determined the following new IFRSs are relevant to Natural England but will have no significant impact on the financial statements.

IFRS 9 Financial Instruments, classification and measurement will be applied to future accounting periods. *IFRS 9 Financial Instruments* was implemented in November 2009 and will be effective for financial reporting periods beginning on or after 1 January 2013. The new standard simplifies the classification and measurement of financial assets, previously reported under *IAS 39 Financial Instruments: Recognition and Measurement*. Natural England will apply the new standards for the accounting period ending 31 March 2013 and for comparative periods. These amendments are unlikely to impact upon Natural England as it is exposed to little credit, liquidity or market risk.

3 Prior Period adjustments (restatements) included within the 2011-12 Accounts

The following prior period adjustments/ (restatements) have been made as follows:

3.1 Machinery of Government (MOG) Change – Areas of Outstanding Natural Beauty (AONBs)

With effect from 1 April 2011 responsibility for our AONBs transferred from Natural England to Defra. This included the resources, funding and strategic oversight of the AONB Joint Advisory committees, two Conservation Boards and the National Association of AONBs. In line with Cabinet Office guidance this has been treated as a MOG change in this Annual Report and Accounts. Merger accounting has been applied (refer to point 1.24 above).

This prior year adjustment affects the Statement of Comprehensive Expenditure, the Statement of Financial Position, the Statement of Cashflows and the Statement of Changes in Taxpayers Equity and notes. The relevant adjustments are shown below these notes.

3.2 IAS 20 Government Grants and Disclosure of Government Assistance

The 2011-12 Natural England adopted H M Treasury's interpretation of IAS 20 (according with IPSAS 23), so that grants, contributions or donated assets are recognised directly as income unless a specific condition is imposed which allows the income to be deferred. Natural England considered the material areas of income that had been deferred in 2009-10 and 2010-11 and found that there were contractual conditions attached to the money which meant no change was required and therefore no prior period adjustment.

Our Donated Asset Reserve of £628 k was established at 1 April 2010. This represented the historic cost of our heritage asset land that had been donated. In order to apply a consistent approach with other prior year asset adjustments we have moved this balance to the Capital Reserve.

3.3 Joint Nature Conservation Committee (JNCC)

Since Natural England's vesting the Chief Executive of Natural England has had lead Accounting Officer responsibility for JNCC, assisted by the Chief Executives of the Countryside Council for Wales, Scottish Natural Heritage and the Department of Environment for Northern Ireland. This responsibility ended 31 March 2011, when under the Defra Clear Line of Sight changes, JNCC's Chief Executive became the responsible Accounting Officer from 1 April 2011.

Natural England is therefore no longer considered to have an "interest in joint ventures" under IAS 31.

We previously consolidated JNCC balances into our annual report and accounts based on the percentage Natural England funding of JNCC's overall funding. Following this change this has been removed.

Prior Period adjustments

Statement of Financial Position

| 2009-10 | Published 31 March 2010 £000 | Removal of AONB £000 | Removal of JNCC £000 | Donated Asset Reserve £000 | Restated 1 April 2010 £000 |
|------------------------------|------------------------------------|----------------------------|----------------------------|----------------------------------|----------------------------------|
| Non Current Assets | | | | | |
| Property plant and equipment | 35,760 | 0 | (68) | 0 | 35,692 |
| Intangible Assets | 2,201 | 0 | (27) | 0 | 2,174 |
| Current Assets | | | | | |
| Inventories | 97 | 0 | (19) | 0 | 78 |
| Trade and Other Receivables | 16,302 | 0 | (103) | 0 | 16,199 |
| Cash at Bank | 17,117 | (2,381) | (341) | | 14,395 |
| Adjusted Assets | 71,477 | (2,381) | (558) | 0 | 68,538 |
| Liabilities | | | | | |
| Trade and other payables | (58,312) | 2,381 | 374 | 0 | (55,557) |
| Provisions | (7,361) | 0 | 101 | 0 | (7,260) |
| Adjusted liabilities | (65,673) | 2,381 | 475 | 0 | (62,817) |
| Reserves | | | | | |
| Capital Reserve | 44,599 | 0 | 40 | 628 | 45,267 |
| Donated Asset Reserve | 628 | 0 | 0 | (628) | 0 |
| Revaluation Reserve | 44,849 | 0 | (133) | 0 | 44,716 |
| Revenue Reserve | (46,272) | 0 | 10 | 0 | (46,262) |
| Adjusted Reserves | 43,804 | 0 | (83) | 0 | 43,721 |

Statement of Comprehensive Net Expenditure

| 2009-10 | Published 2009-10 £000 | Removal of AONB £000 | Removal of JNCC £000 | Donated Asset Reserve £000 | Restated 2009-10 £000 |
|---------------------------------|------------------------------|----------------------------|----------------------------|----------------------------------|-----------------------------|
| Other Expenditure | 149,880 | 0 | (3,906) | 0 | 145,974 |
| Other income | (5,552) | 0 | 1,033 | 0 | (4,519) |
| Adjusted Net Expenditure | 144,328 | 0 | (2,873) | | 141,455 |

Statement of Financial Position

| 2010-11 | Published 31 March 2011 £000 | Removal of AONB £000 | Removal of JNCC £000 | Donated Asset Reserve £000 | Restated 1 April 2011 £000 |
|------------------------------|------------------------------------|----------------------------|----------------------------|----------------------------------|----------------------------------|
| Non Current Assets | | | | | |
| Property plant and equipment | 30,535 | 0 | (60) | 0 | 30,475 |
| Intangible Assets | 1,606 | 0 | (26) | 0 | 1,580 |
| Current Assets | | | | | |
| Inventories | 84 | 0 | (8) | 0 | 76 |
| Trade and Other Receivables | 5,380 | 0 | (105) | 0 | 5,275 |
| Cash at Bank | 10,857 | (2,765) | (159) | 0 | 7,933 |
| Adjusted Assets | 48,462 | (2,765) | (358) | 0 | 45,339 |
| Liabilities | | | | | |
| Creditors < 1 year | (39,187) | 2,765 | 185 | 0 | (36,237) |
| Provisions | (22,405) | 0 | 10 | 0 | (22,395) |
| Adjusted Liabilities | (61,592) | 2,765 | 195 | 0 | (58,632) |
| Reserves | | | | | |
| Capital Reserve | 39,568 | 0 | 49 | 628 | 40,245 |
| Donated Asset Reserve | 628 | 0 | 0 | (628) | 0 |
| Revaluation Reserve | 49,190 | 0 | (135) | 0 | 49,055 |
| Revenue Reserve | (55,353) | 0 | (77) | 0 | (55,430) |
| Adjusted Reserves | 34,033 | 0 | (163) | 0 | 33,870 |

Statement of Comprehensive Net Expenditure

| 2010-11 | Published 2010-11 £000 | Removal of AONB £000 | Removal of JNCC £000 | Donated Asset Reserve £000 | Restated 2010-11 £000 |
|---------------------------------|------------------------------|----------------------------|----------------------------|----------------------------------|-----------------------------|
| Other Expenditure | 131,669 | (8,914) | (2,918) | 0 | 119,837 |
| Income | (19,598) | 0 | 340 | 0 | (19,258) |
| Adjusted Net Expenditure | 112,071 | (8,914) | (2,578) | 0 | 100,579 |

4 Analysis of Net Expenditure and Assets by Segment

In accordance with IFRS 8 “Operating Segments” Natural England is required to report financial and descriptive information about its operating segments. These are components about which separate financial information is available. Generally, financial information is required to be reported on the same basis as is used internally. For Natural England the Executive Board and Executive Leadership Group evaluate performance regularly at and below operating segments whilst deciding how to allocate resources and monitor outcomes. Each of these operating segments aligns to functions managed by an Executive Director of the Natural England Executive Board and shows the gross budget controlled by each operating segment.

Prior year comparatives have not been provided as equivalent information is not readily available and cost and time to produce is deemed excessive. This is because Natural England began operating under a new business model from 1 April 2011.

Statement of Comprehensive Net Expenditure for the year ended 31 March 2012

| | Operating Segments | | | | Total £000 |
|--|--|-------------------|-------------------------------|--------------------|-----------------|
| | Delivering with Communities £000 | Customers £000 | Science & Evidence £000 | Capability £000 | |
| Staff Costs | 47,825 | 14,619 | 8,587 | 14,345 | 85,376 |
| Non pay running & other Operating costs | 2,725 | 652 | 685 | 7,199 | 11,261 |
| Genesis | 0 | 0 | 0 | 26,171 | 26,171 |
| IBM IT Contract | 0 | 0 | 0 | 21,750 | 21,750 |
| Estates & Shared Services | 0 | 0 | 0 | 7,828 | 7,828 |
| Programme & Grant expenditure | 37,719 | 235 | 2,040 | 2,851 | 42,845 |
| Depreciation & Impairment | 0 | 0 | 0 | 4,195 | 4,195 |
| Total Expenditure | 88,269 | 15,506 | 11,312 | 84,339 | 199,426 |
| Income | (13,082) | (137) | (465) | (3,900) | (17,584) |
| Net Expenditure | 75,187 | 15,369 | 10,847 | 80,439 | 181,842 |

5.1 Staff costs

| | 2011-12 £000 | 2010-11 £000 |
|--|-----------------|-----------------|
| Permanent staff salaries and allowances | | |
| Chair | 73 | 73 |
| Members | 250 | 281 |
| Staff ^{Note a} | 65,094 | 77,454 |
| | 65,417 | 77,808 |
| Pension costs | | |
| Employer Superannuation Payment | 12,719 | 14,260 |
| Partnership pension contributions | 112 | 98 |
| | 12,831 | 14,358 |
| Permanent staff social security costs | | |
| Chair | 9 | 7 |
| Members | 7 | 27 |
| Staff | 4,976 | 5,881 |
| | 4,992 | 5,915 |
| Agency and temporary staff ^{Note b} | 1,920 | 3,456 |
| Inward secondees | 66 | 336 |
| Temporary staff social security | 11 | 30 |
| Other staff costs | 144 | 426 |
| Sub total | 85,381 | 102,329 |
| Less recoveries in respect of outward secondments | (313) | 16 |
| Early retirement and severance costs ^{Note c} | 308 | 18,214 |
| Total net costs | 85,376 | 120,559 |

Notes:

a) In accordance with IAS 19 Employee Benefits, £2.2 m (£2.2 m 2010-11) has been included in staff salaries for annual leave not taken at 31 March 2012. This was the first year of a two year pay freeze. Permanent staff numbers have reduced by 310 during 2011-12 following a voluntary redundancy scheme and costs have reduced in line with this.

b) As from the 1 April 2011 we moved to our new business model and therefore agency staff costs and numbers have also reduced significantly.

c) The early retirement and severance provision represents the estimated costs of early retirement or voluntary redundancy for staff choosing to leave Natural England as part of the move to a new business model for delivery.

5.2 Staff numbers

| | 2011-12 No. | Restated 2010-11 No. |
|---|----------------|-------------------------|
| The average number of whole-time equivalent persons employed during the year was as follows: | | |
| Permanent staff | | |
| Executive/Director | 23 | 26 |
| Manager/Principal Specialist/Adviser | 172 | 203 |
| Team Leader/Senior Specialist/Adviser | 490 | 563 |
| Group Coordinator/Lead Adviser/Specialist | 824 | 953 |
| Adviser/Support Adviser | 647 | 721 |
| | 2,156 | 2,466 |
| Temporary and contract staff | | |
| Executive/Director | 0 | 1 |
| Manager/Principal Specialist/Adviser | 2 | 3 |
| Team Leader/Senior Specialist/Adviser | 4 | 9 |
| Group Coordinator/Lead Adviser/Specialist | 16 | 59 |
| Adviser/Support Adviser | 113 | 208 |
| | 135 | 280 |
| Total | 2,291 | 2,746 |

Our role titles have been updated above to reflect our role descriptions which have been in place since 1 April 2011. Our staff numbers for prior years have been restated accordingly. The overall totals for prior year have not changed.

5.3 Reporting of Civil Service and other compensation schemes – exit packages

| Exit package cost band | Number of other departures agreed 2011-12 | Total number of exit packages by cost band 2011-12 |
|--|--|---|
| <£10,000 | 40 (3) | 40 (3) |
| £10,000 - £25,000 | 125 (1) | 125 (1) |
| £25,000 - £50,000 | 111 (2) | 111 (2) |
| £50,000 - £100,000 | 91 (1) | 91 (1) |
| £100,000 - £150,000 | 10 (1) | 10 (1) |
| £150,000 - £200,000 | 3 (0) | 3 (0) |
| Total number of exit packages by type | 380 (8) | 380 (8) |
| Total resource cost (£000) | 14,064 | 14,064 |

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year when contractual agreement is reached. Where Natural England has agreed early retirements, the additional costs are met by Natural England and not by the Civil Service pension scheme. Ill health retirement costs are met by the pension scheme and are not included in the above table.

There were no compulsory redundancies in 2011-12 or in 2010-11. Prior year figures for 2010-11 are shown in brackets.

In early 2011 we announced a voluntary redundancy scheme to achieve some of the savings required following the Comprehensive Spending Review. The exit packages shown above are part of the scheme.

5.4 Pension commitments

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme, but Natural England is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk/my-civil-service/pensions).

For 2011-12, employer's contributions of £12.7 m were payable to the PCSPS (2010-11 £14.3 m) at one of the four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The scheme actuary usually reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of benefits accruing during 2011-12 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £112 k were paid to one or more of the panel of three appointed stakeholder pension providers (2010-11 £98 k). Employee contributions are age-related and range from 3% to 12.5% of pensionable pay. The Employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable pay. In addition, employers also contribute a further 0.8% of pensionable pay, to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

Contributions due to the partnership pension providers at the Statement of Financial Position date were £19 k (£17 k 2010-11).

The late Sir Martin Doughty (Former Chair) and Poul Christensen CBE (Current Chair) are included in a separate pension scheme set up by Defra which is described as 'by analogy to the main scheme'.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (classic, premium or classic plus); or a 'whole career' scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

Further details about the Civil Service Pension arrangements can be found at the website: www.civilservice-pensions.gov.uk/my-civil-service/pensions/index.aspx.

5.5 Pension scheme by analogy to the Principal Civil Service Pension Scheme

The late Chair of Natural England's Board, Sir Martin Doughty and the Current Chair, Poul Christensen CBE, were prohibited from joining the PCSPS and are included in a separate scheme set up on 1 October 2006 by Defra which is described as "by analogy to the main scheme". This is an unfunded scheme, with benefits being paid as they fall due by the employer. There is no fund, and therefore there is no surplus or deficit.

An actuarial valuation has been carried out by the Government Actuary Department.

| The present value of scheme liabilities were: | Value at 31 March 2012 £000 | Value at 31 March 2011 £000 | Value at 31 March 2010 £000 | Value at 31 March 2009 £000 | Value at 31 March 2008 £000 |
|--|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Liability in respect of | | | | | |
| Active members | 85 | 65 | 67 | 33 | 273 |
| Deferred Pensioners | 0 | 0 | 0 | 0 | 0 |
| Current Pensioners | 130 | 129 | 148 | 133 | 0 |
| Total present value of scheme liabilities | 215 | 194 | 215 | 166 | 273 |

| The major assumptions used by the actuary were: | 2011-12 | 2010-11 | 2009-10 |
|---|---------|---------|---------|
| Rate of increase in salary | 4.25% | 4.90% | 4.29% |
| Rate of increase in pension payment and deferred pensions | 2.00% | 2.65% | 2.75% |
| Rate used to discount scheme liabilities | 4.85% | 5.60% | 4.60% |
| Inflation assumption <small>Note a</small> | 2.00% | 2.65% | 2.00% |

| Expenses to be recognised in profit or loss: | £000 | £000 | £000 |
|--|-----------|----------|-----------|
| Current service cost (net of employee contributions) | 17 | 23 | 19 |
| Interest on pension liabilities | 11 | 9 | 10 |
| Past service cost <small>Note a</small> | 0 | (23) | 0 |
| Total expense | 28 | 9 | 29 |

| Actuarial gains/losses to be recognised in other comprehensive income: | £000 | £000 | £000 |
|---|----------|-------------|-----------|
| Experience loss/ (gain) arising on the scheme liabilities | (2) | (5) | (10) |
| Changes in assumptions underlying the present value of the scheme liabilities | 3 | (18) | 37 |
| Net total actuarial loss/ (gain) in other comprehensive income | 1 | (23) | 27 |

| History of experience losses/ (gains): | 31 March 2012 | 31 March 2011 | 31 March 2010 | 31 March 2009 | 31 March 2008 |
|---|---------------|---------------|---------------|---------------|---------------|
| Experience loss/ (gain) arising on the scheme liabilities | | | | | |
| Amount (£000's) | (2) | (5) | (10) | 69 | 7 |
| Percentage of scheme liabilities at the end of year | (0.9%) | (2.3%) | (4.9%) | 41.6 % | 2.4% |

| Estimate of contributions expected to be paid into the scheme over the year 1 April 2012 to 31 March 2013: | £000 |
|---|-------------|
| Employer contributions | 14 |
| Employee contributions | 3 |

| Movement in scheme liabilities during the year: | 2011-12 £000 | 2010-11 £000 | 2009-10 £000 |
|--|-------------------------|-------------------------|-------------------------|
| Scheme liabilities at beginning of the year | 194 | 215 | 166 |
| Movement in year: | | | |
| Current service cost (net of employee contributions) | 17 | 23 | 19 |
| Employee contributions | 2 | 3 | 3 |
| Interest cost | 11 | 9 | 10 |
| Actuarial loss/(gain) | 1 | (23) | 27 |
| Benefits paid | (10) | (10) | (10) |
| Past service cost <small>Note a</small> | 0 | (23) | 0 |
| Scheme liabilities at end of the year | 215 | 194 | 215 |

6 Other expenditure

| | | 2011-12 £000 | Restated 2010-11 £000 |
|---|------|-----------------|-----------------------------|
| Programme Expenditure (excluding RDPE) | | 15,179 | 17,910 |
| Programme Expenditure – Bolton Fell Moss | | 808 | 0 |
| Programme expenditure – Research & Development | | 4,593 | 7,248 |
| Programme expenditure – Other Operating lease rentals | | 767 | 746 |
| Grant Expenditure | | 15,998 | 15,251 |
| Subtotal – Programme & Grant expenditure | | 37,345 | 41,155 |
| Genesis system ¹ | | 26,171 | 23,375 |
| IBM IT contract recharges | | 21,750 | 21,451 |
| Estates recharges from Defra | | 7,828 | 10,435 |
| Staff travel and subsistence costs | | 3,540 | 3,261 |
| Shared service recharges | | 3,544 | 3,885 |
| Consultancy | | 239 | 2,086 |
| IT enhancements | | 485 | 3,587 |
| Staff support costs | | 1,483 | 2,774 |
| Information and publicity | | 444 | 691 |
| Estates management costs | | 2,518 | (391) |
| Legal fees | | 1,600 | 1,075 |
| Provision provided for in year: Litigation | 18.2 | 15 | 0 |
| Printing and stationery | | 686 | 943 |
| Subscriptions and agents fees | | 141 | 310 |
| Vehicle costs | | 448 | 515 |
| Impairments charged to net expenditure | 13 | 0 | 319 |
| NAO audit fee for the year | | 130 | 150 |
| Other audit fees | | 85 | 201 |
| Interest charges | | 8 | 3 |
| Profit on disposal of Property, Plant & Equipment | | (193) | 632 |
| Other operating costs | | 1,588 | 1,420 |
| Non cash items | | | |
| Provision provided for in year: Dilapidations & Onerous contracts | 18.2 | 0 | 1,960 |
| Depreciation | 8.1 | 3,601 | 3,867 |
| Amortisation | 8.2 | 594 | 594 |
| TOTAL OTHER EXPENDITURE | | 114,050 | 124,298 |

¹ The Genesis system is used to manage the RDPE agri-environment schemes.

Notes:

The graph on page 39 aligns Programme and grant expenditure in terms of our outcomes.

7 Income

| | 2011-12 £000 | Restated 2010-11 £000 |
|---|-----------------|-----------------------------|
| Income from activities: | | |
| Big Lottery Fund (restricted income) | 8,591 | 5,907 |
| Contributions from conservation partners | 869 | 628 |
| Other Programme income | 1,230 | 644 |
| Single Farm Payments | 695 | 654 |
| Contribution from Defra re Bolton Fell Moss | 717 | 467 |
| National Lottery Grants | 7 | 724 |
| Income from National Nature Reserves | 642 | 821 |
| Sales of publications | 1 | 32 |
| Advice and other services | 1 | 12 |
| Sub-total income from activities | 12,753 | 9,889 |
| Other income: | | |
| Contributions, rents and recharges | 315 | 3,522 |
| Defra contribution for Genesis Improvements | 3,250 | 2,594 |
| RDPE Technical Assistance Fund | 243 | 1,509 |
| Walking the way to Health | 960 | 1,703 |
| Other European Union Receipts | 0 | 14 |
| Legal receipts | 55 | 27 |
| Sub-total other income | 4,823 | 9,369 |
| | 17,576 | 19,258 |

The Big Lottery Fund income is a restricted fund from the National Lottery used to support the Access to Nature project, details of which are shown in note 7 above. The income not applied in 2011/12 carried forward to fund the project from 2012-13 onwards totals £120 k (see deferred income included in note 17.1).

8.1a Property, plant and equipment

| | Land £000 | Buildings £000 | Leasehold improvements £000 | Plant & machinery £000 | Vehicles £000 | Furniture & Fittings £000 | Information Technology £000 | Assets under construction (AUC) £000 | Service Concessions Assets £000 | Total |
|------------------------------------|--------------|-------------------|-----------------------------------|------------------------------|------------------|---------------------------------|-----------------------------------|---|--|---------------|
| Gross Cost or valuation: | | | | | | | | | | |
| Balance 1 April 2011 | 6,728 | 2,615 | 3,248 | 4,387 | 4,423 | 4,531 | 2,647 | 0 | 17,842 | 46,421 |
| Additions | 0 | 113 | 479 | 222 | 305 | 356 | 457 | 0 | 0 | 1,932 |
| Service Concession arrangements | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (5,443) | (5,443) |
| Disposals | 0 | 0 | 0 | (100) | (654) | (171) | (24) | 0 | 0 | (949) |
| Revaluation | 511 | 58 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 569 |
| Impairment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| At 31 March 2012 | 7,239 | 2,786 | 3,727 | 4,509 | 4,074 | 4,716 | 3,080 | 0 | 12,399 | 42,530 |

| | Land £000 | Buildings £000 | Leasehold improvements £000 | Plant & machinery £000 | Vehicles £000 | Furniture & Fittings £000 | Information Technology £000 | Assets under construction (AUC) £000 | Service Concessions Assets £000 | Total |
|------------------------------------|--------------|-------------------|-----------------------------------|------------------------------|------------------|---------------------------------|-----------------------------------|---|--|--------|
| Depreciation: | | | | | | | | | | |
| Balance at 1 April 2011 | 0 | 0 | 394 | 3,273 | 3,386 | 1,283 | 1,144 | 0 | 6,466 | 15,946 |
| Charged in year | 0 | 167 | 337 | 368 | 386 | 422 | 532 | 0 | 1,389 | 3,601 |
| Disposals | 0 | 0 | 0 | (88) | (651) | (167) | (12) | 0 | 0 | (919) |
| Revaluation | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| Impairment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| At 31 March 2012 | 0 | 168 | 731 | 3,553 | 3,121 | 1,538 | 1,664 | 0 | 7,855 | 18,630 |
| Written down net values: | | | | | | | | | | |
| at 31 March 2012 | 7,239 | 2,618 | 2,996 | 956 | 953 | 3,178 | 1,416 | 0 | 4,544 | 23,900 |
| At 31 March 2011 | 6,728 | 2,615 | 2,854 | 1,114 | 1,037 | 3,248 | 1,503 | 0 | 11,376 | 30,475 |
| Asset Financing: | | | | | | | | | | |
| Owned | 7,239 | 2,618 | 2,996 | 956 | 953 | 3,178 | 1,416 | 0 | 0 | 19,356 |
| Service Concession Agreements | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4,544 | 4,544 |
| Net book value at 31 March 2012 | 7,239 | 2,618 | 2,996 | 956 | 953 | 3,178 | 1,416 | 0 | 4,544 | 23,900 |

All freehold land (except non-operational heritage assets) and buildings is stated at fair value, and is revalued every 5 years by professionally qualified valuers, on the basis of value in use, in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Manual (the Red Book). This revaluation was carried out during 2010-11 by external valuers, Valuation Office Agency, by their Royal Institute of Chartered Surveyors qualified staff.

In between professional revaluations, values are updated annually where material, using indices from the *Property Market Report* issued by the Valuation Office.

Defra has entered into a service concession arrangement with IBM, and Natural England is included within these arrangements. The arrangements aim to support the organisations, by providing a modernised IT infrastructure; in line with the wider government Information and Communications Technology (ICT) Strategy, which will give access to cost effective IT services and infrastructure. All service concession assets are classed as one tangible IT service concession asset.

The contract is for a term of eight years from February 2010. The contract prices are subject to an annual incremental increase, applied from 1 April the start of the financial year. This increase is based on the consumer price index (CPI) as at the end of January in the previous financial year. There are no beneficial entitlements at the end of contract, although Defra and Natural England have the option to purchase specified assets at net book value on exiting the contract.

During the term of the contract, Defra and Natural England have the right to use assets owned by IBM, and IBM are obliged to provide the IT assets for use at a level dictated by performance obligations placed on IBM, and underlying IT product developments commissioned by the Department. Defra and Natural England have an obligation to spend a specified amount of money each year on undertaking IT projects, which is currently set at approximately one third of the amount Defra spends on IT projects annually.

8.1b Restated Property, plant and equipment

| | Land £000 | Buildings £000 | Leasehold improvements £000 | Plant & machinery £000 | Vehicles £000 | Furniture & Fittings £000 | Information Technology £000 | Assets under construction (AUC) £000 | Service Concessions Assets £000 | Restated Total |
|--|--------------|-------------------|-----------------------------------|------------------------------|------------------|---------------------------------|-----------------------------------|---|--|-------------------|
| Gross Cost or valuation: | | | | | | | | | | |
| Balances at 1 April 2010 | 6,710 | 3,642 | 1,975 | 4,066 | 4,524 | 4,614 | 2,045 | 883 | 20,039 | 48,498 |
| Reclassifications | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Assets identified not previously recorded | 0 | 0 | 0 | 201 | 0 | 0 | 0 | 0 | 0 | 201 |
| Additions | 0 | 206 | 1,576 | 207 | 269 | 71 | 602 | 0 | 0 | 2,931 |
| Service concession arrangements | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (2,197) | (2,197) |
| Disposals | 0 | (368) | (303) | (87) | (370) | (883) | 0 | 0 | 0 | (2,011) |
| Transfer from AUC | 0 | 154 | 0 | 0 | 0 | 729 | 0 | (883) | 0 | 0 |
| Transfer to Assets held for sale | 0 | (445) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (445) |
| Revaluation | 274 | 198 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 472 |
| Impairment | (256) | (772) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (1,028) |
| At 31 March 2011 | 6,728 | 2,615 | 3,248 | 4,387 | 4,423 | 4,531 | 2,647 | 0 | 17,842 | 46,421 |

| | Land £000 | Buildings £000 | Leasehold improvements £000 | Plant & machinery £000 | Vehicles £000 | Furniture & Fittings £000 | Information Technology £000 | Assets under construction (AUC) £000 | Service Concessions Assets £000 | Restated Total |
|---|--------------|-------------------|-----------------------------------|------------------------------|------------------|---------------------------------|-----------------------------------|---|--|-------------------|
| Depreciation | | | | | | | | | | |
| Balances 1 April 2010 | 0 | 370 | 226 | 2,938 | 3,370 | 1,611 | 712 | 0 | 4,509 | 13,736 |
| Assets identified not previously recorded | 0 | 0 | 0 | 64 | 0 | 0 | 0 | 0 | 0 | 64 |
| Charged in year | 0 | 87 | 221 | 358 | 385 | 427 | 432 | 0 | 1,957 | 3,867 |
| Disposals | 0 | (2) | (53) | (87) | (369) | (755) | 0 | 0 | 0 | (1,266) |
| Transfer to assets held for sale | 0 | (89) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (89) |
| Revaluation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Impairment | 0 | (366) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (366) |
| At 31 March 2011 | 0 | 0 | 394 | 3,273 | 3,386 | 1,283 | 1,144 | 0 | 6,466 | 15,946 |
| Written down net values | | | | | | | | | | |
| at 31 March 2011 | 6,728 | 2,615 | 2,854 | 1,114 | 1,037 | 3,248 | 1,503 | 0 | 11,376 | 30,475 |
| at 31 March 2010 | 6,710 | 3,270 | 1,749 | 1,128 | 1,154 | 3,003 | 1,333 | 883 | 16,462 | 35,692 |
| Asset Financing: | | | | | | | | | | |
| Owned | 6,728 | 2,615 | 2,854 | 1,114 | 1,037 | 3,248 | 1,503 | 0 | 0 | 19,099 |
| Service Concession Agreements | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 11,376 | 11,376 |
| Net book value at 31 March 2011 | 6,728 | 2,615 | 2,854 | 1,114 | 1,037 | 3,248 | 1,503 | 0 | 11,376 | 30,475 |

8.2a Intangible assets

| | Software licences £000 | Work in progress (WIP) £000 | Total £000 |
|-------------------------|---------------------------|--------------------------------|---------------|
| Cost or valuation | | | |
| At 1 April 2011 | 2,994 | 0 | 2,994 |
| Additions | 2,557 | 48 | 2,605 |
| Disposals | 0 | 0 | 0 |
| Revaluation | 0 | 0 | 0 |
| At 31 March 2012 | 5,551 | 48 | 5,599 |
| Amortisation | | | |
| At 1 April 2011 | 1,414 | 0 | 1,414 |
| Charged in year | 594 | 0 | 594 |
| Disposals | 0 | 0 | 0 |
| Net Revaluation | 0 | 0 | 0 |
| At 31 March 2012 | 2,008 | 0 | 2,008 |
| Written down values: | | | |
| at 31 March 2012 | 3,543 | 48 | 3,591 |
| at 31 March 2011 | 1,580 | 0 | 1,580 |

8.2b Intangible assets

| | Software licences £000 | Work in progress (WIP) £000 | Restated Total £000 |
|-------------------------|------------------------------|-----------------------------------|---------------------------|
| Cost or valuation | | | |
| At 1 April 2010 | 2,994 | 0 | 2,994 |
| Reclassifications | 0 | 0 | 0 |
| Additions | 0 | 0 | 0 |
| Disposals | 0 | 0 | 0 |
| Revaluation | 0 | 0 | 0 |
| Transfer from WIP | 0 | 0 | 0 |
| At 31 March 2011 | 2,994 | 0 | 2,994 |
| Amortisation | | | |
| At 1 April 2010 | 820 | 0 | 820 |
| Reclassifications | 0 | 0 | 0 |
| Charged in year | 594 | 0 | 594 |
| Disposals | 0 | 0 | 0 |
| Revaluation | 0 | 0 | 0 |
| At 31 March 2011 | 1,414 | 0 | 1,414 |
| Written down values | | | |
| at 31 March 2011 | 1,580 | 0 | 1,580 |
| at 31 March 2010 | 2,174 | 0 | 2,174 |

9 Non-current heritage assets

A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. National Nature Reserves (NNRs) fall under this classification and are treated as heritage assets in these financial statements.

NNRs were initially established to protect sensitive features and to provide 'outdoor laboratories' for research. Their purpose has since been widened by the Natural Environment and Rural Communities Act 2006 to include quiet recreation where this doesn't conflict with nature conservation. As well as managing some of our most pristine habitats, our rarest species and our most significant geology, most reserves now offer great opportunities to the public as well as schools and specialist audiences to experience England's natural heritage.

Natural England is the body empowered (under the National Parks and Access to the Countryside Act 1949 and Wildlife and Countryside Act 1981) to declare NNRs in England. 98% by area of NNRs are also designated Sites of Special Scientific Interest (SSSIs).

As at 31 March 2012 there were 224 NNRs in England. Of these, 131 are managed by Natural England, which either owns the freehold [19,571 ha] or holds a lease [29,714 ha] or Nature Reserve Agreement (NRA) on the land [15,389 ha]. 77 NNRs are wholly managed by an external Approved Body and 16 NNRs are managed by both Natural England and one or more Approved Bodies. The value of the NNRs that are not owned by Natural England have not been reflected in these financial statements.

| The area of declared NNRs in England is as follows | 31 March 2012 Hectares | 31 March 2011 Hectares |
|--|---------------------------|---------------------------|
| Land owned by Natural England | 19,571 | 19,556 |
| Land leased by Natural England | 29,714 | 29,714 |
| Land under Nature Reserve Agreements | 15,389 | 15,389 |
| NNRs managed wholly or partly by Approved Bodies | 29,691 | 29,691 |
| | 94,365 | 94,350 |

The NNRs generally consist of the land itself and then buildings which include machinery stores, workshops and offices for NNR staff. These 'support' buildings are not classified as heritage assets, and for this reason are treated in accordance with IAS 16 as other Non Current property, plant and equipment.

Management, Maintenance, Enhancements & Improvements

In order to fulfil our stewardship role, NNRs are managed and maintained in accordance with management plans, which are approved by senior Natural England staff and which serve as consents under SSSI legislation.

Natural England has an ongoing programme of achieving and maintaining favourable condition of its NNRs, as measured by Common Standards Monitoring. The target condition for Natural England managed NNRs for 2011-12 was 97%. The figure at 31 March 2012 was 98%.

Records

A record of land, buildings and other interests is maintained in the corporate asset register. Natural England's NNR estate is monitored as to its condition on a six year cycle using the Common Standards Monitoring methodology. Species records for individual reserves are routinely kept.

Access and public engagement

Natural England delivers a programme of events and activities on many of its NNRs, aimed at engaging local communities (especially children and their families) with the natural environment on their doorsteps. The majority of activities are delivered in partnership with other organisations. In 2011-12 over 100,000 people attended, attracting excellent feedback. A diary of public events is published on Natural England's website.

The most recent assessment of visitor numbers was for 2006-07, when 16 million visits to NNRs were estimated, 4 million of which were to Natural England's reserves.

| Heritage assets reported at valuation | Non Operational NNR Land £000 | Operational NNR Land £000 | Total £000 |
|---------------------------------------|-------------------------------------|---------------------------------|---------------|
| Gross cost at 1 April 2011 | 54,122 | 2,700 | 56,822 |
| Additions | 1 | 0 | 1 |
| Revaluation | 2,066 | 243 | 2,309 |
| At 31 March 2012 | 56,189 | 2,943 | 59,132 |

In 2011-12 there were 2 additions of land, one of which was donated. There were no disposals. The revaluation of non-operational land included an upward valuation of £3,687 k and a downward valuation of £1,621 k.

| Heritage assets reported at valuation | Non Operational NNR Land £000 | Operational NNR Land £000 | Total £000 |
|---------------------------------------|-------------------------------------|---------------------------------|---------------|
| Gross cost at 1 April 2010 | 50,356 | 1,690 | 52,046 |
| Revaluation | 3,766 | 1,010 | 4,776 |
| At 31 March 2011 | 54,122 | 2,700 | 56,822 |

There were no additions, donations, disposals or impairments to heritage assets in 2010-11

In accordance with Financial Reporting Standard 30 (FRS 30 – the guidance relating to heritage assets) and the Government FReM, the financial statements should contain a summary of transactions for the accounting period and each of the previous four accounting periods. FRS 30 does though permit the summary to be built up going forward, hence as this is the second year, that the standard has been applied only two years of information are provided above.

The non-operational NNR land is reported in the Statement of Financial Position at fair value, stated at market value. The operational asset is valued in line with other Property, Plant and Equipment assets in line with IFRS 16, please see note 8 for details. Both non-operational and operational heritage assets are revalued every 5 years. This is carried out by Natural England's internal and external professionally qualified valuers respectively in accordance with the Royal Institution of Chartered Surveyor's Appraisal and Valuation Manual (the Red Book). This revaluation was carried out during 2010-11. In between professional revaluations, values are updated annually where material, using indices from the Property Market Report issued by the Valuation Office.

10 Agricultural biological assets

The biological assets held by Natural England are the breeding cows and sheep at Parsonage Down Farm, Salisbury, Aston Rowant, Lullington and Old Winchester/Beacon Hills National Nature Reserves. These are measured at fair value less cost of sale. The fair value of the cattle and sheep is the price for the livestock in the relevant market less transport and other costs of getting the cattle to that market. Biological assets are not depreciated, but revalued at the end of each reporting period, and changes in fair value less cost are charged to the Statement of Comprehensive Net Expenditure. Lambs born close to the Statement of Financial Position date are not valued as valuations are unreliable until lambs reach maturity.

| | Breeding cows £000 | Pedigree Longhorn cows £000 | Ewes & Rams £000 | Beulah & Herdwick Sheep £000 | Total £000 |
|---|-----------------------|-----------------------------------|---------------------|------------------------------------|---------------|
| As at 1 April 2011 | 39 | 13 | 16 | 0 | 68 |
| Additions | 6 | 6 | 6 | 37 | 55 |
| Disposals | (5) | (6) | (11) | (15) | (37) |
| Revaluations | 3 | 0 | 6 | 0 | 9 |
| As at 31 March 2012 | 43 | 13 | 17 | 22 | 95 |
| As at 1 April 2010 | 40 | 13 | 18 | 0 | 71 |
| Additions | 0 | 0 | 1 | 0 | 1 |
| Disposals | (1) | 0 | (3) | 0 | (4) |
| Revaluations | 0 | 0 | 0 | 0 | 0 |
| As at 31 March 2011 | 39 | 13 | 16 | 0 | 68 |
| Physical quantities of each of the biological assets; | | | | | |
| As at 31 March 2012 | 72 | 21 | 169 | 403 | 665 |
| As at 1 April 2011 | 77 | 27 | 168 | 0 | 272 |

11 Current assets classified as held for sale

| Cost or valuation: | 31 March 2012 £000 | 31 March 2011 £000 | 1 March 2010 £000 |
|--|-------------------------------|-------------------------------|------------------------------|
| As at 1 April | 445 | 0 | 1,004 |
| Assets identified as 'held for sale in year' | 0 | 445 | 0 |
| Disposals | (445) | 0 | (1,004) |
| Revaluations | 0 | 0 | 0 |
| As at 31 March | 0 | 445 | 0 |
| Cumulative Depreciation: | | | |
| Depreciation as at 31st March | 0 | (89) | 0 |
| Written down values: | 0 | 356 | 0 |

As at 31 March 2012, there were no properties held for sale. The disposal during the year was:

Slepe Farm, Arne, Wareham, Dorset.

12 Financial instruments

As the cash requirements of Natural England are met through GIA provided by Defra, financial instruments play a more limited role in creating risk than would apply to a non-public sector body.

IAS 39, 32 and IFRS 7 require disclosure of the role which financial instruments have had during the year in creating or changing the risks an entity faces in undertaking its activities. Natural England holds financial instruments only to the extent that they are necessary to meet its normal operational activities.

Natural England has limited powers to borrow or invest surplus funds; financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risk facing Natural England in undertaking its activities. The majority of financial instruments relate to contracts to buy non-financial items in line with the Natural England's expected purchase and usage requirements and Natural England is therefore exposed to little credit, liquidity or market risk. Details explaining the risks and how they are managed are explained below. As permitted by the IFRS, receivables and payables which mature or become payable within 12 months from the Statement of Financial Position date have been omitted from this disclosure note.

Liquidity risk

As the cash requirements of Natural England are met through GIA provided by Defra, Natural England is not exposed to significant liquidity risks.

Interest rate risk

Short term deposits in relation to bequests received earn fixed rates of interest. Otherwise, for project funds held in commercial accounts, floating rates of interest apply. Natural England's financial assets and liabilities are predominately non interest bearing. The interest rate risk is not considered material in the context of the overall activity of Natural England.

Credit risk

Natural England is exposed to credit risk to the extent of non-payment by its counterparties in respect of financial assets receivable. However, Natural England has policies and procedures in place to ensure credit risk is limited by placing credit limits on each counterparty. Natural England continuously monitors counterparty credit limits and defaults of counterparties, incorporating this information into credit risk controls. It is Natural England's policy that all counterparties who wish to trade on credit terms are subject to credit verification procedures.

Foreign currency risk

Natural England has undertaken several foreign currency transactions to convert grant received from European Institutions from Euro to Sterling after discharging any Euro payment obligations to its European partners out of such receipts. Natural England has therefore been exposed to an exchange rate risk between the time that it calculates a grant claim from a sterling cost base until the time that the grant is converted into sterling. The foreign currency risk is not considered material in the context of the overall activity of Natural England.

Financial assets/liabilities

During the year all of Natural England's separate project accounts and our Bequests account were moved over to accounts under the Government Banking Service. These were previously held in Barclays commercial accounts.

13 Impairment

| | 2011-12 £000 | 2010-11 £000 | 2009-10 £000 |
|--|-----------------|-----------------|-----------------|
| Charge to Statement of Comprehensive Net Expenditure | 0 | 319 | 3 |
| Charge to Revaluation Reserve | 1,621 | 343 | 248 |
| | 1,621 | 662 | 251 |

14 Inventories

| | 31 March 2012 £000 | Restated 31 March 2011 £000 | Restated 31 March 2010 £000 |
|-------------|-----------------------|-----------------------------------|-----------------------------------|
| Farm stocks | 86 | 76 | 78 |
| | 86 | 76 | 78 |

15 Trade receivables and other current assets

15.1 Amounts falling due within one year:

| | 31 March 2012 £000 | Restated 31 March 2011 £000 | Restated 31 March 2010 £000 |
|--|-----------------------|-----------------------------------|-----------------------------------|
| Defra receivables & accrued income | 3,234 | 4,018 | 9,695 |
| Trade receivables | 1,874 | 96 | 738 |
| Other receivables | 44 | 55 | 420 |
| Aggregates Levy Sustainability Fund accrued Grant in Aid income | 0 | 0 | 4,500 |
| Prepayments & accrued income | 450 | 1,106 | 846 |
| | 5,602 | 5,275 | 16,199 |

15.2 Amounts falling due after one year:

| | 31 March 2012 £000 | 31 March 2011 £000 | 31 March 2010 £000 |
|------------------------|-----------------------|-----------------------|-----------------------|
| Housing loans to staff | 7 | 11 | 21 |
| | 7 | 11 | 21 |

Housing loans relate to loans inherited from predecessor organisations, Natural England has not continued the practice of giving housing loans to staff at preferential interest rates. As at 31 March 2012, outstanding staff loans of greater than £2.5 k both due within one year and after one year amounted to £10,269 (£10,473 at 31 March 2011). The numbers of staff in receipt of loans over £2.5 k outstanding at 31 March were:

| | 31 March 2012 No. of staff | 31 March 2011 No. of staff | 31 March 2010 No. of staff |
|-------------------|-------------------------------|-------------------------------|-------------------------------|
| £2,500 to £5,000 | 2 | 1 | 3 |
| £5,001 to £10,000 | 0 | 1 | 2 |

No Executive Director had a loan.

15.3 Whole of Government Accounting – Trade receivables and other current assets

Whole of Government Accounting is the production of one set of consolidated accounts covering the whole of the public sector. The Government is treated as if it were one single entity, eliminating all significant transactions between public sector entities.

Natural England is committed to disclose the balances between itself and other bodies within the public sector. The amounts falling due were:

| Intra-Government Balances | 31 March 2012 | | 31 March 2011 (Restated) | |
|---|--|---|--|---|
| | Accounts Receivable: amounts falling due within one year £000 | Accounts Receivable: amounts falling due after more than one year £000 | Accounts Receivable: amounts falling due within one year £000 | Accounts Receivable: amounts falling due after more than one year £000 |
| Balances with other central government bodies – Defra | 3,331 | 0 | 1,644 | 0 |
| Balances with other central government bodies – Other | 1,444 | 0 | 910 | 0 |
| Balances with local authorities | 205 | 0 | 41 | 0 |
| Balances with NHS Bodies | 0 | 0 | 13 | 0 |
| Balances with public corporations | 0 | 0 | 848 | 0 |
| Balances with bodies external to government | 622 | 7 | 1,819 | 11 |
| Total at 31 March | 5,602 | 7 | 5,275 | 11 |

Note: There were no bad debts or provisions required against the above debts.

16 Cash and cash equivalents

| | 31 March 2012 £000 | Restated 31 March 2011 £000 | Restated 31 March 2010 £000 |
|---|-----------------------|-----------------------------------|-----------------------------------|
| Balance at 1 April | 7,933 | 14,395 | 13,444 |
| Net change in cash and cash equivalent balances | 11,518 | (6,462) | 951 |
| Balance at 31 March | 19,451 | 7,933 | 14,395 |

The following balances at 31 March were held at:

| | 31 March 2012 £000 | Restated 31 March 2011 £000 | Restated 31 March 2010 £000 |
|-------------------------------------|-----------------------|-----------------------------------|-----------------------------------|
| Government Banking Service Accounts | 19,084 | 5,092 | 11,997 |
| Commercial bank accounts | 0 | 2,549 | 2,105 |
| Short term investments | 364 | 292 | 293 |
| Cash in Hand | 3 | 0 | 0 |
| Balance at 31 March | 19,451 | 7,933 | 14,395 |

Treasury guidance for public sector organisations are that balances in commercial accounts should be minimised. There are no funds remaining in Commercial Bank Accounts, these have all been transferred to Government Banking Services Accounts.

Short-term investments relate to bequest funds held in a Government Banking Service interest bearing account with Citibank.

Natural England minimises exchange rate risk on European Union funded projects by identifying in the Memorandum of Agreement for each project a mechanism for partners to agree how a shortfall or surplus will be handled. Any shortfall or surplus would be covered in proportion to the partners' contributions to the overall project.

17 Trade payables and other payables

17.1 Amounts falling due within one year:

| | 31 March 2012 £000 | Restated 31 March 2011 £000 | Restated 31 March 2010 £000 |
|--|-----------------------|-----------------------------------|-----------------------------------|
| Defra payables and accruals | 13,072 | 11,966 | 10,812 |
| Other accruals | 24,377 | 17,356 | 24,411 |
| Bolton Fell Moss | 0 | 0 | 9,000 |
| Trade payables | 2,510 | 2,256 | 4,202 |
| Other taxation and social security | 1,640 | 1,875 | 1,948 |
| Walk Your Way to Health Deferred income | 79 | 766 | 2,669 |
| Big Lottery Access to Nature Deferred income | 120 | 681 | 1,520 |
| Deferred income other | 473 | 710 | 951 |
| VAT payables | 433 | 627 | 44 |
| | 42,704 | 36,237 | 55,557 |

The accruals include £2.2 m (£2.2 m 2010/11) in relation to employee benefits – unused annual leave at 31 March 2012 in accordance with IAS 19.

17.2 Amounts falling due after one year:

| | 31 March 2012 £000 | 31 March 2011 £000 | 31 March 2010 £000 |
|-----------------------|-----------------------|-----------------------|-----------------------|
| Defra payables | 7,133 | 9,899 | 13,738 |

Defra have a contract with IBM for the provision of IT services and infrastructure assets, and Natural England is a party to this contract. This contract was renewed on 1 February 2010. It aims to support Natural England by providing a modernised IT infrastructure; in line with the wider government ICT strategy, which will give the Department access to cost effective IT services and infrastructure.

During the life of the contract, Natural England has the right to use assets owned by IBM and IBM are obliged to provide a consistent level of performance as set out in the contract. This includes underlying IT product developments commissioned by Natural England.

The contract prices are subject to an annual incremental increase, applied from 1 April. This increase is based on the consumer price index (CPI) as at the end of January in the previous financial year.

There is flexibility in terms of termination providing the option to end the service or key aspects thereof. The financial penalty for termination is on a sliding scale depending on several factors, including time left on the contract. There are no beneficial entitlements at the end of contract, although Natural England has the option to purchase specified assets at net book value on exiting the contract. This gives Natural England control of the assets during the life of the contract.

Included within finance leases is the future liability to pay for these “right of use” assets to IBM. The total liability is £5.7 m (2010-11 £11.8 m), of which the current liability (included within note 17.1 above is £1 m (2010-11 £1.9 m), the non-current liability (included within note 17.2 above) is £4.7 m (2010-11 £9.9 m).

17.3 Whole of Government Accounting – Trade payables and other current liabilities

Whole of Government Accounting is the production of one set of consolidated accounts covering the whole of the public sector. The Government is treated as if it were one single entity, eliminating all significant transactions between public sector entities.

Natural England is committed to disclosing the balances between itself and other bodies within the public sector. The amounts falling due were:

| Intra-Government Balances | 31 March 2012 | | 31 March 2011 (Restated) | |
|---|---|--|---|--|
| | Accounts Payable: amounts falling due within one year £000 | Accounts Payable: amounts falling due after more than one year £000 | Accounts Payable: amounts falling due within one year £000 | Accounts Payable: amounts falling due after more than one year £000 |
| Balances with other central government bodies – Defra | 13,589 | 7,133 | 12,742 | 9,899 |
| Balances with other central government bodies – Other | 3,415 | 0 | 4,938 | 0 |
| Balances with local authorities | 2,748 | 0 | 4,561 | 0 |
| Balances with NHS Bodies | 79 | 0 | 0 | 0 |
| Balances with public corporations | 0 | 0 | 1,068 | 0 |
| Balances with bodies external to government | 22,873 | 0 | 12,928 | 0 |
| Total at 31 March | 42,704 | 7,133 | 36,237 | 9,899 |

18 Provisions for liabilities and charges

18.1 Pension provision

| | Balance at 1 April 2011 £000 | Provided in the year £000 | Provisions utilised in the year £000 | Provisions not required written back £000 | Balance at 31 March 2012 £000 |
|---------------------|---------------------------------|------------------------------|---|--|----------------------------------|
| Pensions by analogy | 195 | 40 | (20) | 0 | 215 |
| | 195 | 40 | (20) | 0 | 215 |

| | Not later than one year £000 | Later than one year and not later than five years £000 | Later than five years £000 | Balance at 31 March 2012 £000 |
|---------------------|---------------------------------|---|-------------------------------|----------------------------------|
| Pensions by analogy | 17 | 76 | 122 | 215 |
| | 17 | 76 | 122 | 215 |

18.2 Other provisions

| | Restated Balance at 1 April 2010 £000 | Restated Balance at 1 April 2011 £000 | Provided in the year £000 | Provisions utilised in the year £000 | Provisions not required written back £000 | Balance at 31 March 2012 £000 |
|-------------------------------------|--|--|------------------------------|---|--|----------------------------------|
| Dilapidations and onerous contracts | 4,592 | 2,056 | 0 | (95) | (64) | 1,897 |
| Retirement & severance | 1,919 | 19,589 | 0 | (15,749) | (899) | 2,941 |
| Litigation | 750 | 750 | 15 | (500) | (0) | 265 |
| | 7,261 | 22,395 | 15 | (16,344) | (963) | 5,103 |

| | Not later than one year £000 | Later than one year and not later than five years £000 | Later than five years £000 | Balance at 31 March 2012 £000 |
|-------------------------------------|---------------------------------|---|-------------------------------|----------------------------------|
| Dilapidations and onerous contracts | 1,700 | 166 | 31 | 1,897 |
| Litigation | 265 | 0 | 0 | 265 |
| Early retirement & severance | 1,915 | 895 | 131 | 2,941 |
| | 3,880 | 1,061 | 162 | 5,103 |

The dilapidations and onerous contracts provision represents future payments Natural England expects to incur as a result of terminating our occupancy of a number of buildings under the Estates Efficiency Programme.

The early retirement and severance provision represents the liability for severance and pension payments relating principally to the 2011 Voluntary Early Retirement and Severance programme which is part of Natural England adopting a new business model from April 2011 requiring 400 fewer staff. Pension payments cover the period from the date of early retirement until normal retirement age.

The litigation provision represents management's estimate of likely legal costs and claims from existing cases against Natural England.

The provision for pension costs represents future liabilities under separate pension schemes described as "by analogy to the main scheme" which have been set up by Defra for the late Sir Martin Doughty, (Former Chair) and Poul Christensen CBE (Current Chair). See note 5.5

19 Capital commitments

Contracted capital commitments at 31 March 2012 not otherwise included in these financial statements are as follows;

| | 31 March 2012 £000 | 31 March 2011 £000 |
|-------------------------------|-----------------------|-----------------------|
| Property, plant and equipment | 0 | 0 |
| Intangible assets | 0 | 0 |

20 Commitments under leases

20.1 Operating leases

Total future minimum lease payments under operating leases are given in the table below, for each of the following periods;

| Obligations under operating leases comprise: | 31 March 2012 £000 | 31 March 2011 £000 |
|---|-----------------------|-----------------------|
| Land | | |
| Not later than one year | 475 | 492 |
| Later than one year and not later than five years | 1,837 | 1,818 |
| Later than five years | 3,493 | 3,884 |
| | 5,805 | 6,194 |

| | | |
|---|--------------|--------------|
| Buildings | | |
| Not later than one year | 96 | 97 |
| Later than one year and not later than five years | 268 | 316 |
| Later than five years | 670 | 589 |
| | 1,034 | 1,002 |

20.2 Defra properties occupied by Natural England

Natural England does not hold the freehold of the office buildings which it occupies, they are owned by either a government department or agency and are subject to a Memorandum of Terms of Understanding (MOTU). As these Government departments and agencies including Defra and Natural England are all Crown bodies and therefore part of a single legal entity it is not legally possible for one part of the Crown to take action against another part. As no legal action is possible between Crown bodies, other non-legal structures have been developed to define how Crown bodies interact with each other. In terms of property management, the alternative structures have taken the form of MOTOs & MOTUs. Memorandum of Terms of Occupancy (MOTOS) are part of the Civil Estate Occupancy Agreement for Crown Bodies (CEOA) guidance produced by the Office of Government Commerce. A MOTO establishes a set of expectations between parties around the movement of economic benefit to pay for the use of assets over a defined period of time. The payment liabilities cannot be enforced by legal means if a dispute arises, but dispute procedures are included in the CEOA. As an NDPB Natural England does not fall under the terms of the CEOA, a MOTU operates within the 'spirit' of the CEOA/MOTO, but varies slightly as Natural England's arrangements are directly with Defra. Defra take the MOTO on Natural England's behalf and the mutually agreed terms are then outlined in the MOTU. Where a dispute cannot be resolved through the normal chain structures, the final arbiters will be the relevant Ministers.

Although MOTOs & MOTUs are not a legal lease arrangement, the commercial reality under IFRIC 4 is that these arrangements are consistent with a lease and as a going concern Natural England should reflect the underlying commitment to cover rental payments and the need for on-going provision of accommodation for the duration of the terms of the MOTU arrangement. Natural England occupies 37 properties subject to MOTU arrangements, with a prescribed average term of length of three years.

Within the Statement of Comprehensive Net Expenditure the full cost of occupation is reflected in relation to buildings that are either owned or leased by Defra. The costs are proportionate to occupation and include rates, utilities, management overheads, facilities management and associated capital charges. For Defra leasehold properties this also includes rental costs. The estimated value of non-specialised freehold property owned by Defra but occupied by Natural England is £1.6 m (£4.9 m 2010-11).

The below disclosure shows costs in proportion to the occupation by Natural England of Defra leasehold properties. These arrangements between Natural England and Defra reflect a future commitment to reimburse Defra for the underlying rentals paid to landlords for the provision of the leasehold accommodation.

| Future obligations under MOTU agreements comprise: | 31 March 2012 £000 | 31 March 2011 £000 |
|---|-------------------------------|-------------------------------|
| Buildings | | |
| Not later than one year | 2,597 | 2,425 |
| Later than one year and not later than five years | 5,261 | 5,190 |
| Later than five years | 4,350 | 4,117 |
| | 12,208 | 11,732 |
| Land | | |
| Not later than one year | 1 | 1 |
| Later than one year and not later than five years | 3 | 0 |
| Later than five years | 36 | 0 |
| | 40 | 1 |

20.3 Obligations under service concession arrangements (Right of use assets)

The commitments are consistent with arrangements containing a lease as defined by IFRIC 12.

| Obligations for the following periods comprise: | 31 March 2012 £000 | 31 March 2011 £000 |
|--|-------------------------------|-------------------------------|
| Rentals due within 1 year | 1,079 | 2,041 |
| Rentals due within 2 to 5 years | 4,769 | 8,898 |
| Rentals due thereafter | 1,400 | 4,508 |
| | 7,248 | 15,447 |
| Less interest element | (1,543) | (3,642) |
| Present value of obligations | 5,705 | 11,805 |

| Present value of obligations for the following periods comprise: | 31 March 2012 £000 | 31 March 2011 £000 |
|---|-------------------------------|-------------------------------|
| Rentals due within 1 year | 998 | 1,906 |
| Rentals due within 2 to 5 years | 3,829 | 7,002 |
| Rentals due thereafter | 878 | 2,897 |
| Present value of obligations | 5,705 | 11,805 |

20.4 Finance leases

Natural England does not currently have any finance leases in place.

21 Commitments under Private Finance Initiative (PFI) contracts

21.1 Off-balance sheet

An off-balance sheet PFI contract was signed by Defra in February 2001. The scheme involved the grant of a 129 year ground lease to a PFI partner who constructed an office building for Defra, occupied in 2003, subject to a 30 year lease to 31 March 2033, to be reviewed in February 2031. The building is not an asset of the Department and will not revert to Defra at the end of the lease term. The freehold land subject to the ground lease is a Defra asset. Defra occupies 1.9% of the building and recharges other occupiers for their share of the costs. To ensure consistency across the Defra family, Natural England are disclosing this asset as a PFI commitment as Natural England occupy 24.7% (22.6% 2010-11) of the site.

The total share of the payments to which Natural England is committed comprise;

| | 31 March 2012 £000 | 31 March 2011 £000 |
|-------------------------------------|-----------------------|-----------------------|
| Rentals due within 1 year | 1,103 | 1,055 |
| Rentals due within 2 to 5 years | 4,946 | 4,482 |
| Rentals due thereafter | 26,031 | 24,013 |
| Present value of obligations | 32,080 | 29,550 |

21.2 Charge to the Statement of Comprehensive Net Expenditure and future commitments

The total amount charged to the Statement of Comprehensive Net Expenditure in respect of off-balance sheet PFI transactions was £1.1 m (£1 m 2010-11).

22 Other financial commitments

Natural England has non-cancellable contracts in relation to estates facilities management (FM) costs (Interserve contract) due to occupation of property and in relation to Business Continuity Planning. The payments are consistent with arrangements containing a lease as defined by IFRIC 4. The commitment for the Interserve FM contract is likely to reduce as the size of the Estate reduces through rationalisation.

| | 31 March 2012 £000 | 31 March 2011 £000 |
|---|-----------------------|-----------------------|
| Not later than one year | 835 | 1,439 |
| Later than one year and not later than five years | 3,193 | 5,599 |
| Later than five years | 5,588 | 11,197 |
| Present value of obligations | 9,616 | 18,235 |

Natural England also has non-cancellable contracts in relation to IBM other than the right of use of assets (under IFRIC 12). These reflect the service element of the contract.

These payments combined are as follows:

| | 31 March 2012 £000 | 31 March 2011 £000 |
|---|-----------------------|-----------------------|
| Not later than one year | 16,360 | 15,473 |
| Later than one year and not later than five years | 61,721 | 54,499 |
| Later than five years | 12,159 | 24,220 |
| Present value of obligations | 90,240 | 94,192 |

23 Capital Reserve

This reserve, established in 2009-10 under IFRS requirements, is effectively synonymous with the value of net assets. Movements in the Capital Reserve year on year represent all the changes which have an impact on non-current assets, assets classified as held for sale, and the Revaluation Reserve.

| | | 31 March 2012 £000 | Restated 31 March 2011 £000 |
|--|--|-----------------------|-----------------------------------|
| Balance at 31 March | | 40,245 | 45,267 |
| Additions | | 4,613 | 2,931 |
| Disposals | | (512) | (745) |
| Revaluations & Impairments (incl IFRIC 12 adj) | | (2,555) | 1,455 |
| Depreciation | | (4,128) | (4,461) |
| Assets identified not previously recorded | | 0 | 137 |
| In year Revaluation Reserve movements | | (2,460) | (4,339) |
| Balance at 31 March | | 35,203 | 40,245 |

24 Revaluation Reserve

| | | 31 March 2012 £000 | Restated 31 March 2011 £000 |
|--|--|-----------------------|-----------------------------------|
| Restated balance at 1 April | | 49,055 | 44,716 |
| Net Revaluations and impairments in year | | 2,877 | 4,904 |
| Transfer from Revenue Reserve | | (417) | (565) |
| Balance at 31 March | | 51,515 | 49,055 |

The balance on the reserve is split in relation to the assets as follows:

| | | | |
|----------------------------|--|---------------|---------------|
| Tangible current assets | | 51,515 | 49,055 |
| Intangible current assets | | 0 | 0 |
| Balance at 31 March | | 51,515 | 49,055 |

25 Revenue Reserve

| | 31 March 2012 £000 | Restated 31 March 2011 £000 |
|--|-----------------------|-----------------------------------|
| Balance at 1 April | (55,430) | (46,262) |
| Grant In Aid Received | | |
| Core Funding – Natural England | 194,200 | 204,025 |
| Catchment Sensitive Farming (CSF) | 4,238 | 3,797 |
| Aggregates Levy Sustainability Fund (ALSF) | 0 | 7,400 |
| Water Framework Directive (WFD) | 2,997 | 0 |
| Bovine TB (BTB) | 264 | 0 |
| Grant In Aid Received in year | 201,699 | 215,222 |
| Accrued Grant In Aid | | |
| Aggregates Levy Sustainability Fund (ALSF) | 0 | (4,500) |
| Total Grant in Aid Received in year | 201,699 | 210,722 |
| Grant in aid can be analysed into its constituent parts are follows; | | |
| Revenue | 197,461 | 207,765 |
| Capital | 4,238 | 2,957 |
| Total Grant In Aid credited to reserves | 201,699 | 210,722 |
| Other Revenue Movements | | |
| Increase in bequests reserve | 81 | 29 |
| Net expenditure for the financial year | (181,842) | (225,595) |
| Fixed Asset related | | |
| Non-current asset movements | 5,066 | 5,111 |
| Transfer to Revaluation Reserve | 417 | 565 |
| Balance as at 31 March | (30,009) | (55,430) |

26.1 Contingent liabilities disclosed under IAS 37

Natural England has the following contingent liabilities;

| | As at 31 March 2012 £ | As at 31 March 2011 £ |
|-----------------------|-----------------------------|-----------------------------|
| Claims and Litigation | 0 | 0 |

Natural England is involved in certain claims and litigation relating to its core purpose. In the opinion of management the liabilities, if any, arising from these claims and litigation will not have a material impact on the financial position or results.

26.2 Contingent assets disclosed under IAS 37

Natural England has entered into a management and purchase agreement with a private company relating to land at Bolton Fell Moss, Cumbria. Under the agreement signed in March 2010 the company has agreed to phase out peat extraction from the site by November 2013. Once peat extraction is complete the ownership will transfer to Natural England and the land will be included in the Statement of Financial Position.

27 Losses, special payments and gifts

During the year Natural England had losses, special payments and gifts totalling;

| | 2011-12 | | 2010-11 | |
|--------------------|-----------|-----------|------------|-----------|
| | £000 | Number | £000 | Number |
| Losses/ Write offs | 56 | 83 | 34 | 36 |
| Special Payments | 6 | 3 | 178 | 3 |
| Gifts | 1 | 10 | 0 | 2 |
| | 63 | 96 | 212 | 41 |

The special payments include an ex-gratia payment of £4 k to assist cost of travel for a member of staff facing redundancy, enabling them to take up another post in the public sector and a compensation payment of £1.7 k to farmhouse owners after accidental damage to their water tank. All payments were approved in line with the Financial Scheme of Delegation.

Gifts totalling £0.5 k were made during the year. Two charitable donations were made to the Anthony Nolan Trust and Shelter, following the death of an employee. Other small gifts of flowers or chocolates were made to employees in exceptional circumstances. Two gifts of framed pictures were given to board members reaching the end of their appointments.

28 Events after the Reporting Date

There were no events after the reporting date. These accounts were authorised for issue by the Accounting Officer, David Webster on 28 June 2012.

29 Related party transactions

Natural England is a Non-Departmental Public Body sponsored by Defra, which is regarded as a related party. During the year Natural England has carried out a number of material transactions with Defra in the normal course of business. In addition, Natural England had various material transactions with the following Government bodies: Environment Agency, Royal Botanic Gardens, Kew, Joint Nature Conservation Committee and the Rural Payments Agency.

During the year Natural England, in the normal course of its business, entered into material transactions with the following organisations in which Board Members, members of the key management staff or other related parties have an interest. Our senior staff and management however have no involvement in the transactions with these related parties.

| Member / Senior staff | Corporate related body | Total payments made £000 | Total income received £000 | Amount owed by Natural England at 31/03/12 £000 | Amount owed to Natural England at 31/03/12 £000 | Nature of transaction |
|-------------------------|--|--------------------------|----------------------------|---|---|-----------------------|
| Poul Christensen | Joint Nature Conservation Committee (JNCC) | 29 | 38 | 21 | 0 | Goods and services |
| Helen Phillips | Food and Environment Research Agency | 31 | 0 | 0 | 0 | Goods and services |
| William Cockbain | National Farmers Union | 29 | 38 | 0 | 4 | Goods and services |
| Doug Hulyer | Surrey Wildlife Trust | 31 | 0 | 0 | 0 | Goods and services |
| Andy Wilson | North York Moors National Park | 111 | 12 | 4 | 0 | Goods and services |
| Nigel Reader | Marine Management Organisation | 0 | 112 | 0 | 29 | Goods and services |
| Peter Allen | National Farmers Union | 17 | 38 | 0 | 0 | Goods and services |
| Tony Hams | Derbyshire Wildlife Trust | 10 | 0 | 0 | 0 | Goods and services |

Note a: In regard to the above staff and Members, no amounts have been written off or had provisions set up in preparation of non-payment.

Note b: No disclosure is made in respect of Environmental Stewardship agreements that staff or their partners have interests in. This is because the payments are made through the Rural Payments Agency and do not form part of Natural England's accounts. Where identifiable from details obtained from staff it is estimated that payments made in respect of Environmental Stewardship agreements to either staff or their related parties totalled approximately £141 k (£147 k in 2010-11). Controls exist to ensure staff are unable to authorise their own Environmental Stewardship agreements.

Board Members

Mr Poul Christensen (Chair) CBE

Date appointed: December 2006

Date appointed as Chair: 3 December 2009

Appointed until: 31 December 2012

Poul was appointed Chair of Natural England on 3 December 2009. He was Deputy Chair of Natural England from 2006 and served as Acting Chair following the death of Sir Martin Doughty in March 2009.

He is senior partner of a successful family dairy farming business at Kingston Hill Farm, in Oxfordshire. He has a long track record of integrating conservation with the demands of modern farming.

Throughout his career Poul has taken a prominent role leading the farming sector through changing and challenging times. He is the joint founder of the Tenant Farmers' Association, established in 1981 to provide a voice for tenant farmers. He was previously Chairman of Milk Marque in the late 1990s, steering the dairy sector through a period of significant change, Chair of the Rural Development Service until 2006, overseeing the launch of modern Environmental Stewardship schemes, and a member of the Defra Management Board before taking up the appointment of Chair at Natural England.

He is currently a Director of Agricultural Central Trading Limited, a farmer supply cooperative and is a Board member of the UK's Joint Nature Conservation Committee. Poul was elected as President Elect of the National Federation Of Young Farmers' Clubs, in April 2012, and in the same month was advanced as a Fellow of the Royal Agricultural Societies (FRAGS). He received the Commander of the Order of the British Empire in the Queen's Birthday Honours List in 1991 for services to agriculture and the commercial development of the Agricultural Development Advisory Service (ADAS).

Professor David Hill

Date appointed: 2 May 2006

Appointed until: 30 September 2012

David was appointed Deputy Chair in February 2011. His responsibilities include: Northumberland and Yorkshire Dales National Parks, Joint Nature Conservation Committee (as Board member), Natural England's Science Advisory Committee and Audit and Risk Committee, and the Natural England, Environment Agency and Forestry Commission Joint Sub-group.

David has significant experience in consultancy, nature conservation and company business strategy. He runs an ecological consultancy company, is Chairman of The Environment Bank Ltd and was previously Chief Scientific Adviser to RPS Group plc. Over the past three years he has been actively involved in promoting environmental markets to provide new and innovative ways of mitigating for impacts on ecosystem services arising from development, industry and corporate businesses.

David is a Fellow and past President of the Institute of Ecology and Environmental Management. He has published extensively on ecological issues over the past 25 years.

David is a member of the RSPB, BTO, Norfolk Wildlife Trust and a life member of the National Trust.

Mr Peter Allen MBE

Date appointed: 2 May 2006

Appointed until: 30 September 2011

Responsibilities until September 2011 included: Peak & Lake District National Park

Peter is a 17th generation Lakeland tenant hill farmer. He is also Chairman for the North West Regional Advisory Board of the NFU Mutual, and the Responsible use of Medicines Alliance.

Peter holds membership of the National Office of Animal Health Code of Practice Committee, and Standing Conference for Country Sports. He has been a Board member of the North West Development Agency since December 2007.

Ms Catherine Graham-Harrison OBE

Date Appointed: 1 January 2009 and 1 January 2012

Appointed until: 31 December 2014

Responsibilities from 30 September 2011 include: Protected Landscapes, with special responsibility for the South Downs and New Forest National Parks, and transport and development. Member of the Audit and Risk Committee until 30 September 2011.

Until 2011, Catherine worked as a Management Consultant, mainly in the not for profit sector, focusing on philanthropy, strategic planning, governance and organisational development. Prior to that, she was a Vice President of Citibank and then Chief Executive of the Paul Hamlyn Foundation. She has held a large number of non executive positions over the past 20 years including being on the board of the Heritage Lottery Fund and a trustee of the Joseph Rowntree Foundation.

Catherine has been Chair of the National Forest Company since April 2011 and was appointed Chair of the National Trust Architecture Panel with effect from 1 February 2011.

William Cockbain

Date Appointed: 1 October 2011

Appointed until: 30 September 2014

Responsibilities from 1 October 2011 include: Land management, agriculture and the uplands, Lake District, Peak District and North York Moors National Parks.

William Cockbain farms a large hill farm in the Lake District as part of a family partnership. He was NFU National Uplands spokesman from 2004 until March 2012 when he stood down after 8 years. In 2006 he was appointed as Defra's North West Sustainable Food and Farming Champion, a position held until the end of March 2011. He chairs the new Rural and Farming Networks, for Cumbria, North and East Lancashire, and was made an Associate of the Royal Agricultural Societies for England, Scotland, Wales and Northern Ireland in 2008 for services to hill farming.

Dr Joe Horwood

Date appointed: 1 October 2009

Appointed until: 30 September 2012

Responsibilities include: Lead Board member for marine and the Broads Authority. Member of the Audit & Risk Committee (until 30 September 2011), Natural England Science Advisory Committee, Marine Protected Areas sub-group on the Joint Nature Conservation Committee and the Natural England, Environment Agency and Forestry Commission Joint Sub-group

Joe Horwood has a background in mathematics and zoology applied in marine ecology and resource management. Former Chief Science Advisor at the Centre for Environment, Fisheries and Aquaculture Science (CEFAS), but retaining a role as Non-Executive Director and Chair of CEFAS' Science Advisory Committee. He has been a member of the Board of the International Council for Exploration of the Sea (ICES) since 1998 and was President of ICES from 2006 to 2009. He was also on the Board of the Marine Biological Association from 1998 to 2001.

He has served on the science advisory committees of the International Whaling Commission, ICES and the EC, and on the UK's Marine Science Co-ordination Committee. He is a Fellow of the Royal Statistical Society, and of the Institute of Mathematics and its Applications, and a member of the British Ecological Society, the Challenger Society and the Suffolk Wildlife Trust. He has published on a variety of marine issues including whales, fisheries and marine protected areas.

Mr Doug Hulyer

Dates appointed: 2 May 2006 and 1 June 2011

Appointed until: 31 May 2014

Responsibilities include: Exmoor and Dartmoor National Parks, access and engagement, management for biodiversity, and climate change adaptation. Member of the Natural England, Environment Agency and Forestry Commission Joint Sub-group.

Doug is an independent advisor for the heritage and natural environment sector. He was previously the Director of Conservation, Programmes and Developments for the Wildfowl & Wetlands Trust, and prior to moving to Slimbridge in 1984, one of the first Education Officers in the Wildlife Trust network.

Doug is a committed environmentalist, environmental educator and conservationist with over 30 year's professional experience. He is a Trustee of the National Heritage Memorial Fund/Heritage Lottery Fund, a member of HLF's South West Committee, and Chair of the NHMF Audit Committee.

Doug is currently Vice-President of the Surrey Wildlife Trust, a member of the Learning & Visitor Experience Panel of the National Trust, a member of The Great Fen Project Foundation, and a Fellow of the Society of Biology.

He also holds memberships in Gloucestershire Wildlife Trust, English Heritage, Wildfowl & Wetland Trust, The National Trust, Freshwater Biological Association, and the Institute of Directors, The Chartered Institute of Water and Environmental Management and the National Trust.

In June 2008, Doug ceased his position as Chairman of the Wetland Vision project. Doug was a Council Member for English Nature between 2002-2006, before taking up the appointment of Board Member for Natural England.

Professor David Macdonald CBE

Dates appointed: 2 May 2006 and 1 June 2011

Appointed until: 30 September 2014

Responsibilities include: Chair of Natural England's Science Advisory Committee and biodiversity (land use issues).

David is the Professor of Wildlife Conservation and the Director (and founder) of the Wildlife Conservation Research Unit, Zoology Department at Oxford University. He is also Chairman of the Darwin Advisory Committee, Defra and Chairman of Earthwatch UK.

David was awarded the 2004 Dawkins Prize for contributions to wildlife conservation. In 2006 he was awarded the Merriam Medal for outstanding contributions to mammalian research by the American Society of Mammalogists and in 2007 he was awarded the equivalent medal of Britain's Mammal Society and in 2010 the Zoological Society of London's Silver Medal. In 2008, he was elected a Fellow of the Royal Society of Edinburgh. In 2010 he was appointed Commander of the British Empire for services to Natural Science.

He is also Senior Research Fellow of Lady Margaret Hall, a Board Member of the World Wildlife Fund.

David was a Council Member for English Nature from 2003-2006, before taking up the appointment of Board Member for Natural England.

Mr Nigel Reader CBE

Appointed: 1 June 2011

Appointed until: 31 May 2014

Responsibilities include: Chair of Natural England's Audit and Risk Committee from 1 October 2011.

Nigel is a member of the Chartered Institute of Management Accountants and is a Chartered Global Management Accountant and has held a number of senior financial positions, including as Director of Finance for the National Rivers Authority and the Environment Agency. He has been a member of H M Treasury's Financial Reporting and Advisory Board and a member of the Prince of Wales' Accounting for Sustainability Advisory Group.

He served as a member of the board of trustees of the international development charity WaterAid from 1999 until 2011. He is currently a board member of the Marine Management Organisation and chairs its Audit & Risk Committee.

Mr Andy Wilson

Date Appointed: 1 January 2009

Appointed until: 31 December 2014

Responsibilities include: Member of Audit and Risk Committee from 1 October 2011; and climate change mitigation (renewable forms of energy).

Andy Wilson has been Chief Executive of the North York Moors National Park Authority since March 2000 during which time the Authority has won a series of awards for customer service, training and work on climate change. Prior to that, he worked for seven years at the Northumberland National Park. Earlier in his career he worked for the Council for the Protection of Rural England (CPRE) and the Royal Society for the Protection of Birds (RSPB).

Andy is a member of the RSPB, and was a member of the Yorkshire and Humber Assembly Sustainable Development Board until April 2009.

Dr Helen Phillips (Chief Executive) – until 29 February 2012

Ex-officio member of the Board until 29 February 2012

Helen was appointed Chief Executive of Natural England in February 2006. She has 15 years experience in the environment sector gained at the Environment Agency and the National Rivers Authority.

At Natural England, Helen has led a major change programme, transforming the business over the last three years. The focus of her work has been on achieving greater levels of protection and improvement for places and nature by engaging, raising and aligning people's energy to establish a public body with clear priorities for the natural environment. This was matched only by her determination to increase effectiveness and value for money. England's premier wildlife sites are now in better condition than at any time since their creation. All achievements delivered alongside improved customer satisfaction, substantial efficiency savings and a significant reduction in staff numbers.

Helen has a degree in zoology and a Ph.D. in freshwater biology from University College Dublin. She is an alumnus of the Cambridge industry programme and a Fellow of the Society of Biology.

Mr Tony Hams OBE

Date appointed: 2 June 2005

Appointed until: 30 September 2011

Responsibilities until 30 September included: Chair of the Audit and Risk Committee, lead member for Protected Areas, the New Forest, North York Moors and Yorkshire Dales National Parks.

Tony is Chair of Derbyshire Wildlife Trust and the East Midlands Biodiversity Partnership. He is also a director of the National Forest Company. He was formerly the Chair of the Green Alliance, the UK Association of National Park Authorities, the Peak District National Park Authority, the Heritage Lottery Fund Committee for the East Midlands, and a member of the East Midlands Regional Sports Board.

Tony has a professional background in planning, conservation, recreation and sustainable development. Tony was a Countryside Agency Board Member from 2000-2006, leading on protected areas, planning and energy issues before joining the Natural England Board. He was awarded an OBE in 2000 for services to sustainable development.

Tony is a member of Open Spaces Society, Derby University Court and received an Honorary Doctorate from the University of Derby in 2008.

Annex 1

The Sustainability and Environmental Report

Introduction

Improving our own environmental performance is at the heart of how we work at Natural England. We recognise that our credibility is based not only on what we deliver to our customers, but on how sustainable we are as an organisation. We have continued to demonstrate our environmental leadership since we first committed ourselves to reduce our operational carbon emissions by 50% by the end of 2010. We have achieved this target and have begun to set similarly challenging targets around our other environmental impacts.

Summary of Performance

We remain as a exemplar organisation in demonstrating how to reduce carbon emissions through a combination of technological and behavioural solutions. We have inspired and supported a number of organisations through sharing our experience on a one to one basis, through events and conferences and via publications in the sustainability press and on practitioner websites. In early 2012, we received the prestigious European Travel Buyers' 'Best Corporate Social Responsibility' Award. We are also one of an elite group of the10:10 campaign's carbon 'Pioneers'.

We have continued to maintain our credibility around our carbon footprinting methodology and reporting system by achieving re-accreditation to the Carbon Trust Standard and acting on recommendations arising for an audit by PricewaterhouseCoopers. We have also instigated a set of Carbon Standards that set out the requirements to manage and reduce our carbon emissions in the delivery of our other areas of work. These not only set out our methodologies and reporting processes but also explains why we work in certain ways and the expectations on our staff to work more sustainably.

We have continued to improve on our reporting system and use, where possible, primary data to report our estate and travel carbon emissions. Where primary data is unavailable, we have used approved methodologies to calculate our carbon emissions such as ECON19. We have continued to move over to real time monitoring of our offices, utilising energy display equipment. This not only provides better management information (including examples of inefficiencies in heating and lighting) but also continues to engender a sense of ownership with staff to improve our carbon footprint as well as inspiring visitors and other building occupants.

We have continued to refine our Travel Carbon Footprinting Tool that uses financial data (expense claims, credit card bills etc) to quantify carbon emissions by each mode and report organisational, team and individual carbon footprints. As a result, we are able to more accurately report on our fuel consumption, particularly on our National Nature Reserves where this information was previously unavailable.

We have utilised this detailed travel data to establish travel carbon budgets at the team level that are aligned to our financial budgets. These are reported on a monthly basis across the organisation and are integrated into our Corporate Performance Monitoring System and financial accounting. Again, this gives our staff a sense of ownership of their individual and team carbon footprints.

We have continued to support our staff in making sustainable travel decisions through a variety of tools including:

- a revised Travel Policy that sets the expectations of how our people will travel to meet our organisational objectives;
- a Green Travel Checklist and Carbon Calculator to support decision making and help compare the carbon footprint of different modes of travel;
- a Meeting Planning Tool that identifies an optimum location for meetings across our estate;
- a set of Meeting Protocols that define the principles for more sustainable meetings;
- a fleet of Folding Bikes available for loan from our offices and a staff Cycle Purchase Scheme;
- an on-line Rail Ticket Booking System with Fast Ticket machines located in our main offices;
- Teleconferencing facilities available to all; and
- converting our nature reserve vehicles to run on Used Cooking Oil biodiesel.

The largest proportion of our 2007 footprint and the biggest opportunity for carbon saving has been through improving the energy performance of our estate. Through our WINE2010 programme (Working in Natural England 2010) and subsequent WINE2014 programme, we have relocated from our most inefficient offices to more sustainable buildings and locations. We continue to encourage our staff to realise the work-life balance benefits through a range of flexible and home working options to reduce commuting to a Natural England office on a daily basis. We have reduced our office estate from the 68 buildings occupied by our three founding bodies in 2006 to 26 city-based offices. We have also reduced our space requirement by introducing a 'hot desk' policy. Energy efficiency measures have been put in place for our remaining buildings following a rigorous energy audit.

Enabling our people to work from home is often viewed as passing on the carbon burden to our employees. We have undertaken research to quantify the emissions of home working that demonstrates that it is carbon neutral as, overall, the carbon footprint of our staff working from home is offset by that they would have emitted travelling into the office. We also loan energy meters to support our home and flexible workers identify potential savings in their electricity consumption and improve on the energy efficiency of their homes.

Forward Look

From 2011-12, Natural England is required to report on the new Greening Government Commitments (GGC). These consist of a range of targets around our environmental performance, including those reported here. We are working closely with our parent Department Defra who, in many cases, is also our landlord in meeting these targets. Delivery of the Sustainability Strategy is in line with the new Corporate Plan 2012-15.

We have integrated the GGC targets into a Sustainability Strategy that, where appropriate, looks to meet these targets ahead of schedule or exceed them. The Strategy also provides a new focus on our wider environmental impacts that, up until now, have been secondary to our carbon target. We have already begun to establish the baselines of these wider impacts against which we will report in the future. The Strategy also looks to improve on the environmental performance of our buildings and operations on our National Nature Reserves.

We are continuing to improve on our sustainable procurement actions having achieved Level 4 of the Sustainable Procurement Flexible Framework during the previous financial year. Our Sustainability Strategy increases the scope of our environmental reporting into the supply of goods and services and we have already begun to quantify the impact of ICT provision and paper use during 2011-12.

We will continue to look, where practicable, to disaggregate our new environmental targets down to team and individual level to ensure staff ownership and build on the expertise and innovation of our people in delivering our wider objectives in more sustainable ways. Over the coming year we plan to enhance how we report our environmental performance through our Corporate Performance Management System and strive to continuously improve on both the accuracy and timeliness of our reporting.

A number of groups at both the strategic and practitioner level have overseen the delivery of our carbon target. We will continue to ensure that sustainability is represented on the Board through the Sustainability Board Champion as well as in our Executive leadership team through the Executive Director, Capability. We will amend the terms of reference of our Director-level Carbon Taskforce to incorporate our new targets as well as continue to deliver on specific actions through cross-team Task & Finish Groups.

Our Performance summary for 2011-12:

| Area | Actual Performance | Target Performance |
|--|-----------------------------|-----------------------------|
| Carbon dioxide emissions ¹ | 3414 tCO ₂ | 3468 tCO ₂ |
| Carbon Reduction Commitment (CRC) related expenditure ² | Not applicable | Not applicable |
| Total energy consumption ³ | 2,175,222 kWh | Not applicable ⁴ |
| Buildings energy consumption ³ | 5,381,249 kWh | Not applicable ⁴ |
| Total energy expenditure | £248 k | Not applicable |
| Total waste ³ | 90 tonnes | Not applicable ⁵ |
| Residual office waste ³ | 17 tonnes | Not applicable ⁵ |
| Total waste expenditure | Not applicable ⁶ | Not applicable |
| Water consumption ³ | 4409 m ³ | Not applicable ⁵ |
| Water Expenditure ³ | £54 k | Not applicable ⁵ |

- 1** Based on travel data Apr 11-Mar 12 and estates energy consumption data Jan-Dec 11.
- 2** Natural England does not meet thresholds required to participate in the CRC, although we do occupy buildings where our landlords do.
- 3** Based on data Jan-Dec 11.
- 4** We do not set kWh targets for energy consumption, only carbon targets for our estate energy performance.
- 5** No annual targets set as we are working to 2014/15 targets under the Greening Government Commitments.
- 6** Waste management on the Natural England estate is undertaken through our landlords and their contractors. It is not possible to disaggregate the expenditure on waste management from that provided for other tenants in our shared offices.

Sustainability Performance Report for 2011-12

| Greenhouse Gas Emissions | | 2011-12 | 2010-11 | 2009-10 |
|---|--|------------------------|-----------|---------|
| Non-Financial Indicators (tCO ₂ e) | Total Gross Emissions for Scopes 1 & 2 | 2,343 ¹ | 3,076 | 3,696 |
| | Total Net Emissions for Scopes 1 & 2 | 2,343 ¹ | 3,076 | 3,559 |
| | Gross emissions attributable to Scope 3 official business travel | 1071 ¹ | 1038 | 1,231 |
| Related Energy Consumption (KWh) | Electricity; Non Renewable | 2,175,222 ² | 3,544,222 | |
| | Electricity: Renewable ³ | 0 | 0 | 0 |
| | Gas | 3,206,027 ² | 4,458,377 | |
| | LPG | 0 | 0 | 0 |
| | Other | 0 | 105,844 | |
| Financial Indicators (£k) | Expenditure on Energy | £248 k | £405 k | £525 k |
| | CRC License Expenditure ⁴ | 0 | 0 | 0 |
| | CRC Income from Recycling payments ⁴ | 0 | 0 | 0 |
| | Expenditure on accredited offsets | 0 | 0 | 0 |
| | Expenditure on official business travel | £2.66 m | £2.46 m | £3.37 m |

- ¹ Based on estates energy data Jan-Dec 11 and travel data Apr 11-Mar 12, with exception of our fleet which is estimated using data Apr 11-Feb 12.
- ² Based on data Jan-Dec 11.
- ³ Our electricity is procured through the OGC framework over which the proportion of renewable energy varies over time. Therefore it is not possible to provide a reliable figure for renewable energy consumption.
- ⁴ Natural England does not meet the thresholds required to participate in the CRC.

PERFORMANCE COMMENTARY (INCL TARGETS)

Natural England has achieved its target to reduce the carbon emissions of its estate and business travel by 50% by the end of 2010. It is committed to maintaining this performance during 2011-12. A new baseline and target is currently being agreed covering the period beyond 2011-12 that widens the scope of our carbon footprint. This will be disclosed in the 2012-13 Annual Report.

CONTROLLABLE IMPACTS COMMENTARY

The main direct impacts for us in terms of carbon emissions are from our operational electricity, gas and oil consumption and road, air and public transport mileage. Existing strategies and policies continue to reduce these direct impacts through efficiency programmes that draw upon low carbon technologies and behavioural change. However, our consumption of all these resource is vulnerable to extreme weather and changes in our business priorities and targets. Our figure for gross emissions attributable to official business travel includes direct fuel purchases and 'grey fleet' casual business use. Public transport emissions from train, tube and bus journeys are included in our carbon footprint alongside the emissions associated with air travel and taxi use.

OVERVIEW OF INFLUENCED IMPACTS

Natural England is able to influence the emissions of its supply chain significantly through procurement specifications and through sharing our approach with other organisations.

| Waste | | 2011-12 ¹ | 2010-11 | 2009-10 | |
|--|---|-------------------------------------|------------------|-------------------|-------------------|
| Non-Financial Indicators (tonnes) | Total waste arising | 90.0 | 76.5 | 98.3 | |
| | Hazardous waste | 0.5 | 1.5 ² | Not Monitored | |
| | Non hazardous | Landfill | 17.0 | 26.8 ² | 32.5 ² |
| | | Reused/ Recycled | 68.6 | 41.3 ² | 54.0 ² |
| | | Waste composted | 0.3 | | |
| | | Incinerated with energy recovery | 1.8 | 6.9 ² | 11.8 ² |
| | | Incinerated without energy recovery | 1.8 | | |
| Financial Indicators (£k) | Total disposal cost ³ | Not Monitored | Not Monitored | Not Monitored | |
| | Hazardous waste – disposal costs ³ | Not Monitored | Not Monitored | Not Monitored | |
| Non hazardous – disposal cost | Landfill ³ | Not Monitored | Not Monitored | Not Monitored | |
| | Reused/ Recycled ³ | Not Monitored | Not Monitored | Not Monitored | |
| | Incinerated ³ | Not Monitored | Not Monitored | Not Monitored | |

¹ Data for period Jan 2011 – Dec 2011

² Estimated based on Defra supplied data. This data only covers 14 offices compared to 16 in 2011-12

³ Waste management data is supplied via our landlord and their waste management provider. It is not possible to disaggregate financial costs of waste management from that provided for other tenants.

PERFORMANCE COMMENTARY (INCL TARGETS)

Defra supply data on a quarterly basis. This is the first year we are able to disaggregate composted waste from recycled/reused waste and report separately incinerated waste with and without energy recovery. All figures are in tonnes and represent an increase in 14 to 16 this year for offices where data are available and is calculated on % occupancy basis. Information is not available where landlords are responsible for waste and recycling activities. The full dataset for 2011-12 is not available so figures are based on actual performance for the 2011 calendar year. Under the Greening Government Commitments we have a draft baseline of 98.3 tonnes of waste and a target to reduce this by 25% to 73.73 tonnes by the end of 2014/15. We currently recycle/reuse over 76% of our waste.

CONTROLLABLE IMPACTS COMMENTARY

The main type of waste for Natural England is general office waste. Further waste surveys are underway to identify and quantify significant waste arising across the organisation. We are developing a collaborative approach with our landlord, Defra, facilities management provider, Interserve and waste services provider, Severnside, to establish a waste management programme across the organisation.

OVERVIEW OF INFLUENCED IMPACTS

Natural England is able to place certain quality objectives on its suppliers in terms of their waste disposal performance. Natural England is currently working alongside suppliers to improve both the culture and actual performance in relation to waste management and disposal.

| Finite Resource consumption - Water | | | 2011-12 ¹ | 2010-11 | 2009-10 |
|-------------------------------------|-------------------------------------|------------|----------------------|---------|---------|
| Non-Financial Indicators | Water consumption (M ³) | Supplied | 4,409 | 9,302 | 8,050 |
| | | Abstracted | 0 | 0 | 0 |
| Financial Indicators (£k) | Water supply costs | | £54 k | £37 K | £77.7 k |

- ¹ Data from April – December 2011, from 19 buildings, total consumption apportioned to the total floor space we occupy. This is different to previous years that reported on total consumption of the buildings we occupy. Data for 2009-11 has been updated.

PERFORMANCE COMMENTARY (INCL TARGETS)

This is the first year we have begun to monitor our water consumption across our estate on an occupancy basis and have established a baseline of 8050.49m³ for 2009-10 against which we will measure our Greening Government Commitment target of reducing water consumption and reporting on office water use against a set of best practice benchmarks. We are working with our landlord, Defra, and facilities management provider, Interserve, to establish a water efficiency programme based on water savings technologies and behavioural change.

CONTROLLABLE IMPACTS COMMENTARY

Our major impact in terms of water consumption is the consumption of potable water in our offices although further audits are underway to identify other sources of consumption across the organisation.

OVERVIEW OF INDIRECT IMPACTS

Natural England promotes the efficient use of water through its Sustainable Procurement system and by encouraging suppliers of goods and services to reduce their environmental impact.

| Finite Resource consumption - Energy | | | 2011-12 ¹ | 2010-11 | 2009-10 |
|--------------------------------------|--------------------------|-------------------------------------|----------------------|-----------|---------|
| Non-Financial Indicators | Energy consumption (kWh) | Electricity: Non-Renewable | 2,175,222 | 3,544,222 | |
| | | Electricity: Renewable ² | 0 | 0 | |
| | | Gas | 3,206,027 | 4,458,377 | |
| | | LPG | 0 | 0 | |
| | | Other | 0 | 105,844 | |
| Financial Indicators (£k) | Total Energy Expenditure | £206 k | £405 k | £525 k | |

¹ 2011-12 energy data covers April 2011-Dec 2011.

² Our electricity is procured through the OGC framework over which the proportion of renewable energy varies over time. Therefore it is not possible to provide a reliable figure for renewable energy consumption.

PERFORMANCE COMMENTARY (INCL TARGETS)

Reduction in energy consumption is a core component of our overall carbon reduction programme. We have invested heavily in a number of initiatives which has enabled us to reduce our consumption significantly over the past three years.

CONTROLLABLE IMPACTS COMMENTARY

Our main energy consumption is for heating our offices. We have completed a programme of improving office insulation and heating controls and we continue to monitor and review the efficiency of our estate. We are continuing to install 'live' carbon monitors across our office estate to provide real-time energy consumption data, identify inefficiencies, and support more sustainable ways of working. We have reduced the size of our office estate and are supporting our staff in reducing the carbon footprint of home working.

OVERVIEW OF INFLUENCED IMPACTS

We will work with suppliers to support the implementation of energy efficiency programmes within their own businesses. We will continue to work with other organisations in sharing our experience of reducing our own energy consumption.

Glossary

Access to Nature is a £25 million grant scheme designed to encourage people from all backgrounds to understand, access and enjoy our natural environment.

Agri-environment schemes pay farmers to encourage them to use their land in an environmentally-sensitive way. Currently, the largest of these schemes is Environmental Stewardship.

Environmental Stewardship has three elements:

- Entry Level Stewardship (ELS)
- Organic Entry Level Stewardship (OELS)
- Higher Level Stewardship (HLS)

ELS is a point-based scheme that gives farmers a number of options for managing their land in an environmentally-sensitive way. OELS is similar but is geared to organic farming systems. HLS builds on ELS and OELS but concentrates on individually tailored agreements that deal with more complex types of land management.

Areas of Outstanding Natural Beauty (AONBs) are large areas of land designated under the National Parks and Access to the Countryside Act 1949. They are designated in order to conserve and enhance the natural beauty of these areas. There are 36 AONBs in England, one of which is partly in Wales. They cover approximately 15% of the English countryside.

Big Lottery Fund was formed in 2004, the result of a merger between the New Opportunities Fund and the Community Fund. It is responsible for giving out half the money for good causes raised by the National Lottery. It has an annual budget of around £630 million.

Biodiversity Action Plan (BAP) The United Kingdom Biodiversity Action Plan is the Government's response to the 'Convention on Biological Diversity' adopted at the Rio Earth Summit in 1992. The BAP comprises action plans for the conservation of 391 rare or endangered species and 45 habitats. It also includes 162 Local Biodiversity Action Plans designed to focus local action for species and habitats.

Campaign to Protect Rural England (CPRE) is a registered charity with over 60,000 members and supporters. Formed in 1926 to limit urban sprawl and ribbon development, the CPRE has influenced public policy relating to town and country planning in England, most notably in the formation of the National Parks, AONBs and Green Belts.

Catchment Sensitive Farming (CSF) is a programme that encourages farmers to reduce the amount of agricultural pollution entering waterway catchments. A catchment is a drainage basin that feeds a stream, river or wetland and these are often polluted by excess nutrients from agricultural fertilisers and animal manure.

Common Agricultural Policy (CAP) Income support payment to farmers and market management measures complimented by support for rural development with the overall aim of securing the European model of multi-functional agriculture.

Countryside Stewardship Scheme (CSS) was an agri-environment scheme run by the Government from 1991 to 2004. It has since been superseded by the Environmental Stewardship scheme. Existing CSS agreements continue to be honoured; the last agreements will end in 2013.

Department for Environment, Food and Rural Affairs (Defra) is the Government department responsible for environmental protection, food production and standards, agriculture, fisheries and rural communities in England. Defra was formed in June 2001 when the Ministry of Agriculture, Fisheries and Food merged with part of the Department of Environment, Transport and the Regions and part of the Home Office.

Entry Level Stewardship (ELS)

See Agri-environment schemes.

Environmental Stewardship

See Agri-environment schemes.

Environmentally Sensitive Areas (ESAs) are areas of agricultural land that need special protection because of their landscape, wildlife or historical value. The ESA scheme has now been superseded by Environmental Stewardship. Existing ESA agreements continue to be honoured; the last agreements will end in 2014.

Higher Level Stewardship (HLS)

See Agri-environment schemes.

Marine Protected Area (MPA) is a marine area where restrictions have been put in place to protect its living, non-living, cultural, and/or historic resources. MPAs are often created to protect a rare marine habitat and/or species from potentially damaging commercial or recreational activities.

National Nature Reserves (NNRs) are areas of national, and sometimes international, importance that are owned or leased by Natural England or managed in accordance with its wishes. NNRs are used primarily for nature conservation.

Natural Environment & Rural Communities Act 2006 (NERC Act 2006) the Act of Parliament that established Natural England.

Non Departmental Public Body (NDPB) is a body which plays a role in the processes of national government, but is not a government department or part of one. Executive NDPBs are established by statute and carry out administrative, regulatory and commercial functions. They employ their own staff and are allocated their own budgets. All executive NDPBs are subject to external audit.

Natural Environment White Paper (NEWP) is a statement of the Government's vision for the natural environment for the next 50 years, backed up with practical action to help deliver that ambition.

Rural Development Programme for England (RDPE) A 7 year programme that determines how EU cofinanced rural development funding will be spent in England.

Sites of Special Scientific Interest (SSSIs) are areas of land designated under the Wildlife and Countryside Act 1981. These sites are of interest by reason of their flora, fauna, or geological or physiographic features, and it is considered to be in the national interest to conserve them.

SSSI condition is assessed as:

- Favourable – all the notified features on the site are meeting their conservation objectives.
- Unfavourable recovering – some or all of the notified features are not meeting their objectives but all management measures are in place to bring about full recovery.

It may take several years before the site can be assessed as 'favourable'.

- Unfavourable declining or unfavourable no change – some or all features are not meeting their conservation objectives.

Special Areas of Conservation (SACs) are protected areas established under the European Union's Directive on Habitats. SACs are chosen for their importance as natural habitat types and as the habitats of rare and endangered species identified in the Directive (this lists 220 habitats and approximately 1,000 species). SACs complement Special Protection Areas (SPAs), and together they form a network of protected sites across the European Union known as Natura 2000.

Species Recovery Programme Traditional species conservation focuses on preserving existing habitats and species. In contrast, the Species Recovery Programme takes a more proactive approach and works to restore and recreate habitats, and reintroduce plant and animal species that have been lost in the wild.

List of acronyms used in this Annual Report

| Acronym | Full description of acronym |
|---------|--|
| AONB | Area of Outstanding Natural Beauty |
| BAP | Biodiversity Action Plan |
| BIS | The Department of Business, Innovation and Skills |
| CAP | Common Agricultural Policy |
| CETV | Cash Equivalent Transfer Value |
| CLA | Country Land and Business Association |
| CQuEL | Character and Quality of England's Landscapes |
| CSR | Comprehensive Spending Review |
| CSS | Countryside Stewardship Scheme |
| Defra | Department for Environment, Food and Rural Affairs |
| EA | Environment Agency |
| ECSFDI | English Catchment Sensitive Farming Delivery Initiative |
| EqIA | Equality Impact Assessment |
| ES | Environmental Stewardship |
| ESAs | Environmentally Sensitive Areas |
| ETIP | Entry Level Stewardship Training and Information Programme |
| EU | European Union |
| FC | Forestry Commission |
| FReM | Financial Reporting Manual |
| FTE | Full time Equivalent |
| GI | Green Infrastructure |
| GIA | Grant in Aid |
| JNCC | Joint Nature Conservation Committee |
| HA | Hectares |
| HLS | Higher Level Stewardship |
| HMT | Her Majesty's Treasury |
| ICT | Information and Communications Technology |
| IFCAs | Inshore Fisheries and Conservation Agencies |
| IAS | Impairment of assets |
| KPI | Key Performance Indicator |
| LAF | Local Access Forum |
| LNPs | Local Nature Partnerships |
| MCZ | Marine Control Zone |
| NCA | Natural Character Area |
| NEA | National Ecosystem Assessment |

| | |
|---------------|---|
| NERC Act 2006 | Natural Environment & Rural Communities Act, 2006 |
| NEWP | Natural Environment White Paper |
| NFU | National Farmers' Union |
| NNR | National Nature Reserve |
| PCSPS | Principle Civil Service Pension Scheme |
| PEP | Performance and Efficiency Programme |
| PSA | Public Service Agreement |
| RDPE | Rural Development Programme for England |
| RDS | Rural Development Service |
| RPA | Rural Payments Agency |
| RSPB | Royal Society for the Protection of Birds |
| SAIF | Sustainable Access to Inshore Fisheries |
| SDAs | Severly Disadvantaged Areas |
| SoS | Secretary of State |
| SPA | Special Protection Area |
| SRP | Species Recovery Programme |
| SSSI | Site of Special Scientific Interest |
| TBG | Terrestrial Biodiversity Group |
| UAA | Utilisable Agricultural Area |
| UK | United Kingdom |



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