

Natural England Annual Report and Accounts

1 April 2016 to 31 March 2017

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Natural England

Annual Report and Accounts
1 April 2016 to 31 March 2017

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More information on our work, including statistics on subjects in this review, can be found on our website gov.uk/natural-england

1. Performance Report

Overview - The following section should help you understand Natural England, its purpose the key risks to the achievement of its objectives and how it has performed during the year.

Chief Executive's Statement

Natural England is the government's statutory adviser for the natural environment in England, helping to protect England's nature and landscapes for people to enjoy and for the services they provide. We do this by creating conditions in which nature and our economy can thrive together. We provide practical advice on the environment to decision-makers and customers, underpinned by evidence, technical expertise and local knowledge.

In the last year, Natural England presented our conservation strategy, Conservation 21. This is the first time we have had such a strategy, and the level of our ambition contained within the strategy has been well received by our stakeholders. Conservation 21 sets out the core themes that we believe need to underpin conservation work in the 21st century - creating resilient landscapes and seas; putting people at the heart of the environment; and using a natural capital approach.

Adopting these themes, we have already seen positive progress internally – for example in our new approach to great crested newt licensing with Woking Borough Council last year, and subsequent rollout to other local authority areas this year. In the autumn, DCLG awarded Natural England £7m to extend this innovative strategic mitigation and licensing service, which delivers more for newt populations whilst helping developers and the Local Authority to meet housing demand.

Our revised strategic approach can also be seen in our revitalized work on SSSI (Sites of Special Scientific Interest) designations where we are looking to ensure that designations continue to be based on sound science in terms of prioritisation and timescales. This is delivering powerful results and in 2016/17 Natural England has delivered a larger area of newly designated land than at any time since our vesting in 2006. In the West Pennine Moors, for example, the proposed designation builds on years of partnership working and will ensure sustainable conservation of this important upland landscape, the widest possible collective commitment to safeguard the services its natural capital provides, and it will help partners and the local community to realise this landscape's potential, strengthening the case for ongoing funding. At sea, we have also provided advice to Defra on the third tranche of the Marine Conservation Zone (MCZ) designation programme, contributing to the Blue Belt, a coherent network of well-managed marine protected areas around England.

Continuing to use our 'Outcomes Approach' by taking the time to listen and build shared results on the ground has been critical in helping us focus on delivering better results across the environment. For example, we are working in partnership in the Tees Valley to safeguard the environment and achieve sustainable growth, through the Tees Estuary Partnership. This partnership of industry, local authorities, environmental regulators and conservation NGOs has been convened to benefit both business and nature for future generations, and support current operations and future developments alongside the proposed extension of the Special Protection Area designation. We have used this approach at all scales, working even more collaboratively with landowners to co-create upland management plans that are practical, achievable and will

deliver more for these fantastic habitats and landscapes.

Underpinning the headline projects and change initiatives, our staff continue to deliver across the range of programmes and services that we committed to in our 2016/17 Action Plan. I'd like to highlight three areas here.

We continue to provide excellent planning and licensing services. In 2016/17 Natural England handled over 43,500 casework consultations across Terrestrial Planning, Marine Planning, SSSI Consents/Land Management Casework and Wildlife Licensing. 92% of consultations were responded to within the relevant agreed timeframes.

We have had to work hard to meet the needs of Countryside Stewardship and legacy agri-environment agreement holders in extremely challenging circumstances. We are proud of our staff's dedication and expertise, which has helped us to keep our customers informed, but we fully recognise the difficulties our customers and stakeholders have faced. We continue to evaluate the lessons learned as we progress and apply these to improve our ways of working. We are committed to making further improvements to the delivery of our services.

Finally we continue to deliver on our ambition to bring more funding into the natural environment. This year, for example, our 'Back from the Brink' project has been awarded a £4.6m grant from the Heritage Lottery Fund (HLF). By pooling expertise and developing new ways of working, the project will save 20 species in England and put over 100 priority species on the road to recovery by 2020. Natural England has been successful in securing a further £415k funding from HLF for the development stage of another project to tackle the issues presented by bats in historic churches. Our leadership of a partnership including Cathedral and Church Buildings Division of the Church of England, Historic England, Bat Conservation Trust and Churches Conservation Trust exemplifies how we are working with people and communities, whilst conserving some of our most rare bat species.

All of this work is built on a foundation of strong, practical science. This year, Natural England published our first Chief Scientist's report. This report demonstrates the depth and breadth of our expertise in applying science and evidence to Government's ambition to develop a healthy natural environment that supports people's wellbeing and sustainable economic growth. Our reputation as an expert, practical conservation organisation comes not only from our specialists who cover a wide breadth of natural and social sciences disciplines, but also from the significant expertise spread throughout Natural England, including the expert field ecologists in our Field Unit and the land management advisers in our 14 area delivery teams. More than two-thirds of our customer-facing staff are expert in at least one scientific discipline. Sharing our expertise and collaborating over data is central to our part within the Defra Group. Additionally, our contribution to Earth Observation is bringing widespread policy and business benefits, such as maps for upland management plans as well as solutions for Defra's natural capital pioneer areas.

In support of Defra, we have used this expertise to rise to the challenge of the decision to leave the European Union. We are helping Government evaluate and understand the implications of the EU Exit, for our operational responsibilities, and for Government's wider ambition to protect and enhance the natural environment. Closer to home, we have prioritised the implementation of our shared work within the Defra group to create a single centre for Corporate Services – in February 2017, Natural England transferred over 60 staff into the core department who will now provide all of our Finance, HR, ICT, Communications, Procurement and Estates services.

Our Spring Staff Survey results are encouraging. We have more work to do and remain keen to maintain momentum towards improving staff engagement, but we have strong positive response rates and a high Employee Engagement index compared with similarly-sized organisations also going through significant change. 88% of staff responded positively that Natural England delivers an inclusive workplace. Indeed, across the business we have actively ensured that Equality, Diversity and Inclusion are central to our culture. We have established a Steering Group with a Senior Responsible Officer, appointed 10 senior Champions covering all protected categories and 27 mental health buddies, as well as launched several awareness raising campaigns and maintained our drive to address gender balance.

2017/18 will continue to bring us challenges and opportunities. Our Action Plan 2017/18 to 2019/20 sets out a range of stretching commitments across our remit and our ambition to work with Defra to continue to make sure the environment is conserved for future and present generations, driving sustainable solutions post EU Exit, completing the England Coast Path, delivering licensing support for Defra's bovine tuberculosis strategy and the Hen Harrier Recovery Plan, and building on our Equality, Diversity and Inclusion Strategy successes.



James Cross
Chief Executive,
Natural England
4 July 2017

Our purpose and activities

Natural England was created as a Non Departmental Public Body (NDPB) under an Act of Parliament – the Natural Environment and Rural Communities (NERC) Act 2006, and we are formally accountable to the Secretary of State for the Environment, Food and Rural Affairs (Defra), who is accountable to Parliament for our activities and performance. 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.”

The Defra Strategy

As part of the Defra group the work that we do to fulfil our statutory purpose contributes to the Defra Strategy. The Defra Strategy sets out a shared vision and set of strategic objectives for the whole of the Defra group for the period up to 2020. It is intended to provide staff across the whole group of Defra organisations (including non-ministerial departments, executive agencies, non-departmental and other public bodies) with a clear vision, direction and shared framework. Actions to achieve the strategic objectives are described in more detail in Defra’s Single Departmental Plan.

To deliver the Defra Group objectives, the four impact objectives in the Defra Strategy have been taken and identified as four outcome ‘systems’ as follows;

- 1) Natural Environment, Environmental Quality, Water and Marine (Environment)
- 2) Food and Farming (Food and Farming)
- 3) Rural (Rural)
- 4) Floods + Animal and Plant Health (Protection)

The Defra Single Departmental Plan is set up around these four outcome systems and sets out what the Defra Group are doing to achieve its aims; what resources (people and money) are allocated; and what the measures of success are. The Defra Executive committee sits over the four outcome systems. Each system has a Defra Lead who sits on the Executive Committee and it is their responsibility to bring the organisations and work that fall under those systems together to deliver Defra’s outcomes in a robust and cohesive manner. This new cross Defra group approach to risk identification and management provides a way of informing a future view.

More information is available in the Defra consolidated Annual Report and Accounts.

Our future plans

Natural England’s integrated approach to delivery, with a focus on locally-based partnership projects, means that we contribute across the entire breadth of the Defra Strategy, although with a greater focus on the Environment and Rural Objectives. In 2016/17 Natural England introduced a new conservation strategy for the 21 century (CS21). This sets out the approach that will shape the way we work, the way we make decisions, and the way we will work with others. The strategy requires us to shift our focus to a larger scale, to create resilient landscapes and seas, to put people at the heart of the environment and to embrace the concept of natural capital. Natural

capital can be defined as the world's stocks of natural assets which include geology, soil, air, water and all living things. We want to move away from temporary outcomes to securing long term and sustainable environmental investment. We will work with others to develop the appropriate national policy framework, monitoring approaches and delivery tools to put the concept of natural capital into practice.

Natural England must continue to work with other parts of the Defra group to deliver its objectives. We will also work with other public sector organisations, business and civil society to get the most out of our collective resources and to deliver better and more joined-up outcomes for the natural environment.

Key issues and risks

We continue to follow a consistent approach to risk management across the organisation as set out in our risk and issues management standard. We also continue to work with the Defra group to establish greater integration, including common language and escalation processes, for risk management. During 2016/17 a number of strategic and operational risks and issues have been identified and managed in line with our Risk Control Framework.

Risk	Actions
Countryside Stewardship Delivery	
Challenges associated with systems and processes result in late delivery of agreements and payments for Countryside Stewardship, falling outside the agreed target dates.	<ul style="list-style-type: none"> ▪ Provide additional support for uptake through the facilitation fund and advice contracts. ▪ Push hard the new online functionality for mid-tier payments with customers, aiming for 60% uptake by agreement holders. ▪ Extra investment in farm advice and products such as YouTube videos to improve application quality. ▪ Clearly explain to staff where manual workarounds are required and provide appropriate guidance. ▪ Increased number of cluster and farmer-led landscape scale approaches which will help improve both the quality and quantity of the right applications.
Outcomes Approach	
Failure to deliver on the Outcomes Approach (delivering better long-term outcomes for the environment, taking into account the needs of the people we work with and working towards a shared vision).	<ul style="list-style-type: none"> • Build significant capacity in area teams through reform of frontline delivery, centralization of processes, etc. • Continue to disseminate good practice and lessons learnt from ongoing and historic casework and actively encourage teams to discuss how the outcomes approach can be applied. • Invest in developing leaders in area teams to manage behavioural changes in their teams.

Innovation and Reform

Natural England fails to deliver its medium term financial plan because we do not achieve the external funding, income or deliver the reform agenda.

- Agree a costed reform plan that is benefits tested against the efficiency savings and income required in the financial plan.
- Work at a high-level to secure the necessary legislative amendments as needed to achieve changes in funding sources.
- Continue to build staff skills in expanded commercial services and bring in new skills to assess alternative funding and corporate relationship mechanisms.
- Agree communications plan for engaging stakeholders throughout the reform process.

Organisational Reform

Natural England fails to make the strategic shifts identified in the Conservation Strategy and thus achieve the best outcomes for people, places and nature, losing influence of policy and delivery and the ability to operate effectively at a local and national level, in partnership with others.

- Construct a change and reform programme clearly linked to achieving the outcomes, shifts and new ways of working identified in the Conservation Strategy.
- Having agreed and published the Conservation Strategy, continue to develop the detailed actions required to implement the Strategy, as well as to hone themes within it through discussions with Board and staff.
- Empower Area Managers and teams to manage local relationships and expectations and to be confident in achieving outcomes which reflect the organisational strategy and are evidence based and transparent.

EU Exit

Natural England's outcomes for the natural environment are compromised by our failure to be sufficiently influential in the process of EU exit: failing to realise the opportunities and manage the risks successfully such that the post-exit regulatory regime is weakened, the resources and mechanisms for natural environment delivery are reduced and the expert advice of Natural England as the Government's statutory adviser has less impact resulting in poorer environmental outcomes.

- Support Defra to develop an ambitious and brave vision of the future by striking the right balance between risk and opportunity in their approach to issues arising.
- Ensure that the full range of EU financial tools contributing to delivery for the natural environment are recognized and commensurate sums budgeted for in the post-exit domestic funding environment.
- Draw on the experience and ideas of operational delivery colleagues to shape and scope future options.
- Use stakeholder engagement opportunities to gather intelligence and to identify shared outcomes and work with them to realise the opportunities that these present.

Workforce Planning & Wellbeing

Unacceptable pressures on individual staff members due to work demands and the impact of staff reductions through the Voluntary Exit Scheme leading to stress/illness and increased mental health and wellbeing issues in specific areas / geographies.

- Mental Health Network launched in May 2016 with buddies in place in September 2016.
- Appropriate workforce and succession planning to ensure knowledge transfer and clarity provided to affected teams as to what happens to work when staff leave.
- Remind and signpost line managers of the possible indicators of mental ill-health/wellbeing issues.

Going concern statement

In common with other government non-departmental public bodies, the future funding for our liabilities will be as grant in aid (GIA) from Defra and other income. Natural England's GIA for 2017/18 is included in the Defra estimates which have already been approved by Parliament.

Other income for 2016/17 made up £16.6m of our total receipt and included £10m Technical Assistance grant funding from the EU. We are expecting that EU grant funding will decline as Britain exits the EU. However, the other income we receive is used to fund only non-statutory work.

We are confident that we will receive continued support for our statutory work from Defra in future years. It has therefore been considered appropriate to adopt a going concern basis for the preparation of the financial statements.

Performance Summary - The following section provides a detailed summary of how Natural England has measured its performance over the year against key performance indicators along with, more detailed integrated performance analysis and longer term trend analysis;

Performance Summary

Protected Sites

We are already seeing the benefits of our new designations strategy and pipeline, one that is outcome-led. In numbers, we designated over 8,000 ha of SSSI this financial year, a greater area being designated this year than in the first nine years of NE combined. SSSI designation is just part of an overall programme which includes other biodiversity, landscape and marine designations which collectively totaled more than 800,000 ha this year: our best year since vesting in 2006.

Access and engagement

Boosting the public's enjoyment of the natural environment and local economies, Natural England continues to work towards establishing the England Coast Path by 2020, which will be the longest coastal walking route in the world at 4,400km. For example, the opening of the England Coast Path from Sea Palling to Weybourne in Norfolk has raised the profile of a local village, as walkers discover the wonderful coastline at Trimingham. The increase in walkers recently helped the community secure almost £500,000 from the Big Lottery Fund to improve facilities for locals and visitors alike.

Income generation

The use of local expertise is key to the way we work. The Marches Mosses Bog LIFE project on Britain's third largest raised bog, near Whitchurch and Wrexham, is Natural England's largest EU LIFE funded project of its kind to date. Over the next five years, we will lead a partnership, together with Natural Resources Wales and Shropshire Wildlife Trust, to restore the bog back to being one of Europe's finest wildlife sites. The LIFE project will also be a boost to the local economy, not only through direct employment, use of local contractors and purchasing, but also through giving training and research opportunities to more students, apprentices and volunteers, and by substantially increasing sustainable tourism.

Advice to regulators

Due to high demand we have continued to extend our commercial services to good effect. We generated a commercial income of £3.2 million in 2016/17, a 40% increase on the previous year. We have provided over 10,000 hours of chargeable work in the past year, from more than 350 advisers.

By engaging in planning discussions early through our discretionary advice service we have agreed and achieved more for the environment as well as generating income; this has been demonstrated with early engagement on a new nuclear power station in Cumbria.

Partnership working

We are re-focusing delivery on pragmatic shared outcomes through centres of excellence, by strengthening our Area based model to provide local expertise (we now deploy 80% resources locally, up from 50%), and agreeing 14 aligned Environment Agency and Forestry Commission boundaries alongside action plans with jointly agreed Focus Areas.

A Memorandum of Understanding (MoU) between Natural England and the Forestry Commission for the management of the Wyre Forest public estate illustrates this shared approach to local delivery. The MoU builds on our work over previous years through a single strategic management plan, committing both organisations to deliver an agreed vision for the forest and pooling our knowledge, resources and responsibilities.

Performance

We have achieved a sound operational performance, demonstrated by 16 of our 18 KPIs rated Green/Amber Green, achieved against a backdrop of driving Transformation and in-year efficiency savings. We are committed to improving continually our performance through setting and agreeing challenging targets which are aligned to our [Conservation 21](#) strategy and Defra objectives. Our commitment expressed in the 2016/17 Corporate Plan highlighted the 25 Key Performance Indicators (KPIs) that we would report on, both to our Board and Defra, on a monthly basis.

We also report high level progress through Defra's Board and in regular performance review meetings with the Secretary of State. The indicators span each of our ten Business Areas and the subsequent extracts record our delivery against the 2016/17 targets. Based on recent feedback, we have incorporated into our 2017 action plan a key performance indicator to track CAP funding spend to 2020. We have amended how we report on our key performance indicators so now report on Countryside Stewardship and Environmental Stewardship payments separately. We also report on our key performance indicator about reducing the need for individual licences to aid cost recovery.

Summary KPI Performance		
RAG Status	% of expected performance	No of targets
Green	100 per cent or more	10
Amber Green	99.99-90.01	6
Amber Red	90.00 and 80.01	1
Red	80.00 or less	1
Total		18

Performance Analysis

KPI	Performance
<p>01 - Improve the condition of terrestrial protected sites (including freshwater and wetland SSSIs):</p> <ul style="list-style-type: none"> ▪ 39 per cent of SSSIs are in favourable condition; ▪ 95 per cent of SSSIs are in favourable and unfavourable recovering condition. 	Green
<p>In 2016/17, 5,050 hectares of formerly unfavourable SSSI land, including lowland and upland heath, acid grassland, blanket bog and woodland, entered favourable condition to meet our 39 per cent target. We have also continued to maintain 95 per cent of SSSIs in favourable and unfavourable recovering condition.</p>	
<p>02 - Terrestrial priority habitat outside protected sites (hectares delivered through Countryside Stewardship and Green Infrastructure):</p> <ul style="list-style-type: none"> ▪ Maintain 10,000 hectares of existing priority habitats; ▪ Increase the extent of priority habitats through restoration and creation by 1,500 hectares. 	Amber Green
<p>As a consequence of the IT development challenges that we faced this year, Natural England will only be able to confirm our final performance after this Annual Report and Accounts has been published. However, our best estimates are that we have generated 14,000 hectares of priority habitat from new agreements which is approximately 2,500 hectares more than was lost through Higher Level Stewardship agreement expiries; plus an additional 644 hectares of new habitat from Green Infrastructure.</p>	
<p>03 - Support priority species and pollinators through Countryside Stewardship:</p> <ul style="list-style-type: none"> ▪ Countryside Stewardship agreements are delivering for priority species; ▪ Countryside Stewardship agreements are delivering Wild Pollinator and Farm Wildlife Packages. 	Amber Green
<p>Throughout the 2017 Countryside Stewardship application window, there was again real customer interest in protecting Biodiversity 2020 section 41 priority species as well as including Wild Pollinator and Farm Wildlife Packages in new agreements. However, due to the IT development challenges that we have faced this year, Natural England will only be able to confirm final take-up and impact numbers after this Annual Report and Accounts has been published.</p>	
<p>04 - Priority Outcomes in Higher Tier Countryside Stewardship agreements:</p> <ul style="list-style-type: none"> ▪ 9,389 hectares of Priority Habitat. (hectares of options within Higher Tier agreements live in January 2017 delivering priority outcomes). 	Amber Green
<p>The IT development challenges that we faced this year have also impacted on this KPI. By the end of May 2017, we had confirmed 8,108 hectares of priority habitat under Countryside Stewardship Higher Tier agreements. In addition we have some further agreements to authorise that we calculate will take us closer to our target of 9,389 hectares.</p>	
<p>05 - Existing Higher Level Stewardship agreements continue to deliver multiple environmental outcomes:</p> <ul style="list-style-type: none"> ▪ Priority agreement holders contacted in Focus Areas and full utilisation of Technical Assistance Fund. 	Amber Green
<p>We utilised £1.51 million of Technical Assistance Funding this year to help maximise the environmental outcomes we can deliver from aftercare work in our Area Teams' Focus Areas.</p>	

<p>o6 - Agri-Environment agreements are administered within service standards:</p> <ul style="list-style-type: none"> ▪ 96.15 per cent of payments made within target. 	<p>Red</p>
<p>This KPI has two underpinning metrics. Firstly to make 96.15 per cent of agri-environment agreements partial payments within Natural England control by the end of December and secondly to make 96.15 per cent of final payments by the end of June. We were unable to meet the 31 December target for partial payments. At year-end we had approved over 99 per cent of 2016 Environmental Stewardship partial payments within our control. We had also approved 94.4 per cent of Countryside Stewardship partial payments within our control.</p>	
<p>o7 - Reduction in diffuse water pollution in priority catchments as a result of farmers acting on our advice:</p> <ul style="list-style-type: none"> ▪ 3,249 priority farm holdings engaged as identified in Local Delivery Plans. 	<p>Green</p>
<p>During 2016/17, we engaged 3,346 farm holdings in discussions about reducing diffuse water pollution in priority catchments.</p>	
<p>o8 - Deliver advice to Defra on the network of Marine Protected Areas (MPAs):</p> <ul style="list-style-type: none"> ▪ MPA designations advised on [63 Marine Conservation Zones (MCZs), 5 Special Protection Areas (SPAs), 2 Special Areas of Conservation (SACs)]; ▪ 7-15 draft or 10-25 formal final conservation advice packages provided; ▪ 5 -15 byelaws advised on; ▪ 2-5 sites condition assessed. 	<p>Green</p>
<p>We provided pre-consultation advice to Defra on 63 MCZs, pre consultation advice on 5 SPAs and post consultation advice on 4 SPAs and on 2 SACs. We published 23 draft packages and 17 formal conservation advice packages. We also provided formal advice on 15 new fisheries byelaws requiring a statutory outcome this year. Our site condition assessment programme remains on track.</p>	
<p>o9 - Deliver the accelerated programme for the creation of the England Coast Path by 2020:</p> <ul style="list-style-type: none"> ▪ 1,826 kilometres submitted to the Secretary of State for approval. 	<p>Amber Green</p>
<p>The England Coastal Path Programme remains on track to complete by 2020. At year-end we had submitted 1,048 kilometres to the Secretary of State for approval and had 534 kilometres ready for submission. A further 244 kilometres have been carried forward into 2017/18.</p>	
<p>10 - Implement an integrated programme of National Character Area (NCA) landscape surveillance and monitoring:</p> <ul style="list-style-type: none"> ▪ Report against the NCA indicators for surveillance of landscape change; ▪ Implement and report on monitoring projects to test and inform NCA indicators of landscape change. 	<p>Green</p>
<p>We have implemented a comprehensive set of NCA indicators built upon themes of landscape change. We are now reviewing the outputs of a number of local landscape monitoring projects and reports to test, review and evolve these indicators in the light of emerging experience and evidence.</p>	
<p>11 - Respond to all casework consultations within agreed deadlines:</p> <ul style="list-style-type: none"> ▪ 95 per cent responded to within agreed deadlines. 	<p>Amber Green</p>
<p>During the 2016/17 reporting year we responded to 92.22 per cent of our 43,548 consultations within 21 days or other agreed deadlines.</p>	

12 - Reduce the need for individual licences:	Green
<ul style="list-style-type: none"> Five per cent reduction in the proportion of individual to strategic licences. <p>In 2016/17, we reduced the need for individual licences compared to strategic licences by 7.79 per cent.</p>	
13 - We increase the level of income generated through chargeable services:	Green
<ul style="list-style-type: none"> £3 million of income generated. <p>We generated a commercial income of £3.19 million in 2016/17. This is a 40 per cent increase on the previous year.</p>	
14 - Continue to deliver significant improvements in availability of, and access to, evidence:	Green
<ul style="list-style-type: none"> a) 2,000 Natural England datasets published on data.gov; b) 100 evidence publications; c) 2,300 average MAGIC user sessions per day; d) Pilot the use of Earth Observation techniques for habitat mapping and grassland condition monitoring; e) Reform Natural England's terrestrial protected sites monitoring. <p>We published 2,844 Natural England datasets by the Secretary of State's deadline of June 2016. We have subsequently published a further 1,614 bringing our year total to 4,458 datasets. We published 108 evidence reports. The average daily number of MAGIC user sessions was 2,514. We piloted Earth Observation techniques on two upland Special Areas of Conservation and submitted the summary report to Defra. We are adopting a landscape-scale approach to monitoring terrestrial protected sites in accordance with our May 2017 report supported by Natural England's Science Advisory Committee.</p>	
15 - Build and apply evidence base we have to support delivery:	Green
<ul style="list-style-type: none"> Defra/Natural England Agri-Environment Evidence Programme; Developing and applying priority evidence to support delivery. <p>We have completed the three key Agri-Environment Evidence Programme projects we agreed with Defra. We also met our planned targets for developing priority evidence to support delivery. Specifically, we have met priority specialist commissions supporting our Area Teams on cases such as the HS2/No Net Loss review. We have completed our planned work on the ecological networks manual; the climate change adaptation manual; and the integrated biodiversity advice project.</p>	
16 - We deliver our financial outturn to agreed forecast:	Green
<ul style="list-style-type: none"> 100 per cent actual spend to budget. <p>Our year-end outturn was £0.2 million / 0.15 per cent overspend against our full year forecast of £112.6million (including depreciation and capital).</p>	
17 - We deliver an inclusive workplace for our staff:	Green
<ul style="list-style-type: none"> 70 per cent of staff agree. <p>In our annual staff survey in March 2017, 88 per cent of our staff stated that Natural England delivers an inclusive workplace. 70 per cent of our staff took part in the survey.</p>	
18 - We deliver a healthy workplace for our staff:	Amber Red
<ul style="list-style-type: none"> We have more near hits than accidents that cause harm, i.e. for every two near hits there is one accident. <p>During the 2016/17 reporting year, we recorded an improving ratio of 206 Near Hits to 151 Accidents.</p>	

Detailed Performance Analysis

Financial commentary

This Annual Report and Accounts covers the activity and performance of Natural England for the year from 1 April - 31 March 2017. Predominantly funded by Defra grant-in-aid, our funding agreement operates within the context of the Comprehensive Spending Reviews (CSR) which HM Treasury agrees with each Government Department. 2016/17 is the first year of the CSR 2015 settlement which covers the spending plans for the period 2016/17 to 2019/20.

Natural England's original 2016/17 Grant in Aid (GiA) settlement was £102.2m. Several in year adjustments were made including additional funding for: Bovine TB; National Trails; NNRs capital; Voluntary Exits, Water Quality Projects and several smaller projects, there was also some transfer of IT costs to Defra in year, resulting in a total GiA receipt for 2016/17 of £105.9m (2015/16 £114.7m).

Spending controls which were implemented by Cabinet Office in May 2010 and updated in February 2014 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. In accordance with HM Treasury's Financial Reporting Manual (FRM), the GiA is recognised in the General Fund.

Financial performance summary

During 2016/17, Natural England's total GiA drawn down was £105.9m (2015/16 £114.7m) which made up 86% of total receipts. A breakdown of the remainder of income is shown in Notes 5 & 6 to the accounts. Outcomes for the natural environment are delivered both directly through GiA and other income Natural England receives, and also through partnerships with other organisations which fund work for the natural environment.

Natural England is also responsible for delivering part of the Rural Development Programme England (RDPE). During 2016/17 Natural England administered £346m (£407m 2015/16) of payments to landowners and farmers for the environmental benefits delivered. This spend is accounted for by Defra, but Natural England incurs the administrative cost of delivery. Natural England has delivered its schemes within budget, and has contributed to ongoing financial planning for the remainder of the 2014-2020 programme.

Social Community Statement

Natural England seeks actively to engage diverse communities in the natural environment. We do this through our volunteer network and other access and engagement forums. We benefit greatly from the enrichment and learning that their involvement brings. Our aim is to promote personal wellbeing, social cohesion and inclusion and to create equal opportunities for people in existing and future communities. The opening of our NNRs to the public provides good opportunities for this. We are also working to increase Coastal Access, currently working on 50 stretches of coast totaling 3,033 kilometres at various stages in our rolling programme.

A detailed breakdown of Natural England's main categories of staff costs and other expenditure can be seen in the notes from page 56.

Sustainability and Environmental Report 2016/17

1. Background

As part of its Sustainable Development Strategy, the Government encourages public bodies to disclose their sustainability and environmental performance as an annex to their Annual Report and Accounts. The environmental data and associated financial costs presented in the following pages are consistent with the requirements of HM Treasury's Public Sector Annual Reports: Sustainability Reporting Guidance 2016/17. The information contained within this report has not been subject to audit and does not form part of the auditors' opinion of the Accounts. However, the carbon emission calculations have been made in line with current approved greenhouse calculation methodologies and the data contained within the report has been checked and verified internally for accuracy.

2. Introduction

Sustainability is central to the way Natural England delivers its business. In the years preceding the period of this report we invested in both our workforce and our estate to improve our environmental performance. In doing so we achieved our target of a 50 per cent reduction in our carbon emissions against the 2007 baseline by the end of 2010 and have maintained that level of performance since.

Natural England is required to report on the Greening Government Commitments (GGC). These consist of a range of targets around the environmental performance of the estate, including those stated in this report. Our performance during 2016/17 has been excellent, with us meeting, or exceeding, each of our GGC targets. In addition to the reputational importance of meeting the GGC targets, energy and water unit costs are increasing each year, becoming an increasingly material element of our running costs. Natural England's approach to corporate sustainability is being reviewed at the beginning of 2017/18.

3. Summary of Performance

Our performance summary for 2016/17:

Area	Actual Performance	RAG	Target Performance (where applicable)
Carbon dioxide emissions ^{1,2}	1,867tCO ₂	GREEN	2,235 tCO ₂ by 2020
Total waste ³	60 tonnes	GREEN	Less than 10% to landfill
Water consumption ³	2,428m ³	GREEN	Continued year on year reduction
Carbon Reduction Commitment (CRC) related expenditure ⁵	£15.7k		
Total energy consumption ¹	1,431,049 kWh		
Buildings energy consumption ¹	1,431,049 kWh		
Total energy expenditure	£206k		
Residual office waste ³	3 tonnes		
Total waste expenditure ⁴	Not applicable		
Water Expenditure ³	£34k		

We continue to ensure that the culture and behaviours we have adopted around carbon reduction and sustainable ways of working remain embedded in our daily work.

We continue to firmly embed travel minimisation and low carbon travel choices as “business as usual” ways of working. Achievement of the GGC target is evidence of working within the overall travel financial allocation across the organisation, which becomes ever tighter year on year. Teams are responsible for managing their travel within the budget allocations, and in doing so, this ensures that the carbon is managed.

Our ambitious programme of office consolidation which contributed significantly to our 50 per cent carbon savings has now concluded and our focus around the estate is to minimise the environmental impact of our offices. We are working closely with other parts of the Defra group and our landlords across the majority of the estate to achieve these targets.

Greenhouse Gas Emissions

Natural England achieved its self-imposed target to reduce carbon emissions associated with energy consumption on the estate and business travel by 50 per cent (against the total carbon footprint of the three founding bodies) by the end of 2010. We continue to reduce our energy consumption and have achieved the GGC target to reduce greenhouse gas emissions by 25 per cent against a 2009/10 baseline.

Greenhouse Gas Emissions (tCO ₂)		2016/17	2015/16	2014/15
Non-Financial Indicators (tCO ₂)	Total Net Emissions for Scopes 1 & 2 ^{1,2} (procured electricity, gas and fleet vehicles inc pool cars)	760	1,105	1,147
	Gross emissions attributable to Scope 3 official business travel ²	1107	1,393	1,393
Related Energy Consumption (KWh)	Electricity; Non Renewable ¹	-	-	59,776
	Electricity: Renewable ¹	794,398	977,923	1,000,139
	Electricity: CHP ¹	0	5,237	1,594
	Electricity: Total	794,398	983,160	1,061,509
	Gas ¹	636,651	1,056,094	1,027,365
	LPG		-	-
Financial Indicators (£k)	Expenditure on Energy	£206k	£381k	£364k
	CRC Licence Expenditure	£15.7k	£14.6	£9.2
	CRC Income from Recycling payments	-	-	-
	Expenditure on accredited offsets	-	-	-
	Expenditure on official business travel	£2.68m	£2.97m	£3.04m

Performance Commentary (including targets)

Natural England achieved its own 50% target to reduce the carbon emission associated with energy consumption on the estate and business travel against its 2007 baseline by the end of 2010. The energy performance across our estate continues to improve year on year.

Controllable Impacts Commentary

The main direct impacts for us in terms of carbon emissions are from our operational electricity and gas consumption and road, air and public transport mileage.

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

Natural England has performed well against the GGC waste target, producing a total of 60 tonnes of waste across the office estate (where data is available, of which 3 tonnes (5% against a target of less than 10%) was disposed of to landfill).

Waste		2016/17	2015/16	2014/15	
Non-Financial Indicators (tonnes)	Total waste arising	60	46	50	
	Hazardous waste	-	-	-	
	Non hazardous	Landfill	3	5	6
		Reused/ Recycled	34	33	38
		Waste composted	2	-	-
Incinerated with energy recovery		21	8	6	

Performance Commentary (including targets)

Defra supplies data on a quarterly basis. This is the fifth year we have been able to disaggregate composted waste from recycled/reused waste and report incinerated waste with and without energy recovery. All figures are in tonnes and cover 14 offices. Where data is available for multi-occupancy sites, figures are calculated on % occupancy basis. Information is not available where landlords are responsible for waste and recycling activities.

Controllable Impacts Commentary

The main type of waste generated by Natural England is general office waste. The level of waste recycling is controlled through the provision of waste recycling facilities in each office and through awareness-raising with our staff, in conjunction with Defra. Facilities vary across our estate, but the majority of waste at each site is able to be recycled.

Finite Resource Consumption - Water

Natural England has achieved the GGC target to reduce water consumption against the 2009/10 baseline of 8,050m³.

Finite Resource consumption – Water m ³			2016/17	2015/16	2014/15
Non-Financial Indicators	Water consumption (m ³)	Supplied	2,428	3,770	3,550
		Abstracted	-	-	-
Financial Indicators (£k)	Water supply costs		£34k	£43k	£62k

Performance Commentary (including targets)

This is the sixth year we have been monitoring our water consumption across our estate on an occupancy basis, against a Greening Government Commitment baseline of 8050.49m³ for 2009/10.

Controllable Impacts Commentary

Our major impact in terms of water consumption is the consumption of potable water in our offices. We continue to work with our landlords, Defra, and facilities management provider, Interserve, to establish a water efficiency programme based on water savings technologies and behavioural change.

Overview of Influenced 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.

We will support fully the following Defra-wide sustainability initiatives which include:

- Improvements to water monitoring through smarter targeting of consumption at a building level, enabling quicker response times to rectify spurious or excessive consumption;
- Changes made to the Department's Facilities Management Contract will make facilities managers more accountable for water use in the buildings they manage;
- Increased emphasis on staff culture change through awareness campaigns and engagement exercises.

Finite Resource Consumption - Energy

Reductions in energy consumption is a core component of our overall carbon reduction programme and correlates with achieving the GGC target for Greenhouse Gas Emissions above.

Finite Resource consumption – Energy (kwh)			2016/17	2015/16	2014/15
Non-Financial Indicators	Energy consumption	Electricity: Non-Renewable	-	-	59,776
		Electricity: Renewable	794,398	977,923	1,000,139
		Electricity: CHP	-	5,237	1,594
		Electricity: Total	794,398	983,160	1,061,509
		Gas	636,651	1,056,094	1,027,365
Financial Indicators (£k)	Total Energy Expenditure		£206k	£381k	£364k
Performance Commentary (including targets)					
Reduction in energy consumption is a core component of our overall carbon reduction programme. Our reduction in energy consumption correlates with achieving our GGC target for GHG emissions.					
Controllable Impacts Commentary					
Our main energy consumption is for heating our offices and we continue to monitor and review the efficiency of our estate as part of GGC targets. We have further reduced the size of our office estate through closures, relocation and rightsizing.					
Overview of Influenced Impacts					
We will fully support Defra-wide energy efficiency initiatives.					

Notes

1 Office estate building energy consumption/emission data from April 2016 to March 2017 (the latest full year of Greening Government Commitment data provided by Defra at the time of writing) where billing data is available. The NNR estate is not included in the above performance report.

2 Travel data for April 2016 to March 2017, based on our travel carbon reporting methodology.

3 Waste and water data from April 2016 to March 2017 (the latest full year of Greening Government Commitment data provided by Defra at the time of writing) where metered data is available.

4 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.

5 Defra is responsible for reporting and paying for the consolidated CRC return and these recharges are approximations based on the apportionment of floor space occupied.



James Cross
Chief Executive
4 July 2017

2. Accountability Report

Corporate Governance Report - The following section explains the composition and organisation of Natural England's governance structures and how they support the achievement of its objectives;

Directors' Report

Chief Executive and Chairman

I assumed the post of Natural England's Chief Executive on 1 September 2014. Andrew Sells was Chairman for the period shown in this Annual Report and Accounts.

Board Members

There are ten Non Executive Board Members as at 31 March 2017, including the Chairman, and full details can be found in the Remuneration and Staff report. Any significant interests held by board members which may conflict with their stewardship responsibilities are recorded and managed appropriately. Related party disclosures can be seen in Note 20 to the accounts.

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. Between April 2016 and March 2017, 76.4% (2015/16, 98.2%) of Natural England's payments to suppliers were within five working days. The transition to a new finance system in June 2016 led to some delays in supplier payments. Since onboarding to the new finance system we have seen a steady increase in the percentage of payments made within five working days. 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 2016/17.

Personal Data Related Incidents

Government should provide particular protection for personal data, the release or loss of which 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 annual risk assessments and providing training to key staff. Information data handling courses are embedded into induction processes and the staff development framework. All staff are invited annually to attend a training course providing information on how to handle data appropriately. There were no incidents reported to the Information Commissioner's Office.

During the year to date, there were;

- Two losses of data - one mobile phone lost with inadequate password protection and one loss of a list of attendees at a meeting, including contact details.
- Three unauthorised disclosures of information: -

- A staff member used a template which was already completed and overwrote the details for a new case. Unfortunately, the original was sent to the Forestry Commission and an estate owner. Both were contacted and confirmed that they had destroyed the incorrect version of the template.
 - A paper mailing list request form at a public meeting, which included email addresses, could not be found at the end of the meeting. Unfortunately as the list was lost we had no way of contacting the people whose information had been lost, but we have had no complaints or evidence of the information having been misused, it may simply have been thrown away by mistake.
 - A non-sensitive email was sent to a list of bat volunteers by CC instead of BCC so it revealed the email addresses of all volunteers to each other. An apology was sent to all recipients. The guidance within the team is clear that BCC should be used but this was a case of human error.
- The loss in the 'other' category was in relation to a Natural England file which was sent to an external organisation for a site inspection and subsequently misplaced.

Category	Nature of Incident	Total
1	Loss of inadequately protected electronic equipment, devices or paper document from secured Government premises.	-
2	Loss of inadequately protected electronic equipment, devices or paper document from outside secured Government premises.	2
3	Insecure disposal of inadequately protected electronic equipment, devices or paper documents.	-
4	Unauthorised disclosure	3
5	Other	1

Follow up action has been taken on all of these incidents.

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 resource outturn, application of resources, changes in taxpayers' equity and cash flows for the financial year.

In preparing the 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 the Secretary of State for Defra, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis.
- Make judgments 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 a going concern basis.

The Principal Accounting Officer of Defra has designated the Chief Executive as Accounting Officer for Natural England. The Accounting Officer is responsible for ensuring that appropriate systems and controls are in place to ensure 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, as set out in *Managing Public Money*, published by HM Treasury. The Accounting Officer is also responsible for ensuring that any grants offered by Natural England to other organisations are monitored robustly and that agreed deliverables are achieved in return for the grant.

Disclosure of audit information to auditors

As Accounting Officer I have taken all appropriate steps to make myself aware of any information which would be relevant to Natural England's auditors. As far as I am aware, there is no relevant information which has not been brought to their attention.

Furthermore, I confirm that the annual report and accounts as a whole is fair, balanced and understandable. I take personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

Governance Statement

This Statement evaluates the effectiveness of Natural England's governance arrangements, risk management and the system of internal control and stewardship of resources for the financial year 2016-17.

Natural England has continued to maintain sound governance and internal controls over the last twelve months. The Natural England Audit and Risk Assurance Committee (ARAC) annual report for 2016-17 concluded that the comprehensiveness, reliability, and integrity of the assurances provided from the various sources scrutinised by the Committee during the year were appropriate for meeting the governance needs of the Board and of myself as Accounting Officer and for supporting the decisions we have taken; and that I can be substantially assured that Natural England's control, risk and governance processes have provided a sound and reasonable basis for the completion of this Governance Statement.

1. Governance Framework

1.1 Board Governance

As a non-departmental public body (NDPB) within the Defra group we are led by a non-executive board appointed by the Secretary of State for Environment, Food and Rural Affairs.

The Board has collective responsibility for establishing and taking forward the strategic aims and objectives of Natural England, consistent with its overall strategic direction within the policy and resources framework determined by the Secretary of State. It agrees an annual Action Plan that sets out Natural England's specific delivery commitments, oversees the allocation and stewardship of resources and reviews performance information concerning delivery against the Action Plan. The Board's role is set out in the Strategic Statement of the Role of the Board. The Board comprises the Chairman and nine other non-executive members appointed on an individual basis and not as representatives of any organisations.

The Board governance arrangements are detailed in the Management Statement and are supported by the Financial Memorandum, which sets out the financial framework within which Natural England is required to operate.

The Board has met on nine occasions in 2016-17. Standard agenda items at Board meetings include the Chief Executive's Report (covering delivery of the Action Plan, financial position, compliance, Rural Development Programme for England, Health and Safety and Staff Wellbeing along with other strategic issues) and reports received from its committees. At least one formal Board Meeting per year is held in public.

Our Board receives briefing papers which support its work, and the process of assuring high quality Board papers has evolved in response to Board member feedback. Board attendance has been excellent for the year, with five members attending all of the nine meetings, two attending all but one of the meetings and two attending all but two of the meetings.

In order that the Organisation benefits from the range of skills offered by Board Members, Task and Finish Groups led by Board members but including senior officers have continued to meet on a regular basis. These groups have included the Board Innovation Group, the Uplands Working

Group and the Natural Flood Management Group.

1.2 Board Committees

The Board has established three main committees for key business areas. All three committees are chaired by a Board member, and include two other Board members.

1.2.1 Audit and Risk Assurance Committee (ARAC)

The ARAC, which meets on a quarterly basis, supports the Board in their responsibilities for risk management, control and governance. It does this by reviewing the comprehensiveness, reliability and integrity of assurances. The Chairman of the ARAC participates in regular meetings with the Chairs of the Audit Committees from across the Defra group where a range of risk-related topics are discussed to ensure that Defra and NE have sight of any mutual issues.

With effect from 1 April 2016 the ARAC Chair was appointed as an *ex officio* member of Defra's Audit and Risk Committee. In addition, there are also meetings held between the ARAC Chair and the National Audit Office, the Head of Internal Audit and separately with the Director of Finance.

Major areas of work considered during the financial year included:

- The Annual Report and Accounts for 2016/17.
- A regular review of NE's Risk Management approach.
- Consideration of further improvements to the Governance Framework and the Corporate Assurance Map.
- A review of the results of the annual Corporate Governance Assurance Questionnaire.
- Advice and oversight re Corporate Services Transformation
- Environmental Stewardship advance payments
- HMRC audit of employer tax liabilities

1.2.2 Natural England Science Advisory Committee (NESAC)

The NESAC, which meets at least five times a year, is an advisory group to our Board and has an important role in providing advice, as well as challenging and reviewing our science and evidence. It also 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. Major areas of work considered during 2016-17 included:

- Running a Science and Law seminar
- Considering how to make best use of practitioner evidence
- Sponsoring the publication of Natural England's first Chief Scientist's Report
- Advice on the reform of protected sites monitoring & assessing favourable conservation status
- Advice on the development of new biodiversity indicators
- Advice to the Natural England Board on hen harrier brood management

1.2.3 Remuneration Committee

The Remuneration Committee's main objective is to consider matters relating to the pay or remuneration of myself, as Chief Executive, the Chief Officers and our employees. It meets a minimum of twice a year and a report on the Committee's business is provided to the Board.

1.3 Executive Governance

My appointment is the responsibility of the Natural England's Chair and I am responsible for appointing the Chief Officers. I have been employed as Natural England's Chief Executive and Accounting Officer since 1 September 2014.

The Senior Leadership Team assists me in carrying out my responsibilities as delegated to me by the Board. It makes decisions on the day-to-day running of the organisation and organisational planning. It provides leadership to the organisation in setting plans, reviewing performance and ensuring resources are allocated accordingly.

I and Chief Officers meet weekly and are supported at meetings by the Executive Office Director. Senior Leadership Team meetings cover health and safety and wellbeing, strategy, operations and risk management, including legal and reputational risks.

2. Board and Executive Performance

The Board assessed its own performance this year against the Governance Framework through an exercise led by the Chair of ARAC. This included a self-assessment questionnaire developed with the NAO and based on six core principles of good governance. The review concluded that "the Board is effective and that the boardroom is both productive and enjoyable. A number of actions were agreed to improve effectiveness still further."

The performance objectives for the Chief Executive Officer are agreed with the Board. Progress towards these is assessed in regular performance reviews with the Chairman. The Chief Executive sets the performance objectives of his Chief Officers, progress against which are evaluated in regular performance reviews between the Chief Executive Officer and Chief Officers.

The ARAC conducted an assessment of its own effectiveness, reviewing the five main principles of good practice in a workshop facilitated by the National Audit Office in March 2016. The conclusion of the members of the ARAC, as endorsed by the NAO, was that these principles were being met effectively.

NESAC works closely with specific working groups and staff, as well as developing a role supporting Natural England's Chair and Chief Executive in an external facing capacity.

Natural England's Chairman and I both have a regular performance review with the Secretary of State, where the performance of Natural England is discussed against its KPIs. The Chairman also has his own personal performance appraisal. Board members have individual performance assessments conducted by the Chairman.

We also contribute to a regular Defra group wide overview of performance that is presented to the Defra Board, which is chaired by the Secretary of State and provides collective strategic and corporate leadership to Defra.

Our Strategic Direction outlines our vision of how Natural England will help to bring about a natural environment which is healthy, properly functioning and resilient as well as being recognised as the foundation for sustainable economic growth, prospering communities and personal wellbeing. In 2016/17, building on our Strategic Direction, we developed and released

Conservation 21, a new conservation strategy in support of Defra's ambitions for the environment.

Partnership working will continue to be a key part of the way we work. Our local delivery model allows more decisions to be taken at a local level, whilst strengthening our relationships with local partners and communities. Support from business and industry will continue to be important and we have taken every opportunity to improve the way we work with those businesses upon whom the country relies to support economic recovery – in particular by simplifying our regulatory processes, adhering to the Regulators' Compliance Code and offering support to developers to help them comply with environmental legislation. Natural England complies with the good practice requirements of the Corporate Governance Code which applies to NDPBs and is committed to an open and learning-focused culture.

3 Internal Controls

As Accounting Officer, I have responsibility for reviewing the effectiveness of internal control. This review is informed by the Senior Leadership Team, Directors, Area Managers and 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 external auditors in their management letter and other reports and advice from the ARAC and Board.

For 2016/17, Natural England's internal audit service and the role of Head of Internal Audit (HIA) have been undertaken by KPMG. The HIA provides an annual opinion, based on a range of reviews, of Natural England's systems of internal control, with reference to governance, control and risk management. For 2016-17, the HIA assessed the overall control environment as having a moderate level of assurance that Natural England is operating effectively.

A Corporate Assurance Map (CAM) is used to track and monitor the various assurances received by ourselves, both internally and externally in relation to the three lines of defence. The CAM acts as an aid to understanding how the organisation obtains assurance over its key risks and compliance requirements. For 2016/17, the Corporate Assurance Map reflects insights from our teams, our risk management processes and our internal audit programme.

A fundamental element of our CAM is the annual internal Corporate Governance Assurance Questionnaire which is completed by all teams within Natural England. Teams are required to make an evidence-based assessment of the adequacy of the control framework that has been in place throughout the period, highlighting any areas of weakness and identifying improvement action plans where applicable. The results from these statements form part of the review of compliance by the ARAC and me as Accounting Officer. The overall results of the 2016/17 Corporate Governance Assurance Questionnaire process indicate that the control framework is strong. Although this gives us a high level of assurance from the business on the control environment we are focusing on a number of areas including the continual improvement of our compliance reporting to teams.

As Chief Executive, I am responsible for ensuring that evidence delivered by Natural England is fit for purpose and certified or accredited against internationally recognised quality systems where relevant. Natural England's Chief Scientist works closely with the Defra Chief Scientific Adviser (CSA) to provide oversight and leadership of evidence, science and analysis across the Defra group and allowing the CSA to independently assess and challenge the relevance and quality of Natural England's evidence activities.

Transactional and processing services for Finance, Human Resources and Payroll are received from Shared Services Connected Limited (SSCL), our shared service provider. Service standards are set out in a Framework Agreement and Call Off contract, with a series of supporting key performance indicators. 2016/17 saw the implementation of the government-wide Single Operating Platform (SOP) in conjunction with SSCL. In order to give users of the services of SSCL greater assurance about the quality of SSCL's processes and controls, Cabinet Office engaged PricewaterhouseCoopers LLP (PwC) to review the controls and deliver an independent third party opinion of their design and operating effectiveness. The report for the year ended 31 March 2017 was qualified due to finding 22 exceptions across all users of which four were applicable to NE.

Two of the four exceptions are over IT system access where there was the possibility of inappropriate access by certain SSCL employees. We have sought and received assurance that there was no such access and that there is an appropriate mitigation going forwards. The third exception was that Leaver's user accounts for SOP were not being terminated on a timely basis and again we have sought and received assurance that there is an appropriate mitigation going forwards. The final exception was that aged debtors were not being chased on a timely basis. Natural England has a very small aged Debtor balance and this is reviewed not only by the SSCL Team, but also by NE staff who follow up with SSCL. This additional oversight by staff has resulted in Natural England having a very small bad debt provision of £14k.

We have considered the impact of these exceptions on our reliance on the accuracy and completeness of the financial transactions included in our financial statement for the year ended 31 March 2017. We conclude that there is no material impact on the financial statements.

As of 1st Feb 2017, Corporate Services (Finance, HR, ICT, Communications, Procurement and Estates) are delivered from centralised teams within Defra. This service provision is governed by a Memorandum of Understanding agreed between Natural England and Defra. ARAC provided oversight to the process and the decision to proceed was made on the basis that the services are designed, resourced and delivered in a way that enables full delivery of Natural England's Action Plan and wider statutory duties.

Natural England does not own, but is a key stakeholder in a number of Defra's business critical models. These models are used for critical decision making and are defined by the 'Review of Quality assurance of Government Analytical Models' report, produced by Treasury. We have appropriate management arrangements in place to assure the quality of the information we supply to Defra for these models. A key example of these is the RDPE Future Funding Model which is used to record a single joint position of historic RDPE spend, to record existing future commitment under multi-annual agreements and to make a calculation of the cost of projected future scheme uptake. Our RDPE Budget allocations are also derived directly from the model.

Natural England is an organisation which strives for continuous improvement and initiates reviews where performance has fallen short of expected standards, allowing us to learn lessons and ensure that the resulting specific actions and recommendations are systematically followed up. Completion of actions from key issues is both monitored and reported to management, to the ARAC and to the Board as appropriate.

During 2016, Natural England, in its role as a delegated authority of the paying agency (RPA), made a number of final payments on Environmental Stewardship claims where all of the administrative checks had not been fully completed. These payments were disclosed to the RPA after they had been made and were reported in the Certification Body's audit of England's EAFRD funds. These

payments went beyond Natural England's delegated authority and were not compliant with the scheme rules and therefore created a potential risk to the EU fund. The expenditure associated with these payments was subsequently removed from the 2016 EU accounts which mitigated this risk. Natural England have worked closely with the RPA to take the necessary remedial action and recoveries to ensure no losses occurred. Natural England's accreditation team have carried out an independent review of all compliance matters and worked to improve scheme guidance to users. Both organisations are working more collaboratively to ensure that future decisions that could pose a similar risk are considered through better day to day communications as well as appropriate formal governance process. Natural England has changed the reporting line for its accreditation team to report into the Chief Officer for Legal and Governance to strengthen its independence and oversight. In addition there are lessons for Natural England to take from its own internal decision making process and capacity in this instance and NE has made a commitment to learn from these and improve and invest in its internal governance still further. Improvements already taken include more formal and detailed minutes of the risks considered and decisions taken by the senior leadership team as well as the board.

An internal audit of Countryside Stewardship in March 2017 gave a rating of Limited Assurance. A deep dive by the Defra Implementation Unit in March 2017 found that delays to processing Environmental Stewardship and Countryside Stewardship payments and agreements in 2016 were caused by a continuance of factors. As a result, we will review and strengthen NE governance and operational readiness in this area and will work to strengthen joint oversight and governance between NE, Defra, and the RPA.

Natural England is currently the subject of an Employer Tax and National Insurance compliance review by HM Revenue and Customs (HMRC). Whilst the review is ongoing it has provided an opportunity to refresh several staff policies and increasing awareness amongst employees of the need to ensure the highest level of compliance at all times.

No fraud or irregularity issues were identified in 2016/17.

4 Risk Management framework

The Risk Control Framework seeks to embed risk management within business processes. Every year we conduct a risk management maturity model review of our processes. These have shown year on year improvements and our current assessment is at a level 4 with 5 being the highest attainable. The direction of travel on our key risk areas regularly features on the Board's agenda.

The key issues and risks are shown on page 6 of the Performance Report in the Annual Report and Accounts.

5. Whistleblowing

Natural England is committed to high standards of integrity, honesty and professionalism in all that it does. These standards are reinforced by our Ways of Working Statement, and we encourage our employees to use the whistleblowing procedures to raise concerns about a past, present or imminent wrongdoing within Natural England or conflicts with the Civil Service Code. Natural England implemented the model Civil Service Employee Policy (CSEP) in January 2013 in common with Core Defra and its Executive Agencies. This has been regularly refreshed, in line with CSEP recommendations.

We believe our whistleblowing procedures are appropriate and widely accessible to all staff, however, no issues have been identified through the reporting and investigation procedures in place throughout 2016/17.

Conclusion

I am assured as to the efficiency and effectiveness of the governance system and submit this Governance Statement based on my knowledge and the information supplied to me by those involved in governance, risk management and control within Natural England.

Remuneration and staff report- sets out Natural England's remuneration policy, reports on how that policy has been implemented and the amounts awarded;

Remuneration report for Natural England Non-Executive and Senior Leadership Team

Appointments

All appointments to the Board are made by 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. More details about our board members can be found on our website: www.gov.uk/government/organisations/natural-england/about/our-governance#natural-england-board

Directors are appointed on merit on the basis of fair and open competition in accordance with the Constitutional Reform and Governance Act 2010. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise. The Chief Executive is employed on a fixed-term contract which runs to September 2018 and Chief Officers are employed under permanent contracts which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commission can be found at www.civilservicecommission.org.uk

Senior staff appointment information and remuneration is reported in the tables below. No members of the senior staff received exit packages during 2016/17.

Salary

'Salary' includes gross salary, overtime and any other allowance to the extent that it is subject to UK taxation. The total remuneration, as well as the allowances to which they are entitled, is paid by Natural England and is therefore shown in full in the figures below. Board Members' remuneration is determined by Defra.

Performance related pay

Performance related pay is based on an individual's performance rating agreed with their line manager for the previous year. The amount of performance related pay received by people is determined by what is signed off by Defra following annual pay negotiations with the Trade Unions.

The Leadership Group, which comprises the Chief Executive, Chief Officers and Directors, can earn a non-consolidated performance related bonus of up to 15% of their current salary. However, the group operates under the Cabinet Office's Senior Civil Service pay principles which restrict such awards to 25% of that population. Any proposed bonus of £17,500 and above requires Treasury approval. In addition the Remuneration Committee, a sub-group of the main Board, chaired by a board member, makes all decisions on senior people's performance related pay, apart from the Chief Executive which is agreed by the Chairman.

For the pay award made in July 2016, (relating to 2015/16), four non-consolidated performance bonuses were paid to Directors and there were two non-consolidated performance payments paid to Chief Officers totalling £19k. No Benefits in kind were paid in 2016/17.

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 which 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.

Remuneration (audited information)

The remunerations reported in Table 1 are actual expenditure incurred in the year.

Table 1: Natural England non-Executive Board

Board Members	2016/17 Remuneration	2015/16 Remuneration
	£000	£000
Andrew Sells (Chairman)	60 - 65	55 - 60
David Hill CBE (Deputy Chairman) (Left 1/5/16)	0 - 5*	15 - 20
William Cockbain	10 - 15	10 - 15
Nigel Reader CBE	10 - 15	10 - 15
Joe Horwood	10 - 15	10 - 15
Andy Clements	10 - 15	10 - 15
Simon Lyster	10 - 15	10 - 15
Teresa Dent CBE	10 - 15	10 - 15
Julia Aglionby	10 - 15	10 - 15
John Varley OBE TD	10 - 15	10 - 15
Michael Winter OBE(from 22/9/16)	5 - 10**	-

* Full Year equivalent £15-20k.

** Full Year equivalent £10-15k.

During 2016/17 one Non-Executive Director left Natural England due to the end of their natural term. One new Non-Executive Director has been appointed to replace them.

Table 2: Natural England Senior Leadership Team

The salaries reported are actual expenditure incurred in the year, where a Chief Officer has been in post for less than a year the full year equivalent value is shown in the note to the following table:

	2016/17				2015/16			
	Salary £000	Performance Related Pay £000	Pension Benefits £000	Total £000	Salary £000	Performance Related Pay £000	Pension Benefits £000	Total £000
Chief Executive:								
James Cross	140 - 145	10 - 15	52	205- 210	140 - 145	0 - 5	109	250 - 255
Guy Thompson (Operations)	100- 105	5 - 10	39	150- 155	100 - 105	-	57	160 - 165
Paul Lambert (Finance & Governance) (Note 1)	90-95	5 - 10	26	125- 130	90 - 95	0 - 5	29	120 - 125
Alan Law (Strategy and Reform) (Note 2)	90-95	-	61	150- 155	85 - 90	-	85	170 - 175
Tim Hill (Science and Evidence) (Note 3)	85-90	-	43	130- 135	85 - 90	-	111	195 - 200
Julie Lunt (Legal) (Note 4)	10-15	-	5	-	-	-	-	-

Note 1 Full Year salary now £95-£100k, from 1 Feb 2017

Note 2 Full Year salary now £95-£100k, from 1 Feb 2017

Note 3 Full Year salary now £90-95k, from 1 Feb 2017

Note 4 Salary shown from 1 Feb 2017 only, full year salary now £85-£90k

Performance related pay paid relates to performance in the prior year. No Benefits in kind were paid in either 2015/16 or 2016/17.

Fair Pay Disclosures (Audited)

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid individual from the Leadership Group in their organisation and the median remuneration of the organisation's workforce. Median pay figures include agency staff.

Median Pay	2016/17	2015/16
Highest earner's total remuneration	£155k - £160k	£145k - £150k
Median total remuneration	£26,992	£27,926
Ratio	5.8	5.3

Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include employer pension contributions, severance payments and the cash equivalent transfer value of pensions.

Pay Ranges	2016/17	2015/16
Highest earner pay range	£155k - £160k	£145k - £150k
Lowest earner pay range	£5k-£10k	£5k-£10k

The employees receiving the lowest pay in the pay range are employed as apprentices. No employees received remuneration in excess of the highest paid director.

Pension Benefits – Chief Executive & Chief Officers (Audited)

Board Members are not entitled to join the PCSPS pension scheme.

Pension Benefits - Chief Executive & Chief Officers	Total accrued pension at pensionable age and related lump 31 March 2017 £000	Real increase in pension and related lump sum (LS) at age 60 £000	CETV at 31 March 2017 £000	CETV at 1 April 2016 £000	Real increase in CETV £000
Chief Executive:					
James Cross	35-40	2.5-5	450	409	17
Chief Officers:					
Guy Thompson	20-25	0-2.5	251	222	14
Paul Lambert	20-25	0-2.5	427	379	21
Tim Hill	30-35 Lump sum 80-85	2.5-5 Lump sum 0-2.5	535	484	21
Alan Law	25-30 Lump sum 80-85	2.5-5 Lump sum of 5-7.5	527	462	45
Julie Lunt	10-15	0-2.5	192	154	37

Staff Report

Natural England ensures that the terms, policies, procedures, programmes, services and systems it offers its employees and customers are fair and equitable. Oversight of the development, improvement and maintenance of health, safety, well-being, diversity and inclusion in Natural England is via a single Steering Group. Membership, drawn from all levels, includes 'champions' for each of the legally defined protected characteristics.

We use a staff survey to gain insight into and evidence about how everyone is doing and what they want to improve. We ran one survey in February 2017 where we focused on employee engagement, employee voice, and equality, diversity and inclusion which we believe, collectively, give us a more accurate indication of how people are feeling. We continue to review how we can improve staff morale by considering issues raised by our staff and putting plans in place to address those which are in our direct control.

Natural England's skills development programme continues to focus on developing the capability people need to deliver their team's priorities. This covers technical and scientific skills as well as the leadership and personal skills that staff need to work effectively. People have been encouraged to drive their own development and be confident in using a range of approaches to do so.

The workforce strategy sets out how Natural England will develop and deploy our people. Using succession planning and other tools we aim to retrain, develop and nurture our workforce in order that we can deliver the priorities and outcomes defined in the Defra's Business Plan.

Our Partnership Agreement with the trade unions reflects our continuing commitment to involve employees in improving the quality of working life in Natural England. We continue to work together through open, positive and constructive dialogue, to ensure that Natural England is a successful organisation. The Agreement was last reviewed and signed off in January 2015.

We continue to monitor the health, safety and wellbeing of our employees. The employee (including volunteers) health surveillance programme continues to focus on noise, vibration and respiratory function for those working in high risk areas. We continue our programme of health and safety inspections on National Nature Reserves. For 2016/17 we have broadened our audit programme to look at high risk activities within local teams to ensure the risks created are being managed effectively and best practice is being shared. We continue to promote and improve our incident reporting culture which has seen an upward trend in Near Hit reporting in 2016/17. During 2016/17, the average working days lost (AWDL) to sickness absence for Natural England employees was 3.7 days (5.2 days in 2015/16).

Number of Senior Civil Service staff or equivalent by pay band

	31 March 2017	31 March 2016
	No.	No.
Chief Executive (SCS 3 equivalent)	1	1
Chief Officers (SCS 2 equivalent)	5	4
Directors (SCS 1 equivalent)	12	13
	18	18

A detailed breakdown of staff costs and numbers can be found in notes 3.1 and 3.2 to the accounts.

Staff split by Gender

The following table includes all permanent and temporary staff, including staff on career breaks and unpaid maternity leave, but excluding agency staff, as at 31 March 2017:

	Male	Female
Non-Executive Directors	8	2
Management Staff	12	5
All Other Staff	975	1,219
Total Staff	995	1,226

Consultancy expenditure

Strict spending controls were introduced by Cabinet Office in 2010, including the use of consultants. In line with this, all spend on consultancy is formally approved via a Spending Review Panel. During the period from April 2016 to March 2017 there was £34.8k (£26.4k in 2015/16) of consultancy expenditure approved through the Spending Review Panel.

Off-payroll engagements

On 31 January 2012, the Chief Secretary to the Treasury announced a review of the tax arrangements of public sector appointees. The aim of the review was to ascertain the extent of arrangements which could allow public sector appointees to minimise their tax payments, and make appropriate recommendations. The conclusions of the review were that:

- The most senior staff must be on the payroll, unless there were exceptional temporary circumstances which would require Accounting Officer sign-off and could not last longer than six months.
- Departments (and their arm's length bodies) must be able to seek formal assurance from contractors with off payroll arrangements lasting more than six months and costing over £220 per day that income tax and national insurance obligations are being met. If that assurance is not provided, contracts should be terminated.
- Departments and their arm's length bodies are required to report to Parliament as part of their Annual Report and Accounts on the outcome of applying the above principles.

Table 1: For all off-payroll engagements as of 31 March 2017, for more than £220 per day and that last longer than six months:

	Number
No. of existing engagements as of 31 March 2017	-
of which:	
No. that have existed for less than one year at time of reporting organisation's payroll	-
No. that have existed for between one and two years at time of reporting	-
No. that have existed for between two and three years at time of reporting	-
No. that have existed for between three and four years at time of reporting	-
No. that have existed for four or more years at time of reporting	-

Table 2: For all new off-payroll engagements between 1 April 2016 and 31 March 2017 for more than £220 per day and that last longer than six months:

	Number
No. of new engagements between 1 April 2016 and 31 March 2017	-
No. of new engagements which include contractual clauses giving Natural England the right to request assurance in relation to income tax and National Insurance obligations	-
No. for whom assurance has been requested	-
of which:	
No. for whom assurance has been received	-
No. for whom assurance has not been received	-
No. that have been terminated as a result of assurance not being received or ended before assurance was received.	-

Table 3: For any off-payroll engagements of board members and/or senior officials with significant responsibility between 1 April 2016 and 31 March 2017:

	Number
No of off-payroll engagements of board members and/or senior officials with significant responsibilities	-
No of posts as of 31 March 2017 within Natural England that contain, or once filled would contain, individuals that are "board members" and/or senior officials with significant financial responsibility". This figure includes both off-payroll and on-payroll engagements.	8

Reporting of Civil Service and other compensation schemes—exit packages (Audited)

There were 135 voluntary redundancies in year. Details of these can be seen in the table below:

Exit package cost band	Total number of exit packages by cost band	
	2016/17	2015/16
<£10,000	2	-
£10,000 - £25,000	33	-
£25,000 - £50,000	55	-
£50,000 - £100,000	45	-
£100,000 - £150,000	-	-
£150,000 - £200,000	-	-
Total number of exit packages by type	135	-
Total resource cost (£000)	5,684	-

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 when official notice has been served. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

Parliamentary Accountability and Audit Report- brings together the key Parliamentary accountability documents within the annual report and accounts;

Regularity of Expenditure (Audited)

Natural England's Accounting officer, our Chief Executive is the person on whom parliament calls to account for stewardship of its resources. The standards the accounting officer is expected to deliver cover Governance (see page 26), Decision-making and Financial Management.

Natural England complies with the HM Treasury guidance "Managing Public Money", which in short covers the principles as to how Government bodies handle public funds with probity and in the public interest. The Financial Memorandum sets out the specific financial framework, within which Natural England is required to operate. This is complemented by the Scheme of Delegation which is the means by which a statutory body authorises its employees to carry out certain of its functions. Natural England has separated its Scheme of Delegation into two parts for ease of reference:

- A financial schedule of delegations ("FSoD") which covers all financial functions or functions which have monetary implications e.g. loans, scheme payments etc; and
- A non-financial schedule of delegations ("NFSoD") which covers all non-monetary functions e.g. licences, enforcement action etc.

Cabinet office introduced strict spending controls in 2010 on various categories of spend including advertising; external recruitment; consultancy and IT Projects or any other expenditure over £25k. To comply with this Natural England established the Spending Review Panel (SRP) through which expenditure in any of these categories must pass for approval prior to any commitment being made.

In addition to the above under the Governments transparency agenda, expenditure is published monthly on all transactions over £25k and Government Procurement Card spend over £500.

An annual audit of Natural England's Accounts is undertaken by the National Audit Office (NAO) and to complement this we also have an ongoing internal audit programme, conducted by KPMG.

All of the above gives Natural England confidence that its Finances are being handled with regularity.

For 2016/17, we can report that there were no losses, special payments or gifts incurred during the year to date which exceeded £300k.

We have carefully considered possible future liabilities relating to past events and have concluded that there are no remote contingent liabilities to be disclosed in the Annual Report and Accounts.

Fees and Charges (Audited)

Natural England led the way as a statutory consultee with the introduction in 2013 of chargeable discretionary pre-application advice (DAS) on planning proposals. In 2015/16 we generated over £1m income from this service and in 2016/17 we have increased this to £2.4m. We continue to see a strong and growing uptake of this service. We have now recognised a market demand to extend the scope of our offer and apply this approach to other areas of our work where there is customer demand for upfront advice. These services provide customer benefit in having access to Natural England's expert advice at an early stage in the development of a project, reducing the risk of delay or additional cost at a later stage.

See our website for more information www.naturalengland.org.uk

- The Discretionary Advice Service (DAS) and
- The Pre-submission Screening Service (PSS)

We are able to resource this non-statutory work through the introduction of charging to cover our costs. Recovery is on a full cost basis in line with HM Treasury's guidance "Managing Public Money". See note 5 for further details.

Looking ahead, Natural England is keen to ensure that it can maintain and enhance its customer service and provide more effective delivery of its statutory roles through a package of reform measures which include the introduction of charges for certain areas of its statutory work. By doing so, Natural England aims to deliver exchequer savings and achieve better environmental outcomes by investing in its services to meet customer demand, offering a greater level of choice for customers whilst at the same time mitigating the impact of continuing pressures on Grant-in-Aid.

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 the H M Treasury and the Office of Public Sector Information Guidance.

Auditors

The accounts of Natural England are audited by the Comptroller and Auditor General under the Natural Environment and Rural Communities Act 2006. The audit fee for 2016/17 is £110k (2015/16: £110k). There have been no payments made to auditors for non-audit related work.



James Cross
Chief Executive
4 July 2017

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 2017 under the Natural Environment and Rural Communities Act 2006. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flow, 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 and Staff Report and the Parliamentary Accountability Disclosures within the Accountability Report that is described in that report as having been audited.

Respective responsibilities of the Chief Executive and Auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive as 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. 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 2017 and of Natural England's net expenditure after interest for the year then ended 31 March 2017; 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 parts of the Remuneration and Staff Report and the Parliamentary Accountability Disclosures within the Accountability Report to be audited have been properly prepared in accordance with Secretary of State directions made under the Natural Environment and Rural Communities Act 2006; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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
- the financial statements and the parts of the Remuneration and Staff Report and the Parliamentary Accountability Disclosures within the Accountability 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 HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

11 July 2017

3. Financial Statements

Statement of Comprehensive Net Expenditure for the period ended 31 March 2017

	Note	2016/17 £000	2015/16 restated £000
Expenditure			
Staff costs	3.1	91,921	82,847
Depreciation & Amortisation	4	2,002	2,913
Programme & Grant expenditure	4	18,623	29,490
Other expenditure	4	42,643	37,843
Total Expenditure		155,189	153,093
Income			
Operating Income	5	(13,431)	(12,569)
Fees & Charges Income	6	(3,189)	(2,297)
Total Income		(16,620)	(14,866)
Net Expenditure		138,569	138,227
Interest receivable		(8)	(6)
Net Expenditure after interest		138,561	138,221

Other Comprehensive Expenditure

Net loss / (gain) on revaluation of Property Plant and Equipment	7.1a & 7.1b	(408)	2,241
Net loss / (gain) on revaluation of heritage assets	8	(3,644)	25,231
Net loss / (gain) on revaluation of Agricultural Biological Assets		-	5
Net loss / (gain) on pensions provision		(136)	(13)
Total Comprehensive Net Expenditure		134,373	165,685

The accounting policies and notes on pages 47-73 form part of these financial statements.

Income for 2015/16 has been restated to represent the movement of NNR income from Operating income to Fees & Charges Income.

Statement of Financial Position as at 31 March 2017

	Notes	31 March 2017 £000	31 March 2016 £000
Non-current assets:			
Property, plant and equipment	7.1	14,126	12,832
Intangible assets	7.2	2,593	3,578
Heritage assets	8	57,205	52,928
Agricultural biological assets		167	168
Total non-current assets		74,091	69,506
Inventories		173	84
Trade and other receivables	11	6,954	8,360
Cash and cash equivalents	12	7,733	4,185
Total current assets		14,860	12,629
Total assets		88,951	82,135
Current liabilities:			
Trade and other payables	13.1	(24,479)	(19,757)
Pension Provision	14.1	(8)	(15)
Other provisions	14.2	(1,797)	(2,311)
Total current liabilities		(26,284)	(22,083)
Total assets less current liabilities		62,667	60,052
Non-current liabilities:			
Other payables	13.2	(974)	(1,993)
Pension Provision	14.1	(150)	(278)
Other Provisions	14.2	(75)	(1,394)
Total non-current liabilities		(1,199)	(3,665)
Assets less liabilities		61,468	56,387
Reserves:			
General Fund		15,825	14,796
Revaluation Reserve		45,643	41,591
		61,468	56,387

The accounting policies and notes on pages 47-73 form part of these financial statements.



James Cross
Accounting Officer and Chief Executive
4 July 2017

Statement of Cash Flows for the period ended 31 March 2017

	Notes	2016/17 £000	2015/16 restated £000
Cash flows from operating activities			
Net expenditure		(138,569)	(138,227)
Depreciation & amortisation (current year)	7.1a & 7.2a	2,002	2,913
Adjustment to prior year assets		-	(512)
Impairment	9	(17)	(965)
Service concession asset adjustment		187	251
loss on disposal of assets net of Proceeds	4	207	362
Notional Corporate Services Recharge	1.24	33,533	27,268
Write backs net of provisions provided for in year		35	847
Decrease / (Increase) in trade and other receivables	11	1,406	(1,493)
(Increase) / Decrease in inventories		(89)	24
Increase / (Decrease) in trade payables	13	4,719	(9,077)
Use of provisions		(2,003)	(863)
Net cash outflow from operating activities		(98,589)	(119,472)
Cash flows from investing activities			
Purchase of property, plant and equipment	7.1	(2,094)	(767)
Purchase of non-current heritage assets	8	(697)	-
(Decrease) in non-current payables	13.2	(1,019)	(1,194)
Proceeds of disposal of property, plant and equipment		8	48
Net cash outflow from investing activities		(3,802)	(1,913)
Net financing			
Interest		8	6
Grants from Defra		105,931	114,735
Net financing		3,548	(6,644)
Net increase / (decrease) in cash and cash equivalents in the period	12	3,548	(6,644)
Cash and cash equivalents at the beginning of the period	12	4,185	10,829
Cash and cash equivalents at the end of the period	12	7,733	4,185

The accounting policies and notes on pages 47-73 form part of these financial statements.

Statement of Changes in Taxpayers' Equity for the period ending 31 March 2017

	Notes	Revaluation Reserve £000	General Reserve £000	Total Reserves £000
Balance at 31 March 2016		41,591	14,796	56,387
Core Grant in Aid from Defra (revenue)	SoCF	-	87,741	87,741
Core Grant in Aid from Defra (capital)	SoCF	-	4,957	4,957
English Coastal Path	SoCF	-	4,541	4,541
Catchment Sensitive Farming Grant from Defra	SoCF	-	3,458	3,458
Water Framework Directive from Defra	SoCF	-	2,085	2,085
BTB	SoCF	-	840	840
Bolton Fell Moss Grant from Defra	SoCF	-	1,937	1,937
Other Defra Income	SoCF	-	372	372
Notional Corporate Services Recharge	Note 4	-	33,533	33,533
Comprehensive Net Expenditure for the year	SOCNE	-	(138,561)	(138,561)
Revaluation Reserve Movements	Note 9	4,052	126	4,178
Balance at 31 March 2017		45,643	15,825	61,468

SoCF=Statement of Cash Flows, SoCNE = Statement of Comprehensive Net Expenditure

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2016

	Notes	Revaluation Reserve £000	General Reserve restated £000	Total Reserves £000
Balance at 31 March 2015		69,063	11,014	80,077
Core Grant in Aid from Defra (revenue)	SoCF	-	101,063	101,063
Core Grant in Aid from Defra (capital)		-	2,048	2,048
English Coastal Path	SoCF	-	3,684	3,684
Catchment Sensitive Farming Grant from Defra	SoCF	-	4,375	4,375
Water Framework Directive from Defra	SoCF	-	1,758	1,758
BTB	SoCF	-	1,036	1,036
Bolton Fell Moss Grant from Defra	SoCF	-	655	655
Other Defra Income	SoCF	-	116	116
Notional Corporate Services Recharge	Note 4	-	27,268	27,268
Comprehensive Net Expenditure for the year	SOCNE	-	(138,221)	(138,221)
Quinquennial revaluation		(27,472)	-	(27,472)
Balance at 31 March 2016		41,591	14,796	56,387

Restated to separate out the capital element of Grant in Aid.

Notes to the Financial Statements

1 Statement of accounting policies

Basis of accounting

These Financial Statements have been prepared in accordance with the 2016/17 Government Financial Reporting Manual (FReM) issued by H M Treasury and the accounts direction issued by the Secretary of State for Defra, 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 judgments and estimation uncertainty

Natural England has used estimations for the following two accounting entries, as described below:

1.1.1 Valuation of Non-Current Assets & Heritage Assets

During 2015/16, all of our non-current assets and heritage assets were professionally revalued by a firm of qualified and independent surveyors in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Manual.

Between professional quinquennial revaluations, all freehold Land and Building and Heritage Assets are updated annually where material using a professional desk top valuation exercise as stated in notes 1.3.1 & 1.7.1. In 2016/17, this valuation has been carried out by Bruton Knowles property consultants. In accordance with IFRS 13, the fair value hierarchy has been applied. The fair value of the significant majority of our assets was derived using comparable market evidence (level 2). In some cases, where level 2 data was unavailable the level 3 technique is applied using the depreciated reinstatement value of similar properties on the market.

Depreciation of these assets is spread across the deemed useful economic life, which also requires the use of judgement.

1.1.2 Employee Benefit Accrual

Natural England accounts for unused annual leave based on actual figures as at 31 December 2016 (for the 12 month leave period 1 January 2016 to 31 December 2016), and uses this as a proxy for unused annual leave as at 31 March 2017 in accordance with IAS 19 'employee benefits'. This is included as an accrual and the movement in year is recognised as an expense within staff member costs at the reporting date.

1.2 Accounting Convention

These accounts have been prepared on a going concern basis under the historical cost convention, modified to account for the revaluation of property, plant and equipment and inventories.

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

1.3.1 Recognition and valuation

In accordance with IAS 16 as interpreted by FReM, Land and buildings are reported in the Statement of Financial Position at fair value, stated at market value in existing use. All are revalued every five years in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Manual (the Red Book). Operational heritage land and other land and buildings must be valued externally. All Land and Building assets were last valued by external valuers in 2015/16 as at 31 March 2016. In between valuations, all land and building values are updated annually using a professional desk top valuation.

Natural England has set a capitalisation threshold of £5k for assets with the exception of land which is fully capitalised regardless of cost. Individual items with a cost below this threshold are 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.

1.3.2 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 of 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 NE will derive from having access to IBM's IT infrastructure assets. Depreciation has been applied on a straight line basis consistent with NE'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.

1.4 Depreciation

Depreciation is provided on all non-current property, plant and equipment assets other than land. The rates applied are calculated to write off the cost or valuation of each asset on a straight line basis over its 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 15 years
▪ Vehicles	10 years

Depreciation is not charged on assets under construction until they are brought into service.

1.5 Intangible Non-Current Assets and Amortisation

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.

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 five years although alternative lives may be used where relevant information is available to ascribe a more appropriate expected useful life.

1.6 Research and Development

All of our development and research expenditure is written off in the year to the Statement of Comprehensive Net Expenditure. There were no capital research projects in progress as at the year end.

1.7 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) 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 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 the Strategic Report.

1.7.1 Valuation

Heritage asset land and buildings are reported in the Statement of Financial Position at fair value, stated at market value. In line with the FReM, heritage assets are revalued every five years. They were initially valued at 1 April 2010 by internal and external valuers, and in 2015/16 were revalued by external valuers as at 31 March 2016.

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

1.7.2 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 receipt of donations of Heritage Assets are recognised as income and taken through the SOCNE where there are no conditions relating to the operating activities.

1.8 Impairment

Natural England reviews its assets annually to identify those where the recoverable amount falls below the carrying amount. The treatment of any impairment losses is dependent on whether they are a result of:

- consumption of economic benefit or reduction in service potential - if this is the case the loss is taken to the SOCNE.
- a change in market value – in this case the fall in value will first be offset against the accumulated balance in the revaluation reserve (if any), and once that element of the reserve is exhausted the remainder of the fall in value will be taken to the SOCNE.

1.9 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:

1.9.1 Financial Assets and liabilities

Natural England classifies loans, receivables and assets available for sale as financial assets. Financial liabilities are any contractual obligations to deliver cash or financial assets to a third

party. Management determines the classification of financial assets and liabilities at the time that they are initially identified. Natural England assesses at each Statement of Financial position date whether there is objective evidence that financial assets are impaired since the initial recognition of the asset and prior to the Statement of Financial Position date. It also considers whether there is an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

1.9.2 Available Financial Assets for Sale

Available for sale financial assets are non-derivative financial assets that are designated as available for sale. They are initially measured at fair value and subsequently re-measured to fair value at each Statement of Financial Position date. Any increase due to the changes is recognised in reserves.

1.9.3 Financial Liabilities

These comprise trade and other payables and financial liabilities and are initially recognised at fair value. They are re-measured to fair value at each Statement of Financial Position date. Any required changes in value are reflected in reserves as appropriate.

1.9.4 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. Loans and receivable are initially recognised at fair value and subsequently held at amortised cost using the effective interest method. Fair value is usually the original invoiced amount.

1.9.5 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 9 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.

1.10 Taxation

Natural England is a body corporate. Should any investment income be earned or trading profits received we would be liable to Corporation Tax. During 2016/17 there was no liability for Corporation Tax (2015/16, nil).

1.11 Value added Taxation (VAT)

Most of the activities of Natural England are outside the scope of VAT. 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.

1.12 Grant in Aid (GiA)

Grant in Aid receipts, both capital and revenue, are treated as financing received from a controlling party giving rise to a residual financial interest. The receipts are treated as financing transactions and credited directly to the general reserve.

1.13 Grants Receivable

Natural England receives grant funding from the European Union, the Rural Payments Agency and the Forestry Commission. These are credited straight to the Statement of Comprehensive Net Expenditure Account. If grants have conditions attached to them and are for funding in future years, they are held as deferred income.

1.14 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 upon the crystallisation of 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 contributing towards the ongoing employment of staff may be made on a diminishing basis over a three or four year period.

1.15 Operating Income

Operating income relates directly to the operating activities of Natural England. Income is recognised in accordance with IAS18 and net of VAT, and includes National Lottery grants, contributions from conservation partners, accrued and deferred income, and income from National Nature Reserves.

1.16 Fees and Charges Income

Fees and charges are set based on full costs recovery in line with H M Treasury's "Managing Public Money". In this respect the full cost of our commercial services activities are fully covered by the fee income charged for them. When setting future years fees and charges, consideration is given over a three year rolling period, to enable a breakeven position to be achieved. If less income were recovered than it cost us to provide the service, this would be an indication that our fee levels were set at too low a level (the reverse is true if we were to over recover costs) and we would have to review the level of the fees that we charge.

1.17 Cash and Cash Equivalents

Natural England uses the Government Banking Service (GBS – see note 12 for further information) for all its accounts and manages them in accordance with H M Treasury's Banking Stewardship Guidance. Cash and cash equivalents include cash in hand and deposits with any qualifying financial institution, repayable on demand or maturing within three months of the date of acquisition and which are subject to an insignificant risk of change in value.

1.18 Short Term Investments

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

1.19 Treatment of Foreign Exchange Differences

Transactions which are denominated in a foreign currency are translated into sterling at the Bank of England 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.

1.20 Employee Benefits

1.20.1 Pension Arrangements

Past and present employees are covered by either the provisions of the Principal Civil Service Pension Scheme (PCSPS or The Civil Servants and others Pension Scheme (alpha), full details of which can be found in the Remuneration and Staff Report. Although the PCSPS and alpha are defined benefit schemes, those covered by the schemes 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 / alpha of amounts calculated on an accruing basis.

Liability for payment of future benefits is a charge on the PCSPS / alpha. From 2006 to 31 December 2013 the Chair was entitled to a pension scheme but was prohibited from joining the PCSPS. Individual schemes were set up, described as "by analogy" to the PCSPS. Any ongoing liability arising from this arrangement is borne by Natural England. The liabilities arising under this arrangement have been accounted for and disclosed in accordance with IAS 19 "Employee Benefits". This entitlement ceased for any new appointees with effect from 1 January 2014.

1.20.2 Early Departure Costs

Natural England is required to meet the additional costs of benefits beyond the normal PCSPS / alpha benefits in respect of certain qualifying employees who retire early. These benefits conform to the rules of the PCSPS alpha schemes. Natural England bears the costs of these benefits until normal retiring age if the employees retire 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. Natural England has paid redundancy and other departure costs in accordance with the provisions of the Civil Service Compensation Scheme, see page 38 for further details.

1.20.3 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.

1.21 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.

Operating leases and the rentals thereon are charged to the Statement of Comprehensive Net expenditure on a straight-line basis over the term of the lease. 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. Natural England has an imputed finance lease commitment. See notes 7 and 15.3 for details relating to the IBM Right of Use Service Concession Arrangement, defined in IFRIC 12.

1.22 Provisions

In accordance with IAS37, 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.

1.23 Contingent Liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37, Natural England discloses possible obligations arising from past events where the outcome is based on uncertain future events. Similarly disclosure is made where it has a present obligation that is not probable or cannot be measured reliably.

1.24 Notional Corporate Services Recharges

Commencing from 1 April 2015 Defra Corporate Service costs for the following services; Genesis depreciation & running costs, Digital Data & Technology Services (DDTS) and Commercial, Estates & Knowledge services (CEK) have not been directly invoiced to the separate Defra bodies, but directly to the central department. A second tranche of transfers took place on 1 February 2017; Finance, Human Resources and Communications. Natural England still benefits from the use of these Corporate Services, but the full budgets are retained by the central department in order to procure and manage the services more efficiently and effectively. Annual notional non-cash charges for these services are instead issued to each Defra group body for inclusion in their statutory accounts to ensure a true and fair view of costs is represented. A corresponding credit in the Defra central department Accounts ensure on consolidation that there is no duplication. The notional recharge total for 2016/17 was £33,533k, which includes £421k of staff costs.

1.25 Impending Application of Newly Issued Accounting Standards Not Yet Effective

At the date of authorisation of these financial statements, the following standards, relevant to Natural England, had been issued but were not yet effective:

- IFRS 15 – Revenue from contracts with customers, effective date 1 January 2018.

- IFRS 9 – Financial Instruments, effective from 1 January 2018. Brings together all three phases of the financial instruments project, Classification and Measurement; Impairment and Hedge Accounting.
- IFRS 16 – Leases, effective from 1 January 2019. Specifies how an IFRS reporter will recognise, measure, present and disclose leases.

2 Analysis of Net Expenditure 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.

Natural England’s Senior Leadership Team and Performance, Risk and Resource Group, comprising senior managers, evaluate performance regularly at and below operating segments, whilst deciding how to allocate resources and monitor outcomes. Each of these operating segments aligns to teams managed either nationally, by an Executive Director of the Board, or locally by Local Area Managers. There have been changes to our structure for 2016/17, including the establishment of a National Operations Team and review of Strategy and Reform;

- Strategy & Reform, including:
 - Change and Reform
 - Strategy Implementation
 - Government Advice
 - Strategy Development
 - EU transition
- Science & Evidence, including:
 - Evidence Services
 - Specialist Services
- Operations, including:
 - National Operations
 - Operations Team North
 - Operations Team South
 - Technical Services
- Finance & Governance, including:
 - Finance & Performance
 - Organisation Development (including Health and Safety)
 - Chairman & Executive Office
 - Legal

2.1 Statement of Comprehensive Net Expenditure for the year ended 31 March 2017 by operating segment:

	Operating Segment 2016/17					Total £000
	Strategy & Reform £000	Science & Evidence £000	Operations £000	Finance & Governance		
				Internal £000	Defra Recharges £000	
Staff Costs	15,397	7,718	60,598	8,208	-	91,921
Non pay running & other operating costs	1,117	314	5,695	1,019	-	8,145
SSCL Shared Service Recharge	-	-	-	-	1,385	1,385
Corporate Service Recharge	-	-	-	-	33,113	33,113
Programme & Grant expenditure	4,357	1,679	10,581	2,006	-	18,623
Depreciation, Amortisation & Impairment	-	-	-	2,002	-	2,002
Total Expenditure	20,871	9,711	76,874	13,235	34,498	155,189
Income	(250)	(275)	(6,450)	(9,653)	-	(16,628)
Net Expenditure	20,621	9,436	70,424	3,582	34,498	138,561

The Science and Evidence and the Operations/ Area Teams segments will include the £1.08m science and monitoring evidence spend in addition to other expenditure not formally classified as research and development.

2.2 Statement of Comprehensive Net Expenditure for the year ended 31 March 2016 by operating segment

	Operating Segment 2015/16					Total £000
	Strategy & Reform £000	Science & Evidence £000	Operations £000	Finance & Governance		
				Internal £000	Defra Recharges £000	
Staff Costs	19,649	5,710	50,455	7,033	-	82,847
Non pay running & other operating costs	2,375	374	2,990	2,769	-	8,508
SSCL Shared Service Recharge	-	-	-	-	2,452	2,452
Corporate Service Recharge	-	-	-	-	27,268	27,268
Programme & Grant expenditure	11,819	1,329	4,694	2,195	-	20,037
Genesis System Maintenance	-	-	-	10,033	-	10,033
Depreciation, Amortisation & Impairment	-	-	-	1,948	-	1,948
Total Expenditure	33,843	7,413	58,139	23,978	29,720	153,093
Income	(2,178)	(46)	(12,511)	(137)	-	(14,872)
Net Expenditure	31,665	7,367	45,628	23,841	29,720	138,221

3.1 Staff Costs

	2016/17 £000	2015/16 £000
Permanent & Fixed Term Appointments salaries and allowances	59,330	60,153
Permanent & Fixed Term Appointments salaries and allowances – Non Cash item (Corporate Service staff - see note 1.24)	421	-
Employer Superannuation Payment	12,116	12,153
Partnership Pension Contributions	153	114
Permanent & Fixed Term Appointments social security costs	5,894	4,474
Agency and temporary staff	7,543	6,355
Inward secondees	113	261
Temporary staff social security	352	117
Temporary staff superannuation	783	358
Other staff costs	54	192
Less recoveries in respect of outward secondments	(1,746)	(1,330)
Early retirement and severance costs	5,684	-
HMRC Compliance Audit Liability	1,224	-
Total net costs	91,921	82,847

3.2 Staff Numbers

	2016/17 No.	2015/16 No.
The average number of whole-time equivalent persons employed during the year was as follows:		
Permanent staff & Fixed Term Appointments		
Executive/Director	19	18
Manager/Principal Specialist/Adviser	165	165
Team Leader/Senior Specialist/Adviser	498	494
Group Coordinator/Lead Adviser/Specialist	772	771
Adviser/Support Adviser	452	460
	1,906	1,908
Temporary and contract staff		
Executive/Director	-	-
Manager/Principal Specialist/Adviser	1	2
Team Leader/Senior Specialist/Adviser	2	3
Group Coordinator/Lead Adviser/Specialist	12	19
Adviser/Support Adviser	336	305
	351	329
Total	2,257	2,237

4 Expenditure

	Notes	2016/17 £000	2015/16 £000 restated
Programme Expenditure		8,252	7,884
Legal Expenditure (includes compensation payment)		865	1,162
Programme expenditure – Research & Development		2,273	3,334
Programme expenditure – Operating lease rentals		685	739
Grant Expenditure		6,548	6,338
Genesis system ^{see note}		-	10,033
Subtotal – Programme & Grant expenditure		18,623	29,490
Staff travel and subsistence costs		4,830	4,446
SSCL shared service recharges ^{see note}		1,385	2,452
Staff support costs		1,364	1,248
Estates management costs		1,284	1,320
Printing and stationery		74	108
Vehicle costs		603	526
External auditors remuneration		110	110
Internal audit programme		186	193
Other operating costs		1,011	1,487
IBM Service Concession Asset Adjustments		(1,493)	(702)
Non-cash items;			
Impairments charged to net expenditure	9	(17)	(965)
Loss on disposal of Property, Plant & Equipment		207	362
Notional Corporate Services Recharge	1.24	33,113	27,268
Bad Debt Provision		(14)	(10)
Subtotal		42,643	37,843
Depreciation & Amortisation	7	2,002	2,913
Total Expenditure		63,268	70,246

Note – notional recharges include use of Genesis computer system, IBM Contract, Shared Services Connected Limited recharges and Centrally Managed Estates costs. The Corporate Service pay element (£421k) of the notional recharge is shown in note 3.1.

For 2016/17, some expenditure lines have been mapped slightly differently as a result of moving to a Single Operating Platform finance system during the year. Prior year figures have been restated to allow for meaningful comparison to the 16/17 figures.

5 Operating Income

	2016/17 £000	2015/16 £000 (restated)
EU Technical Assistance	9,790	10,151
Heritage and National Lottery Fund	246	95
Contributions from conservation partners	127	443
Basic Payment Scheme	840	827
Other income	133	229
Legal receipts	-	5
Wildlife Incident Investigation Services	275	234
European LIFE Project Receipts	2,020	585
Total Programme Income	13,431	12,569

Technical Assistance income is a form of EU funding provided to support and improve the implementation of EU funded operational programmes. The funding is paid to Natural England via the RPA as part of the Rural Development Programme for England 2014-2020. It has been utilised to fund a range of activities associated with enhancing implementation of Environmental Stewardship and horizontal Rural Development aspects of CAP 2014-2020.

6 Fees and Charges Income

	2016/17 £000	2015/16 £000 (restated)
Discretionary Advice	2,362	1,499
Income from National Nature Reserves (NNRs)	827	798
Total Income	3,189	2,297

Commercial Income from NNRs has been moved from note 5 into Note 6 for 2016/17 as the income now forms part of Natural England's commercial income target. 2015/16 figures have been moved for comparative purposes.

Natural England has continued to work towards extending charging options to a number of work areas where we feel charging is appropriate. This involves addressing legal, financial and stakeholder issues and securing the approvals of our Board, Defra and in some case H M Treasury, where needed.

Developers may obtain free information from Natural England in order to ascertain whether developments will have a significant impact on protected sites and species. This free advice checks whether or not the development will affect the best and most versatile agricultural land and then provides advice on what to include in the planning application. If a customer would like more complicated help and advice, such as reviewing survey results, advising on landscape and visual impact assessment or advice on mitigation strategies to reduce damage to the environment, they have the option of using a chargeable service.

Fees and Charges income is derived from a combination of discretionary advice related to our planning, wildlife licensing and SSSI assent work under our Discretionary Advice Service (DAS) and Pre-Submission Screening Service (PSS). Further details about Natural England's Discretionary advice service (including charges per application) can be found on the [Developers: get environmental advice on your planning proposals - Detailed guidance - GOV.UK](#).

Analysis of fees and charges

Discretionary Advice and Pre Submission screening:	2016/17 £000	2015/16 £000	2014/15 £000	Cumulative results £000
Income	2,362	1,499	654	4,515
Expenditure	(2,360)	(1,495)	(661)	(4,516)
Surplus / (Deficit)	2	4	(7)	(1)

The above table shows that Natural England over recovered costs by £2k in 2016/17, but if considered over a three year rolling period, this show a £1k deficit (shortfall in fee income compared to costs) to be carried forward to 2017/18 to ensure that fees and charges breakeven over a three year rolling period.

7 Non-current assets

In accordance with IAS 16 as interpreted by the FReM, all freehold land (except non-operational heritage assets) and buildings are stated at fair value, and are revalued every five years by qualified valuers, on the basis of existing value in use, in accordance with the Royal Institution of Chartered Surveyors' (RICS) Appraisal and Valuation Manual. This revaluation was carried out as at 31 March 2016 by Bruton Knowles, by RICS qualified staff. In between professional revaluations, all land and building values are updated annually using a professional desk top valuation.

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.

7.1a Property, plant and equipment

	Land	Buildings	Leasehold improvements	Plant & Machinery	Vehicles	Furniture & Fittings	Information Technology	Assets Under Construction (AUC)	Service Concessions Assets	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Gross Cost or valuation:										
Balance 1 April 2016	4,825	4,664	1,382	4,436	2,572	3,458	1,045	-	10,206	32,588
Prior Year Adjustments	-	193	6	40	-	-	-	-	-	239
Additions	12	1,271	-	617	108	-	-	86	-	2,094
Disposals	-	-	(345)	(80)	(32)	(178)	-	-	-	(635)
Service Concession Asset	-	-	-	-	-	-	-	-	(187)	(187)
Revaluation	403	51	(6)	(40)	-	-	-	-	-	408
Impairment	(4)	85	-	-	-	-	-	-	-	81
At 31 March 2017	5,236	6,264	1,037	4,973	2,648	3,280	1,045	86	10,019	34,588
Depreciation:										
Balance at 1 April 2016	-	450	876	3,832	1,841	2,713	248	-	9,796	19,756
Charged in year	-	184	108	104	117	115	166	-	223	1,017
Prior Year Adjustment	-	115	-	(4)	-	-	-	-	-	111
Disposals	-	-	(242)	(71)	(32)	(77)	-	-	-	(422)
At 31 March 2017	-	749	742	3,861	1,926	2,751	414	-	10,019	20,462
Net Book Value:										
At 31 March 2017	5,236	5,515	295	1,112	722	529	631	86	-	14,126
At 31 March 2016	4,825	4,214	506	604	731	745	797	-	410	12,832

All assets are owned apart from Service Concessions Assets. As at 31 March 2016 there were no assets held for sale.

7.1b Property, plant and equipment

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	Land £000	Buildings £000	Leasehold improvements £000	Plant & Machinery £000	Vehicles £000	Furniture & Fittings £000	Information Technology £000	Assets Under Construct ion (AUC) £000	Service Concessio n Assets £000	Total £000
Gross Cost or valuation:										
Balance 1 April 2015	9,230	4,037	1,435	4,491	2,674	3,459	626	-	10,457	36,409
Prior Year Adjustments	25	487	-	-	-	-	-	-	-	512
Additions	-	-	-	86	-	7	674	-	-	767
Reclassifications	(1,291)	53	(53)	-	-	-	-	-	-	(1,291)
Transfers from AUC	-	-	-	-	-	-	-	-	-	-
Disposals	(6)	(108)	-	(141)	(102)	(8)	(255)	-	-	(620)
Service Concession Asset	-	-	-	-	-	-	-	-	(251)	(251)
Revaluation	(2,746)	505	-	-	-	-	-	-	-	(2,241)
Impairment	(387)	(310)	-	-	-	-	-	-	-	(697)
At 31 March 2016	4,825	4,664	1,382	4,436	2,572	3,458	1,045	-	10,206	32,588
Depreciation:										
Balance at 1 April 2015	-	448	739	3,764	1,799	2,343	399	-	9,435	18,927
Charged in year	-	-	139	166	140	378	104	-	361	1288
Reclassifications	-	2	(2)	-	-	-	-	-	-	-
Disposals	-	-	-	(98)	(98)	(8)	(255)	-	-	(459)
At 31 March 2016	-	450	876	3,832	1,841	2,713	248	-	9,796	19,756
Net Book Value:										
At 31 March 2016	4,825	4,214	506	604	731	745	797	-	410	12,832
At 31 March 2015	9,230	3,589	696	727	875	1,116	227	-	1,022	17,482

All assets are owned apart from Service Concessions Assets. As at 31 March 2015 there were no assets held for sale

7.2a Intangible assets

	Software licences £000
Gross Cost:	
At 1 April 2016	10,535
Additions	-
Disposals	-
At 31 March 2017	10,535
Amortisation:	
At 1 April 2016	6,957
Charged in year	985
Disposals	-
At 31 March 2017	7,942
Net Book Value:	
At 31 March 2017	2,593
At 1 April 2016	3,578

7.2b Intangible assets

	Software licences £000
Gross Cost:	
At 1 April 2015	11,171
Additions	-
Disposals	(636)
At 31 March 2016	10,535
Amortisation:	
At 1 April 2015	5,718
Charged in year	1,624
Disposals	(385)
At 31 March 2016	6,957
Net Book Value:	
At 31 March 2016	3,578
At 1 April 2015	5,453

8 Non-current heritage assets

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% of NNRs are also designated Sites of Special Scientific Interest (SSSIs). 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 does not 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, schools and specialist audiences to experience England's natural heritage. To visit an NNR or to see our management policies, see details on our website: www.gov.uk/natural-england

As at 31 March 2017 there were 224 NNRs in England covering 94,000 hectares. Natural England manages 142 of these on its own or jointly with others, and the remainder are managed by Approved Bodies. Only the value of the NNRs owned by Natural England are reflected in the non-current heritage assets within these accounts. The current net book value of donated heritage assets is £1.7m.

Heritage assets reported at valuation	Non Operational NNR Land* £000	Operational NNR Land* £000	Assets under Construction £000	Total £000
Gross cost at 1 April 2016	49,927	3,001	-	52,928
Additions	455	-	242	697
Revaluation	3,644	-	-	3,644
Impairment	(64)	-	-	(64)
At 31 March 2017	53,962	3,001	242	57,205
Gross cost at 1 April 2015	71,385	3,821	-	75,206
Additions	-	-	-	-
Reclassifications	1,291	-	-	1,291
Revaluation	(24,411)	(820)	-	(25,231)
Impairment	1,662	-	-	1,662
At 31 March 2016	49,927	3,001	-	52,928
Gross cost at 1 April 2014	69,724	3,515	-	73,239
Additions	4,518	-	-	4,518
Transfer from PPE AUC	102	-	-	102
Revaluation	2,432	306	-	2,738
Impairment	(5,391)	-	-	(5,391)
At 31 March 2015	71,385	3,821	-	75,206
Gross cost at 1 April 2013	58,287	3,113	-	61,400
Additions	548	-	-	548
Reclassifications from PPE Land	172	-	-	172
Revaluation	10,717	402	-	11,119
At 31 March 2014	69,724	3,515	-	73,239
Gross cost at 1 April 2012	56,189	2,943	-	59,132
Additions	10	-	-	10
Revaluation	3,118	170	-	3,288
Impairment	(1,030)	-	-	(1,030)
At 31 March 2013	58,287	3,113	-	61,400

*As defined in note 1.7 to the Financial Statements

9 Impairments

	2016/17 £000	2015/16 £000
Charge to Statement of Comprehensive Net Expenditure	17	965
Charge to Revaluation Reserve	4,052	(27,472)
	4,069	(26,507)

The breakdown of total impairment in 2016/17 can be seen below:

	Upward Revaluation £000	Downward Revaluation £000	Total RR movement £000	Impairment to OCE £000
Land	489	(86)	403	(4)
Buildings	213	(162)	51	85
Plant & Machinery	-	(40)	(40)	
Leasehold Improvements	-	(6)	(6)	
	702	(294)	408	81
Heritage Assets	3,649	(5)	3,644	(64)
Operational NNR land	-	-	-	-
	3,649	(5)	3,644	(64)
Balance at 31 March 2017	4,351	(299)	4,052	17

10 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 Natural England's expected purchase and usage requirements. Natural England, therefore, is not significantly exposed to 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 calculating of the grant claim from a sterling cost base until the time that the grant is received and 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 bank accounts which were previously held under the Government Banking Service Framework have been transferred and are now operated directly between Natural England and The Royal Bank of Scotland, overseen by The Government Banking Service.

11 Trade and other receivables

11.1 Amounts falling due within one year:

	31 March 2017 £000	31 March 2016 £000
Accrued income	5,105	6,808
Trade receivables	1,574	1,281
Other receivables	17	26
Prepayments	258	245
	6,954	8,360

Accrued income includes £2.8m (2015/16, £5.1m) of income due from the EU.

12 Cash and cash equivalents

	Government Banking Service £000	Short Term Investments £000	Total £000
Balance as at 1 April 2016	3,827	358	4,185
Movement in year	3,548	-	3,548
Balance as at 31 March 2017	7,375	358	7,733

13 Trade and other payables

13.1 Amounts falling due within one year:

	31 March 2017 £000	31 March 2016 £000
Trade Payables and other payables	5,661	2,444
Accruals	13,487	12,213
Deferred Income	3,658	2,613
VAT payables	208	164
Tax and social security payables	1,465	1,392
IBM Right of use assets	-	931
	24,479	19,757

13.2 Amounts falling due after one year:

	31 March 2017 £000	31 March 2016 £000
IBM Right of Use assets (service concession)	-	749
Countryside S28 payable	974	1,244
Total other payables	974	1,993

Defra has a contract with IBM which covers a period of 8 years and is due to conclude in 2017/18. For relevant information regarding the value of the IT service concession asset please refer to note 7.1. 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.

There is no future liability in relation to this contract (2015/16 £1.7 m).

The Countryside S28 payable is an amount due in relation to S28 of the Wildlife and Countryside Act 1981.

14 Provisions

14.1 Pension Provisions

Pension Provisions	Balance at 1 April 2016	Provided in the year	Provisions utilised in the year	Provisions not required written back	Balance at 31 March 2017
	£000	£000	£000	£000	£000
Pensions by analogy	293	-	(135)	-	158
Total pensions by analogy	293	-	(135)	-	158

Pension Provisions	Not later than one year	Later than one year and not later than five years	Later than five years	Balance at 31 March 2017
	£000	£000	£000	£000
Pensions by analogy	8	34	116	158
Total pension by analogy	8	34	116	158

14.2 Other Provisions

Other Provisions	Balance at 1 April 2016	Provided in the year	Provisions utilised in the year	Provisions not required written back	Balance at 31 March 2017
	£000	£000	£000	£000	£000
Retirement & severance	304	155	(144)	-	315
Litigation	165	191	-	-	356
Land Restoration	3,236	-	(1,724)	(311)	1,201
Total other provisions	3,705	346	(1,868)	(311)	1,872

Other Provisions	Not later than one year	Later than one year and not later than five years	Later than five years	Balance at 31 March 2017
	£000	£000	£000	£000
Retirement & severance	240	75	-	315
Litigation	356	-	-	356
Land Restoration	1,201	-	-	1,201
Total other provisions	1,797	75	-	1,872

15 Commitments under leases

15.1 Operating leases

Total future minimum lease payments under operating leases are given in the table below:

Obligations under operating leases comprise:	31 March 2017 £000	31 March 2016 £000
Land		
Not later than one year	514	595
Later than one year and not later than five years	1,173	1,054
Later than five years	3,222	3,896
Total Land	4,909	5,545
Not later than one year	174	105
Later than one year and not later than five years	356	212
Later than five years	237	65
Total Buildings	767	382

15.2 Defra properties occupied by Natural England

Natural England does not hold the freehold of the office buildings which it occupies; they are owned either by a government department or agency and are subject to either a Memorandum of Terms of Understanding (MOTU) or a Memorandum of Terms of Occupation (MOTO) with Defra.

Although MOTOs & MOTUs are not a legal lease arrangement, the commercial reality under IFRIC 4 is that these arrangements are consistent with a lease. Therefore, 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 25 properties subject to MOTU arrangements, with an average commitment term of three years.

Within the Statement of Comprehensive Net Expenditure the full cost of occupation is reflected within the Notional Corporate Service Recharge in Other expenditure. The costs recharged are proportionate to occupation and include rates, utilities, management overheads, facilities management and associated capital charges. For leasehold properties this also includes rental costs. The estimated value of non-specialised freehold property owned by Defra but occupied by Natural England is £1.5m (£1.7m 2015/16).

The following disclosure shows the proportionate cost of Natural England's occupation in Defra leasehold properties. The related 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 2017	31 March 2016
	£000	£000
Buildings		
Not later than one year	1,995	2,447
Later than one year and not later than five years	4,958	5,627
Later than five years	3,753	2,415
Total Buildings	10,706	10,489
Land		
Not later than one year	1	1
Later than one year and not later than five years	2	3
Later than five years	22	29
Total Land	25	33

15.3 Obligations under IBM Right of use (service concession arrangements)

Details of the imputed finance lease charges are given in the table below for each of the following periods. More information about this contract can be found in note 1.3.2 and note 13.2 to the financial statements.

Obligations for the following periods comprise:	31 March 2017	31 March 2016
	£000	£000
Rentals due within one year	-	986
Rentals due within two to five years	-	841
Rentals due thereafter	-	-
	-	1,827
Less interest element	-	(147)
Present value of obligations	-	1,680
Present value of obligations for the following periods comprise:	31 March 2017	31 March 2016
	£000	£000
Rentals due within one year	-	931
Rentals due within two to five years	-	749
Rentals due thereafter	-	-
Present value of obligations	-	1,680

The commitments are consistent with arrangements containing a lease as defined by IFRIC 12. As at 31 March, there was no future liability for Natural England in relation to this contract.

16 Commitments under Private Finance Initiative (PFI)

16.1 Off-balance sheet

An off-balance sheet contract was signed by the Department 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. Break points in the Lease exist at the 15,20 and 25 year points (with the first break point at end of March 2018). The disclosed commitment is to the first break point. 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. Core Defra occupies 0 percent (2015/16, 0.4 percent) of the building and recharges other occupiers for their share of the costs. Natural England is disclosing this PFI commitment as we occupy 17.3% (2015/16, 16.9%) of the site.

The total future minimum payments for Natural England's share under off balance sheet PFI comprises:

	31 March 2017 £000	31 March 2016 restated £000
Not later than one year	897	872
Later than one year and not later than five years	-	884
Present value of obligations	897	1,756

2016/17 figures have been restated due to a change in the assumptions used in calculating the minimum future payments.

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

There was no charge to the Statement of Comprehensive Net Expenditure in respect of off-balance sheet PFI transactions during 2016/17 or 2015/16.

17 Other financial commitments

The below contracts have been disclosed, as cancelling them would create an adverse operational impact to Natural England in respect of occupation of property, Business Continuity Planning, and the incurrance of considerable financial penalties. The commitment for the Interserve estates facilities management (FM) contract includes the core FM contract, Reactive FM and all approved contract variations that impact the future cost of the contract. The payments are consistent with arrangements containing a lease as defined by IFRIC 4. The commitment for the Interserve FM contract is subject to change as the size of the Estate adjusts through strategic alignment.

	31 March 2017 £000	31 March 2016 £000
Not later than one year	499	751
Later than one year and not later than five years	1,996	3,005
Later than five years	1,001	2,258
Present value of obligations	3,496	6,014

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 2017	31 March 2016
	£000	£000
Not later than one year	15,829	16,376
Later than one year and not later than five years	15,288	13,497
Present value of obligations	31,117	29,873

18 Contingent liabilities disclosed (IAS 37) and claims against Natural England

Natural England has the following contingent liabilities;

	31 March 2017	31 March 2016
	£000	£000
Claims and Litigation	1,386	292

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 the results of Natural England.

A contingent liability has been identified in relation to an issue being considered under the HMRC compliance audit which has been ongoing in 2016/17. Work continues in finalising the compliance audit over 2017/18 and part of this will identify and confirm whether Natural England does have a present obligation which could lead to a future outflow of resources. At this stage the amount of any such potential liability is unquantifiable.

19 Events after the reporting date

In accordance with the requirements of IAS 10, events after the reporting period are considered up to the date of which the accounts are authorised for issue by the Accounting Officer which is the date of the Certificate and Report of the Comptroller and Auditor General.

20 Related party disclosures

Natural England is an Arm's Length Non-Departmental Public Body within the Defra group; Defra is therefore 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 entities within the Defra group, for which Defra is regarded as the parent department; Animal and Plant Health Agency, Environment Agency and the Rural Payments Agency. Natural England has had a small number of transactions with other government departments and other central government bodies. Of these transactions, most have been with the Health & Safety Executive and the Natural Environment Research Council.

The following table shows the organisations where our Board or senior staff members have a related party interest.

Member / Senior staff	Corporate related body	Total payments made (Goods & Services)	Total income received	Amount owed by Natural England at 31 March 2017	Amount owed to Natural England at 31 March 2017
Related Party Disclosures		£000	£000	£000	£000
Andy Clements	British Trust for Ornithology	198	-	25	-
Joe Horwood	Joint Nature Conservation Committee (JNCC)	36	-	4	-
Simon Lyster	Northumbrian Water	2	1	-	-
Teresa Dent	Game & Wildlife Conservation Trust	40	-	-	-
	Game & Wildlife Conservation Trading Ltd	2	-	-	-
	Langholm Moor Demonstration Project	19	-	-	-
John Varley	Environment Agency	388	244	13	103
Nigel Reader	Natural Resources Wales	8	162	-	16
	Animal & Plant Health Agency	23	27	-	4
	Joint Nature Conservation Committee (JNCC)	36	-	4	-
	Marine Management Organisation	3	-	3	-

Transactions shown in this table are between Natural England and the organisations for which board members have declared an interest. No board member, chief officer or senior manager has undertaken any material transactions with Natural England for which they have declared an interest. Further information on Board members and chief officers can be found in the remuneration report.

In addition to the above disclosures, Andrew Sells, Natural England's Chairman is an ex officio member of Defra, NE's parent department who provide the majority of NE's funding.

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