

Natural England Annual Report and Accounts

1 April 2017 to 31 March 2018

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Natural England

Annual Report and Accounts
1 April 2017 to 31 March 2018

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Natural Environment and Rural Communities Act 2006.

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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's aim is to be at the forefront of implementing the Government's ambition to be the first generation to leave the natural environment in a better condition than we found it. Natural England seeks to deliver on this ambition as a statutory adviser to Government, helping to develop the laws, policies and plans to help make England a great place to live. Our contribution is based on an understanding of the attributes of healthy, resilient landscapes and combines an evidence-based approach, a practical knowledge of delivery and a deep understanding of policy-making. Our organisation uses its combination of national and local expertise to express local needs in national and international context.

Conservation 21, Natural England's conservation strategy, is now firmly embedded within our culture. Noting the importance of ensuring it remains embedded we continue to endeavour our culture develops at the pace and direction required. Conservation 21 has informed and complements Government's 'A Green Future: Government's 25 Year Plan to Improve the Environment', launched this year. Natural England made significant input to the development of the plan. Our approach - to work at a land- and sea-scape scale, to put people at the heart of our work and to see greater investment in natural capital - will be important in helping us, as part of Government and the Defra group, deliver our ambitions for a thriving, healthy, resilient environment that we are so reliant on for our health and well-being.

This year we were pleased to see our work highlighted by the House of Lords Select Committee, as we gave written and verbal evidence on two occasions alongside Defra, on the implementation of the Natural Environment and Rural Communities (NERC) Act 2006. We were able to discuss a wide range of issues, touching on our move to a local delivery model which sought mutual benefits and outcomes at a landscape scale, as well as some of Natural England's achievements across biodiversity, landscape and access.

The extension this year of the Suffolk Coasts and Heaths Area of Outstanding Natural Beauty (AONB) illustrates our landscape scale environmental ambitions, where AONB designation will serve to look after and highlight the natural beauty and heritage of the area. Through delivery of the AONB Management Plan and wider working of the AONB Partnership (with which our local Area Team is directly involved), there are opportunities to deliver a range of Natural England's Conservation 21 priorities and to help local partners and communities to engage in the conservation and enhancement of the area.

Our work at sea to protect a 'blue belt', the Government's commitment to provide long term protection of over four million square kilometres of marine environment. This year we have successfully delivered advice to Defra for Tranche 3 of the Marine Conservation Zone project, including advice on mobile species and new sites, and on four proposed Special Protection Areas. In our advice to Government role, we have also reported on the impact of fisheries displacement from Marine Protected Areas and how to address the issue to inform future Defra and Marine Management Organisation policies.

Our evidence work continues to underpin our decision-making. Key projects for this year include technical advice to the GO-Science toolkit - the definitive cross-government guide for how to think more strategically and over the longer term using a suite of different futures tools. We are also making great progress in using earth observation to support our delivery and monitor the environment. We have developed and published the Living Maps approach to mapping vegetation using satellite data such as that provided by the European Sentinel satellites. We have used this in the Defra Pioneer areas and are looking at using this approach to produce a national vegetation map for England to support for example a net gain approach to development planning.

Our performance in terms of Countryside Stewardship (CS) and Environmental Stewardship (ES) is the part of the business we need to improve. We have fully recognised that delivery of the scheme has fallen short of customer expectations and the commitments made. The Natural England Board has now re-prioritised this as its key focus, and we are working collaboratively with the Rural Payments Agency (RPA) and Defra to put in place a recovery programme for CS. This builds on the changes already put in place by Natural England, Defra and RPA to enhance the IT and reduce evidence requirements. More radical options are now called for which the Defra group will take forward. We are working hard to clarify Natural England's delegated authority role in terms of purpose and activities relating to agri-environment schemes. Looking to the future, we are learning the lessons to inform any new scheme following our exit from the European Union.

Internally, we have taken steps to review our governance and culture, in part in response to lessons learnt from agri-environment delivery. We operate within a governance structure which enables us carry out our statutory duties within our Governance Framework, and this year we published our Natural England Framework Document. This replaces the Management Statement and Financial Memorandum that was adopted when Natural England was vested in 2006. The document provides a public statement of Natural England's legal status and of the way that we commit to work with Parliament, Defra, our stakeholders and our customers. We are taking this work even further by working with UK Government Investments (UKGI) to review whether the governance model for Natural England as an arm's length body of Defra works effectively in accordance with best practice.

We firmly believe our staff are our greatest asset and we feel our collective wellbeing is of utmost importance. This year we have agreed a new, challenging key performance indicator for our staff as well as re-energised the Equality, Diversity and Inclusion and Wellbeing Groups. Our progress has been noted by the charity MIND: Natural England achieved a Bronze award in the 2017/18 Workplace Wellbeing Index. This is the first year that we have taken part in the Index and means that we have started the journey to better mental health at work by developing and implementing initiatives which promote positive mental health for staff.

Looking ahead to 2018/19, we want to focus our delivery on our role as an expert, evidence-based environmental leader, a skilled and respected convenor, and a strong independent authority and accreditor reinforcing positive performance. We will continue to use our tried and tested outcomes approach, so that we are able to deliver environmental benefits to the people and places where they are needed most. Our priorities include inspiring new generations, expanding our use of net biodiversity gain and bringing about nature recovery.



James Cross
Chief Executive,
Natural England

26 June 2018

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 25 year Environment Plan and the Defra Strategy



On 11 January 2018, the Prime Minister, Theresa May, and Environment Secretary, Michael Gove, **launched the Government's landmark 25 Year Environment Plan**, which sets out a comprehensive and long-term approach to protecting and enhancing natural landscapes and habitats in England for the next generation. Its goals are simple: cleaner air and water; plants and animals which are thriving; and a cleaner, greener country for us all. The key commitments of the plan have been incorporated into the Defra Strategy. As part of the Defra group the work that Natural England 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 2019/2020 the end of the current spending review period. The strategy also includes what aspects of work ministers prioritise. 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 Business 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 Business 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 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.

Natural England contributes largely to the Environment and Rural outcome systems, but also feeds into the other two systems to a smaller degree.

The Natural England Board is responsible for ensuring that Natural England fulfils the aims and objectives set by the Secretary of State for Environment, Food and Rural Affairs. The main roles of the Board are to:

- **establish Natural England's strategy and that this aligns with the Defra group overall strategy**
- approve **Natural England's** direction
- review **Natural England's** performance

The Board sets the strategy to advise the Senior Leadership Team and to scrutinise performance. The Board is appointed by the Secretary of State and is made up of a Chairman and nine members (As at 31st March 2018 there were 14 members including the Chairman as we transitioned between new members joining and others nearing the end of their term). Details of the board and Senior Leadership team are included in the Governance Statement.

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 set out the approach that has shaped the way we work, the way we make decisions, and the way we work with others. The strategy required a shift of 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 are moving 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 (please see Annex two for further details).

Natural England was closely involved in the design of the Government's 25 Year Environment Plan. We will play a strong role in delivering its ambition, particularly as it references a number of our outcomes and will help to put in place the changes needed to help deliver our Conservation 21 Strategy.

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.

Natural England has developed its upland delivery programme in earnest, putting in place the foundation for securing voluntary changes to burning on blanket bog through the development of long term restoration plans with landowners, this is a high priority work area for 18/19.

Defra Ministers, in discussion with the Permanent Secretary have considered options on the delivery of Countryside Stewardship (CS) and Environmental Stewardship (ES). A range of options were developed using insight gathered from senior leaders across the Defra Group, including the Chief Executives of both Natural England and the Rural Payments Agency (RPA). It is considered that Administration of Common Agricultural Policy (CAP) schemes in a single organisation could provide opportunities for a more joined-up service for staff and customers. The options included consideration of the impacts on staff; processes; IT systems; and customers. After careful review senior Defra leaders have decided to move administration work on CS and ES from Natural England to RPA. The transfer will involve moving Natural England staff who work on CS and ES administration to the RPA by autumn 2018. This decision has no impact on these 2017/18 Annual Report and Accounts, but will be represented in the 2018/19 Annual Report and Accounts.

Key issues and risks

We continue to follow a consistent approach to risk management across the organisation as set out in our risk strategy. We also continue to work with the Defra Group to establish and embed greater integration, including common language and escalation processes, for risk management.

Our approach to risk management aims to identify risks that may prevent us meeting our stated outcomes. There is a strong link between our performance reporting and the risks identified on our corporate risk register. A number of the risks identified below (particularly Countryside Stewardship Delivery and Biodiversity 2020) explain the reasons for underperformance, as shown in the performance section of this report, and the mitigating actions applied in-year to address these issues.

During 2017/18 a number of operational issues and risks have been identified and managed in line with our Risk Control Framework.

Issues and Risks	Actions Taken
Countryside Stewardship Delivery	
<p>Challenges associated with systems and processes result in late delivery of agreements and payments for Countryside Stewardship, falling outside the agreed target dates. An associated impact, due to the diversion of resource, has led to the late delivery of payments for Environmental Stewardship customers.</p>	<ul style="list-style-type: none"> ▪ Development of a Countryside Stewardship Transactions Hub with a view to transferring management out of Natural England ▪ Delivery of the actions in the current Countryside Stewardship Action Plan aimed at stabilising delivery. ▪ Options to simplify Countryside Stewardship delivery agreed with Secretary of State and now launched. ▪ Introduce a fast track process to make Environmental Stewardship advance payments. ▪ Increase the staffing levels for Environmental Stewardship.
Biodiversity 2020	
<p>Policy and operational decisions, particularly around agri-environment lead to Biodiversity 2020 targets being missed, with consequential outcome and reputational impacts</p>	<ul style="list-style-type: none"> ▪ Regular analysis of progress is completed and reported to Biodiversity Programme board, with mitigating policy and operational actions identified. ▪ Use stakeholder fora and engagement to encourage land manager action, communicate positive story of progress and manage expectation. ▪ Target Countryside Stewardship applications to support Biodiversity 2020 targets. Identify larger scale opportunities to support long term improvements in biodiversity as part of the Conservation Strategy.
EU Exit Day 1 Readiness	
<p>If we don't resource up / plan for EU Exit 'day 1 readiness', there is a risk we won't be able to (i) support Defra with delivery-literate analysis and advice and (ii) implement required actions by day 1 to ensure that our business and the services we operate continue without disruption, are legally compliant, minimise risk for customers and continue to facilitate achievement of outcomes.</p>	<ul style="list-style-type: none"> ▪ Prepare a resourced and phased plan to manage the identified critical changes in a controlled way aligned with the EU Exit timetable. ▪ Work closely with operational and Defra policy teams to understand the required extent of changes, (and also the stability of interpretation of relevant laws and regulations) and capitalise on the opportunity to plan

	<p>early so that we can identify measures/fixes and the resources required for Day 1 readiness preparation.</p> <ul style="list-style-type: none"> ▪ Continue to articulate the case made to Treasury for resources to enable Natural England to plan for Day 1 Readiness and provide essential delivery-literate support for Defra policy development. Recruit at risk for critical EU Exit posts. ▪ Ensure adequate Natural England legal/paralegal resource is able to provide operationally-literate advice as the Withdrawal Bill work progresses and Statutory Instruments are developed.
Species Extinction	
<p>Resources and priorities, and thus actions, are inadequate to meet the Biodiversity 2020 target to secure an overall improvement in the status of our wildlife and to prevent any further human-induced extinctions of known threatened species.</p>	<ul style="list-style-type: none"> ▪ Design and plan for an implementation of a post-EU Exit agri-environment scheme that can deliver dedicated, targeted species recovery measures as well as generic species benefits through habitat restoration and creation. ▪ Explore potential for increased funding for species research requirements from alternative sources, e.g. NERC and universities. ▪ Develop a priority species investment programme with Defra and partners to address urgent and high priority actions for species recovery and immediate extinction risk.

Culture Change	
<p>Conservation Strategy (C21) ways of working are not adopted by staff throughout the organisation and they continue to do things in the way they have always done resulting in partnership working not being progressed, environmental benefits not being fully realised and efficiencies not achieved.</p>	<ul style="list-style-type: none"> ▪ Comprehensive engagement programme endorsed and led by the Senior Leadership Group (SLG), including events in June/July 2017 at all office locations. ▪ Feedback from the Staff Survey late in 2017 shows that 82% of staff understand C21 sets the context for change and a new direction for Natural England (an increase of 9% from March 2017). ▪ Managers and Team Leaders need to use the performance management toolkit appropriately. ▪ Launch of the 1st tranche of the C21 skills development programme in August 2017.

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 2018/19 is included in the Defra estimates which have already been approved by Parliament.

Other income to 31 March 2018 is made up £27.9m of our total receipt, and included £15.7m 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.

Protected sites

Our outcomes-led designations strategy continues to protect new and existing sites across the **country, both at land and at sea, directly supporting Conservation 21 and Government's 25 Year Plan**. The published pipeline includes all areas, sites and trails that Natural England is considering in its designation programme. Notable designations this year include Mid Cornwall Moors Site of Special Scientific Interest, an important focus area where we have worked proactively with our partners on award-winning habitat creation alongside infrastructure development, appropriate land management and community engagement. Our outcomes approach here has seen us support economically significant infrastructure projects (such as the A30 road scheme), and socially beneficial projects (such as a multi-use trail). This designation is linked to the Mid Cornwall Moors LIFE project, where we have worked in partnership with land managers to increase the extent of suitable habitat for marsh fritillary butterfly in and around existing designations. It also brings together the special interest of the overall area within a single landscape-scale designation covering approximately 1,600 hectares.

Access and engagement

On our Lower Derwent Valley National Nature Reserve (NNR), for the past three years, our team have been working with an organisation using outdoor learning and bespoke teaching techniques to build the confidence of young people who are unable to thrive in mainstream classrooms. Putting young people at the heart of our work on the NNR has been highly praised by the local education authority for its successes in turning the lives of these young people around through a range of activities from bird and butterfly surveys to bird box building to footpath maintenance. This activity has given students an interest and understanding in land management and conservation and helped the NNR save £5,000 per year in work undertaken. It has also attracted additional funding through grant applications (including a £2,000 Tesco Bags for Life project) to the NNR.

Cost recovery

We continue to meet our ambitious targets for diversifying our income streams by exploring innovative and exciting methods; this year we have cost recovered £5m through HLF, LIFE and crowdsource funding to benefit ground-breaking projects. Our crowdfunding efforts, via public donations, has helped purchase bird hides, land and even sponsorship to help care for our herds of native ponies which live and graze on the Lizard and Goss Moor NNRs. These innovative approaches really enable public support and ownership of our natural environment.

External funding

The Department for Education (DfE) have committed £10m, to fund 4 projects within the 25 Year Environment Plan, covering themes from outdoor learning and mental health through to youth social action, skills and employability. This new collaboration between Natural England, Defra and the DfE will support pre-school children, school aged children and young people from our most deprived areas to engage with the outdoors. We are leading the development and design of the contract specification and will be overseeing the implementation and evaluation of the projects.

Partnership working

The Heritage Lottery Fund has approved development and initial funding of £3.8m for the 5 year "Bats in Churches" partnership project. The partnership including Natural England, Church of England, the Bat Conservation Trust and the Churches Conservation Trust builds on project work carried out by Defra and Historic England which researched practical techniques and approaches to reduce the impact of bats. The ground-breaking project will trial new techniques to enable bats and church congregations to live together harmoniously, build up professional expertise and volunteer skills to share the best solutions with hundreds of churches and bring together church **communities and bat enthusiasts to create a shared understanding and appreciation of England's** historic places of worship and our rare flying mammals.

Advice to regulators

Through its strategic licensing approach, Natural England is providing advice to regulators creating win-win situations for wildlife, business and people. After developing a conservation plan across a District or Borough, identifying the current distribution of species of conservation concern and potential new habitat for these, local planning authorities are granted an organisational licence by Natural England. This enables the targeted creation of new habitat, where it will have the greatest conservation impact, to take place before development starts. It is **better for wildlife because it creates 'bigger, better, joined up' habitat which benefits populations** of great crested newt and other biodiversity. It is better for business because it reduces delays, uncertainties and associated costs for developers, councils and Natural England. It is better for people because it helps ensure homes get built and it improves the environment.

Performance

We monitor our performance via a suite of key performance indicators which are set out at the start of the financial year in the Natural England Action Plan. These indicators reflect our priorities, as agreed with Defra, and provide a line of sight to the Single Departmental Plan. There is a clear link between our performance reporting and approach to risk management. For those indicators where there is an element of underperformance, and risk to delivery targets, these have also been captured in-year on our corporate risk register. Details of mitigating actions implemented to minimize the underperformance have been included within the key risks and issues section of this report.

Overall, we have achieved a good operational performance, demonstrated by 12 of our 15 Key Performance Indicators (KPIs) rated Green/Amber Green, achieved against a further backdrop of challenging targets and driving in-year efficiency savings. We are committed to continually improving our performance through targets aligned to our Conservation 21 strategy and Defra objectives. We reported our 15 KPIs as set out in our 2017/18 Action Plan to our Board on a monthly basis. **We also reported high level progress through Defra's Board on a quarterly basis and in** regular performance review meetings with the Secretary of State.

Summary KPI Performance		
RAG Status	% of expected performance	No of targets
Green	100 per cent or more	5
Amber Green	99.99-90.01	7
Amber Red	90.00 and 80.01	2
Red	80.00 or less	1
Total		15

Performance Analysis

Natural England's 15 Key Performance Indicators and measure of 2017/18 performance;

KPI	Performance
<p>01 - Improve the condition of terrestrial protected sites (including freshwater and wetland SSSIs):</p> <ul style="list-style-type: none"> 5,000 hectares of SSSIs in favorable condition. <p>This KPI focuses on delivering sustainable outcomes for environmental features on protected sites in the longer term, as set out in Government's 25 Year Environment Plan. The 3,368 hectares of SSSI land on which partners, land managers and Natural England secured favorable condition this year are an important contribution to the 25 Year Plan target. The shortfall in the predicted improvement in 2017/18 was small in the context of the overall 25 Year Plan and represents a delay in securing favorable condition, rather than a decline in condition.</p>	Amber/Red
<p>02 - Terrestrial priority habitat (maintain existing and increase extent of new habitat) :</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. <p>The final data for new 2018 Countryside Stewardship (CS) agreements is not available until start dates are 'Live' or 'In Progress' which takes place after the publication of our 2017/18 Annual Report and Accounts. Our projection is that we will maintain the baseline of 577,179 hectares of existing priority habitats and increase the extent by more than 10,000 hectares to deliver on our first metric. The latest data for the second metric indicates 676 hectares of priority habitat creation from CS options. There are also an additional 680 hectares of woodland creation. Overall performance against the combined two metrics is 'Amber Green'.</p>	Amber Green
<p>03 - Support priority species and pollinators through Countryside Stewardship:</p> <ul style="list-style-type: none"> 36,667 hectares of arable field margins in 2017/18 entered into the Wild Pollinator and Farm Wildlife Packages in Countryside Stewardship. <p>Cumulatively 2016 and 2017 'live' Countryside Stewardship (CS) agreements support 56,405 hectares of Wild Pollinator and Farm Wildlife Package (WPFWP) options which meet the package criteria, of which 13,852 hectares are arable field margin priority habitat options. The final data for new CS 2018 agreements is not available until the start dates are 'Live' or 'In Progress' which takes place after the publication of our 2017/18 Annual Report and Accounts. Our performance out-turn is based on a modelled projection knowing that previously 47.1 per cent of all CS agreements delivered the WPFWP in full, mostly through Mid-Tier agreements.</p>	Amber Green
<p>04 - Customers of Countryside Stewardship and Environmental Stewardship receive a high quality and timely service:</p> <ul style="list-style-type: none"> 96.15 per cent of payments for both schemes made within target. 	Red

Natural England has continued to focus on the priorities agreed with the Secretary of State, i.e. recovering the position on Environmental Stewardship (ES) and Countryside Stewardship (CS) advance/final payments and issuing 2018 CS agreements. Whilst progress has been made, the situation is unacceptable and this **target is currently 'Red'**. **At the end of March, we had paid 56 per cent of 2017 CS advance claims and 2.4 per cent of 2017 CS final claims**, as well as 71 per cent of 2017 ES advance claims and 33 per cent of 2017 ES final claims. We have agreed a series of actions with the Secretary of State, which will improve performance. Natural England, RPA and Defra are working closely together to drive forward a series of measures, focusing on how this will affect farmers and landowners rather than list process improvements. New payment profiles are being produced and new, more comprehensive weekly management information is being shared with Ministers.

05 - Natural England contribution of the £3 billion Common Agricultural Policy (CAP) funding to enhance England's countryside by 2020:

Green

- £354.8 million (subject to ongoing discussions with Defra).

The planning assumption of £354.8 million in our 2017/18 Action Plan was subject to ongoing discussion with Defra and a full review resulted in a formal allocation of £325.1m, which was amended to £314.2m in December. Our final outturn was £311.1 million. The variance of £3.1 million was directed to EU funding which will be rolled forward and resulting in a balanced exchequer budget.

06 - Reduction in diffuse water pollution in priority catchments

Green

- 4,292 priority farm holdings engaged as identified in Local Delivery Plans.

During 2017/18, we engaged 4,824 priority farm holdings identified in Local Delivery Plans. This performance **reflects the success we have had in meeting farmers' demands for Countryside Stewardship Mid-Tier applications**.

07 - Deliver the accelerated programme for the creation of the England Coast Path by 2020:

Amber Green

- 3,033 kilometres (cumulative to date) submitted to the Secretary of State for approval.

The England Coast Path Programme remains on track for completion by the end of 2020. Work is at various stages of completion on 66 stretches totalling 4,354 kilometres and representing all of the English coast.

08 - Deliver advice to Defra on the network and management of Marine Protected Areas (MPAs):

Green

- Up to 69 MPA Designations advised on [comprising 6 possible Special Protection Areas (pSPAs) and 63 Marine Conservation Zones (MCZs)];
- 15-25 final and 15-25 draft Conservation Advice packages provided;
- 23 sites advised provided to marine authorities;
- 3-5 sites assessed.

We have delivered advice to Defra on 73 Marine Protected Areas (MPAs) comprising 10 Special Protection Areas, with Defra requesting that we undertake further informal dialogue with stakeholders before submitting the eleventh; and 63 Marine Conservation Zones (MCZs) to support Defra in recommending sites for consultation. Our preparation for the delivery of MCZ post-consultation advice remains on track at year-end. Conservation Advice packages have been published for 51 MPAs in 2017/8, consisting of 34 final advice and 17 draft advice packages. We provided advice to marine regulators on 55 byelaws to help them implement measures on European Marine Sites and Tranche 1 MCZs. We completed condition assessments for 6 sites. **Overall performance against the combined four metrics is 'Green'**.

09 - Continue to deliver significant improvements in availability of, and access to, evidence:

Amber Green

- 100 new evidence publications;
- Improved evidence base in Focus Areas supporting Natural England's Conservation Strategy (C21) shifts;**
- Earth Observation (using new technologies) – Unmanned Aerial System

<ul style="list-style-type: none"> ▪ (UAS) service to improve local evidence provision; ▪ Pilot reformed approaches to Protected Sites monitoring; ▪ Strategic modelling service to support Great Crested Newt district licensing, 25 year plan Environmental Analysis Unit (EAU) and Natural England Area Teams. 	
<p>We published 68 evidence publications with 6 further documents where we were awaiting confirmation to issue. Although good progress in a number of areas, we have not been able to consistently establish baseline needs for to provide science and evidence support and advice for all 14 of our priority Focus Areas. We achieved all of our activity targets for earth observation using new technologies enabling Natural England to commence pilot data collection. We delivered all of our ambitions this year to develop new pilot reformed approaches to Protected Sites monitoring. Our strategic modelling service has been of great help supporting the development of Great Crested Newt district licensing and Government's 25 Year Environment Plan. Overall performance against the combined five metrics is 'Amber Green'.</p>	
<p>10 - Respond to all planning application consultations within agreed deadlines:</p> <ul style="list-style-type: none"> ▪ 95 per cent responded to within agreed deadlines. 	<p>Green</p>
<p>During 2017/18 we responded to 95.94 per cent of our 13,659 planning applications consultations from Local Planning Authorities within 21 days or other agreed deadline.</p>	
<p>11 - Facilitate the take up of strategic wildlife licences to reduce time and cost burdens on our customers:</p> <ul style="list-style-type: none"> ▪ Complete a programme of reforms to wildlife licensing, increasing uptake of strategic licences and deliver additional capacity for the provision of strategic species advice; ▪ 15 Local Planning Authorities (LPAs) adopting Great Crested Newt (GCN) licences. 	<p>Amber Green</p>
<p>We have continued to implement a range of reforms that guide potential applicants away from individual licence applications and towards easier and cheaper solutions. This includes class licences and enhancement of our pre application services as well as support for Great Crested Newt district licensing which, at the end of the first year of the three year programme is broadly on track to deliver across 150 Local Planning Authorities. Overall performance against the combined two metrics is 'Amber Green'.</p>	
<p>12 - We increase the level of income generated through chargeable services:</p> <ul style="list-style-type: none"> ▪ £4 million of income generated. 	<p>Amber Green</p>
<p>Our final commercial income performance for 2017/18 was £3.91 million, 2.2 per cent below our target of £4 million, but in line with our projections from the last two months. This is an increase of £0.7 million (23 per cent) from the previous year and maintains the trend of strong and consistent growth over the last three years.</p>	

<p>13 - We will deliver an inclusive workplace for our staff:</p> <ul style="list-style-type: none"> ▪ 85 per cent of staff agree that Natural England is an inclusive workplace; ▪ 3 per cent reduction in staff / respondents to the staff survey who report incidents of bullying, harassment and discrimination. 	<p>Amber Green</p>
<p>90 per cent of staff agreed that Natural England is an inclusive workplace in our 2017/18 annual staff survey, up from 88 per cent in March 2017. However 6 per cent of staff reported that they had been bullied or harassed, up from 5 per cent in the same previous survey. Overall performance against the combined two metrics is 'Amber Green'. Natural England took part in the MIND well-being survey for the first time this year. We successfully achieved their bronze award which is a huge achievement it being our first time taking part. MIND have produced recommendations on how we may improve our overall rating which we will take forward.</p>	
<p>14 - We deliver a healthy workplace for our staff:</p> <ul style="list-style-type: none"> ▪ We have more Near Hits than Accidents that cause harm, i.e. for every Accident there are 2 Near Hits – ratio 1:2. 	<p>Amber Red</p>
<p>This year we recorded 187 Near Hits and 161 Accidents, a ratio of 1.16 / 1. We have continued to see a range of positive actions to address wider health and safety risks as well as increased staff engagement in taking personal responsibility for their own and colleagues' health and safety at work.</p>	
<p>15 - We deliver our financial outturn to agreed forecast:</p> <ul style="list-style-type: none"> ▪ 100 per cent actual spend to budget. 	<p>Green</p>
<p>Our year end outturn was £0.1million / 0.1 per cent underspend against our full year forecast of £99.2 million (including depreciation and capital excluding notional recharges).</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 2017 - 31 March 2018. 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. 2017/18 is the second year of the CSR 2015 settlement which covers the spending plans for the period 2016/17 to 2019/20.

Natural England's original 2017/18 Grant in Aid (GiA) settlement was £85.4m. Several in year adjustments were made including additional funding for: Peatlands; Bovine TB; National Trails; National Nature Reserves; and the rollout of the district level licensing approach for great crested newts, resulting in a total GiA receipt for 2017/18 of £105.6m (2016/17 £105.9m).

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 the 12 month period to March 2018, **Natural England's total** GiA drawn down was £105.6m (2016/17 £105.9m) which made up 79% 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). To 31 March 2018, Natural England administered £311m (£346m 2016/17) of payments to landowners and farmers for the environmental benefits delivered. This spend is accounted for by Defra and RPA, 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.

Human Rights Disclosure

Natural England has an obligation to ensure that all their actions respect the human rights of those who work for them and for whom they provide services. There has not been any litigation against Natural England alleging a breach of the Human Rights Act 1998 during 2017/18.

Social Community Statement

Natural England actively seeks 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, with 50 stretches of coast totaling 3,033 kilometres at various stages in our Coastal Path programme.

Anti-corruption and anti-bribery matters

Natural England will not accept any level of fraud or corruption. All Natural England Board Members, Chief Officers, Directors, Area Managers and staff must follow the relevant Natural England Code of Conduct, the policy on Regularity and Propriety and all other relevant procedures and policies.

All cases of irregularity and suspected fraud will be thoroughly investigated and dealt with appropriately. Natural England is committed to protecting public resources, revenue, property, information and other assets from any attempt, either by members of the public, contractors, sub-contractors or its own employees or volunteers, to gain by deceit, any financial or other benefits.

The Defra Group Counter Fraud Strategy and Policy applies to all Natural England Board Members and staff whether permanent, part-time, fixed term, casual employees or volunteers of Natural England, and to any temporary staff, **consultants or contractors working on Natural England's** behalf. Natural England has a dedicated fraud response plan and a fraud risk register which is regularly reviewed in light of emerging issues relating to fraud and irregularities.



James Cross
Chief Executive,
Natural England

26 June 2018

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

The board is made up of ten Non Executive Board Members, including the Chairman, and full details can be found in the Remuneration and Staff report. (As at 31st March 2018 there were 14 members including the chairman as we transitioned between new members joining and others nearing the end of their term). 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 2017 and March 18, 71% (2016/17, 76.4%) of Natural **England's** payments to suppliers were 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 2017/18.

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, there were;

- Ten losses of equipment – one mobile phone was lost in the office, eight mobile phones have been lost in the field or on public transport whilst turned on and therefore not adequately protected. None contained OFFICIAL SENSITIVE material but some will

have contained contact numbers for colleagues/partners etc. All phone accounts were locked as soon as the loss was identified. One laptop has been unrecoverable due to it being stolen from a car break-in. The Police were informed.

- Seven unauthorised disclosures of information: -
 - Three emails were sent to incorrect recipients, recipients were contacted and confirmed emails had been deleted.
 - Three incidents of CC being used instead of BCC and therefore revealing email address to other recipients of the email. Apologies were issued in all cases.
 - One case of personal (post code) data being included on a report on people who took part in a survey. The report was available online for just over a month before the mistake was spotted and the report taken down. Post code data does not directly identify individuals but was not necessary for the report and should not have been included. Data Protection Act team were involved.

Category	Nature of Incident	Total
1	Loss of inadequately protected electronic equipment, devices or paper document from secured Government premises.	1
2	Loss of inadequately protected electronic equipment, devices or paper document from outside secured Government premises.	9
3	Insecure disposal of inadequately protected electronic equipment, devices or paper documents.	-
4	Unauthorised disclosure	7
5	Other	-

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 expenditure, **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 17-18

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 2017-18.

Natural England has continued to maintain effective governance and internal controls over the last twelve months. The Natural England Audit and Risk Assurance Committee (ARAC) annual report for 2017-18 concluded that the comprehensiveness, reliability and integrity of the assurances provided from the various sources scrutinised by ARAC 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 Natural England Framework Document which was published in September 2017 as a replacement to the Management Statement and Financial Memorandum. The Board comprises the Chairman and nine other non-executive members (there were thirteen Board members in post as at 31st March 2018 due to transitional arrangements between incoming and outgoing members) appointed on an individual basis and not as representatives of any organisations.

The Board has met on nine occasions in 2017-18. 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, along with other strategic issues) and reports received from its committees. Under the Natural England scheme of delegation the Board are accountable for major decisions such as designations where there are substantive appeals. In 2017/18 two such sessions were held to approve the designation of West Pennine Moors and Mid Cornwall Moors as Sites of Special Scientific Interest.

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, and is shown in table 1 below;

Table 1

Member	Attendance (No)
James Cross (Chief Executive)	9/9
Andrew Sells (Chairman)	9/9
Julia Aglionby	9/9
Andy Clements	8/9
William Cockbain	7/9
Teresa Dent	9/9
Joe Horwood	9/9
Simon Lyster	9/9
Nigel Reader	9/9
Michael Winter	6/9

Note: Five new Board Members were appointed on 11 March and all attended the March Board meeting.

In order that the Organisation benefits from the range of skills offered by Board Members, Task and Finish Groups led by Board members and including senior officers have continued to meet on a regular basis. These groups have included the Board Innovation Group and the Uplands Working 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 Natural England 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 Chief Officer for Legal and Governance, the Director of Corporate Governance and the Defra Finance Business Partner.

Major areas of work considered during the financial year included:

- The Annual Report and Accounts for 2017-18.
- **A regular review of NE's Risk Management approach and its integration with the evolving risk management framework for Defra Group**
- 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 the continuing Corporate Services Transformation Programme which has delivered the move to Defra Group provision of HR, Finance, Communications, ICT, Commercial and Estates services to Natural England
- The assurance work carried out in Natural England to ensure the risk-free delivery of the **RDPE schemes that the organisation supports and to demonstrate Natural England's** delivery of its obligations as an RDPE delegated body.
- **Oversight of Natural England's Day One Readiness work for the Defra EU Exit Programme (D1R)** to ensure that at exit, Natural England maintains business continuity and there is no disruption to our work and services.
- 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 2017-18 included

- A seminar looking at how we use different forms of evidence in decision making;
- Advising on the development of our social science work;
- Helping develop our thinking around securing net gain from developments;
- Providing ongoing advice on developing our approach to assessing favourable conservation status of species and habitats;
- Contributing to Conservation 21 implementation work on resilient land and seas and farmland conservation;
- Providing assurance to NE Board around the evidence for replanting trees on blanket bog.

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 Natural England's Chair and I am responsible for appointing the senior executive officers (known as "Chief Officers") who report to me (collectively "the Senior Leadership Team"). I have been employed as Natural England's Chief Executive and Accounting Officer since 1 September 2014.**

The Natural England 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. It also has oversight of staff wellbeing.

I and Chief Officers meet weekly and are supported at meetings by the Director of Corporate Governance. 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

My performance objectives are agreed with the Board. Progress towards these is assessed in regular performance reviews with the Chairman. I set the performance objectives for the Chief Officers, progress against which are evaluated in regular performance reviews.

The ARAC conducted an assessment of its own effectiveness in a workshop attended by the National Audit Office (NAO) in April 2018. The conclusion of the members was that the Committee was an effective ARAC.

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 Key Performance Indicators. 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.

3. Internal Controls

3.1 Internal controls - process

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. Specifically after the conclusion of each financial year I request and receive personal statements from my Senior Managers that note any potential breaches to management controls over the course of the financial year. 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. The Head of Internal Audit (HIA) provides an annual opinion, based on a range of formal reviews, of the **effectiveness of Natural England's risk management, control and governance.**

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. Natural England does not own, but is a key stakeholder in a number of Defra's business critical models. Hence we gain assurance from the annual cross-Defra process** that reviews the fitness for purpose of these models including the Rural Development Programme for England (RDPE) Future Funding Model (FFM) 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.

I have an accountability, captured in Natural England's Framework Document, to ensure that we have a clear agreed framework for our relationship with core Defra in its capacity as the provider of the key corporate services that Natural England requires in order to deliver its statutory duties and meet the commitments in the annual Action Plan. This is currently being delivered through the construction of a Corporate Services Partnership Agreement that will succeed the current Memorandum of Understanding that is in place with Defra.

3.2 Internal controls - outcomes

A Corporate Assurance Map (CAM) is used to track and monitor the various assurances received by ourselves, both internally and externally. The CAM acts as an aid to understanding how the organisation obtains assurance over its key risks and compliance requirements. For 2017-18, 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 (CGAQ) 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 myself as Accounting Officer.

The overall results of the 2017-18 Corporate Governance Assurance Questionnaire process indicate that the control framework is strong. This gives us a high level of assurance from the business on the control environment and we are continuing to support teams through regular interaction.

Of the thirteen internal audits carried out in 2017-18, three resulted in a substantial level of assurance, with nine moderate and one limited. The limited audit opinion was proposed in relation to preparations for compliance with the General Data Protection Regulation (GDPR). We are in line with the GDPR measures being taken across the Defra group and have an action plan in place to address these findings.

A number of cross cutting audit reviews with joint input from organisations across the Defra group have identified opportunities to further improve controls which impact upon Natural England. On the basis of the evidence from all of these audits, the Head of Internal Audit has reported that moderate assurance can be given (for 17/18) that there is a sound system of internal control, **designed to meet Natural England's objectives, and that controls are being applied consistently.**

As a member of Defra Group, Natural England also benefits from the opportunity to benchmark processes with partner organisations. One example of this related to our work within Defra Group in the development of the new Defra Counter Fraud Policy and Strategy. Through the Group we developed and tested our inaugural submission to the Government Counter Fraud Functional Standards exercise and the evidence from this demonstrates that our controls in this area are working. There were no significant cases of fraud or irregularity identified in 2017/18.

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.

There are some areas where in 2017/18 we have identified shortfalls in control and have taken action to address these shortfalls and to learn from them.

- Following a breach of RDPE controls related to Environmental Stewardship payments in 2016, as reported in the 2016-17 Annual Report, Natural England has implemented a management action plan which was agreed between Natural England, the Rural Payments Agency (RPA) and Defra. **This plan covered a range of actions to address issues related to Natural England's governance and culture with specific focus on elements of RDPE delivery and on reinforcing Natural England's accountabilities as a delegated body. This work has been overseen by Natural England's ARAC and will be completed by a Governance Review of Board effectiveness being carried out by UKGI.**
- Natural England also identified some specific issues with the use of licenses for the Siti-Agri IT system that enables RDPE agreements to be set up and payments to be made. An investigation was carried out which concluded that although there had been localised sharing of some licenses (in some cases as a response to perceived license shortages) this practice was confined to the early stages of setting up agreements and that the processing and approval of payments later on in the process was not affected.
- In October 2017, as part of the routine renewal of Government Procurement Cards, a number of cards were sent to ex Natural England members of staff. As soon as the incident was recognised, the card accounts were closed down. Subsequent investigations confirmed that none of the cards had been used and mitigating actions have now been put in place.

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.

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 2017-18 internal audit of our risk management approach found a system operating effectively with clear evidence to show that risks are being identified, evaluated, escalated and mitigated appropriately.

The key issues and risks are shown in 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.

There have been a small number of whistleblowing cases this year, in some cases an issue has been raised with Natural England and in others the matter has been raised with Defra. In all cases due process has been followed and the lessons learnt implemented.

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

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 August 2019 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.

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 with two other Board **members, make 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 2017, (relating to 2016/17), one non-consolidated performance bonus was paid to a Director and there were three non-consolidated performance bonuses paid to the Senior Leadership Team (see table 2) totaling £37k. No Benefits in kind were paid in 2017/18.

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. CETVs are calculated 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 is the element of the increase in accrued pension funded by the Exchequer. It excludes increases due to inflation and contributions paid by the Minister. It is worked out using common market valuation factors for the start and end of the period.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme (**CSOPS**) known as “Alpha”, which provides benefits on a career average basis with a **normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all** newly appointed civil servants and the majority of those already in service joined Alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: 3 providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded multi-employer defined benefit schemes but Natural England is unable to identify its share of the underlying assets and liabilities, with the cost of benefits met by monies voted by Parliament each year. The scheme actuary valued the PCSPS as at 31 March 2012. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation [here](#). The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2017-18 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who

were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch **to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final** salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may **opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder** pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 3% and 8.05% of pensionable earnings for members of classic (and members of alpha who were members of classic immediately before joining alpha) and between 4.6% and 8.05% for members of premium, classic plus, nuvos and all other members of alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum, classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme **membership. At the end of the scheme year (31 March) the member's earned pension account is** credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

Employees can opt to open a partnership pension account, which is a stakeholder pension with an employer contribution. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in **addition to the employer's basic contribution**). **Employers also contribute a further 0.5% of** pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus, 65 for members of nuvos, and the higher of 65 or State Pension Age for members of alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.) Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensionscheme.org.uk

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	2017/18	2016/17
	Remuneration £000	Remuneration £000
Andrew Sells (Chairman)	60 - 65	60 - 65
David Hill CBE (Deputy Chairman) (Left 1/5/16)	0	0 - 5*
William Cockbain (left 31/3/18)	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 (left 30/4/17)	0 - 5**	10 - 15
Michael Winter OBE (from 22/9/16)	10 - 15	5 - 10**
Catherine Dugmore (wef 11/3/18)	0 - 5**	-
Rt Hon Lord Blencatha (wef 11/3/18)	0 - 5**	-
Sue Hartley (wef 11/3/18)	0 - 5**	-
Henry Robinson (wef 11/3/18)	0 - 5**	-
Marian Spain (wef 11/3/18)	0 - 5**	-

* Full Year equivalent £15-20k.

** Full Year equivalent £10-15k.

During 2017/18 two Non-Executive Directors left Natural England through resignation, and five new Non-Executive Directors joined Natural England.

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:

	2017/18				2016/17			
	Salary	Performance Related Pay	Pension Benefits	Total	Salary	Performance Related Pay	Pension Benefits	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Chief Executive:								
James Cross	140 – 145	10 – 15	41	195 – 200	140 - 145	10 - 15	52	205 – 210
Chief Officers:								
Guy Thompson (Operations) Left 16/2/18 Note 1	90 - 95	-	30	120 – 125	100 - 105	5 - 10	39	150 - 155
Paul Lambert (Transformation) Left 28/2/18 Note 2	145 - 150	10 – 15	31	190 – 195	90 - 95	5 - 10	26	125 - 130
Alan Law (Strategy and Reform)	100 - 105	-	83	180 - 185	90 - 95	-	61	150 - 155
Tim Hill (Science and Evidence)	90 - 95	-	38	125 – 130	85 - 90	-	43	125 - 130
Julie Lunt (Legal and Governance) Note 3	90 - 95	10 - 15	63	160 - 165	10 - 15	-	5	15 – 20

Note 1 - Full Year salary £105-£110k in 2017/18

Note 2 - Full Year salary £95-£100k in 2017/18 but includes compensation for loss of office payment of £60k, for leaving Natural England under the voluntary exit 2010 terms on 28 February 2018.

Note 3 - Full Year salary £85-£90k excluding an adjustment relating to prior year.

Performance related pay paid relates to performance in the prior year.

No Benefits in kind were paid in either 2016/17 or 2017/18.

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	2017/18	2016/17
Highest earner's total remuneration	£155k – £160k	£155k - £160k
Median total remuneration	£26,359	£26,992
Ratio	6.0	5.8

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	2017/18	2016/17
Highest earner pay range	£155k - £160k	£155k - £160k
Lowest earner pay range	£15k-£20k	£5k-£10k

The employees receiving the lowest pay in the pay range are employed as Agency Staff. 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 or Alpha pension schemes.

Pension Benefits - Chief Executive & Chief Officers	Total accrued pension at age 60 and related lump sum (LS) at 31 March 2018 £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	40-45	2.5 - 5	496	450	10
Chief Officers:					
Guy Thompson	20-25	0-2.5	281	251	10
Paul Lambert	25-30	2.5-5	495	427	25
Tim Hill	30 - 35 plus lump sum of 85 - 90	0 - 2.5 plus lump sum of 0 - 2.5	593	535	18
Alan Law	30 - 35 plus lump sum of 85 - 90	2.5 - 5 plus lump sum of 5 - 7.5	623	527	58
Julie Lunt	15-20	2.5-5	250	192	41

Staff Report

Equality objectives

Under the Equality Act 2010, Natural England, like all public bodies, is subject to the Public Sector Equality Duty and must have due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations between people who share a protected characteristic and those who do not. The duty covers age, disability, sex, gender reassignment, pregnancy and maternity, race, religion or belief, and sexual orientation. The duty to have due regard to the need to eliminate discrimination also covers marriage and civil partnership in the workplace. 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 equality, diversity, inclusion and well-being in Natural England is via a **Steering Group. Membership, drawn from all levels, includes 'champions' for each of the legally defined protected characteristics.** There is a separate Steering Group for health and safety.

Workforce and diversity

The following tables summarise **Natural England's** workforce and diversity profile as at 31 March 2018 extracted from the corporate HR management system.

Number of Senior Civil Service staff or equivalent by pay band

	31 March 2018	31 March 2017
	No.	No.
Chief Executive (SCS 3 equivalent)	1	1
Chief Officers (SCS 2 equivalent)	3	5
Directors (SCS 1 equivalent)	12	12
	16	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 and staff seconded in as at 31 March 2018:

	Male	Female	Total
Non-Executive Directors	9	5	14
Management Staff	11	5	16
All Other Staff	1,001	1,280	2,281
Total Staff	1,021	1,290	2,311

Key to addressing the gender pay gap in Natural England will be improving the progression of **women's careers to more senior roles and increasing the number of** women in the main feeder group of Manager / Principal Specialist and Principal Adviser (currently around 41%). Actions in train are the participation in Civil Service talent programmes (recently opened up to Non

Departmental Public Bodies) such as Positive Action Pathways (for under-represented groups) and **Crossing Thresholds (a career development programme for Women)**. **Natural England's own Future Leadership Programme** (run annually) already attracts a predominantly female cohort. Natural England also runs a mutual mentoring scheme and has excellent flexible working arrangements in place to accommodate carers or working mothers. The gender champion and **supporting network is furthering and promoting women's interests and are critical to building a** better understanding of and finding ways to meet the support women say they want to progress their careers. Natural England is continuously looking at and drawing on best practice across the Defra group and wider Civil Service to support women. Through their Human Resources EDI expert Natural England has engaged with other Defra group EDI experts and networks to identify **key issues, potential solutions and how they can be progressed**. **Natural England's EDI Steering group** is currently reviewing these with a view to agreeing priorities (for Natural England). **These will then form Natural England's action plan.**

Staff split by age

16-19	20-29	30-39	40-49	50-59	60+	Total
1	244	521	714	662	169	2,311

Staff split by ethnicity

BAME	White	Prefer not to say	Unknown	Total
41	1,561	4	705	2,311

Staff split by disability

Yes	No	Prefer not to say	Unknown	Total
156	1,270	4	881	2,311

Natural England 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 October/November 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 also included Wellbeing, and gave our people the opportunity to voice their opinions on this. Part of this was the chance to share examples of good support with mental health and wellbeing issues, and also examples of where more support could have been forthcoming. 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 to enable the delivery of Conservation Strategy 21 covering technical and scientific skills as well as the leadership, generic and personal skills that

staff need to work effectively. The introduction of Skills Stores encourages people to drive their own development and be confident in using a range of approaches.

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 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. New occupational health providers were engaged late in the year and we are discussing new arrangements for comprehensive health assessments for staff exposed to health risks such as noise, vibration and harmful substances. The programme of health and safety inspections on National Nature Reserves was carried out as part of our annual auditing of these areas of high risk. Natural England staff working on high risk activities in local area teams were again audited to ensure these risks 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 2017/18. During 2017/18, the average working days lost (AWDL) to sickness absence for Natural England employees was 4.04 days (4.62 days in 2016/17), this compares favorably to the Civil Service national average (based on data to 31 March 2017) of 7 days.

Trade Union Facility Time

In accordance with the Trade Union Regulations 2017, a public sector organisation is required to report on trade union facility time in their organisation. Facility time is paid time off for union representatives to carry out trade union activities;

Table 1 – Relevant union officials

Number of employees who were relevant union officials during the relevant period	Full-time equivalent (fte)
33	1.2

Table 2 – Percentage of time spend on facility time

Percentage of time	Number of employees (Headcount)
0%	0
1%-50%	33
51%-99%	0
100%	0

Table 3 – Percentage of pay bill spent on facility time

	£'000
Total cost of facility time	39
The total pay bill	60,102
The percentage of the total pay bill spent on facility time	0.06%

Table 4 – Paid trade union activities

As a percentage of total paid facility time, how many hours were spent by employees who were relevant	3.38%
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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 2017 to March 2018 there was £54.5k (£34.8k in 2016/17) 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 £245 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 2018, for more than £245 per day and that last longer than six months:

	Number
No. of existing engagements as of 31 March 2018	-
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 or those that reached six months in duration, between 1 April 2017 and 31 March 2018 for more than £245 per day and that last longer than six months:

	Number
No. of new engagements between 1 April 2017 and 31 March 2018 of which:	-
No. assessed as caught by IR35	-
No. assessed as not caught by IR35	-
No. engaged directly (via PSC contracted to department) and are on the departmental payroll	-
No. of engagements reassessed for consistency/ assurance purposes during the year	-
No. of engagements that saw a change to IR35 status following consistency review	-

Table 3: For any off-payroll engagements of board members and/or senior officials with significant responsibility between 1 April 2017 and 31 March 2018:

	Number
No of off-payroll engagements of board members and/or senior officials with significant responsibilities during the financial year.	-
Total number of individuals on payroll and off payroll that have been deemed "board members, and/or senior officials with significant financial responsibility", during the financial year. This figure should include both on-payroll and off-payroll engagements.	8

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

There was 1 voluntary redundancy in year. Details of this and 2016/17 can be seen in the table below:

Exit package cost band	Total number of exit packages by cost band	
	2017/18	2016/17
<£10,000	-	2
£10,000 - £25,000	-	33
£25,000 - £50,000	-	55
£50,000 - £100,000	1	45
£100,000 - £150,000	-	-
£150,000 - £200,000	-	-
Total number of exit packages by type	1	135
Total resource cost (£000)	60	5,684

Redundancy and other departure costs were 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 retirement, 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 22), 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 Framework Document 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 Government's 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. Natural England has its own Head of Internal Audit who works closely with the Head of Internal Audit for DEFRA Group, and this ensures consistency across the whole of the Defra Group when looking at the effectiveness of risk management, controls and governance, and ensures best practice is shared.

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

For 2017/18, we can report that there were no losses, special payments or gifts incurred 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 the period April 2017 to March 2018 we generated £3.2m income from this service (2016/17 £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 2017/18 is £107.5k (2016/17: £110k). From 17/18, the audit fee is to be paid for by Defra and included in the notional recharges. There have been no payments made to auditors for non-audit related work.



James Cross
Chief Executive
26 June 2018

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

Opinion on financial statements

I certify that I have audited the financial statements of Natural England for the year ended 31 March 2018 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 Accountability Report that is described in that report as having been audited.

In my opinion:

- the financial statements **give a true and fair view of the state of Natural England's affairs as at 31 March 2018 and of the net expenditure after interest for the year then ended;** and
- the financial statements have been properly prepared in accordance with the Natural Environment and Rural Communities Act 2006 and the Secretary of State directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects the income and expenditure 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.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and **Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'**. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff **to comply with the Financial Reporting Council's Revised Ethical Standard 2016**. I am independent of Natural England in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Accounting Officer for the financial statements

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.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report, on the financial statements in accordance with the Natural Environment and Rural Communities Act 2006.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of **expressing an opinion on the effectiveness of Natural England's internal control.**
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the **appropriateness of management's use of the going concern basis of accounting** and, based on the audit evidence obtained, whether a material uncertainty **exists related to events or conditions that may cast significant doubt on Natural England's ability to continue as a going concern.** If I conclude that a material uncertainty exists, I am **required to draw attention in my auditor's report to the related disclosures in the financial statements** or, if such disclosures are inadequate, to modify my opinion. My conclusions **are based on the audit evidence obtained up to the date of my auditor's report. However,** future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes

intended by Parliament and the financial transactions conform to the authorities which govern them.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Accountability Report **described in that report as having been audited, the financial statements and my auditor's report** thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of 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;
- in the light of the knowledge and understanding of Natural England and its environment obtained in the course of the audit. I have not identified any material misstatements in the Performance Report and Accountability Report, 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 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

2 July 2018

3. Financial Statements

Statement of Comprehensive Net Expenditure for the period ended 31 March 2018

	Note	2017/18 £000	2016/17 Restated £000
Expenditure			
Staff costs	3.1	85,793	91,500
Depreciation & Amortisation	4	2,058	2,002
Programme & Grant expenditure	4	19,266	18,623
Other expenditure	4	44,244	43,064
Total Expenditure		151,361	155,189
Income			
Operating Income	5	(23,950)	(13,431)
Fees & Charges Income	6	(3,912)	(3,189)
Total Income		(27,862)	(16,620)
Net Expenditure		123,499	138,569
Interest receivable		(12)	(8)
Net Expenditure after interest		123,487	138,561

Other Comprehensive Expenditure

Net loss / (gain) on revaluation of Property Plant and Equipment	9	(1,097)	(408)
Net loss / (gain) on revaluation of heritage assets	8	(6,033)	(3,644)
Net loss / (gain) on pensions provision		(10)	(136)
Total Comprehensive Net Expenditure		116,347	134,373

The accounting policies and notes on pages 51-77 form part of these financial statements.

Statement of Financial Position as at 31 March 2018

	Notes	31 March 2018 £000	31 March 2017 £000
Non-current assets:			
Property, plant and equipment	7.1	18,307	14,126
Intangible assets	7.2	1,697	2,593
Heritage assets	8	63,073	57,205
Agricultural biological assets		224	167
Total non-current assets		83,301	74,091
Inventories		168	173
Trade and other receivables	11	13,480	6,954
Cash and cash equivalents	12	11,391	7,733
Total current assets		25,039	14,860
Total assets		108,340	88,951
Current liabilities:			
Trade and other payables	13.1	(25,101)	(24,479)
Pension Provision	14.1	(15)	(8)
Other provisions	14.2	(373)	(1,797)
Total current liabilities		(25,489)	(26,284)
Total assets less current liabilities		82,851	62,667
Non-current liabilities:			
Other payables	13.2	(839)	(974)
Pension Provision	14.1	(127)	(150)
Other Provisions	14.2	(33)	(75)
Total non-current liabilities		(999)	(1,199)
Assets less liabilities		81,852	61,468
Reserves:			
General Fund		29,195	15,825
Revaluation Reserve		52,657	45,643
		81,852	61,468

The accounting policies and notes on pages 51-77 form part of these financial statements.



James Cross
Accounting Officer and Chief Executive
26 June 2018

Statement of Cash Flows for the period ended 31 March 2018

	Notes	2017/18 £000	2016/17 £000
Cash flows from operating activities			
Net expenditure		(123,499)	(138,569)
Depreciation & amortisation (current year)	7.1a & 7.2a	2,058	2,002
Adjustment to prior year assets		90	-
Adjustment to prior year depreciation		(77)	-
Impairment	9	1,915	(17)
Service concession asset adjustment		-	187
loss on disposal of assets net of Proceeds	4	1,100	207
Notional Corporate Services Recharge	1.24	31,165	33,533
Write backs net of provisions provided for in year		109	35
Decrease / (Increase) in trade and other receivables	11	(6,526)	1,406
(Increase) / Decrease in inventories		5	(89)
Increase / (Decrease) in trade payables	13	622	4,719
Use of provisions		(1,591)	(2,003)
Net cash outflow from operating activities		(94,629)	(98,589)
Cash flows from investing activities			
Purchase of property, plant and equipment	7.1	(5,541)	(2,094)
Purchase of intangible assets	7.2	(120)	-
Purchase of non-current heritage assets	8	(1,444)	(697)
Purchase of agricultural biological assets		(61)	-
(Decrease) in non-current payables	13.2	(135)	(1,019)
Proceeds of disposal of property, plant and equipment		-	8
Net cash outflow from investing activities		(7,301)	(3,802)
Cashflow from financing activities			
Interest		12	8
Grants from Defra		105,576	105,931
Net financing		105,588	105,939
Net increase / (decrease) in cash and cash equivalents in the period	12	3,658	3,548
Cash and cash equivalents at the beginning of the period	12	7,733	4,185
Cash and cash equivalents at the end of the period	12	11,391	7,733

The accounting policies and notes on pages 51 -77 form part of these financial statements.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2018

	Notes	Revaluation Reserve £000	General Reserve £000	Total Reserves £000
Balance at 31 March 2017		45,643	15,825	61,468
Core Grant in Aid from Defra (revenue)	SoCF	-	91,978	91,978
Core Grant in Aid from Defra (capital)	SoCF	-	8,107	8,107
English Coastal Path	SoCF	-	880	880
Water Framework Directive from Defra	SoCF	-	1,965	1,965
JNCC	SoCF	-	300	300
BTB	SoCF	-	1,257	1,257
Bolton Fell Moss Grant from Defra	SoCF	-	985	985
Other Defra Income	SoCF	-	104	104
Notional Corporate Services Recharge	Note 4	-	31,165	31,165
Net Expenditure after interest	SOCNE	-	(123,487)	(123,487)
Revaluation Reserve Movements	Note 9	7,014	116	7,130
Balance at 31 March 2018		52,657	29,195	81,852

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

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2017

	Notes	Revaluation Reserve £000	General Reserve restated £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
Net Expenditure after interest	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

Notes to the Financial Statements

1 Statement of accounting policies

Basis of accounting

These Financial Statements have been prepared in accordance with the 2017/18 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 and 2017/18, 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 2017 (for the 12 month leave period 1 January 2017 to 31 December 2017), and uses this as a proxy for unused annual leave as at 31 March 2018 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.

1.4 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.

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 10 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 2017/18 there was no liability for Corporation Tax (2016/17, 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, 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 (CSOPS known as “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 **Chairman of Natural England’s Board** 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 and 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 30 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.

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 12 months to March 2018 was £31,165K, this is the total contract value including 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, FReM introduction effective date 1 April 2018. This standard replaces all existing IFRS guidance on revenue recognition. Following a review of **Natural England's contracts it is expected that although Natural England has material balances affected by this change, the effect of applying the new IFRS on the financial statements is not expected to be material.**
- IFRS 9 – Financial Instruments, FReM introduction effective date 1 April 2018. Brings together all three phases of the financial instruments project, Classification and Measurement; Impairment and Hedge Accounting. **Natural England's financial instruments are relatively simple and are disclosed at fair value. Natural England do not use hedge accounting and do not have any related financial instruments. For these reasons it is expected that the implementation of IFRS 9 in 2018-19 will be immaterial to Natural England's accounts.**

- IAS 7 – Statement of Cash Flows – Reconciliation of liabilities arising from financial activities, FReM introduction effective date 1 April 2018.
- IFRS 16 – Leases, FReM introduction expected effective date 1 April 2019. Specifies how an IFRS reporter will recognise, measure, present and disclose leases. This will see the distinction between operating and finance leases removed, and uniform accounting treatment for all leases with a term over twelve months.

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.

- 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
 - Countryside Stewardship Transactional Services
- Legal & Governance, including:
 - Chairman & Executive Office
 - Legal

2.1 Statement of Comprehensive Net Expenditure for the year ended 31 March 2018 by operating segment:

	Operating Segment 2017/18					Total £000
	Strategy & Reform	Science & Evidence	Operations	Legal & Governance		
	£000	£000	£000	Internal £000	Defra Recharges £000	
Staff Costs	11,569	7,470	62,473	4,281	-	85,793
Non pay running & other operating costs	1,164	539	7,141	362	-	9,206
SSCL Shared Service Recharge	-	-	-	-	1,958	1,958
Corporate Service Recharge	-	-	-	-	31,165	31,165
Programme & Grant expenditure	3,594	2,156	12,431	1,085	-	19,266
Depreciation, Amortisation & Impairment	-	-	-	3,973	-	3,973
Total Expenditure	16,327	10,165	82,045	9,701	33,123	151,361
Income	(927)	(312)	(26,564)	(71)	-	(27,874)
Net Expenditure	15,400	9,853	55,481	9,630	33,123	123,487

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

	Operating Segment 2016/17					Total Restated £000
	Strategy & Reform	Science & Evidence	Operations	Legal & Governance Restated		
	£000	£000	£000	Internal £000	Defra Recharges £000	
Staff Costs Restated	15,397	7,718	60,598	7,787	-	91,500
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 Restated	-	-	-	-	33,534	33,534
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	12,814	34,919	155,189
Income	(250)	(275)	(6,450)	(9,653)	-	(16,628)
Net Expenditure	20,621	9,436	70,424	3,161	34,919	138,561

Note: There are significant movements on Segmental reporting as shown above between 2017/18 and 2016/17, with the main reasons for this being that 2016/17 contained staff early retirement and severance costs of £5.7m; HMRC compliance costs of £1.2m and the cost of Corporate Service staff (under Legal and Governance) who transferred to Defra in February 2017. All of these are not a cost in 2017/18. The Staff costs and Corporate Service recharge have been restated in line with note 3.1 note b) on page 61.

3.1 Staff Costs

	2017/18 £000	2016/17 Restated(Note b) £000
Permanent & Fixed Term Appointments salaries and allowances	60,096	59,330
Employer Superannuation Payment	12,059	12,116
Partnership Pension Contributions	188	153
Permanent & Fixed Term Appointments social security costs	5,891	5,894
Apprenticeship Levy ^{Note a}	298	-
Agency and temporary staff	6,860	7,543
Inward secondees	428	113
Temporary staff social security	188	352
Temporary staff superannuation	402	783
Other staff costs	202	54
Less recoveries in respect of outward secondments	(879)	(1,746)
Early retirement and severance costs	60	5,684
HMRC Compliance Audit Liability	-	1,224
Total net costs	85,793	91,500

Note a) The Apprenticeship Levy, introduced in April 2017 requires employers with an annual pay bill in excess of £3m to pay an annual levy based on a total percentage of total payroll costs. The levy is collected through the PAYE system by HMRC, and is then available through a Digital Apprentice Service for a two year period to fund approved training for Apprentices. Income received through **NE's Digital Apprentice Service** for training is recognized as grant income in line with the associated expenditure (see note 5).

Note b) The 2016/17 pay figures show as restated as the non cash Notional Corporate Service recharge element of £421k has been transferred into note 4, so that for transparency purposes and ease of understanding the whole Notional Corporate Service recharge is identified in one place.

3.2 Staff Numbers

	2017/18 No.	2016/17 No.
The average number of whole-time equivalent persons employed during the year was as follows:		
Permanent staff & Fixed Term Appointments		
Executive/Director	18	19
Manager/Principal Specialist/Adviser	163	165
Team Leader/Senior Specialist/Adviser	480	498
Group Coordinator/Lead Adviser/Specialist	764	772
Adviser/Support Adviser	533	452
	1,958	1,906
Temporary and contract staff		
Executive/Director	1	-
Manager/Principal Specialist/Adviser	1	1
Team Leader/Senior Specialist/Adviser	2	2
Group Coordinator/Lead Adviser/Specialist	10	12
Adviser/Support Adviser	304	336
	318	351
Total	2,276	2,257

4 Expenditure

	Notes	2017/18 £000	2016/17 Restated ^(Note b) £000
Programme Expenditure		8,354	8,252
Legal Expenditure (includes compensation payment)		1,085	865
Programme expenditure – Research & Development		2,113	2,273
Programme expenditure – Operating lease rentals		674	685
Grant Expenditure		7,040	6,548
Subtotal – Programme & Grant expenditure		19,266	18,623
Staff travel and subsistence costs		4,555	4,830
SSCL shared service charges		1,958	1,385
Staff support costs		709	1,364
Estates management costs		952	1,284
Printing and stationery		81	74
Vehicle costs		882	603
External auditors remuneration ^{Note a)}		-	110
Internal audit programme		101	186
Other operating costs		825	1,011
IBM Service Concession Asset Adjustments		-	(1,493)
Non-cash items;			
Revaluation and Impairments charged to net expenditure	9	1,915	(17)
Loss on disposal of Property, Plant & Equipment		1,100	207
Prior year adjustment		(8)	-
Notional Corporate Services Recharge ^{Note c)}	1.24	31,165	33,534
Bad Debt Provision		9	(14)
Subtotal – Other expenditure and Non – cash items		44,244	43,064
Depreciation & Amortisation	7	2,058	2,002
Total Expenditure		65,568	63,689

Notes;

a) £107.5k external auditors remuneration, previously included as an expenditure, now included within the Finance notional corporate service recharge, as cash payment by Defra and recharged to Natural England.

b) The 2016/17 figures show as restated as the non cash Notional Corporate Service recharge element of £421k previously disclosed under pay note 3.1 has been transferred into note 4, so that for transparency purposes and ease of understanding the whole Notional Corporate Service recharge is identified in one place.

c) Notional Corporate Services recharges are broken down as follows;

	2017/18 £000	2016/17 £000
IBM Contract	11,319	14,057
Genesis System	8,331	9,339
SSCL	25	-
<i>Corporate Services recharges:</i>		
Estates	5,504	6,311
Finance *	1,096	**159
Procurement	526	579
Communications	717	**148
Human Resources	829	**202
Digital, Data and Technology Services	2,818	2,739
Total Notional Corporate Services Recharge	31,165	33,534

* Includes £107.5k external audit fee.

** Recharges for these services in 2016/17 represent only two months of cost as the functions only transferred to Core Defra in February 2017.

5 Operating Income

	2017/18 £000	2016/17 £000
EU Technical Assistance	15,662	9,790
Rural Development Programme (Catchment Sensitive Farming)	2,504	-
Heritage and National Lottery Fund	1,032	246
Contributions from conservation partners	97	127
Basic Payment Scheme	997	840
Other income	449	133
Legal receipts	2	-
Wildlife Incident Investigation Services	184	275
Apprentice training (Digital Apprentice Service)	2	-
European LIFE Project Receipts	3,021	2,020
Total Programme Income	23,950	13,431

EU 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.

See note 3.1 for details about the Apprentice levy and Digital Apprentice Service.

6 Fees and Charges Income

	2017/18 £000	2016/17 £000
Discretionary Advice	3,159	2,362
Income from National Nature Reserves (NNRs)	731	827
Other fees and charges	22	-
Total Income	3,912	3,189

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.

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 <https://www.gov.uk/guidance/developers-get-environmental-advice-on-your-planning-proposals>

Analysis of fees and charges

Discretionary Advice and Pre Submission screening:	2017/18 £000	2016/17 £000	2015/16 £000	Cumulative results £000
Income	3,159	2,362	1,499	7,020
Expenditure	(3,162)	(2,360)	(1,495)	(7,017)
Surplus / (Deficit)	(3)	2	4	3

The above table shows that Natural England under recovered costs by £3k in 2017/18, but if considered over a three year rolling period, this show a £3k surplus (additional fee income compared to costs) to be carried forward to 2018/19 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.

7.1a Property, plant and equipment

	Land	Buildings	Leasehold improvements	Plant & Machinery	Vehicles	Furniture & Fittings	Information Technology	Assets Under Construction (AUC)	Service Concession Assets	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance 1 April 2017	5,236	6,264	1,037	4,973	2,648	3,280	1,045	86	10,019	34,588
Prior Year Adjustments	-	(37)	(3)	14	(21)	(6)	-	-	-	(53)
Additions	144	3,170	-	457	-	61	-	1,709	-	5,541
Reclassifications *	169	309	-	119	-	-	-	-	(10,019)	(9,422)
Transfers from AUC	3	58	25	-	-	-	-	(86)	-	-
Disposals	-	(973)	-	(188)	(131)	(30)	-	-	-	(1,322)
Revaluation	(133)	1,469	-	-	-	-	-	-	-	1,336
Impairment	-	-	-	-	-	-	-	-	-	-
At 31 March 2018	5,419	10,260	1,059	5,375	2,496	3,305	1,045	1,709	-	30,668
Depreciation:										
Balance at 1 April 2017	-	749	742	3,861	1,926	2,751	414	-	10,019	20,462
Prior Year Adjustment	-	(20)	(23)	(6)	(21)	(7)	-	-	-	(77)
Charged in year	-	337	82	222	135	100	166	-	-	1,042
Reclassifications *	-	454	-	-	-	-	-	-	(10,019)	(9,565)
Disposals	-	(100)	-	(186)	(127)	(25)	-	-	-	(438)
Revaluation	-	937	-	-	-	-	-	-	-	937
At 31 March 2018	-	2,357	801	3,891	1,913	2,819	580	-	-	12,361
Net Book Value:										
At 31 March 2018	5,419	7,903	258	1,484	583	486	465	1,709	-	18,307
At 31 March 2017	5,236	5,515	295	1,112	722	529	631	86	-	14,126

All assets are owned at 31 March 2018, with the former IBM assets having transferred to Defra Group ownership at the end of the contract period on 1 March 2018.

*During the annual asset verification exercise, some assets were identified as being in the wrong category, and have thus been reclassified. Part of this reclassification is Building revaluation depreciation classed as cost in 2016/17, and this has been reclassified in 2017/18 correctly to depreciation.

7.1b Property, plant and equipment

	Land	Buildings	Leasehold Improvements	Plant & Machinery	Vehicles	Furniture & Fittings	Information Technology	Assets Under Construction (AUC)	Service Concession Assets	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Gross Cost or valuation:										
Balance 1 April 2016 restated	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 2017 there were no assets held for sale.

7.2a Intangible assets

	Software licences £000
Gross Cost:	
At 1 April 2017	10,535
Additions	120
Disposals	-
At 31 March 2018	10,655
Amortisation:	
At 1 April 2017	7,942
Charged in year	1,016
Disposals	-
At 31 March 2018	8,958
Net Book Value:	
At 31 March 2018	1,697
At 1 April 2017	2,593

7.2b 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

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 2018 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 121 NNRs owned or leased 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 2017	53,962	3,001	242	57,205
PY Adjustment	(37)	-	-	(37)
Reclassification	(143)	-	-	(143)
Additions	1,686	-	(242)	1,444
Disposals	(227)	-	-	(227)
Revaluation	5,808	250	-	6,058
Impairment	(1,227)	-	-	(1,227)
At 31 March 2018	59,822	3,251	-	63,073
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
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

*As defined in note 1.7 to the Financial Statements

9 Impairments and revaluations

	2017/18 £000	2016/17 £000
Impairment charged to Statement of Comprehensive Net Expenditure	(1,227)	-
Revaluation charged to Statement of Comprehensive Net Expenditure	(688)	17
Charge to Revaluation Reserve	7,014	4,052
Depreciation Element of Revaluation Charge	116	-
	5,215	4,069

	Upward Revaluation £000	Downward Revaluation £000	Disposal Revaluation £000	Total RR Movement £000	Impairment to SOCNE £000	Revaluation to SOCNE £000
Land	388	-	-	388	-	(521)
Building	739	(30)	-	709	-	(178)
	1,127	(30)	-	1,097	-	(699)
Heritage Assets	6,273	(227)	(13)	6,033	(1,227)	11
Balance at 31 March 2018	7,400	(257)	(13)	7,130	(1,227)	(688)

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

Amounts falling due within one year:

	31 March 2018 £000	31 March 2017 £000
Accrued income	11,412	5,105
Trade receivables	1,708	1,574
Other receivables	10	17
Prepayments	350	258
	13,480	6,954

Accrued income includes £6.2m (2016/17, £2.8m) of income due from the EU in relation to Technical Assistance Funding.

12 Cash and cash equivalents

	Government Banking Service £000	Short Term Investments £000	Total £000
Balance as at 1 April 2017	7,375	358	7,733
Movement in year	3,731	(73)	3,658
Balance as at 31 March 2018	11,106	285	11,391

13 Trade and other payables

13.1 Amounts falling due within one year:

	31 March 2018 £000	31 March 2017 £000
Trade Payables and other payables	2,580	5,661
Accruals	18,175	13,487
Deferred Income	2,548	3,658
VAT payables	227	208
Tax and social security payables	1,571	1,465
	25,101	24,479

13.2 Amounts falling due after one year:

	31 March 2018 £000	31 March 2017 £000
Countryside S28 payable	839	974
Total other payables	839	974

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 2017 £000	Provided in the year £000	Provisions utilised in the year £000	Provisions not required written back £000	Balance at 31 March 2018 £000
Pensions by analogy	158	-	(16)	-	142
Total pensions by analogy	158	-	(16)	-	142

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 2018
	£000	£000	£000	£000
Pensions by analogy	15	60	67	142
Total pension by analogy	15	60	67	142

14.2 Other Provisions

Other Provisions	Balance at 1 April 2017	Provided in the year	Provisions utilised in the year	Provisions not required written back	Balance at 31 March 2018
	£000	£000	£000	£000	£000
Retirement & severance	315	-	(230)	(8)	77
Litigation	356	322	(144)	(205)	329
Land Restoration	1,201	-	(1,201)	-	-
Total other provisions	1,872	322	(1,575)	(213)	406

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 2018
	£000	£000	£000	£000
Retirement & severance	44	33	-	77
Litigation	329	-	-	329
Land Restoration	-	-	-	-
Total other provisions	373	33	-	406

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 2018 £000	31 March 2017 £000
Land		
Not later than one year	320	514
Later than one year and not later than five years	1,021	1,173
Later than five years	4,155	3,222
Total Land	5,496	4,909
Not later than one year	93	174

Later than one year and not later than five years	119	356
Later than five years	954	237
Total Buildings	1,166	767

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.

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 (£1.5m 2016/17).

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 2018	31 March 2017
	£000	£000
Buildings		
Not later than one year	1,936	1,995
Later than one year and not later than five years	3,683	4,958
Later than five years	2,032	3,753
Total Buildings	7,651	10,706
Land		
Not later than one year	-	1
Later than one year and not later than five years	1	2
Later than five years	8	22
Total Land	9	25

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 (2016/17, 0 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% (2016/17, 17.3%) of the site.

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

	31 March 2018	31 March 2017
	£000	£000
Not later than one year	992	897
Later than one year and not later than five years	4,080	-
Present value of obligations	5,072	897

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 2017/18 or 2016/17.

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 incurrence 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 2018	31 March 2017
	£000	£000
Not later than one year	646	499
Later than one year and not later than five years	2,585	1,996
Later than five years	650	1,001
Present value of obligations	3,881	3,496

Natural England currently has no non-cancellable contracts in relation to IBM. The below costs show 2016/17 obligations for the service element of the contract prior to 1 March 2017 after which time the Defra Group purchased the IBM assets.

	31 March 2018	31 March 2017
	£000	£000
Not later than one year	-	15,829
Later than one year and not later than five years	-	15,288
Present value of obligations	-	31,117

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

Natural England has the following contingent liabilities;

	31 March 2018	31 March 2017
	£000	£000
Claims and Litigation	1,951	1,386

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.

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.

On 10 June 2018, Andrew Sells wrote to the Secretary of State to inform him of his intention to retire as Chairman of Natural England in January 2019.

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 **organisation's** 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 2018	Amount owed to Natural England at 31 March 2018
Related Party Disclosures		£000	£000	£000	£000
Andy Clements	British Trust for Ornithology	102	-	27	-
Joe Horwood	Joint Nature Conservation Committee (JNCC)	3	-	-	-
Julia Aglionby	Foundation for Common Land	1			
Teresa Dent	Game & Wildlife Conservation Trust	45	1	-	-
Simon Lyster	Northumbrian Water	1	5	-	8
John Varley	Environment Agency	1,037	128	*704	**114
Nigel Reader	Natural Resources Wales	-	30	***255	-
	Animal & Plant Health Agency	-	2	139	1
	Joint Nature Conservation Committee (JNCC)	3	-	-	-
	Marine Management Organisation	-	-	-	30

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.

*Includes £108k income in advance, ** includes £44k prepayments, *** includes £159k income in advance

Sustainability and Environmental Report 2017/18 (Unaudited)

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 the HM Treasury document “Public Sector Annual Reports: Sustainability Reporting Guidance.”

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 data contained within the report has been checked and verified internally for accuracy and the carbon emission conversion calculations have been made in line with current approved greenhouse calculation methodologies.

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 our business, including those stated in this report.

Our performance during 2017/18 has been excellent. In addition to the reputational importance of meeting the GGC targets, we recognise the need to manage energy costs closely as unit costs of water and energy continue to rise.

3. Summary of Performance

Our performance summary for 2017/18:

Area	Actual Performance	RAG	Target Performance (where applicable)
Carbon dioxide emissions ^{1,2}	1,844 tCO ₂	Green	2,235 tCO ₂ by 2020
Total waste ³	55 tonnes	Green	Less than 10% to landfill
Water consumption ³	2,334 m ³	Green	Continued year on year reduction
Carbon Reduction Commitment (CRC) related expenditure ⁵	£15.7k		n/a
Total energy consumption ¹	1,537,694 kWh		n/a
Buildings energy consumption ¹	1,537,694 kWh		n/a
Total energy expenditure	£165k		
Residual office waste ³	2 tonnes		
Total waste expenditure ⁴	n/a		
Water Expenditure ³	£28.4k		

We continue to ensure that the culture and behaviours we have adopted on 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.** To ensure achievement against the GGC target the financial budget associated with Travel is flexed accordingly and use of alternative technologies (video conferencing) is encouraged.

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)		2017/18	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 incl pool cars)	1,224	760	1,105	1,147
	Gross emissions attributable to Scope 3 official business travel ²	720	1,107	1,393	1,393
	Total Emissions	1844	1867	2498	2520
Related Energy Consumption (KWh)	Electricity: Non Renewable ¹	-	-	-	59,776
	Electricity: Renewable ¹	790,324	794,398	977,923	1,000,139
	Electricity: CHP ¹	-	-	5,237	1,594
	Electricity: Total	790,324	794,398	983,160	1,061,509
	Gas ¹	747,370	636,651	1,056,094	1,027,365
	LPG	-	-	-	-
Financial Indicators (£k)	Expenditure on Energy	£165K	£206K	£381k	£364k
	CRC Licence Expenditure	£15.7k	£15.7k	£14.6k	£9.2k
	CRC Income from Recycling payments	-	-	-	-
	Expenditure on accredited offsets	-	-	-	-
	Expenditure on official business travel	£2.54m	£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 55 tonnes of waste across the office estate (where data is available, of which 2 tonnes (4% against a target of less than 10%) was disposed of to landfill.

Waste		2017/18	2016/17	2015/16	2014/15	
Non-Financial (tonnes)	Total waste arising	55	60	46	50	
	Hazardous waste	-	-	-	-	
	Non hazardous	Landfill	2	3	5	6
		Reused/ Recycled	42	34	33	38
		Waste composted	2	2	-	-
		Incinerated with energy recovery	9	21	8	6
		Incinerated without energy recovery	-	-	-	-

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

Finite Resource consumption – Water m ³			2017/18	2016/17	2015/16	2014/15
Non-Financial Indicators	Water consumption (m ³)	Supplied	2,334	2,428	3,770	3,550
		Abstracted	-	-	-	-
Financial Indicators (£k)	Water supply costs		£28k	£34k	£43k	£62k

Performance Commentary (including targets)

This is the seventh 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)			2017/18	2016/17	2015/16	2014/15
Non-Financial Indicators	Energy consumption	Electricity: Non-Renewable	-	-	-	59,776
		Electricity: Renewable	790,324	794,398	977,923	1,000,139
		Electricity: CHP	-	-	5,237	1,594
		Electricity: Total	790,324	794,398	983,160	1,061,509
		Gas	747,370	636,651	1,056,094	1,027,365
Financial Indicators (£k)	Total Energy Expenditure	£164.5k	£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.

Overview of Influenced Impacts

We will fully support Defra-wide energy efficiency initiatives and awareness programmes.

Notes

1 Office estate building energy consumption/emission data from April 2017 to March 2018 (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 Jan 2017 to Dec 2017, as provided by Defra based on fleet and business travel.

3 Waste and water data from Jan to Dec 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.

Natural Capital Accounting for Natural England's Estate (Unaudited)

Our Aims

- We will prepare accounts for those of our National Nature Reserves where we own any land, either freehold or leasehold
- Our accounts will focus on benefits provided to the public
- Our accounts will be based on our Natural Capital Logic Chain, which maps the flow of ecosystem services and benefits from the natural capital assets
- We will report on each part of the logic chain: the asset, services, benefits and values
- We will present data on the quantity and quality of our assets alongside valuation information to present a more complete assessment
- We will report the uncertainty around the findings
- We will publish our report in year ending March 2019

Natural Capital Accounting

Traditional accounting captures only market values. So the accounting value of land is often an estimate of the market price. In turn, the market price is based on the land's profit-making capacity. For example, through the sale of agricultural products. But land provides a large number of benefits which are not charged for. Land may support pollinating insects for nearby fields or may reduce flooding downstream. It may provide habitats for wildlife or recreation for people. These non-market benefits are not captured in traditional accounting. That means accounting estimates represent only a part of the true land value. This is problematic because accounting values are a significant influence on decision-making.

We can rectify this problem through Natural Capital Accounting (NCA). NCA extends the accounting framework to capture all the benefits the land provides. We start from a list of all the potential benefits to ensure we don't overlook any. We then gather evidence about the scale of each benefit and its value to society. NCA is innovative and still under development. It does not yet have established standards. Experimental accounts have been produced by the Office for National Statistics, amongst others.

We are preparing accounts for those of our National Nature Reserves where we own any land, either freehold or leasehold

We support the idea of NCA and want to contribute to its development. So we are developing a NCA for our National Nature Reserves. We have chosen the National Nature Reserves because **they represent the vast majority of Natural England's land holdings. National Nature Reserves are** land established under the National Parks and Access to the Countryside Act 1949 and are managed:

- for the purpose of the research and study of flora and fauna or geological and physiographical features; and/or
- for the preservation of such special features.

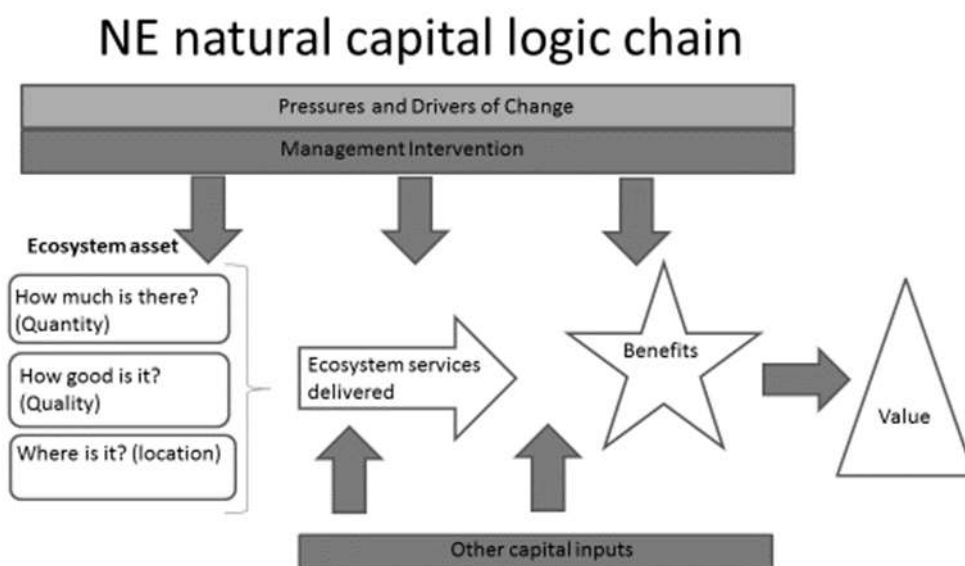
There are 224 National Nature Reserves in England. We do not own all the reserves. We are developing the NCA only for the reserves where we have some freehold or leasehold land.

Our accounts will focus on benefits provided to the public

NCA's split benefits provided by the natural environment into two types. These are private benefits, which the land owner receives, and public benefits, which the wider public receives. For the private sector the primary focus may be on private benefits, which could allow more strategic land management. But Natural England holds land to deliver benefits to the public and so public benefits are the primary focus.

Our accounts will be based on our Natural Capital Logic Chain, which maps the flow of ecosystem services and benefits from the natural capital assets

We will use the logic chain below to organise the work. We will start from the natural capital assets. This is the ecosystems, understood as broad habitats types. The quantity, quality and location of natural capital assets determines ecosystem service delivery. It's important to separate service (e.g. reduced water flow) from benefit (e.g. reduced flooding) from economic value (the benefit expressed equivalent to monetary value). Inputs of other capitals are often necessary to realise the benefit. For example food production requires mechanical harvesting. This flow is both managed and influenced by wider pressures and drivers.



We will report on each part of the logic chain: the asset, services, benefits and values

NCA often assumes that the final balance sheet captures all the information needed to manage the asset. So the final balance sheet is presented as the outcome of the process, and information from **previous steps in the logic chain are relegated to 'workings'**.

This assumption stems from a theoretical ideal based on an assumption of near perfect information. The balance sheet shows an asset value. This asset value is based on the expected future value of ecosystem services. This assumes high confidence in our projections of future

ecosystem service delivery. It also assumes high confidence in our understanding of the relationship between asset quality and ecosystem service delivery.

But in practice we cannot describe all the ecosystem services qualitatively. There are many more that we can't quantify. We can value only a minority of ecosystem services economically. And there is often uncertainty around our valuations. We do not fully understand how changes in asset state relate to ecosystem services. We cannot predict ecosystem service performance into the future with a high degree of confidence. This means that the reported asset value is partial and uncertain.

So we will innovate by putting equal weight on each stage of the logic chain. We will consider what the data for each step means for decision makers. We will then pull this together in an accessible summary for all four steps of the logic chain. This will be presented on the front page. Users need to understand changes in asset state, services, benefits and values if NCA is to become an effective decision-support tool.

We will present data on the quantity and quality of our assets alongside valuation information to present a more complete assessment

NCA is a step forward from previous approaches which focused only on ecosystem services, because it pushes us to pay attention to the state of the underlying assets. The relationship between asset health and service delivery is complex. It is possible for assets to be delivering benefits strongly whilst ecological evidence shows a fragility which shows these benefits are not sustainable. An effective NCA will therefore draw on the best available ecological evidence to make judgements about the state of the assets. As explained above, our understanding is not complete enough to infer asset state backwards from economic asset values.

Over the last two years Natural England have invested significantly in understanding the ecological evidence about how natural capital asset state relates to ecosystem service delivery. We gathered evidence on what critical attributes of assets enable ecosystem service flows. This work includes looking at the ideal indicators of asset state and a review of currently available data. We will use this work to inform our assessments of asset state. This innovative, mixed methods, approach will provide the broadest possible picture of the evidence to inform decision-making.

NCA approaches to date have struggled to demonstrate the full breadth of public benefits from public assets. Reports have tended to focus on those benefits to which values can be attributed. This is particularly pertinent to the quality of assets with regard to cultural services such as natural beauty and enjoying wildlife. These services are central to Natural England's role. **For this reason** our NCA methodology will better represent these.

We will report uncertainty around the findings

To date most NCAs have not reported uncertainty around their findings. Yet there is significant uncertainty around many of the figures offered in NCAs. Understanding these uncertainties is essential to making appropriate decisions based on the findings. Our report will use a simple 'traffic light' system to show to the reader the order of size of uncertainty.

We will publish our report in the year ending March 2019

Our NCA is under development, and we are making good progress to publish it during the year 2018/19.

Our role in supporting the wider Natural Capital agenda.

As well as this specific piece of work Natural England is making a broader contribution to the development of the Natural Capital agenda. This list below provides some selected examples of this contribution:

- 1) **North Devon Landscape Pioneer.** Natural England is leading one of the four Natural Capital Pioneers requested by the Natural Capital Committee. We are working with the North Devon Biosphere partners to understand the natural capital asset base and drivers of change in order to produce a co-owned natural capital investment plan.
- 2) **Natural Capital Indicators.** This gathers evidence on the critical attributes of assets to support ecosystem services flows. Its contribution to our accounting is described above. But it has a much wider role to play in helping a wide variety of natural capital accounting and assessment exercises. For example, we have shared the work with Defra and the Office for National Statistics.
- 3) **Experimental accounts for Nature Reserves.** Last Autumn we published a Corporate Natural Capital Accounting (CNCA) assessment of selected National Nature Reserves (NNRs). This highlighted many of the strengths and weaknesses of the CNCA approach and has been widely discussed.
- 4) **Eco-metric.** The Defra Bio-diversity offsetting metric had been taken up by businesses keen to demonstrate that their projects are leading to no net loss of biodiversity. We are developing an additional module to add natural capital evidence into this process. A beta version is being tested this year.
- 5) **Distribution and social justice.** We are working with Leeds University on the relationship between natural capital distribution and social justice.
- 6) **Resources.** We have collaborated with the Centre for Ecology and Hydrology to produce a suite of natural capital maps which are publically available. Also, we are working with York University to make the evidence about interventions to improve natural capital available through a web-based tool. Finally we have a review of the economic benefits of ecosystem services available on our website.

