

Agenda Item 4

12 February 2010

WNC 02.10

FINANCE REPORT TO 31 DECEMBER 2009

Purpose

- To inform the National Committee of financial and related issues currently facing Forestry Commission Wales [FCW].

FY08/09

- WAO commenced their audit of the International Financial Reporting Standards re-stated accounts on 28 November 2009. The main focus, as expected, fell on the Portfolio Analysis (i.e. an analysis of the Assembly Government Woodland Estate by Social, Environmental and Economic factors) which underpins the valuation of the Biological Asset (i.e. the trees and the land upon which they grow) under International Accounting Standards 41. We are awaiting WAO's conclusions.

FY09/10

- The Actual position is to December 2009 but the Forecast is that agreed by the Management Board adjusted by my best estimates for recent weather conditions.

<i>Table 1</i>	Annual	December	December	Variance	Forecast
£000's	Budget	Budget Profile	Actual	to Profile	Outturn
Departmental					
Admin Costs	5,333	4,100	3,840	260 (F)	5,164
Programme Costs	5,045	2,800	2,341	459 (F)	4,942
Programme Income	-886	-710	-621	-89 (A)	-1,244
Net Departmental Costs	9,492	6,190	5,560	630 (F)	8,862
Assembly Woodland					
Operating Income	-12,765	-10,500	-11,225	725 (F)	-13,965
Operating Expenditure	20,812	16,300	16,109	191 (F)	21,192
Operating (Surplus) / Deficit	8,047	5,800	4,884	916 (F)	7,227
Social & Environmental Income	-1,017	-800	-867	67 (F)	-1,017
Social & Environmental Exp.	8,246	6,500	5,915	585 (F)	8,701
Social & Environmental Deficit	7,229	5,700	5,048	652 (F)	7,684
Total Operational Deficit	15,276	11,500	9,932	1,568 (F)	14,911
Adjustments from Full Resource to Net Cash Requirement **	-2,446	-940	1,508	-2,448	-3,990
Net Cash Requirement	22,322	16750	17000	-250	19,783
WAG Baseline Funding	22,533	17800	18750	-950	22,533
(Surplus) / Deficit – Cash Requirement	-211	(-)	(-)	(-)	-2,750

(A) denotes adverse variance

(F) denotes favourable variance

** denotes Balance Sheet activity: capital income & expenditure and movements in reserves and working capital

4. **Summary Position:** I am forecasting that we will maximise the use of the Flexible Funding Reserve. This managed position provides FCW with the necessary funding levels to accommodate the indicative programme expenditure being forecast in the 3-year Business Plan (FY10/11 – FY12/13) whilst also mitigating against:
- future uncertainty in the timber market;
 - a reduction in WAG funding level in FY10/11 and beyond;
 - the cost of change associated with delivering the Woodland for Wales strategy.

Net Departmental Costs

5. Reserves that have not been required for investment in Shared Services have been factored back into Forecast Outturn resulting in favourable variance on Administration costs.
6. Programme costs reflect a forecast slightly reduced demand for Better Woodlands for Wales and Woodland Grant Scheme (-£0.3m) and unnecessary provision for the Plant! Initiative (-£0.2m). This is partially offset by funding of new unbudgeted EU projects Wood Energy Business Scheme Phase 2 and FUTUREforest (+ £0.1m).
7. Programme Income includes recovery of EU Funding Projects plus increased levels of EU Co-Finance.

Total Operational Deficit

8. Operating Income continues to reflect the September Forecast reported to the Committee in November. This highlighted higher than expected demand for timber and biomass, which has continued throughout the year.
9. Operating Expenditure has been adjusted for increased cost of meeting additional demand for Bio-fuels and Roads costs due to the impact of the adverse weather, which has been partially offset by savings on Restocking.
10. Social and Environmental - Income is in line with Budget and expenditure reflects the better than expected Operating Income, which has been utilised on the remedial work on the Tintern Landslip that was delayed into this FY.

Risk Analysis

11. **FY09/10:** the risk of exceeding our Budget remains **Low**.

National Committee

12. **FY10/11 and beyond:** the FY10/11 Baseline remains at £0.5m below FY09/10. A **High** risk of a reduction in future years continues. The 2% reduction indicated by DRA Business Unit is being mitigated somewhat through the use of the Flexible Funding Reserve.

Other Related Issues

13. **Business Planning** - I met with Director to review the principle figures and am now implementing the changes required to secure a balanced budget for the next 3 FYs. The formal Budget will be presented to the March meeting for the Committee's consideration and approval. In view of the alignment of Corporate and Business planning the next report to the Committee will reflect this revised format.
14. **FY09/10 Annual Report & Accounts [AR&A]**- we have decided to make use of the FC GB Contract with Price Waterhouse Coopers to provide a Qualified Accountant to assist in the completion of the FY09/10 AR&A which will be prepared for the first time under the International Financial Reporting Standards.

Resource Implications

15. The paper as such does not normally give rise to resource implications. It serves as a guide as to how existing resources are being managed.

Communication

16. FCW's financial position is communicated through the publication of this paper, edited for any commercially sensitive contents on the Internet. In the meantime it is conveyed to Unit Managers through Management Forum Meetings and Estate Management Group Meetings. Finance Reports are also copied to WAG – DRA Business Unit, Director of Finance, FCGB and Head of Internal Audit.

Recommendation

17. The Committee notes the current position.

Paul J Subacchi
Acting Head of Finance
2 February 2010