

FINANCE REPORT TO 31 DECEMBER 2008

Purpose

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

FY08/09

2. The financial position to the end of December in Full Resource terms is as follows:-

<i>Table 1</i>	Annual Budget	December Budget Profile	December Actual	Variance to Profile	F'cast Outturn
£000					
Departmental					
Admin Costs	6,264	4,698	4,436	262(F)	6,401
Programme Costs	5,191	3,863	2,464	1,399(F)	5,374
Programme Income	(1,412)	(1,059)	(1,275)	216(F)	(4,378)
Net Departmental Costs	10,043	7,502	5,625	1,877(F)	7,397
Assembly Woodland					
Operating Income	(23,067)	(12,812)	(10,383)	2,429(A)	(17,083)
Operating Expenditure	27,547	14,914	12,417	2,497(F)	24,000
Operating Deficit	4,480	2,102	2,034	68(F)	6,917
Social & Environmental Income	(983)	(737)	(725)	12(A)	(1,205)
Social & Environmental Exp.	7,277	5,457	5,241	216(F)	7,269
Social & Environmental Deficit	6,294	4,720	4,516	204(F)	6,064
Total Operational Deficit	10,774	6,822	6,550	272(F)	12,981
Adjustments from Full Resource to Net Cash Requirement *	1,196	(2,207)	641	1,566(F)	1,242
Net Cash Requirement	22,013	12,117	12,816	699(A)	21,620
WAG Baseline Funding	22,533	12,780	15,066	-	24,033
(Surplus) / Deficit Cash Requirement	(520)	(663)	(2,250)	2,913(F)	(2,413)

(A) denotes adverse variance

(F) denotes favourable variance

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

3. **In Forecast Outturn terms we are not predicting any movement in terms of Net Cash Requirement from the previously reported position.** I am still aiming to carry £2.0m from FY08/09 into FY09/10.
4. Since reporting to the FCWMB [WMB 02.09] developments in Cardiff on 22 January are resulting in an alternative mechanism to deal with this proposed carry over of funding. Having been advised at a meeting with the WAG Finance Director in December that End Year Flexibility would be available this position

has been rescinded. WAG Department for Rural Affairs (DRA) remain committed to a mechanism that allows the same outcome and this will involve close communication between myself and my DRA Business Unit colleagues in the run up to 31 March.

5. The Committee should also be aware that FCW has now finalised the figures relating to the FY08/09 Revaluation of the Forest Estate and related Assets which sees the value increase from £239m to £261m. WAG has approved the additional Cost of Capital provision of £2.0m in line with that already requested and agreed for FY09/10.
6. Whilst my aim remains to outturn in line with the Net Cash Requirement Budget this will require careful management of capital projects such as the Tintern landslip stabilisation work and Garwnant Visitor Centre refurbishment. Cashflow will be managed on a weekly cycle and the normal mechanisms employed to achieve a successful outcome, which will include maximising any flexibility afforded to us over and above the £2.0m already agreed with WAG DRA.

FY09/10 and beyond

7. I have been reporting regularly to the Committee that WAG DRA Business Unit has unofficially confirmed our Net Cash Requirement for FY09/10 being in line with FY08/09 Funding. However at a meeting with DRA Business Unit on 22 January I was informed that HM Treasury had indicated to WAG that the FY10/11 Settlement and beyond will now be subject to reduction. WAG are unable to state the level of reduction and advise that this will not be known until March.
8. This advance warning allows us to analyse our future spending proposals in terms of fixed costs, statutory / commercial commitments, etc. and submit, when requested, a Business Case defending FCW's Baseline Funding. FCW has successfully and robustly defended its position in the past and with us facing unprecedented trading pressures in the current economic downturn intend to do so again. All efficiency gains are being directed towards implementation of the revised *Woodlands for Wales* WAG Forestry Strategy.
9. During the last quarter we have been finalising our Business Plans in line with the settlement agreed for FY09/10 and this has resulted in a Budget approved by the FCW Management Board and in outline terms reflects the following :-

	FY09/10	FY10/11	FY11/12
Opening Reserves	(2,413)	(1,411)	(1,200)
Plus Baseline Funding	(22,533)	(22,533)	(22,533)
Plus "PLANT!" / BWW Funding*	(691)	(691)	(691)
Plus FCW Generated Receipts	(15,048)	(15,312)	(15,322)
Total Funding	(40,685)	(39,947)	(39,746)
Less Expenditure	39,274	38,747	38,671
Closing Reserves	(1,411)	(1,200)	(1,075)

* I am currently in discussions with WAG DRA to secure funding for the One Wales Agenda PLANT initiative (£0.2m), which up until now FCW has been able to absorb

and an element of BWW funding (£0.5m) that has remained in the Rural Development Plan, outwith FCW's Baseline. There remains uncertainty over securing this, but we are working with DRA colleagues to resolve this.

10. To achieve the currently forecast surplus in each year FCW Management Board has had to restrict programmes initially submitted by Unit Managers but have still been able to :-

- bring staff numbers in line with the Staffing Plan and accommodate annual pay awards;
- set aside some modest additional sums for investment in Shared Services with particular emphasis on Information Services and Human Resources;
- increase thinning programmes;
- increase supply of wood-fuel through working some of the more challenging sites in South Wales;
- increase levels of roads maintenance and investment in new roads which is being met from Capital receipts and which has only been possible through Forest Districts efforts in identifying programmes;
- maintain levels of the Restocking programme;
- implement a Wildlife Management Service;
- maintain Recreation, Conservation & Heritage expenditure at FY08/09 original budgeted levels;
- provide for a modest increase in forest management expenditure;
- postpone Capital Investment pending the outcome of the Building Assets Review;
- see a modest reduction in expenditure on Tips & Slips arising from the programme Risk Analysis;
- maintain spending on Grants & Regulations in line with BWW demand;
- contain vehicles and machinery budget to FY07/08 levels;
- Divert modest efficiencies into new *Woodlands for Wales* priorities e.g. Heads of the Valleys and Wood Energy.

11. What is not included in the Business Plan is any of the necessary additional investment to meet programmes emerging from the revision to the Wales Woodland Strategy and we are in discussion with WAG DRA on this matter. It is clear from the table above that if we secure the PLANT and BWW funding, that we may have scope to use some of the projected surplus for *Woodlands for Wales* priorities.

Other Finance & Related Issues

12. **FY08/09 Annual Accounts** - A draft set of Accounts based on Period 9 data has now been received from our colleagues in GB Finance and WAO are due to review these together with other issues arising from changes, due to the introduction of new accounting standards in early February.

13. The **VFM Action Plan** continues to be reviewed regularly with the Board Members responsible for delivery and progress is being made across all Recommendations. One of the main recommendations relating to mechanisms to

provide more flexibility in terms of funding (e.g. the ability to maintain Capital and Revenue reserves) has been subject to high level discussion with WAG. Current thinking is that FC's overall status prevents this happening under HM Treasury rules and that this issue can only be challenged through a GB approach. In the meantime I continue to work with WAG colleagues to find some form of mechanism that could be inserted into the Memorandum of Understanding that would provide for a year on year business case for retention of funds approach.

Risk Analysis

14. **FY08/09:** the risk of exceeding budget is **Low** [Impact 4: Likelihood <1].
15. **FY09/10:** FCW has managed its funding in a very responsible manner allowing for a carry-over of £2.0m, and being able to absorb much of the currently known impact of the recession within Baseline Funding fixed at FY08/09 levels. The level the risk of exceeding our Budget is **Medium to High** in light of the uncertain length and depth of the current recession. However should we be prevented from carrying over the £2.0m and should Baseline Funding be subject to reduction then even without further recessionary pressures the Risk of exceeding Budget in FY09/10 and beyond is clearly **High**.
16. **FY10/11 and beyond:** indications are that spending cuts will be imposed but we need to understand the position more fully before assessing risk.

Resource Implications

17. 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

18. 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, Estate Management Group Meetings, and through the issue to the Team of Management Accounting Technicians who meet regularly with FCW Unit Managers. Finance Reports from Management Board and National Committee are also copied to WAG – DRA Business Unit and to Director of Finance, FCGB.

Recommendation

19. The Committee notes the current position.

Derek J Stephen
Head of Finance
27 January 2009