



Agenda Item 3

26th March 2010

V2. WNC 08.10

**FINANCE REPORT TO 28 FEBRUARY 2010**

**Purpose**

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

**FY08/09**

2. WAO's audit of the International Financial Reporting Standards re-stated accounts continues with continued focus on the underlying Portfolio Analysis. Having met with WAO to discuss the issues arising we are now responding to their queries which we aim to resolve by Easter.

**FY09/10**

3. The Actual position is to February 2010.

<i>Table 1</i>	£000's	Annual Budget	February Budget Profile	February Actual	Variance to Profile	Forecast Outturn
<b>Departmental</b>						
Admin Costs		5,333	4,900	4,704	196 (F)	5,164
Programme Costs		5,045	3,800	3,071	729 (F)	5,162
Programme Income		(886)	(810)	(808)	(2) (A)	(990)
<b>Net Departmental</b>		<b>9,492</b>	<b>7,890</b>	<b>6,967</b>	<b>923 (F)</b>	<b>9,336</b>
<b>Assembly Woodlands</b>						
Operating Expenditure		20,812	19,400	19,025	375 (F)	21,347
Operating Income		(12,765)	(12,810)	(13,521)	711 (F)	(13,965)
<b>Net Assembly Woodlands</b>		<b>8,047</b>	<b>6,590</b>	<b>5,504</b>	<b>1,086(F)</b>	<b>7,382</b>
<b>Social &amp; Environmental</b>						
Social & Environmental Expenditure		8,246	7,800	7,453	347 (F)	8,505
Social & Environmental Income		(1,017)	(950)	(947)	(3) (A)	(1,017)
<b>Net Social &amp; Environmental</b>		<b>7,229</b>	<b>6,850</b>	<b>6,506</b>	<b>344 (F)</b>	<b>7,488</b>
<b>Total</b>		<b>24,768</b>	<b>21,330</b>	<b>18,977</b>	<b>2,353 (F)</b>	<b>24,206</b>
<b>Adjustments from Full Resource to Net Cash Requirement **</b>		<b>(2,446)</b>	<b>(1,430)</b>	<b>(241)</b>	<b>-1,189</b>	<b>-4,167</b>
<b>Net Cash Requirement</b>		<b>22,322</b>	<b>19,900</b>	<b>18,736</b>	<b>-1,164</b>	<b>20,039</b>
<b>WAG Baseline Funding</b>		<b>22,533</b>	<b>19,900</b>	<b>19,636</b>	<b>-264</b>	<b>22,533</b>
<b>(Surplus) / Deficit – Cash Requirement</b>		<b>(211)</b>	<b>(900)</b>	<b>(900)</b>	<b>-</b>	<b>-2,494</b>

(A) denotes adverse variance

(F) denotes favourable variance

\*\* denotes Balance Sheet activity: Capital Income & Expenditure and movements in Reserves and Working Capital

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4. **Summary Position:** we continue to manage the use of the Flexible Funding Reserve and Cashflow is being managed on a weekly cycle with the normal mechanisms employed to achieve a successful outcome to our forecast outturn.

## Departmental

5. Programme costs continue to reflect a slower than forecast demand for BWW & WGS payments (-£0.5m) and Grant payments under the EU Wood Energy Business Scheme Phase 2 (-£0.2m).

## Assembly Government Woodland Estate

6. Operating Income as reported to the Committee in February continues to reflect greater levels of demand for Timber/Biomass than expected. Operating Expenditure reflects savings arising from the impact of the poor weather earlier in the year. This will result in additional expenditure being incurred in 2010/11, covered by the Flexible Funding Reserve.

## Social and Environmental

7. There is no change to the previous Income forecast whilst the expenditure forecast indicates we will see a late surge in payments in the final month of the year. This is not a very satisfactory position and steps will be taken to improve expenditure profiling so as to ensure that late surges are not a feature of future years' expenditure.

## Other Related Issues

8. **Business Planning** – During the last quarter we have been finalising our Business Plans in line with the funding settlement agreed for FY10/11 and this has resulted in a Budget approved by FCW's Management Board and in outline terms reflects the following: -

£000's	FY09/10 Forecast	FY10/11 Budget	FY11/12 Budget	FY12/13 Budget
Direct Expenditure	36,226	36,852	37,724	37,310
SLA Charges (inc. Plants)	4,135	4,112	3,872	3,880
<b>Sub Total Expenditure</b>	<b>40,361</b>	<b>40,964</b>	<b>41,596</b>	<b>41,190</b>
Total Income	(19,317)	(18,405)	(19,578)	(19,435)
FCW Deficit	21,044	22,559	22,018	21,755
Baseline Funding	(22,533)	(22,082)	(21,641)	(21,208)
Flexible Funding Reserves b/f	(1,005)	(2,494)	(2,017)	(1,640)
<b>Shortfall / (Surplus)</b>	<b>(2,494)</b>	<b>(2,017)</b>	<b>(1,640)</b>	<b>(1,093)</b>

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9. To achieve the currently forecast surplus in each year the FCW Management Board has had to manage programmes initially submitted in the light of circa £1.5m of reduced funding across the BP period. This has resulted in our Flexible Funding Reserve being used to mitigate against this reduction, and may reduce our capacity to enable strategic changes to our business model.
10. The plan does however allow FCW to :-
- meet Staffing Plan levels, accommodating annual Pay Awards;
  - maintain the Thinning Programmes and continue to progress with the Category B programme;
  - secure Capital for investment in sustainable energy systems at our offices;
  - make provision for a Capital Recreation project;
  - continue to invest in New Roads, Maintenance and Harvesting Facilities;
  - invest in site security at harvesting sites in South Wales;
  - reduce back office costs in both National Office and Shared Services;
  - realise savings in Forest Management from improved procurement processes;
  - dispose of surplus assets arising from the Building Assets Review;
  - maintain spending on Grants & Regulations in line with BWW demand;
  - contain the fleet vehicle budget to FY09/10 levels.
11. The Business Plan for FY10/11 is shown at Annex 1 against each of the Corporate Programmes.

## **FY09/10 Annual Report & Accounts [AR&A]**

12. We have secured the services of Price Waterhouse Coopers in providing 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. We will be updating the Committee on progress as the exercise progresses.

## **Risk Analysis**

13. **FY09/10:** the risk of exceeding our Budget remains **Low**.
14. **FY10/11 and beyond:** the FY10/11 Baseline remains at £0.5m below FY09/10 whilst a **High** risk of a reduction in future years continues.

## **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.

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## **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 and confirms the Business Plan.

**Martin Veale**  
**Head of Finance**  
**22 March 2010**

