

FINANCE REPORT TO 31st MARCH 2009

Purpose

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

FY08/09

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

<i>Table 1</i>			
£000	Annual Budget	March Provisional Outturn	Variance to Budget
Departmental			
Admin Costs	6,264	6,379	115(A)
Programme Costs	5,191	4,707	484(F)
Programme Income	(1,412)	(4,018)	2,606(F)
Net Departmental Costs	10,043	7,068	2,975(F)
Assembly Woodland			
Operating Income*	(14,216)	(13,579)	637(A)
Operating Expenditure*	18,696	20,290	1,594(A)
Operating Deficit	4,480	6,711	2,231(A)
Social & Environmental Income	(983)	(951)	32(A)
Social & Environmental Exp.	7,277	7,695	418(A)
Social & Environmental Deficit	6,294	6,744	450(A)
Total Operational Deficit	10,774	13,455	2,681(A)
Adjustments from Full Resource to Net Cash Requirement **	1,196	1,820	(624)
Net Cash Requirement	22,013	22,343	330
WAG Baseline Funding	22,533	24,033	1,500
(Surplus) / Deficit Cash Requirement	(520)	(1,690)	1,170

(A) denotes adverse variance

(F) denotes favourable variance

* Annual Budget adjusted to account for changes in accounting for Windfarms

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

3. These figures are provisional as during the preparation of the Annual Accounts adjustments will arise but these are unlikely to materially impact on our financial performance.

Summary

4. FCW has outturned in line with the Forecast, which planned a carry over of funding in order to alleviate pressures in FY09/10. The above table reflects an

estimated carryover of £1.7m arising mainly from the income from Externally Funded projects which ended in FY07/08.

5. As previously reported to the Committee there has been extensive dialogue with WAG Finance and DRA on an appropriate funding mechanism, as recommended in the Wales Audit Office's Value for Money Report, that would afford FCW the necessary flexibility to address our particular business circumstances. I can report that whilst it is not within WAG's gift to afford FCW the ability to hold formal capital and revenue reserves, this would have to be pursued by FCGB through HM Treasury, we are now authorised to carry between financial years 20% of realised annual timber sales income which for FY08/09 equated to a maximum of £2.4m. This was only formalised during March so an estimated £1.7m has been carried forward through this mechanism.

Table 1 – Specifics

6. **Net Departmental Costs:** Better Woodland for Wales in its first full year saw good levels of contract uptake, but between BWW and WGS grant claims outturned £0.7m below Budget. This was in line with Forecast and the impact managed across FCW's activities. The large favourable variance in terms of Programme Income relates to the known reimbursement of EU Objective 1 Funding that has been explained in earlier Reports.
7. **Operating Deficit:** it is pleasing to report that despite the economic downturn timber sales outturned in line with Budget with the emerging biofuels market, that FCW has been instrumental in developing within Wales, playing an increasingly important role as an income stream. FC's investment in working closely with the timber trade association and taking a sympathetic approach to contract commitments has also had a positive impact. FCW was also able to exceed its 180,000 m³obs Thinning Programme by 4%.
8. Staffing Costs came in below Budget, but in line with Forecast, as we continue to address our need to restore capacity as highlighted in the Value for Money Report.
9. Windfarm Option Fee receipts amounting to in excess of £3.0m were surrendered to WAG in March.

Other Finance & Related Issues

10. **FY08/09 Annual Accounts** - the WAO Audit Progress Report presented to the Audit and Risk Committee commented that whilst the programme of work is progressing there have been delays in some key areas of work. We continue to work closely with colleagues in Silvan House to ensure that this does not adversely affect progress and we remain confident that the exercise will be completed to schedule.
11. **WAO Value for Money Report** - WAG's Audit Committee Report relating to the VfM Report – Operations of Forestry Commission Wales – was published and

FCW's draft response is now being cleared through DRA to be with the Minister by 1 May 2009.

Risk Analysis

12. **FY08/09:** the risk of exceeding budget is **Low** [Impact 4: Likelihood <1].
13. **FY09/10:** now that we have secured the flexible funding mechanism the risk of exceeding our Budget is **Low**.
14. **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

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, 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

17. The Committee notes the current position.

Derek J Stephen
Head of Finance
28 April 2009