

FINANCE REPORT TO 31st MAY 2009

Purpose

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

FY08/09

2. By the time the National Committee meets, FCW's Annual Report and Accounts will have been scrutinised by the FCW Audit & Risk Committee, formally signed by the Accounting Officer and passed to the Auditor General for Wales to lay before WAG.
3. FCW's full resource outturn was £2.9m below budget, of which £1.0m relates to Cost of Capital with WAO decreeing that the Windfarm Option Fees do not form part of our asset valuation; £1.0m is Cash at Bank; and the remainder being other surplus movements in Working Capital – e.g. additional invoiced income that we will see realised in FY09/10. This has been accommodated with the introduction of the flexible funding arrangements.

FY09/10

4. The position to the end of May is as follows:-

<i>Table 1</i> £000	Annual Budget	May Budget Profile	May Actual	Variance to Profile	Forecast Outturn
Departmental					
Admin Costs	5,333	885	655	230(F)	5,333
Programme Costs	5,045	960	520	440(F)	5,045
Programme Income	(886)	0	0	-	(886)
Net Departmental Costs	9,492	1,845	1,175	670(F)	9,492
Assembly Woodland					
Operating Income	(12,765)	(2,130)	(2,474)	344(F)	(12,765)
Operating Expenditure	20,812	3,950	2,360	1,590(F)	20,812
Operating (Surplus) / Deficit	8,047	1,820	(114)	1,934(F)	8,047
Social & Environmental Income	(1,017)	(70)	(87)	17(F)	(1,017)
Social & Environmental Exp.	8,246	1,570	930	640(F)	8,739
Social & Environmental Deficit	7,229	1,500	843	657(F)	7,722
Total Operational Deficit	15,276	3,320	729	2,591(F)	15,769
Adjustments from Full Resource to Net Cash Requirement **	(2,446)	(915)	(225)	430	3,513
Net Cash Requirement	22,322	4,250	1,679	93	21,748
WAG Baseline Funding	22,533	5,250	3,756	1,494(F)	22,533
(Surplus) / Deficit Cash Requirement	(211)	(1,000)	(2,077)	1,077(F)	(785)

(A) denotes adverse variance

(F) denotes favourable variance

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

5. **Summary:** historically the pattern of spend in FCW, and in fact throughout the FC, sees a surge in the final two months of the Financial Year which clearly gives rise to issues and risks. In an attempt to remedy this, FCW has set itself a challenging programme expenditure profile that is skewed towards the first three quarters of the Financial Year (i.e. 85% spend by Dec 09). Thus the expenditure lines in the above table reflect high levels of favourable variances as our Unit Managers adjust to this change. However at this point in time I do not see any emerging pressures that endanger FCW outturning outwith the FY09/10 Budget.
6. **Net Departmental Costs:** within this area of activity the BWW / WGS Grants reflect a spend of £0.2m compared to a £4.1m Budget despite the recorded level of commitment to the schemes. This area of activity is undergoing change management with claimants being encouraged to move away from the historic claim period that was associated with the planting season, towards claiming when specific aspects of their management plans are completed.
7. **Operating Deficit:** invoiced timber sales in the first two months are buoyant at £2.0m (21%) of the £9.3m Budget. Biomass sales are even stronger at £0.4m (29%) of the £1.4m Budget. By 7th July the Q1 figures will be available allowing us to forecast the sustainability of this level of sales.

FY10/11 & beyond

8. The risks to future years' baselines have been highlighted in previous Finance Reports and by the Director WAG DRA at the last National Committee meeting. In early June WAG suggested reductions in the Baseline of 1.6% on Revenue Expenditure and 4.6% on Capital Expenditure equating to £0.4m for FCW. FCW responded by explaining areas where we have already absorbed the impact of the current economic climate and the adverse impact any further reduction in funding would have on delivery of our Corporate Programmes. We await feedback.

Risk Analysis

9. **FY09/10:** the risk of exceeding our Budget is **Low**.
10. **FY10/11 and beyond:** the risk of a reduction in our Baseline is **High**.

Resource Implications

11. 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

12. 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

13. The Committee notes the current position.

**Derek J Stephen
Head of Finance
29 June 2009**