

FINANCE REPORT TO 31st JULY 2009

Purpose

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

FY08/09

2. Meetings to review the detailed processes relating to the Annual Accounts are ongoing with the FCW Finance Team, our service providers in Edinburgh and Wales Audit Office with the objective of continuous improvement.
3. We await the formal Management Letter from Wales Audit Office and this is expected in early September. The FCW Management Response to this will be tabled at the November Audit & Risk Committee.
4. Work on the restatement of the FY08/09 Accounts in accordance with International Accounting Standards is progressing in line with our project plan.

FY09/10

5. The position to the end of July is as follows:-

<i>Table 1</i> £000	Annual Budget	July Budget Profile	July Actual	Variance to Profile	Forecast Outturn
Departmental					
Admin Costs	5,333	1,500	1,505	5(A)	5,333
Programme Costs	5,045	1,000	963	37(F)	5,045
Programme Income	(886)	(130)	(132)	2(F)	(886)
Net Departmental Costs	9,492	2,370	2,336	34(F)	9,492
Assembly Woodland					
Operating Income	(12,765)	(4,200)	(5,258)	1,058(F)	(13,765)
Operating Expenditure	20,812	6,500	6,553	53(A)	21,812
Operating (Surplus) / Deficit	8,047	2,300	1,295	1,005(F)	8,047
Social & Environmental Income	(1,017)	(330)	(334)	4(F)	(1,017)
Social & Environmental Exp.	8,246	2,600	2,559	41(F)	8,739
Social & Environmental Deficit	7,229	2,270	2,225	45(F)	7,722
Total Operational Deficit	15,276	4,570	3,520	1,050(F)	15,769
Adjustments from Full Resource to Net Cash Requirement **	(2,446)	(100)	(125)	25(F)	3,513
Net Cash Requirement	22,322	6,940	5,731	1,209 (F)	21,748
WAG Baseline Funding	22,533	6,940	6,231	709(F)	22,533
(Surplus) / Deficit Cash Requirement	(211)	(-)	(500)	500(F)	(785)

(A) denotes adverse variance

(F) denotes favourable variance

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

6. **Summary / Operational Activity:** a favourable variance in terms of a Q1 Sales Forecast that the FCW Management Board has accepted is reflected in the above Forecast Operating Income and Variance to Profile. This will allow the release of reserves, reflected for now in the Operating Expenditure Forecast, and work is ongoing on the areas identified by the Board as suitable and include –
- wood fuel heating systems for FCW buildings, focussing on areas where wider benefits may be won through shared infrastructure [Corporate Programme 3 – Renewable Energy]
 - land acquisition or challenge funding for mixed woodland creation [Corporate Programme 1]
 - permanent forest infrastructure for non-clearfell management (tracks, roads, etc.) [Corporate Programme 1]
 - speedier minor building rationalisation, mostly through demolition, thus reducing future overhead costs [cross-cutting several Corporate Programmes]
 - bringing forward machinery replacement thus reducing budgetary impact on following year [mostly Corporate Programme 1]
7. **Net Departmental Costs:** within this area of activity the Better Woodland for Wales / Woodland Grant Scheme Grants reflects an improved rate of spend meeting the demand for increased grant aid for rhododendron control in the Phytophthora Control Areas - £0.3m [Corporate Programme 2 – Tree protection & Health].

FY10/11 & beyond

8. Reductions in Baseline Funding are being firmed up with WAG DRA&H formally proposing a £0.4m reduction in FY10/11 and indicatively £0.8m in the following years although this has to be taken in the context of the period covering a general election year.
9. FCW is undertaking scenario planning and has indicated that with some efficiency gains, an element of programme adjustment and making use of the flexible funding mechanism it will absorb the FY10/11 proposal.
10. Work is ongoing on the impact of further Baseline reductions for future years.

Risk Analysis

11. **FY09/10:** the risk of exceeding our Budget remains **Low**.
12. **FY10/11 and beyond:** the risk of a significant reduction in our Baseline is **High** but early indications of the likely settlement are welcomed as it is allowing us to plan for this to the best of our ability.

Other Related Issues

13. Finance Staff are already adapting to the working practices that will be required in the New Assembly Office and this approach will allow a seamless transition and negate any impact that the move might have on service provision.
14. The Information and Communication Technologies (ICT) Move to the New Office Project is on target with the first email being sent from our new improved network that has added resilience in view of it having to cope with three FCW offices merging into one.
15. Progress is being made with WAG ICT staff to allow the shared use of ICT resources in the new office.
16. The Value for Money project is progressing in accordance with the Improvement Plan – a full report will be going to the next FCW Management Board and then to the November Audit & Risk Committee.
17. The Procurement Plan approved by the Management Board is now progressing at pace with Unit Managers adopting the long-term contracts approach, which are giving rise to early implications of cost savings.

Resource Implications

18. 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

19. 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

20. The Committee notes the current position.

**Derek J Stephen
Head of Finance
25 August 2009**