

Agenda Item 4

26 November 2010

WNC 33.10

Finance Report

Purpose

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

FY09/10

2. We have formally responded to the Management Letter from Wales Audit Office and I am pleased to report a significant reduction in issues arising over previous years. The Management Letter was formally presented to the Audit and Risk Committee on 25 November.
3. The formal project management arrangements established to drive the FY09/10 were successful and so a similar project structure has been set up for the FY11/12 final accounts exercise. In addition a formal project is underway in FC-GB finance to tackle the major issues identified in our audit (and those in the other countries) around accounting for vehicles and finance leases.

WAG Funding

4. **Draft Budget 2011/12 – 2013/14** – On 17 November the First Minister presented the Welsh Assembly Government's draft budget for the next three years. The draft budget shows a proposed budget cut of 6.98% for FC Wales over this period. This is significantly better than the 13.6% budget reduction that we have used in our earlier planning assumptions.
5. This will reduce the pressure on our business, but it is still a reduction in funding and represents a reduction of around 15% in real terms.
6. Scrutiny and debate on the overall WAG budget will continue into the New Year, and the timetable suggests that we won't know whether these figures are subject to further change until 8 February 2011.

	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	cumulative reduction £'000
WAG Funding	22,033	21,395	20,995	20,495	1,538
Reduction % reduction		638 2.90%	400 1.87%	500 2.38%	1,538 6.98%

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7. **Capital Funding 2010/11** - WAG asked us to bid for in-year capital funding to utilise potential underspends elsewhere in its budgets. Our bid for £0.5m was successful. As a result we are able to bring forward some significant capital spend from FY11/12 and also purchase some vehicles outright whereas otherwise we would have had to lease them, thus saving the ongoing annual lease charges.

FY10/11

8. **Management Report as at 30 September** – the figures in the attached financial statement show the position as at the end of Month 6. This follows the established protocol of only reporting figures to the National Committee after they have been approved by the Management Board. The timing of meetings has prevented October's figures from being reviewed by Management Board yet.

9. **Revisions to Financial Statement** - in response to discussions at the last National Committee meeting I have redrafted the attached financial statement to separate out the costs in respect of Other Assembly Woodland Estate Obligations, shared service payments to FC-GB, and the costs of administration (National Office costs). This has had the effect of stripping out some £10m of costs shown as recharged to Corporate Programmes in previous reports.

10. **Corporate Programme Expenditure** – material variances arising from the mid-year review are factored into the attached financial statement with the most significant arising since my last report listed below:

- ***P ramorum*** – a forecast overspend of £0.4m to fund the forecast level of work required to responding to the *Phytophthora ramorum* outbreak.
- **Grants** – the forecast overspend has increased to around £1.0m in light of our planned move to a “use it or lose it” approach which is forecast to rise to an increase in claims in FY10/11. However there is a potential offsetting effect as future years may see a reduced grant payment profile.

11. **Corporate Programme Income** – Despite the impact of reduced income for harvesting the 45,000m³ obs of infected timber arising from the Phytophthora outbreak the forecast harvesting outturn sees a favourable £0.5m in accrued terms giving us a forecast maximum level of Flexible Funding Reserves of £2.5m (20% of £12.6m).

12. **Summary** – These variances, together with other lesser variances identified, have the overall impact for us showing a forecast overspend of £0.371m which can be managed through our Flexible Funding Reserves. However, there are some considerable uncertainties underlying this, the most significant of which is the scale of additional grant payments.

Other Finance & Related Issues

13. **Business Planning for 2011/12 onwards** – The Business Plan exercise is now underway and I will keep the Committee informed of progress. Current plans are for

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the Business Plan to be approved by the Management Board in January 2011 and endorsed by the National Committee in February 2011.

14. In addition to the current pay freeze and restrictions on recruitment established at a FC-GB level, we are seeking efficiency savings from our shared service providers. Within FC Wales we will be seeking efficiencies from the Procurement Delivery Plan (which in FY09/10 generated £1m of savings to be released over the life of the contracts), from a more commercial approach to use of the Assembly Government Woodland Estate, and from changes to grant payment schemes (the closure of Better Woodlands for Wales and the new woodland creation grant in WAG's Glastir scheme).
15. **Procurement Delivery Plan** – Collaborative working with EAW and CCW is progressing well and in November FC Wales will be leading on advertising in the EU Journal the first framework agreement with a value of £0.760m in respect of tree work services that incorporates all three organisations. Other planned collaborative work includes a new roads framework and media monitoring.

Risk Analysis

16. **FY10/11** – The risk of exceeding budget or exceeding our flexible funding is assessed as **Low** (Impact 4, Likelihood 1).
17. **FY11/12 & beyond** – The risk of substantial reductions in funding from WAG for FY11/12 and beyond is **Medium** (Impact 4, Likelihood 3).

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. FC Wales' financial position is communicated through the publication of this paper, edited for any commercially sensitive contents on the Intranet. In the meantime, it is conveyed to Unit Managers through Management Forum meetings, Estate Management Group meetings, and through regular discussion between Finance staff and FC Wales Unit Managers. Finance Reports from Management Board and National Committee are also copied to WAG's Dept of Rural Affairs business unit and to Director of Finance, FC GB.

Recommendation

20. The National Committee is asked to note the current position.

Martin Veale
Head of Finance
19 November 2010