England National Committee **Paper 07/15**

By Correspondence – 20 March 2015

FC ENGLAND BUSINESS PLAN 2015/16

Purpose

1. This paper invites the National Committee to approve the FC England 2015/16 Business Plan, and provides a forward look to 2016/17 and beyond.

Background

2. Defra confirmed the 2015/16 resource allocation for the FCE/Central Services at the end of January 2015 after a lengthy Department wide exercise to reduce a significant budget gap within Defra Core and across the Network Bodies.

3. The outcome has been positive for FCE/CS as the revised baseline deals with the funding gap of £6.4m which has been regularly flagged to Defra over the last 12 months. The additional funding will allow FCE/CS to go forward into 2015/16 with a balanced budget, whilst recognising that it is a bridge to provide the necessary time to develop and introduce a different institutional configuration at significantly lower, albeit sustainable, cost through the Woodland Policy Enabling Programme (WPEP) across the next Spending Review period.

4. The baseline also includes a further year's additional funding of £3m (reduced from £3.3m in 2014/15), to build on the work undertaken in strengthening the co-ordination of the application of funds for plant health across government.

5. It should be recognised that Defra have over-programmed for 2015/16 and, while FCE/CS will do its best to ensure that the programme is delivered, this presents a risk that restrictions or cuts may need to be made to some planned in-year activity.

6. There is also the potential following the General Election that changes or adjustments could be made to departmental budgets which could present risk to programmed activity.

Allocations by Business Area

7. The 2015/16 Business Plan is based on the confirmed Resource Departmental Expenditure Limit (RDEL) budget value (excluding depreciation and capital funding) of £47.9m. This can be compared to an RDEL allocation of £41.7m (including Plant Health) for 2014/15.

8. The split between business areas within the FC ‘Westminster Group’ broadly follows the agreed SR10 internal baseline allocations which has led to allocations of:

	RDEL (ex depreciation) £m
FEE	18.2
FS	13.2
FCE National Office	5.0
FCE Total	**36.4**
Central Services (CFS & FR)	**11.5**
Total Westminster Group	**47.9**

9. Attached at Annex A and B are summary business plans for FEE and FS for 2015/16. These internal documents provide additional information on priorities, key activities and associated risks.

Forward Look - 2016/17 and beyond

<u>Spending Review Baseline Pressures</u>

10. It is recognised that the new government may need to take further steps to reduce the structural deficit, and that this is likely to mean further significant budget reductions across all unprotected ministerial departments.

11. In anticipation of this a medium term strategic planning exercise is being undertaken for financial years 2016/17 – 2019/20 focussing on cost modelling alternative options for restructuring FCE/CS on a more sustainable financial model, building on the useful work already being undertaken by WPEP projects and workstreams. The expectation is that a suite of options will be agreed by end April 2015 to support funding discussions with the new administration after the general election.

<u>Transition Costs</u>

12. We are pushing on strongly with WPEP, notably with establishing an FEE+ organisation, a redesigned Forest Services, a refreshed cross border model and the further devolution of shared service functions.

13. However the costs of transition to the new structures, including setting up the new Public Forest Estate Management Organisation (PFEMO) [subject to legislation], are likely to be significant and will include:

- set-up costs, including staff costs such as recruitment, redeployment and potential exit costs, legal and IT;

- transitional costs such as parallel running that may be required to successfully deliver a service or function; and,
- additional costs following a change of service or function, e.g. residual liabilities for leases etc.

14. These costs are unlikely to be managed within FC’s baseline, and we have already flagged to Defra finance the need for access to a central transformation fund similar to that operated for SR10.

Risk Analysis

15. The main challenges for FCE/CS for 2015/16 and beyond are:

- handling the continued and increasing biosecurity threat;
- delivering government forestry & woodlands policy statement commitments, and agreed performance targets, within an increasingly constrained financial environment, including continued progress towards targets for woodland improvement and creation;
- handling the impact and consequences to Forestry Commission England of the introduction of new grant schemes under the next rural development programme for England, its delivery through CAP-Delivery and the restructuring of how EU payments are administered across the Defra network;
- managing WPEP organisational change, including setting up PFE MO, the future design of Forest Services and engaging with cross-border change, whilst maintaining business continuity and UKWAS certification;
- broadening and deepening our engagement with other Defra network bodies, such as with Natural England on the new Countryside Stewardship scheme;
- working with Defra on "One Business" initiatives where the Defra Network can co-operate more closely, including the development of Network Evidence Action Plans, and
- continuing to devolve Central Shared Services out from the centre to the countries in line with an agreed ‘road map’ for change whilst ensuring business continuity, engaging with Defra Network Corporate Services as an integral part of the process.

16. The principal financial risks are:

- continuing to obtain sufficient cover from Defra for the suspension of woodland sales until FEE is put on a sustainable financial footing;
- the cost of delay in placing FEE on a sustainable financial footing due to a longer timescale for introducing PFEMO;
- the potential lack of central Defra transition funding to support organisational change;
- breaching RDEL baselines after 2015/16 due to insufficient funding to support operational costs that are fixed in the short/medium;

- embedding recurrent costs for plant health within a short term (2 year) funding agreement;
- increased tax liabilities, and possible additional liabilities for back tax and penalties, arising from ongoing HMRC investigations; and,
- the continued pressures of fiscal austerity across government.

Recommendation

17. The Committee is invited to approve the 2015/16 business plan for FCE; and note the challenges for 2016/17 and beyond.

Steve Meeks
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