

22 October 2015

**FINANCE REPORT****Purpose**

1. To provide the Executive Board with an update on:
  - Forestry Commission England's financial position at end September (Period 06);
  - Spending Review 2015; and,
  - The finance risk assessment.

**2015/16 Financial Position – End June (Period 06)**

2. The summary forecast position of the various FC England budget targets is illustrated in the following table:

	<b>2015/16 Opening Budget £m</b>	<b>Period 06 Forecast £m</b>	<b>Indicative Pressure £m</b>
<b>Net RDEL</b>	37.07	35.48	(1.590)
<b>Net CDEL</b>	0.100	0.207	0.107
<b>Net RAME</b>	(0.150)	(0.274)	(0.124)

3. The indicative net Resource DEL underspend comprises:
  - a £1.2m reduction accepted by Defra as a contribution to their in-year savings measures. The £1.2m was being held in reserve to support the WPEP change programme and so, whilst there will be no impact on our immediate operations, equivalent transformation funding is required from Defra to deliver structural change.
  - a £200k further budget reduction imposed by Defra in September, towards which our £85k Gateway Panel savings can be counted. The balance £115k will be found through a reduction in FEE's ASL;
  - the agreement with Defra to treat £100k Technical Assistance funding to FS as a net cost reduction;
  - a further £350k reduction in FEE's ASL to compensate for Defra's recent decision not to fund pre-SR10 early retirement costs;
  - a £70k forecast reduction in National Office depreciation costs; and,
  - £80k miscellaneous forecast reductions.

## Offset by:

- £168k FCE element of the unbudgeted pre-SR10 early retirement costs;
- £130k increased FS project costs linked primarily to CAPD/EU Payments; and,
- £124k forecast cost of FS staff exits. These costs are funded by HMT and will be met through a Supplementary Estimate budget switch in the Autumn.

4. The Capital DEL variance arises from FCE's £137k estimated share of finance leases for vehicles, offset by a £30k reduction on GLOS enhancements. The finance lease issue previously arose in 2014/15 and has been flagged with Defra Finance.
5. The RAME variance relates to the need to utilise a provision for the cost of FS staff exits.
6. The RDPE forecast anticipates fully spending our gross budget of £30.55m.
7. Annex A sets out the forecast financial position in more detail, including Central Services values for completeness.

## **SR15**

8. An initial FCE/CS SR15 return was presented to Defra on 31<sup>st</sup> July (24hr turnaround) in response to the 25/40% scenarios which equate to cost reductions of £12m & £19m.
9. The proposition and delivery of savings was clearly and directly linked to our structural change programme and the necessary legislative and institutional change (including devolution). Our return emphasised that Defra must not assume that they can take savings without organisational change of FCE/CS, especially the PFE, and that transformation funding would be needed to deliver change.
10. Further separate responses on Evidence [Research], Plant Health and Workforce were made on 3<sup>rd</sup>, 11<sup>th</sup> and 17<sup>th</sup> August respectively; and following discussions with Defra it was agreed to take the £3m Plant Health related costs out of FC/CS's baseline as the funds have been switched out of Environment & Rural's budget and placed in core Plant Health.
11. Defra have accepted that our contribution to their 2015/16 budget shortfall will count fully towards our SR15 target reductions.
12. Defra lodged their submission with HMT on 4<sup>th</sup> September and departmental negotiations with HMT continue in the lead up to the Autumn Statement on 25<sup>th</sup> November.
13. I am engaging with Defra via the Environment & Rural SR Project Board chaired by Shirley Trundle, although it is unlikely that we will receive confirmation of our 2016/17 baseline until late December 2015 or January 2016.

## **Finance Risk Assessment**

### 2015/16 Budget

14. Although FCE/CS have already provided £1.4m to assist Defra in meeting their significant budget gap, it is possible that further savings measures will be required later in the financial year. In addition, apart from cover for the costs of FS staff exits, the provision of transformation funding by Defra is not guaranteed and we may need to find the cost of taking forward structural change in 2015/16 from within our baselines. There is also a risk that Technical Assistance funding for the £434k cost of manual handling of grants by Natural England may not be made available.

15. It is also likely that a number of additional liabilities arising from the HMRC tax audits will need to be settled during 2015/16. Although this potential pressure has been flagged in the monthly reporting of Risks and Opportunities to Defra, given the department's challenging financial position we may be required to absorb the cost.

#### Spending Review (SR15)

16. The anticipated late notification of our SR15 baselines will create a significant challenge in developing a balanced 2016/17 budget across FCE/CS early in the New Year. Both FEE and FS are undertaking as much preparatory business planning as is possible in the circumstances.

#### HMRC Compliance Audits

17. The financial and reputational risk posed by the current HMRC compliance audits into PAYE and VAT has been fully recognised, and steps taken to deal quickly with issues as they arise and to ensure that our guidance and procedures are made fully compliant as soon as possible.
18. A discrete project team, working to myself, has recently been formed to co-ordinate the FC's response to the audits.

#### RDEL Administration/Programme Reclassification

19. The artificial split between Administration and Programme RDEL has been recognised by Defra and we have submitted proposals to their Spending Review team re-classify the bulk of our Admin expenditure as Programme as part of a departmental wide exercise. If accepted our budget would more accurately reflect front-line activity and simplify financial reporting.

#### **Recommendations**

20. The Board is invited to note and discuss:
  - the financial position as at end September (AP06);
  - the Spending Review 2015; and,
  - the finance risk assessment.

**Steve Meeks**  
**Finance Director England**

**October 2015**