

30 October 2014

**FINANCE REPORT****Purpose**

1. To provide the Executive Board with an update on:
  - Forestry Commission England's financial position at end August (Period 05) 2014;
  - Business Planning;
  - the finance risk assessment; and,
  - the current assessment of top level FCE risks.

**2014/15 Financial Position – End September (Period 06)**

2. The summary position of the various FC England budget targets, at the end of September, is illustrated in the following table:

	<b>2014/15 Approved Budget</b>	<b>Period 06 Forecast</b>	<b>Indicative Pressure</b>	<b>Indicative Pressure</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>%</b>
<b>Net RDEL</b>	32.4	24.7	-7.7	-23.7
<b>Net CDEL</b>	0.0	0.2	0.2	100.0
<b>Net RAME</b>	0.0	-0.5	-0.5	-100.0

Note: The approved budget includes £2.7m additional Plant Health funding.

3. The decision by Defra's Finance Panel to recoup the £8m additional funding provided in 13/14 in order to mitigate Departmental budget pressures has had a material impact on our RDEL forecast position. FEE will now manage its 14/15 operations with an Annual Subsidy Limit (ASL) from FCE of £4m, together with drawing down the £8m from its cash reserves.
4. Defra have now also opted to take the 1.9% savings options offered at Quarter 1 which amount to £390k for FCE. The downward adjustment is reflected in the Period 6 forecast in line with the contingency plans previously put in place.
5. The forecast also continues to indicate a RDEL pressure relating to two issues:
  - a. the resource impact of the utilisation of provisions amounting to £0.5m, primarily for early retirement costs; and,
  - b. £0.2m relating to the decision to halt capital development on GLOS pending the introduction of the new CAP-D system. We have not bid for, or received, any capital funding for GLOS in 14/15. In previous years the software capitalisation has been

achieved through crediting resource costs for IS staff whose time is now primarily spent maintaining the software.

6. The following provides a reconciliation of the RDEL forecast to the Approved Budget:

Approved Budget:	£32.4m
Utilisation of Provisions:	£ 0.5m
GLOS CDEL Switch:	£ 0.2m
Defra Claw Back:	- £ 8.0m
1.9% Reduction:	- £ 0.4m
	-----
Period 6 Forecast	£24.7m

7. The £200k Capital DEL pressure relates to commitments on finance leases for vehicle additions.
8. The indicative RAME pressure relates to the utilisation of provisions during 2014/15 and offsets the £0.5m RDEL pressure described above.
9. Whilst we will continue to attempt to absorb the GLOS CDEL switch pressure, Supplementary Estimate bids are currently being worked up with Defra Finance to cover the remaining pressures supported by business cases. The pressures continue to form part of our monthly reporting to Defra Finance.
10. The RDPE forecast anticipates fully spending our gross budget of £34.8m.
11. Annex A sets out the forecast financial position in more detail, including Central Services values for Director England's information as Additional Accounting Officer.

## **Business Planning**

12. Business Plan guidance has been issued within FCE/CS with the focus on developing a plan for 15/16, in line with the indicative financial settlement under discussion with Defra and our Corporate Plan. These discussions will continue to feature the £6.4m deficit already projected for 15/16.
13. It is unlikely that we will receive confirmation of our 15/16 settlement until mid November 2014 given Defra's timetable for reviewing the results of the recent 5/10/15% scenario planning exercise and seeking Ministerial endorsement of internal budget allocations.
14. Financial years 16/17 – 17/18 will be subject to a separate strategic level exercise commencing later in autumn 2014 in anticipation of SR15 and WPEP organisational change. This strategic level exercise will focus on developing radical options for restructuring FCE/CS on a more sustainable cost 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 March 2015 to support funding discussions with the new administration after the general election.

## **Finance Risk Assessment**

### 2014/15 Budget

15. A opening balanced budget is in place, and measures taken to handle the 1.9% reduction required by Defra. Supplementary Estimate bids will be submitted for the indicative pressures with the exception of the GLOS Capital Switch which will need to be managed down.

### 2015/16 Budget

16. Options for resolving the projected deficit of £6.4m in 2015/16 remain under active discussion with Defra, with the aim of agreeing a mitigation plan at the earliest opportunity.

### RDEL Administration/Programme Reclassification

17. The artificial split between Administration and Programme RDEL will continue to be closely monitored, and any negative impacts on control totals from structural change flagged with Defra Finance.

## **Risk Management**

18. Attached for reference at Annex B is the FCE Strategic Red Line Risk extract.

## **Recommendations**

19. The Board is invited to note and discuss:
  - the financial position as at end September (AP06);
  - the Business Planning exercise;
  - the finance risk assessment; and,
  - risk management.

**Steve Meeks**  
**Finance Director England**  
**October 2014**