

22 July 2015

FINANCE REPORT**Purpose**

1. To provide the National Committee with an update on:
 - Forestry Commission England and Central Services financial position at end June (Period 03);
 - the Annual Report & Accounts 2014/15; and,
 - the finance risk assessment.

2015/16 Financial Position – End June (Period 03)

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

	2015/16 Approved Budget £m	Period 03 Forecast £m	Indicative Pressure £m
Net RDEL	50.22	49.41	(0.810)
Net CDEL	0.130	0.730	0.600
Net RAME	(0.350)	(0.350)	0.000

3. The indicative net Resource DEL underspend comprises:
 - a £1.2m reduction accepted by Defra as a contribution to their in-year savings measures. It is understood that the value will be accepted as a contribution to our SR15 target reduction. 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 including the costs of staff exits in this financial year;
 - anticipated Technical Assistance income (£119k) and transition cost cover (£77k) from Defra;
 - £250k accelerated depreciation on the new sewerage works at Alice Holt; and,
 - RDEL debit value of £350k for the utilisation of early retirement provisions to match the RAME credit budget.
4. The Capital DEL variance arises from:
 - £250k approved expenditure on new sewerage works at Alice Holt;
 - £250k expenditure on finance leases for vehicles; and,
 - £100k for IT 'run & maintain' items.

The latter two capital items also arose in 2014/15 and have been flagged with Defra Finance.

5. The RDPE forecast anticipates fully spending our gross budget of £30.55m.

6. Defra have also introduced a formal gateway process for approving uncommitted spend above a £10k threshold (initially £25k). FCE/CS have adopted a differentiated approach to reflect the very different character and status of its component parts, with FEE putting additional scrutiny in place to realise further savings against its ASL where possible. For the other parts of FCE/CS a panel consisting of the Country Director and Finance Director has been introduced to scrutinise expenditure proposals and provide Defra with a weekly report on decisions taken.
7. Annex A sets out the forecast financial position in more detail.
8. Annex B provides further background on FEE's forecast.

Annual Report and Accounts 2014/15

9. I am pleased to report that unqualified accounts for FCE/CS, FEE and FR were laid before Parliament on 11th June 2015 in line with the published and challenging timetable.

Finance Risk Assessment

2015/16 Budget

10. Although FCE/CS have already provided £1.2m 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, 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.

Spending Review (SR15)

11. Given the government's intention to continue with measures to tackle the structural deficit it is anticipated that further significant reductions will be made to un-protected departments across the next Spending Review. It is expected that the window for submitting our response will be limited to the few weeks prior to 14 August, with Ministerial discussions taking place through the autumn. However, at the time of writing we are uncertain of the length of the SR, the required % reductions and the associated profile of savings. However, some advance work has already been undertaken, notably on submitting our capital expenditure bids for the next 5 years.

HMRC Compliance Audits

12. 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.

RDEL Administration/Programme Reclassification

13. 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.

Risk Management

14. Attached at Annex C is the significant red line risk extract for FCE/CS.

Recommendations

15. The Committee is invited to note and discuss:

- the financial position as at end June (AP03);
- the successful laying of unqualified accounts for FCE/CS, FEE and FR;
- the finance risk assessment; and,
- risk management.

Steve Meeks
Finance Director England
July 2015