

## **REVIEW OF FC ENGLAND/CENTRAL SERVICES ANNUAL REPORT AND ACCOUNTS 2014-15**

### **Purpose**

1. For the National Committee to approve the FC England/Central Services Annual Report and Accounts for 2014-15.

### **Background**

2. The England Finance team prepared the 2014-15 Annual Report and Accounts for FC England/Central Services (including Forest Research) and FE England. All accounts were prepared to agreed timescales.
3. As in the previous financial year, a key component was to produce a comprehensive and robust set of interim accounts to 31 December 2014, which were subject to review by Ernst and Young (EY). This provided the opportunity to further test our processes and agree accounting procedures with EY.
4. The challenging Defra Group Accounts timetable was met with the consolidated FC England/Central Services, including Forest Research, pro forma return and disclosure information submitted to Defra by the deadline of 27 April 2015.
5. The accounts were submitted to EY on 30 April 2015 in accordance with the agreed timetable. EY commenced their audit of the draft accounts on 5 May 2015.
6. An additional Audit and Risk Assurance Committee meeting was held on 6 May 2015 to provide members with the opportunity to review as complete a set of draft accounts as possible prior to certification and laying.
7. The Minister of State is currently reviewing the draft Annual Report and Accounts and clearance is expected prior to the Committee meeting on 4 June.
8. The draft Audit Certificates provided by the NAO indicate that subject to the satisfactory completion of the remaining audit work, the C&AG anticipates certifying the 2014-15 financial statements with an unqualified audit opinion, without modification.
9. The Audit and Risk Assurance Committee Chair will report this morning's discussions to this afternoon's National Committee meeting.

### **Performance against Budget**

10. The total Forestry Commission England/Central Services resource budget for 2014-15 amounted to £37.9m, including Supplementary Estimate switches for woodlands sales contingency and the release of provisions for staff exits.

11. A summary comparison for England/Central Services is detailed below showing the resource and capital expenditure outturn to the post Supplementary Estimate budget and variances approved by Defra:

<b>2014-15</b>	<b>Budget</b>	<b>Exp</b>	<b>Income</b>	<b>Net Exp</b>	<b>Variance</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Resource DEL	38,799	63,954	(25,604)	38,350	(449)
Resource AME	(932)	(457)	-	(457)	475
<b>Total Resource</b>	<b>37,867</b>	<b>63,497</b>	<b>(25,604)</b>	<b>37,893</b>	<b>26</b>
<b>Capital DEL</b>	<b>427</b>	<b>454</b>	<b>-</b>	<b>454</b>	<b>27</b>

12. The gross outturn on RDPE grants, which score in Defra's accounts, was £34.8m against a budget of £34.8m.

### **Variance Analysis**

13. The £0.45m Resource DEL variance between the 2014-15 net budget and the net outturn mainly relates to a depreciation underspend.

14. The Resource AME variance relates to an under utilisation of provisions during the year, and therefore, the full balance was not required.

### **Other key facts and issues**

15. The Committee's attention is drawn to the following:

- **Valuation of the Forest Estate**

The Forest Estate was subject to a formal professional valuation as at 31 March 2013 by Smiths Gore, Chartered Surveyors. Formal professional valuations need to be undertaken at least every five years. During intervening years between formal professional valuations, the Forest Estate remains subject to revaluations in the form of indexation exercises. Due to the size and the value of the Forest Estate, the sources of indices and valuation methodologies for use in the annual valuation exercise were agreed with EY in advance of the year end accounts preparation.

The values of the Forest Estate have increased by approximately 6 per cent since the 31 March 2014 interim valuation exercise. In order to support this movement as at 31 March 2015, Smiths Gore have provided an analysis of woodland sales over the period and stated that 'Woodland values can be expected to increase as most of the fundamental drivers remain in place. Investment by sawmills in advanced technology and quality control, when combined with favourable exchange rates, means that home grown timber can compete effectively against imports on quality and price increasing market share. European processors have secured more global markets for excess capacity and this, combined with an increase in their cost base, makes a flood of European imports less likely as sterling strengthens against the Euro. Growth and demand for biomass and a recovery in the building sector and in the economy in general has increased competition for standing timber

putting upward pressure on prices and strengthening confidence in the forestry market.’

- **Senior staff pension disclosures**

The FC England / Central Services and FE England accounts must disclose the remuneration of senior staff within the Remuneration Report sections. The introduction of new disclosure requirements in 2013-14 that were announced late on in the process caused significant issues for a variety of bodies across government. The issues mainly related to the inaccuracy of the pension benefits accrued figures and the timeliness of the provision of the correct data from My Civil Service Pensions (MyCSP).

In order to mitigate this risk, the issues from 2013-14 were raised at the government’s Resource Accounts Special Interest Group and have been progressed via this group with MyCSP for resolution in 2014-15 and future years.

The issues arising in 2013-14 relating to pension disclosures from MyCSP were addressed during 2014-15. Unfortunately, a new error was identified in the calculation of certain members’ benefits affecting the majority of Central Government bodies.

MyCSP have now provided recalculated pension benefits for the affected members following Cabinet Office approval. The revised pension disclosures have been included within the Remuneration Reports in the FC England / Central Services and FE England accounts and agreed with EY.

- **HMRC audit and financial liabilities**

The general accounting principles for the emerging issues from the ongoing HMRC audit of the FC’s treatment of VAT and Income Tax were discussed at the February 2015 Audit and Risk Assurance Committee meeting.

Any emerging issues would be treated as follows:

- Where reliable estimates of **the financial liability cannot be determined**, in accordance with International Accounting Standard 37 (IAS37), a disclosure will be included in the accounts to recognise an unquantified contingent liability.
- Where reliable estimates of **the financial liability can be determined**, in accordance with IAS37, the estimated financial liability will be recognised as a provision in the accounts.

Consistent with the treatment outlined above, provisions for HMRC liabilities have been raised during the year to address areas of non-compliance. All liabilities identified by HMRC were subsequently settled or paid on account by 31 March 2015. The values are included within provisions and amounted to £621,000 for FC England / Central Services and £357,000 for FE England.

The HMRC audit is continuing into 2015-16 and an unquantifiable contingent liability is also disclosed within the FC England / Central Services and FE England accounts to recognise the possibility of future non-compliance liabilities arising from the audit.

## **Next steps**

16. The FC England/Central Services accounts will be signed by Ian Gambles, Director England, and FE England's by Simon Hodgson, CEO FEE, on 4 June, and certified by the C&AG on 5 June.
17. The accounts will then be laid before Parliament on 11 June.

## **Recommendations**

18. The National Committee should approve the Annual Report and Accounts for Forestry Commission England/Central Services and Forest Enterprise England for the year ended 31 March 2015.

**Meirion Nelson**  
**Financial Controller England**  
**May 2015**