Agenda Item 4 **England National Committee** **Paper 15/14**

01 October 2014

FINANCE REPORT

Purpose

1. To provide the National Committee with an update on:

- Forestry Commission England and Central Services' 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 August (Period 05)

2. The summary indicative pressures against the various FC England and Central Services (FCE/CS) budget targets, at the end of August, are illustrated in the following table:

	2014/15 Approved Budget £m	Period 05 Forecast £m	Indicative Pressure £m	Indicative Pressure %
Net RDEL	45.86	38.98	-6.87	-15.0
Net CDEL	0.00	1.04	1.04	n/a
Net RAME	0.00	-0.93	-0.93	n/a

Note: The approved budget includes £3.3m 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. The forecast continues to indicate a Resource DEL pressure relating to two issues:

   a. the resource impact of the utilisation of provisions amounting to £0.930m, primarily for early retirement costs; and,
   b. £0.200m relating to the decision to halt capital development on GLOS pending the introduction of the new CAP-D system, and so we have not bid for, or received, any capital funding 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.

5. Whilst Defra have formally approved £169k cover for FR scientific equipment, the bulk of the indicative Capital DEL pressure remains unfunded and will be subject to Supplementary Estimate bids in the autumn. Of the unfunded £870k, only £200k is currently committed as finance leases for vehicle capital additions.

6. The indicative RAME pressure relates to the utilisation of provisions during 2014/15 and offsets the £0.9m RDEL pressure described above.

7. As previously reported, Defra have required all budget holders to restrict RDEL commitments to 98.1% of budget pending a review at the end of Quarter 2 (September). Whilst this is not yet a formal cut to our RDEL budget, each primary business area has been asked to develop plans on a contingency basis to accommodate a 1.9% reduction. For FCE/CS these plans focus on:

   - a reduction in FEE's cash reserves;
   - the time lag in filling vacant budgeted posts;
   - the gapping of vacant budgeted posts; and,
   - a reduction in overhead costs, notably T&E and other miscellaneous expenditure.

8. The 1.9% reduction value is not currently reflected within forecast.

9. Whilst we will continue to attempt to absorb the indicative pressures within 2014/15 existing budgets, particularly in the context of the additional potential 1.9% budget reduction, we will revisit the position throughout the year and report to the Committee. Where it becomes probable that the pressures cannot be absorbed into existing budgets, we will advise the Committee in advance of a Supplementary Estimate bid in the Autumn to cover the pressures. The pressures will continue to be form of our monthly reporting to Defra Finance.

10. The RDPE forecast anticipates fully spending our gross budget of £34.8m.

11. <u>Annex A</u> sets out the forecast financial position in more detail.

12. A new <u>Annex B</u> has been introduced to provide a more in depth analysis of FEE's financial position. David Hodson, FEE's Head of Finance, will attend the ENC on 1 October and provide an overview of the figures.

Business Planning

13. 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.

14. It is unlikely that we will receive confirmation of our 15/16 settlement until early 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.

15. 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

16. Although a balanced budget is in place, options have been developed to manage within the 98.1% commitments threshold set by Defra, and a Supplementary Estimate bid will be considered for the indicative pressures detailed earlier in this paper.

2015/16 Budget

17. 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

18. 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

19. Attached for reference at Annex C is the FCE Strategic Red Line Risk extract.

Recommendations

20. The Committee is invited to note and discuss:

- the financial position as at end August (AP05);
- the Business Planning exercise;
- the finance risk assessment; and,
- risk management.

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September 2014