

04 February 2015

FINANCE REPORT**Purpose**

1. To provide the National Committee with an update on:
 - Forestry Commission England and Central Services' (FCE/CS) financial position at end December (Period 09) 2014;
 - Business Planning;
 - Annual Report & Accounts 2014/15;
 - the finance risk assessment; and,
 - the current assessment of top level FCE/CS risks.

2014/15 Financial Position – End December (Period 09)

2. The summary forecast position against the various FCE/CS budget targets, at the end of December, is illustrated in the following table:

| | 2014/15 Post SE Approved Budget £m | Period 09 Forecast £m | Variance £m | Variance % |
|-----------------|---|--------------------------------------|------------------------|-----------------------|
| Net RDEL | 38.29 | 37.61 | -0.68 | -1.8 |
| Net CDEL | 0.43 | 0.47 | 0.04 | 9.3 |
| Net RAME | -0.93 | -0.93 | 0.00 | n/a |

3. The approved budget reflects confirmed Supplementary Estimate budget switches and approved capital overspends on science equipment and finance leases. The budget switches include the £8m claw back of Defra funding, additional £3.4m Plant Health funding, cover for the utilisation of £0.9m provisions, and the 1.9% reduction of £0.6m.
4. £550k of the forecast Resource DEL underspend relates to a reduced depreciation cost for our grants system, GLOS, following a re-living and revaluation exercise. The balance is generated from a number of minor forecast adjustments.
5. The RDEL and RAME forecasts do not feature the potential impact of the current HMRC compliance audits and the repayment of tax liabilities, along with related penalties and interest. The impact and timing is currently being validated and indicative values (with a range of between £650k to £1.1m) provided to Defra Finance.

6. The forecast Capital DEL overspend of £40k relates to the requirement to develop an interface between GLOS and the new CAP D system. The spend was anticipated earlier in the financial year and regularly flagged with Defra finance and the CAP D project.
7. The RDPE forecast anticipates fully spending our gross budget of £34.8m.
8. Annex A sets out the forecast financial position in more detail.
9. Annex B provides a more in depth analysis of FEE's financial position.

Business Planning

10. Business Plans for 2015/16 have been developed across FCE/CS in line with internal guidance issued in the autumn which reflects the indicative financial settlement under discussion with Defra and our Corporate Plan. Those discussions continue to feature the £6.4m deficit projected for 2015/16.
11. Following an exercise over the autumn within Defra we expect to receive formal confirmation of our 2015/16 settlement by the end of January. ENC approval of the Business Plan will then be sought by correspondence.
12. Financial years 2016/17 – 2019/20 are subject to a separate strategic level exercise focussing on cost modelling alternative options for restructuring FCE/CS on a more sustainable financial 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 end March 2015 to support funding discussions with the new administration after the general election.

Annual Report & Accounts 2014/15

13. Work is progressing well on the interim (AP09 – December) accounts, which will include a draft Annual Report and Governance Statement.
14. Defra have been provided with relevant data for consolidation into the departmental accounts, and Ernst and Young are scheduled to commence their audit of the interim accounts on 9th February.

Finance Risk Assessment

2014/15 Budget

15. A balanced budget is in place, and plans put into effect to manage within the 98.1% commitments threshold set by Defra. Defra have confirmed all Supplementary Estimate bids, and approved minor overspends on CDEL.
16. However, it is likely that FCE/CS will need RAME cover to raise provisions on the tax liabilities arising from the HMRC compliance audits. RDEL cover would also be needed if those provisions then crystallise in 2015/16. The issue is under active discussion with Defra Finance.

2015/16 Budget

17. Options for resolving the projected deficit of £6.4m in 2015/16 remain under active discussion with Defra. Confirmation of the budget is expected at the end of January 2015.
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/CS Strategic Red Line Risk extract. The full suite of FCE/CS Risk Registers will be discussed at the next FCE+ ARAC on 24th February 2015.

Recommendations

20. The Committee is invited to note and discuss:
 - the financial position as at end December (AP09);
 - the Business Planning exercise;
 - the Annual Report & Accounts 2014/15;
 - the finance risk assessment; and,
 - risk management.

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January 2015