FINANCE REPORT 2014/15 MONTH 9 (QUARTER 3)

Background

1) The budgets used are as agreed in the Business Plan for FEE.

2) Forecasts have been compiled from cost centre returns.

Key facts

Forecast Outturn – Table 1

3) **Income**

Operating income is forecast to be £5.7m higher than plan. The material items making up the favourable variance is shown in the analysis below Table 1. The analysis identifies that timber accounts for two thirds of the increase in income.

Timber prices are higher than expected due to strong demand. In terms of production volume; the forecast is 3% lower than plan and 10% lower than 2013/14 and 2012/13. This supports the strategic issue of a production decline in timber volume for FEE, while high unit prices are keeping the income levels up. Over the past three years timber prices have increased by around 25%. Spikes in prices are associated with storm damage; as fences etc. need repair and replacement.

There are some concerns that timber mills in the North are currently holding high stock levels. If demand for sawn wood reduces then production demand will reduce, as saw mills will use stock to meet remaining demand.

The good weather and the Gruffalo campaign have led to higher income levels for recreation; from car parks and increased receipts from turnover rents. As many of the businesses run on the estate have also experienced increased activity levels from the weather and the Gruffalo campaign.

The estates function has also seen rises in income. However, a high proportion of the increase is non-recurrent, such as payments for easements.

4) **Cost**

Overall operating cost is within budget and while there are vacancy savings in pay, the vacancy level is likely to reduce in the long term.

5) **Operating Position**

The operating position shows a forecast favourable variance of £5.8m (£4.5m M8) against the budget operating deficit of £17.8m. This takes the plan net operating cost of FEE down from £17.8m to £12.0m (£14.7m 2013/14). The operating cost is used in the calculation of the FC key performance indicator of the cost per hectare for FEE.

6) **Net Surplus / Deficit**

In respect of the Net Surplus/Deficit position; DEFRA reduced the funding available by requiring the return of £8m, provided to FEE in 2013/14. The reduction in funding and resulting increase in deficit is covered by a reduction in cash of £8m and is afforded from FEE cash reserves.

7) **Capital**

During the early part of 2014/15 some approved schemes were identified as requiring slippage into 2015/16, cost £1.1m. So funds were made available in year to bring forward other strategic schemes. £0.5m was made available to purchase major vehicles (switching out of finance leases) and reduce operating costs while £0.6m was used for land purchase at Uphill Farm in Wendover.

The capital programme may slip by a further £1m from the current forecast and any slippage will be carried forward to 2015/16. Of this slippage, around £0.5m relates to replacement toilet blocks at Sherwood Pines. This scheme is currently being reworked as recent cost estimates were significantly higher than original plans.

The adverse variance on the capital grants and disposal line is due to the Westonbirt development. However, the reduction in grant is matched with an offset reduction in expenditure.

8) **Cash**

The forecast cash balance is set to reduce against plan due to the removal of funds by DEFRA; year-end working capital movements are assumed to be broadly neutral. The actual movement will depend on a number of factors including any further change to the subsidy from FC England, the potential for payroll creditors to be transferred from FC GB etc.

Overall, due to the removal of £8m from DEFRA funds, the cash position could be expected to fall from the plan outturn level of £18.8m to £10.8m; however the favourable operating position has increased the forecast outturn balance to £16.4m (£14.6m M8).

9) **Cash balances – Table 2**

Table 2 provides an analysis of the cash holdings from the opening position to budget and forecast closing. Future major capital scheme commitments such as the Nursery site move are accommodated, along with known carry forward schemes from 2014/15.

Planned cash consumption was £7.2m for the year. The removal of DEFRA funds increased cash consumption to £15.2m, while the improvement in the operating performance has generated internal cash of around £5.6m. The forecast cash consumption is £9.6m due to operating performance.

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