

19 November 2014

FINANCE REPORT**Purpose**

1. To provide the National Committee with an update on:
 - Forestry Commission England and Central Services' financial position at end October (Period 07) 2014;
 - Business Planning;
 - the finance risk assessment; and,
 - the current assessment of top level FCE risks.

2014/15 Financial Position – End October (Period 07)

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

	2014/15 Approved Budget £m	Period 07 Forecast £m	Variance £m	Variance %
Net RDEL	45.86	38.37	-7.49	-16.3
Net CDEL	0.00	1.37	1.37	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 £3.9m, together with drawing down the £8m from its cash reserves.
4. Defra have now also opted to take the 1.9% savings options offered at Quarter 1 which amount to £0.6m. The downward forecast is reflected in the Period 7 forecast in line with contingency plans previously put in place.
5. 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.

6. The following provides a reconciliation of the RDEL forecast to the approved budget:

Approved Budget	£45.9m
Utilisation of provisions:	+ £ 0.9m
GLOS CDEL Switch:	+ £ 0.2m
Defra Claw Back:	- £ 8.0m
1.9% Reduction:	- £ 0.6m

Period 7 Forecast	£38.4m

- 7. Whilst Defra have formally approved £169k cover for FR scientific equipment, the bulk of the indicative Capital DEL pressure remains unfunded and is subject to Supplementary Estimate bids which have been lodged with Defra. Of the unfunded £1.2m, only £200k is currently committed as finance leases for vehicle and machinery capital additions.
- 8. The indicative RAME pressure relates to the utilisation of provisions during 2014/15 and offsets the £0.9m RDEL pressure described above, and is also subject to a Supplementary Estimate bid.
- 9. The RDPE forecast anticipates fully spending our gross budget of £34.8m.
- 10. Annex A sets out the forecast financial position in more detail.
- 11. Annex B provides a more in depth analysis of FEE's financial position.

Business Planning

- 12. 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.
- 13. It is unlikely that we will receive formal confirmation of our 15/16 settlement until after Christmas 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.
- 14. Financial years 16/17 – 19/20 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 March 2015 to support funding discussions with the new administration after the general election.

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. Supplementary Estimate bids have been lodged to manage the budget variances detailed earlier in this paper.

2015/16 Budget

16. 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

17. 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

18. Attached for reference at Annex C is the FCE/CS Strategic Red Line Risk extract.

Recommendations

19. The Committee is invited to note and discuss:
 - the financial position as at end October (AP07);
 - the Business Planning exercise;
 - the finance risk assessment; and,
 - risk management.

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November 2014