

12 July 2017

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 May (Period 02);
 - 2016/17 Annual Report & Accounts; and,
 - the finance risk assessment.

2017/18 Financial Position – End May (Period 02)

2. The summary forecast position of the various FCE/CS high level budget targets is illustrated in the following table:

	2017/18 Approved Budget £m	Period 02 Forecast £m	Indicative Variance £m
Net RDEL	44.6	43.8	- 0.8
Net CDEL	8.4	7.4	- 1.0
Net RAME	-0.2	-0.2	0.0
RDPE Grants	27.5	27.5	0.0

Notes: 1. RDEL figures include depreciation.
 2. RDPE Grants budget indicative.

3. The indicative Resource DEL underspend of £0.8m relates to a reduced depreciation requirement within the National Office and FS, partially offset by a transfer of £100k Deer Initiative funding from Natural England to Forest Services.
4. Although we continued to flag the reduced need with Defra during our baseline discussions, the focus on core RDEL and CDEL budgets resulted in depreciation budget values being carried forward from 2016/17. The underspend has been flagged in our Risk & Opportunities reporting to Defra, with the expectation that the position will be regularised as part of the Supplementary Estimate budget switching exercise in the autumn.
5. The Capital DEL forecast variance of £1.0m is a combination of an additional £1.1m funding for FR Science estate and equipment, and £100k bid for IS 'run & maintain' items, offset by a £2.2m reduction in anticipated Woodland Carbon Fund capital grants.
6. The WCF reduction reflects a lack of grant applications and is considered a key risk to delivery of the 11 million tree commitment. Although FS are looking to refine the offer to make it more attractive, it is likely that the big schemes will not come until 2018/19 hence the reduced forecast. I will seek to re-profile the capital spend across the life of the Fund with Defra Finance.

7. The CDEL budget and forecast also contains £3.9m for Research & Development capital expense within CFS/FR.
8. Although the majority of these variances have received approval at working level within Defra, they are currently held as 'Pending ExCo approval' on our Risk & Opportunities tracker.
9. The RDPE forecast anticipates fully spending the indicative budget of £27.5m.
10. Annex A sets out the forecast financial position in more detail.

Annual Report & Accounts 2016/17

11. The laying of our accounts has been delayed due to the election and we are now working to the following timetable:

Issue for ministerial review	Wednesday 28 June
Response from minister	Wednesday 5 July
Accounting Officers sign	Thursday 6 July
C&AG sign	Tuesday 11 July
Printing	Wednesday 12 – Thursday 13 July
Laying date	Monday 17 July

12. The timetable is tight with summer recess commencing on 20 July and only one further date – the 18th July – available for laying should we encounter delays with Ministerial or C&AG certification.

Finance Risk Assessment

Annual Report and Accounts 2016/17

13. We are working closely with the NAO and ministerial team to mitigate against the risk of not laying the AR&A prior to the summer recess.

2017/18 Budget

14. Although a balanced budget is in place Defra may seek to impose a commitments restriction, or savings requirement, if the timing of transformation and other efficiencies across the Department do not materialise as expected.
15. There is a risk that the pending variances that have not received working level approval within Defra will not receive ExCo approval. This is currently limited to the £100k CDEL bid for IS 'run & maintain' items.

2018/19 – 2019/20 Baselines

16. There is a risk of adjustment to FC's baselines for the remainder of SR15 through Defra seeking to close the budget gap in 2018/19, and the HMT Efficiency Review of 2019/20. Defra are expected to initiate the 2018/19 business planning round at the end of July 2017.

HMRC Compliance Audits

17. The final, and key, compliance audit issue still to be resolved relates to the business/non-business activities of Forest Enterprise England. Discussions are on-going with HMRC and the matter has been brought to the attention of the Defra Permanent Secretary and Defra Chief Finance Officer.
18. We have provided the further information requested by HMRC, who are expected to complete their work by the end of September 2017.

Recommendations

19. The Committee is invited to note and discuss:
 - the financial position as at end May (AP02);
 - progress towards laying our 2016/17 accounts; and,
 - the finance risk assessment.

Steve Meeks
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July 2017