Agenda Item 4 **England National Committee** **Paper 21/15**

16 September 2015

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); and,
- the finance risk assessment.

2015/16 Financial Position – End August (Period 05)

2. The summary forecast position of the various FC England and Central Services budget targets is illustrated in the following table:

	2015/16 Approved Budget £m	Period 05 Forecast £m	Indicative Pressure £m
Net RDEL	50.22	49.03	(1.190)
Net CDEL	0.130	0.700	0.570
Net RAME	(0.350)	(0.350)	0.000

3. The indicative net Resource DEL underspend comprises:

- a £1.2m reduction accepted by Defra as a contribution to their in-year savings measures. It is understood that the value will be accepted as a contribution to our SR15 target reduction. The £1.2m was being held in reserve to support the WPEP change programme and so, whilst there will be no impact on our immediate operations, equivalent transformation funding is required from Defra to deliver structural change including the costs of staff exits in this financial year;
- anticipated Technical Assistance income (£119k) and transition cost cover (£77k) from Defra;
- £85k reduction in staff costs linked to Gateway Review decisions to defer recruitment of certain posts and delays in recruitment;
- £250k accelerated depreciation on the new sewerage works at Alice Holt, offset by £290k forecast reduction on National Office and CFS depreciation; and,
- RDEL debit value of £350k for the utilisation of early retirement provisions to match the RAME credit budget.

4. The Capital DEL variance arises from:

- £250k approved expenditure on new sewerage works at Alice Holt;
- £250k expenditure on finance leases for vehicles;
- £100k for IT 'run & maintain' items; and,
- £30k reduction on GLOS enhancements.

The latter two capital items also arose in 2014/15 and have been flagged with Defra Finance.

5. The RDPE forecast anticipates fully spending our gross budget of £30.55m.

6. In response to the introduction by Defra of a formal gateway process for approving uncommitted spend above a £10k threshold, FCE/CS have adopted a differentiated approach to reflect the very different character and status of its component parts, with FEE putting additional scrutiny in place to realise further savings against its ASL where possible. For the other parts of FCE/CS a panel consisting of the Country Director and Finance Director has been introduced to scrutinise expenditure proposals and provide Defra with a weekly report on decisions taken. Those decisions have resulted in the rejection to date of applications valued at £85k all of which relate to deferring recruitment.

7. Annex A sets out the forecast financial position in more detail.

8. Annex B provides further background on FEE's forecast.

Finance Risk Assessment

2015/16 Budget

9. Although FCE/CS have already provided £1.2m to assist Defra in meeting their significant budget gap, it is possible that further savings measures will be required later in the financial year. In addition, the provision of transformation funding by Defra is not guaranteed and we may need to find the cost of taking forward structural change in 2015/16 from within our baselines.

10. There are also a number of emerging cost pressures within Shared Services totalling £1.45m of which the FCE/CS share is £800k. These include the cessation of IVAT recovery where FC has been non-compliant, together with the costs of progressing Windows 7 roll-out to a quicker timescale, the upgrading of our Microsoft Exchange server, legal costs associated with handling the Holiday Pay issue and managing business continuity. The forecast will be adjusted at AP06 (September) with the FCE/CS share being met from FEE's cash reserves.

Spending Review (SR15)

11. An oral update on SR15 will be provided under Agenda Item 5.

HMRC Compliance Audits

12. HMRC have been conducting compliance audits of FC on PAYE and VAT since September 2012 and the work is expected to continue for at least a further 18 months. This is the first VAT audit that the FC has faced. The financial and reputational risk posed by the current HMRC compliance audits has been fully recognised, and steps taken to deal quickly with issues as they arise and to ensure that our guidance and procedures are made fully compliant as soon as possible.

13. A further compliance issue has been identified with potentially significant liability and recurrent cost consequences. The issue relates to the potential over recovery of IVAT on the purchase and leasing of non-business vehicles, and the associated fuel and maintenance costs. The

issue is currently under review by the Tax Working Group and Mechanical Engineering Services (MES) to establish the extent of the liability.

RDEL Administration/Programme Reclassification

14. The artificial split between Administration and Programme RDEL has been recognised by Defra and we have submitted proposals to their Spending Review team re-classify the bulk of our Admin expenditure as Programme as part of a departmental wide exercise. If accepted our budget would more accurately reflect front-line activity and simplify financial reporting.

Risk Management

15. Attached at Annex C is the significant red line risk extract for FCE/CS.

Recommendations

16. The Committee is invited to note and discuss:

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

Steve Meeks
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September 2015