FINANCE REPORT

Purpose

1. To provide the Executive Board with an update on:

- Forestry Commission England's financial position at end September (Period 06);
- 2016/17 Annual Report & Accounts;
- Business Planning; and,
- the finance risk assessment.

2017/18 Financial Position – End September (Period 06)

2. The summary forecast position of FCE's high level budget targets is illustrated in the following table:

Category	Approved Budget Q1	Q2 Pending Budget Changes	AP06 Forecast
	£m	£m	£m
Net RDEL	32.05	0.21	32.26
Net CDEL	1.20	0.40	1.60
Net RAME	-0.15	0	-0.15
RDPE Grants	27.50	0	27.50

Notes: 1. RDEL figures include depreciation.

3. The budget changes approved by Defra in Quarter 1 included:

RDEL
- -£3.0m liquidity cover reclaimed by Defra.
- -£0.9m depreciation reduction in line with forecast expenditure.
- +£0.05m additional OPM funding for CFS.

CDEL
- -£2.2m Woodland Carbon Fund reduction to reflect initial slow take-up.

4. The Quarter 2 pending values include:

RDEL
- +£0.1m Deer Initiative funding transferred from Natural England.
- +£0.1m VES cover.

CDEL

- +£0.3m Felling Licence IT development.
- +£0.1m IT 'run & maintain' items.

5. The RDPE forecast anticipates fully spending the agreed budget of £27.5m.

6. Annex A sets out the Period 06 forecast financial position in more detail.

Annual Report & Accounts 2016/17

7. I am pleased report that unqualified annual report and accounts for both FCE/CS and FEE were laid before the summer recess on the 17th July.

Business Planning

8. Defra are wrestling with significant SR15 budget gaps in both 2018/19 and 2019/20. Pressure on 2019/20 is likely to further increase with the requirement to respond to HMT's Efficiency Review and the potential imposition of 3% or 6% efficiency savings.

9. As an integral part of the Defra group the FC will be required to contribute to bridging the budget gap, although it is recognised that our ability to do so materially is hampered by the need to fund our organisational change programme.

10. Work is ongoing within the two outcome systems groups (OSGs) – Natural Environment & Rural (NE&R) and Food, Farming & Biosecurity (FFaB) - within which our budgets fall to develop savings options and we are actively engaged in the process.

11. In the meantime internal business planning guidance has been issued in line with our indicative budget allocations to ensure that the overall internal timetable is met, whilst recognising that we may need to adjust our plans to accommodate the savings measures once they are agreed.

Finance Risk Assessment

2017/18 Budget

12. 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.

2018/19 – 2019/20 Baselines

13. 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. We will continue to seek to mitigate this through close engagement via the OSGs.

HMRC Compliance Audits

14. All residual work required to enable HMRC to conclude their VAT audit has now been completed. HMRC has confirmed the compliance audit is now formally closed.

15. HMRC has approved, as submitted, the FC ‘global’ Business/Non-Business and Partial Exemption sectorised method. This means that the new method currently deployed across the FC for recovering VAT has been agreed. The overall percentage of VAT recovery is subject to change each financial year and is determined by the level of business/non-business activity in each FC sector.

16. The HMRC Income Tax audit is also complete and we have made significant progress in relation to Tax Programme work on Vehicles and Employee Travel. We now have a substantially complete picture of the travel and tax status for employees. The Tax team is currently working closely with HR and Finance leads to finalise the position for new starters in each part of the business. Work is planned for completion ahead of the 31 October deadline, when countries/FR must report taxable travel through payroll. HMRC will be reviewing the position on 29 November to ensure countries/FR have introduced robust and acceptable systems, as part of the agreed suspended penalty conditions with HMRC.

17. All VAT and Income Tax liabilities have been settled with HMRC. Countries/FR are now clear on their future tax resource implications. Failure to maintain tax compliance, or meet suspended penalty conditions within HMRC deadlines, could result in further resource implications. Suspended penalty registers were provided by the Tax team to Countries/FR during August and confirmation was received that these were in line with expectations.

18. In summary the significant risks associated with the HMRC compliance audits have been addressed, although ensuring future tax compliance remains a risk for all FC entities.

Recommendations

19. The Committee is invited to note and discuss:

- the financial position as at end September (AP06);
- the laying of our 2016/17 accounts;
- progress on business planning; and
- the finance risk assessment.

Steve Meeks
Finance Director England
October 2017