

14 September 2016

**FINANCE REPORT****Purpose**

1. To provide the Executive Board with an update on:
  - Forestry Commission England's financial position at end August (Period 05); and,
  - the finance risk assessment.

**2016/17 Financial Position – End August (Period 05)**

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

	<b>Original Budget</b>	<b>ExCo Approved Budget</b>	<b>Period 05 Forecast</b>	<b>Indicative Variance/ Pressure</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Net RDEL</b>	35.7	36.5	35.8	-0.7
<b>Net CDEL</b>	0.2	0.2	0.3	0.1
<b>Net RAME</b>	-0.1	-0.1	-0.1	0.0

3. The Approved Budget reflects approval by the Defra Executive Committee (ExCo) to commit the £880k balance of the £1m Forestry Innovation Fund (FIF).
4. The forecast also includes the following items which have received indicative approval by Defra officials in anticipation of ExCo endorsement:

RDEL

- a reduction of £935k on depreciation for GLOS and National Office;
- a transfer of £100k funding from Natural England to FS in support of joint working on the deer initiative; and,
- £150k RDPE Technical Assistance (TA) funding for FS.

CDEL

- £100k to enhance a felling database to support the boundary alignment work with EA/NE.

5. The £250k estimated RDEL cost for administering the Woodland Carbon Fund (WCF) remains pending on our Risks & Opportunities tracker.

6. The following table reconciles the forecast to the Approved Budget:

	<b>£m</b>
<b>RDEL Approved Budget</b>	<b>36.47</b>
Less depreciation reduction	(0.94)
Add NE Deer Initiative funding	0.10
Add RDPE Technical Assistance	0.15
<b>RDEL Forecast</b>	<b>35.78</b>
<b>CDEL Approved Budget</b>	<b>0.20</b>
Add Felling Database	0.10
<b>CDEL Forecast</b>	<b>0.30</b>

7. The approved variances will be regularised as part of the Supplementary Estimate (SE) budget switching exercise in the autumn.
8. The FC Tax Programme is progressing steadily with a report on the management of VAT within the FE's scheduled to be provided to HMRC during the w/c 19 September, followed by a field trip by HMRC to North England Forest District the following week. The current best estimate of liabilities for FEE, established on the advice received from external advisors, is £3.2m based on a 2015/16 liability of £800k over a four year period, plus interest and penalties.
9. Senior Defra officials have been alerted to the issue and the risk of liabilities being required to be paid to HMRC in 2016/17, which if not funded would inevitably have a severe adverse impact on FEE's reserves and ongoing capital programme. We will hold further discussions with Defra Finance colleagues as the liability position becomes clearer over the autumn.
10. The RDPE forecast continues to anticipate spending the gross budget of £26.0m in full.
11. Annex A sets out the forecast financial position in more detail, including Central Services values for completeness.

## **Finance Risk Assessment**

### 2016/17 Budget

12. Although a balanced budget is in place for FCE/CS, there is a risk that Defra's already finely balanced forecast position will deteriorate; pressure for further contributions to group savings cannot be ruled out and would compound the potential tax-related pressures.

### HMRC Compliance Audits

13. The financial and reputational risk posed by the current HMRC compliance audits into PAYE and VAT 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.
14. However, and as mentioned above, the potential liabilities arising from the audit could be significant and would place additional stress and strain on our finances, particularly FEE.

## **Recommendations**

15. The Committee is invited to note and discuss:

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

**Steve Meeks**  
**Finance Director England**  
**September 2016**