

23 February 2015

FINANCE REPORT**Purpose**

1. To provide the Executive Board with an update on:
 - Forestry Commission England's financial position at end January (Period 10) 2015;
 - Business Planning;
 - Annual Report & Accounts 2014/15;
 - the finance risk assessment; and,
 - the current assessment of top level FCE/CS risks.

2014/15 Financial Position – End January (Period 10)

2. The summary forecast position against the various FCE budget targets, at the end of December, is illustrated in the following table:

	2014/15 Post SE Approved Budget £m	Period 10 Forecast £m	Variance £m	Variance %
Net RDEL	24.75	24.08	-0.67	-2.7
Net CDEL	0.20	0.24	0.04	20.0
Net RAME	-0.51	-0.51	0.00	-

3. The approved budget reflects confirmed Supplementary Estimate budget switches which include the £8m claw back of Defra funding, additional Plant Health funding, cover for the utilisation of provisions, and the 1.9% reduction.
4. £550k of the forecast Resource DEL underspend relates to a reduced depreciation cost for our grants system, GLOS, following a re-living and revaluation exercise. The balance is generated from a number of minor forecast adjustments.
5. The RDEL and RAME forecasts do not feature the potential impact on FCE of the current HMRC compliance audits and the repayment of tax liabilities, along with related penalties and interest. The impact and timing is currently being validated and indicative values (with a range of between £650k to £1.1m in total across the 'Westminster Group') provided to Defra Finance.

6. The forecast Capital DEL overspend of £40k relates to the requirement to develop an interface between GLOS and the new CAP D system. This spend was anticipated earlier in the financial year and regularly flagged with Defra finance and the CAP D project.
7. The RDPE forecast anticipates fully spending our gross budget of £34.8m.
8. Annex A sets out the forecast financial position in more detail, including Central Services values for Director England's information as Additional Accounting Officer.

Business Planning

9. Defra have now confirmed our budget figures for 2015/16 and work is almost complete on updating and issuing internal budget allocations across the Westminster Group. Budget areas will then need to update Cognos and refresh their business plan commentaries.
10. ENC approval of the Business Plan will then be sought by correspondence.
11. Financial years 2016/17 – 2019/20 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 end March 2015 to support funding discussions with the new administration after the general election.

Annual Report & Accounts 2014/15

12. Work is progressing well on the interim (AP09 – December) accounts, which will include a draft Annual Report and Governance Statement.
13. Defra have been provided with relevant data for consolidation into the departmental accounts, and Ernst and Young commenced their audit of the interim accounts on 9th February.

Finance Risk Assessment

2014/15 Budget

14. A balanced budget is in place, and plans put into effect to manage within the 98.1% commitments threshold set by Defra. Defra have confirmed all Supplementary Estimate bids, and approved minor overspends on CDEL.
15. However, it is likely that FCE/CS will need RAME cover to raise provisions on the tax liabilities arising from the HMRC compliance audits. RDEL cover would also be needed if those provisions then crystallise in 2015/16. The issue is under active discussion with Defra Finance.

2015/16 Budget

16. The budget confirmed by Defra means that we will not have to consider radical measures to cut costs in 2015/16.

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 B is the FCE/CS Strategic Red Line Risk extract. The full suite of FCE/CS Risk Registers will be discussed at the next FCE+ ARAC on 24th February 2015.

Recommendations

19. The Board is invited to note and discuss:
 - the financial position as at end January (AP10);
 - the Business Planning exercise;
 - the Annual Report & Accounts 2014/15;
 - the finance risk assessment; and,
 - risk management.

Steve Meeks
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February 2015