Agenda Item 5 **England National Committee** **Paper 31/17**

15 November 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 October (Period 07);
- Business Planning;
- Internal Audit; and,
- the finance risk assessment.

2017/18 Financial Position – End October (Period 07)

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

Category	2017/18 Original Budget	Q1 Approved Changes	Q1 Approved Budget	Q2 Approved Changes	Q2 Approved Budget	Pending Budget Changes	Indicative Forecast @ AP7
	£m	£m	£m	£m	£m	£m	£m
Net RDEL	44.61	-3.85	40.76	0.45	41.21	0.10	41.31
Net CDEL	8.42	-1.80	6.62	-	6.62	0.40	7.02
Net RAME	-0.15	-	-0.15	-	-0.15	-	-0.15
RDPE Grants	27.50	-	27.50	-	27.50	-	27.50

Notes: 1. RDEL figures include depreciation.

3. The budget changes approved by Defra in Quarter 2 were:

<u>RDEL</u>

- £0.34m Additional Plant Health funding for FR.
- £0.10m Deer Initiative funding transferred from Natural England.
- £0.01m Stakeholder communications budget transfer from Core Defra.

4. The Quarter 3 pending budget changes comprise:

<u>RDEL</u>

- +£0.10m VR Exit costs.

<u>CDEL</u>

- +£0.30m Felling Licence IT development.
- +£0.10m IT ‘run & maintain’ items.

5. The CDEL budget and forecast also contains £3.9m for Research & Development capital expense within CFS/FR.

6. The RDPE forecast anticipates fully spending the confirmed budget of £27.5m.

7. Annex A sets out the Period 7 forecast financial position in more detail. Annex B provides FEE's financial position at Period 6 (September).

Business Planning

8. Defra continue to contend 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 our internal business planning process is well advanced with primary business areas submitting their plans for review by Director England in November, whilst recognising that we may need to adjust our plans to accommodate the savings measures once they are agreed.

12. The aim is to submit a balanced business plan for approval to the ENC early in the New Year.

Internal Audit

13. GIAA have begun to tackle the delivery of the approved internal audit programme through a mix of internal and contractor resource. They have now secured all the resources they need and still plan to deliver the plan in time for the year-end opinion.

14. A Head of Internal Audit for FC has been recruited and is expected to start early in the New Year, and GIAA are in the process of recruiting the other members of the team.

15. However, this has led to back-ending the programme into the final two quarters of the financial year, which will put pressure on FC to respond quickly and meaningfully to all the assignment reports.

16. I continue to work closely with Nathan Paget, Defra Group Chief Internal Auditor, and am keeping the ARAC Chair and Accounting Officers up to date with developments.

17. A full update will be provided to the FCE+ ARAC on 7th December.

Finance Risk Assessment

2017/18 Budget

18. 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

19. 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

20. HMRC have confirmed the VAT and Income tax audits are now formally closed.

21. 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.

22. 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.

23. 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.

Internal Audit

24. There is a risk that the delay in recruiting into the new FC GIAA team will result in a failure to deliver the approved internal audit plan, and a lack of assurance for Accounting Officers and ARAC's at year end.

25. This is being mitigated through the use of a temporary mix of GIAA and contractor resource to deliver the programme of work, and close liaison with the GIAA team.

Recommendations

26. The Committee is invited to note and discuss:

- the financial position as at end October (AP07);
- progress on business planning;
- Internal Audit; and
- the finance risk assessment.

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November 2017