

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 August (Period 05);
 - 2016/17 Annual Report & Accounts;
 - Business Planning; and,
 - the finance risk assessment.

2017/18 Financial Position – End August (Period 05)

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 £m	Q1 Approved Budget Changes £m	2017/18 Approved Budget £m	Q2 Pending Budget Changes £m	Indicative Forecast £m
Net RDEL	44.61	-3.85	40.76	0.18	40.94
Net CDEL	8.42	-1.80	6.62	0.30	6.92
Net RAME	-0.15	0.00	-0.15	0.00	-0.15
RDPE Grants	27.50	0.00	27.50	0.00	27.50

- Notes:
1. RDEL figures include depreciation.
 2. RDPE Grants budget indicative.

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

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.
- +£0.4m approved FR science research bid.

4. The Quarter 2 pending values comprise:

RDEL

- +£0.1m Deer Initiative funding transferred from Natural England.
- +£0.1m VES cover.
- -£0.02m Budget transfer to the Environment Agency to cover secondment costs.

CDEL

- +£0.2m Felling Licence IT development.
- +£0.1m 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 indicative budget of £27.5m.

7. Annex A sets out the Period 5 forecast financial position in more detail. Annex B provides FEE's financial position at Period 4 (July).

Annual Report & Accounts 2016/17

8. 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

9. 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.

10. 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.

11. 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.

12. This work will culminate in the 'Big Room' event later in the autumn where Ministers and senior leaders from across the Defra group, including Director FC England, will discuss and agree the savings measures to be applied.

13. In the meantime business planning is being taken forward by the main business areas within FC 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

14. 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

15. 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

16. The final, and key, compliance audit issue still to be resolved relates to the business/non-business activities of Forest Enterprise England. Discussions are on-going with HMRC and the matter has been brought to the attention of the Defra Permanent Secretary and Defra Chief Finance Officer.
17. We have provided the further information requested by HMRC, who are expected to complete their work by the end of September 2017.

Recommendations

18. The Committee is invited to note and discuss:
 - the financial position as at end August (AP05);
 - the laying of our 2016/17 accounts;
 - progress on business planning; and
 - the finance risk assessment.

Steve Meeks
Finance Director England
September 2017