

Review of the Forestry Commission England/Central Services and Forest Enterprise England Annual Reports and Accounts 2016-17

Purpose

1. For the National Committee to approve the Forestry Commission England/Central Services and Forest Enterprise England Annual Reports and Accounts 2016-17.

Background

2. The England Finance team prepared the 2016-17 Annual Report and Accounts for Forestry Commission England/Central Services (consolidating Forest Research) and Forest Enterprise England. All accounts were prepared to agreed timescales.
3. The accounts were submitted to our external auditors, Ernst and Young and the National Audit Office, on EY on 4 May 2017, and their audit commenced on 8 May 2017.
4. An Audit and Risk Assurance Committee meeting was held on 10 May 2017 to provide members with the opportunity to review as complete a set of draft accounts as possible prior to certification and laying.
5. The draft Audit Certificates provided by the NAO, and included in the accounts, indicate that, subject to the satisfactory completion of the remaining audit work, the C&AG anticipates certifying the 2016-17 financial statements with an unqualified audit opinion.
6. The Audit and Risk Assurance Committee Chair will report this morning's discussions to this afternoon's National Committee meeting.

Performance against Budget: Forestry Commission England/Central Services

7. Forestry Commission England/Central Services performance against budget was as follows:

2016-17	Budget £000	Exp £000	Income £000	Net Exp £000	Variance £000
Resource DEL	50,440	72,181	(21,943)	50,238	(202)
Resource AME	(350)	(175)	-	(175)	175
Total Resource	50,090	72,006	(21,943)	50,063	(27)
Capital DEL	6,410	6,217	-	6,217	(193)

8. In summary, variances arose as follows:

- Resource DEL – underspend due to a number of minor variances across the organisations;
- Resource AME – underspend due to under-utilisation of provisions, linked to a reducing profile of Annual Compensation Payments for pre-SR10 early retirees; and
- Capital DEL – underspend due to asset disposals that have arisen through organisational change.

9. The gross outturn on RDPE grants, which score in Defra's accounts, was £23.8 million against a budget of £26.0 million.

Financial performance: Forest Enterprise England

10. Forest Enterprise England financial performance in 2016-17 was as follows:

	2016-17 £000
Operating surplus/(deficit)	(15,967)
Add back impact of valuations:	
Loss/(gain) on biological assets	(23,792)
Value of felled timber	21,882
Deficit excluding valuation movements	(17,877)
Funding	28,037
Surplus/(deficit) after funding	10,160

11. Relative to the previous year, external income was similar at £73.8 million (2015-16: £67.1 million) while total cost was, as planned, also higher at £91.6 million (2015-16: £84.9 million).

12. Outturn net cost was £5.4 million favourable to plan, largely due to strong sales in timber and recreation.

Other key facts and issues

The Committee's attention is drawn to the following:

13. Valuation of the Forest Estate

2016-17 is the last year of our 'interim valuations': a full valuation will take place as at 31 March 2018, and the Head of Estates is progressing the procurement of this.

The value of the Forest Estate has increased by approximately 4% since the 31 March 2016 interim valuation exercise, and there has been a sharp increase in the value of biological assets (an increase of 15% arising from revaluation). Solum values have fallen, particularly in the North and East, but increases in forest values have more than compensated for this fall. Our external valuers, Savills, confirm that 'we continue to see rising values in England and have increased values for all yield classes and age bands'.

14. Valuation of Forest Holidays and Camping in the Forest

Forest Enterprise England's investments in Forest Holidays and Camping in the Forest were subject to a full valuation, as at 31 March 2016, by Bilfinger GVA. An interim valuation by the same firm was carried out as at 31 March 2017, and the outcome is as follows:

	Freehold Reversionary Interest			Investment Interest		
	2015-16 £000	2016-17 £000	Inc/ (Dec) £000	2015-16 £000	2016-17 £000	Inc/ (Dec) £000
CITF	4,750	5,075	325	1,955	2,275	320
Forest Holidays	8,425	10,000	1,575	9,650	12,250	2,600
Total	13,175	15,075	1,900	11,605	14,525	2,920

Forest Holidays has in particular been trading well, and our valuers note "We have tempered some of these values against exceptional trading increases – in particular in Blackwood, Forest of Dean, Sherwood Forest and Thorpe Park to give you hopefully an even ride".

15. **HMRC audit and financial liabilities**

For Forestry Commission England/Central Services, the bulk of audit issues have been cleared, and therefore no contingent liability is disclosed in the accounts. For Forest Enterprise England, discussions regarding VAT are on-going, and therefore an unquantified contingent liability has been recognised.

Next steps

16. Given the impending General Election, the ARAs have not yet been reviewed by the Minister. Defra are working on the assumption that Ministers will assume their duties during the week commencing 12 June 2017. Per the current Defra schedule, our ARAs will go to the Minister on 23 June 2017.
17. Any amendments arising out of this review, and any amendments requested by Cabinet Office regarding reference to exit from the European Union, will be circulated to ARAC members for their approval prior to the accounts being presented to the Accounting Officers for their signature.
18. Revised C&AG certification dates and laying dates have not yet been agreed, but we have a target laying date of 6 July 2017.

Recommendations

19. The National Committee should approve the Annual Report and Accounts for Forestry Commission England/Central Services and Forest Enterprise England for the year ended 31 March 2017, subject to amendments arising out of ministerial review and any Cabinet Office-mandated text regarding exit from the European Union.

Glenda Roberts
Financial Controller, Forest Enterprise England
25 May 2017

Annexes

Annex A: Forestry Commission England/Central Services Annual Report and Accounts 2016-17

Annex B: Forest Enterprise England Annual Report and Accounts 2016-17

Annex C: Forestry Commission England/Central Services Letter of Representation

Annex D: Forest Enterprise England Letter of Representation