Agenda Item 4 **England National Committee** **Paper 01/17**

2 February 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 December (Period 09);
- Business Planning; and,
- the finance risk assessment.

2016/17 Financial Position – End December (Period 09)

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

	Original Budget £m	ExCo Approved Budget £m	Period 09 Forecast £m	Indicative Variance/ Pressure £m
Net RDEL	44.2	45.9	47.5	1.6
Net CDEL	4.7	6.0	6.0	0.0
Net RAME	-0.4	-0.4	-0.4	0.0

3. The Approved Budget reflects approval by the Defra Executive Committee (ExCo) of the following budget variances:

<u>RDEL</u>

- £1,250k towards HMRC Tax Liabilities;
- £877k balance of the £1m Forestry Innovation Fund (FIF);
- £400k additional Plant health funding for FR;
- £100k Deer Initiative Funding switch from Natural England;
- £100k EU Technical Assistance;
- (£935k) depreciation reduction; and,

<u>CDEL</u>

- £930k capital for Forest Research estates renovation work, notably replacement windows at Alice Holt;
- £100k IS ‘run & maintain’ items;
- £100k Tree Felling Database;
- £100k FR Science equipment; and,
- £60k FR Estates.

4. The forecast also includes the following items which are currently held as ‘pending’ by Defra on the Risks & Opportunities tracker:

RDEL

- £1,200k increase in deprecation in anticipation of an immediate impairment of capital infrastructure works at Alice Holt;
- £170k VES Staff Exits;
- £160k further additional plant health funding for FR; and,
- £40k Woodland Carbon Fund administration costs.

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

	£m
RDEL Approved Budget	**45.95**
Add Depreciation	1.20
Add VES costs	0.17
Add Plant Health funding	0.16
Add WCF administration	0.04
RDEL Forecast	**47.52**

6. The budget approvals are welcomed, and include an additional £400k to fund work at FR on Operation Oak. A further £160k funding has been agreed, pending ExCo approval, to cover oak ecology work, the development of an outbreak decision support tool and laboratory equipment.

7. The increased budget for tax liabilities will be used to manage the c.£500k assessment now received from HMRC in respect of FEE VAT for 2015/16, the estimated £500k additional costs of VAT compliance within FEE during 2016/17, and a number of income tax issues, notably the private use of official vehicles.

8. Discussions continue with HMRC in respect of potential retrospective FEE VAT liability payments for 2013/14 and 2014/15. This figure is recorded in our Risks & Opportunities Tracker, but not in the above forecast, given the uncertainty on value and probability.

9. The RDPE forecast continues to anticipate spending the gross budget of £26.0m in full.

10. Annex A sets out the forecast financial position in more detail. The apparent overspend on FR Programme RDEL is due to the delay in finalising the value of research and development costs which need to be capitalised into CDEL. This is also why the CDEL actuals figure is low.

11. Annex B provides further background on FEE's financial position (to follow).

Business Planning

12. We have been working closely with the Defra business planning team to establish agreed baselines for 2017/18 and indicative values for the remainder of SR15. The dialogue with Defra throughout the process has been positive, and I am reasonably optimistic that we will receive a workable, if challenging, budget for 2017/18.

13. Defra expect to issue the final allocations for 2017/18 during w/c 23 January 2017 and we will then translate them into internal budgets for our primary business entities (i.e. FEE, FS, National Office, CFS & FR). We have already undertaken a significant amount of preparatory work which should simplify the process.

14. Defra have also commissioned the production of business unit Action Plans to sit beneath, and support, the Single Departmental Plan (SDP) for the Defra Group. Although we did not produce an Action Plan for 2016/17, as we were already well advanced with our Corporate Plan, the FC will join the other ALBs in submitting one for 2017/18 given the increasing focus on outcome systems and the collective analysis of Group resources. In addition FS will be contributing to the Area Integrated Plans with NE and EA business planners.

15. I will seek ENC approval to our internal budget allocations by correspondence before the end of March.

Finance Risk Assessment

<u>2016/17 Budget</u>

16. The approved budget variances described in paragraph 3 above have mitigated the material pressures on issues such as tax liabilities. Whilst the potential for further in-year contributions to group savings cannot be ruled out, the risk appears to be reducing as we enter the final quarter of the financial year.

<u>HMRC Compliance Audits</u>

17. 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.

18. However, there remains uncertainty until HMRC compliance audits are concluded and key rulings are received, particularly on retrospective FEE VAT liabilities and agreement on Business/Non-Business activities for FEE, which could place additional stress and strain on our finances.

<u>2017/18 Business Plan</u>

19. Although the final allocations have yet to be finalised, the latest indications are that FC will receive a challenging, but workable, budget for 2017/18.

Recommendations

20. The Committee is invited to note and discuss:

- the financial position as at end December (AP09);
- the update on Business Planning; and,
- the finance risk assessment.

Steve Meeks
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