

25 April 2018

FINANCE REPORT**Purpose**

1. To provide the Executive Board with an update on:
 - Forestry Commission England and Central Services (FCE/CS) end of year financial position at end March (Period 12);
 - the 2018/19 Budget; and,
 - the finance risk assessment.

2017/18 Forecast Financial Position – End March (Period 12)

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

Category	2017/18 Original Budget	Q1 Approved Budget	Q2 Approved Budget	Q3 Approved Budget	Q4 Approved Budget	AP12 Actuals	Variance to Accepted Budget
	£m	£m	£m	£m	£m	£m	£m
Net RDEL	44.61	40.76	41.21	41.95	41.80	41.40	-0.40
Net CDEL	8.42	6.62	6.62	7.00	5.98	5.40	-0.58
Net RAME	-0.15	-0.15	-0.15	-0.15	2.14	1.53	-0.61
RDPE Grants	27.50	27.50	27.50	27.50	27.50	13.30	-14.20

- Notes:
1. RDEL figures include depreciation.
 2. All values subject to external review.

3. We have met our final adjusted RDEL target as agreed with Defra, whilst allowing for a marginal managed underspend of £0.2m to cater for any potential adjustments stemming from the external audit process. The total RDEL underspend of £0.4m also includes £0.2m on ring-fenced depreciation.
4. The CDEL underspend of £0.6m has been generated within Forest Research and Shared Services. Discussions are ongoing as to the reasons for the underspend.
5. The significant adjustment in Q4 to AME related to the need to include a constructive obligation in our accounts to reflect ongoing FC restructuring and, in particular, potential staff exits from within FC Central Services. It also contained cover for a potential downward revaluation of the FR estate which did not then materialise and which led to the £0.6m variance.
6. The RDPE forecast has reduced by a further £9.7m to £13.3m due to an over optimistic Higher Tier forecast and a significant reduction in the year end accrual figure given that there is no longer an anticipated 'backlog' on the new scheme.
7. Annex A sets out the unaudited Period 12 financial outturn position in more detail.

Business Planning – 2018/19 Budget

8. Although Director England received a 2018/19 budget allocation letter from the Defra Permanent Secretary on 21st March, it is understood that the values are subject to change due to the need to manage a residual budget gap across the department. The allocation letter recognised acceptance by Defra of the savings measures proposed by FC for 2018/19, although a significant proportion of the savings are for one-year only.
9. Interim letters of delegation have been issued by Director England to senior FC business leads in order to ensure that they have sufficient delegated authority to commit expenditure from the start of the financial year.
10. We also await revised FC Shared Service SLA charges for 2018/19 following a series of staff transition planning meetings with Silvan House and FC Scotland colleagues. These charges are expected to recognise further cost reductions within the central corporate service functions as colleagues are assimilated into FC Scotland or exit the FC through the course of 2018/19.
11. Once the Defra and SLA values are confirmed then we will finalise the FEE and FS business plans for ENC approval. It is hoped that this will be by the end of May via correspondence.

Finance Risk Assessment

2017/18 Outturn

12. FCE/CS met its key approved RDEL budget target for 2017/18, whilst allowing for a marginal underspend to act as a prudent buffer for potential audit adjustments. The CDEL variance is currently under review.

2018/19 Budget

13. There is a real possibility of the FC being asked to find further savings in 2018/19 as Defra seek to close its residual budget gap. We will continue to mitigate this through close engagement via the Outcome Systems Groups. The share of cost reductions flowing from the de-commissioning of FC Shared Services is also unclear at this stage and may not reach the levels assumed in our forward planning. Business areas have, therefore, been asked to prepare to respond to additional requests for savings measures and refrain from committing to any non-essential expenditure until further notice.

Recommendations

14. The Board is invited to note and discuss:
 - the unaudited outturn position as at end March (AP12);
 - the 2018/19 budget; and;
 - the finance risk assessment.

Steve Meeks
Finance Director England
April 2018

Annex A

Forestry Commission (Westminster Group) Finance Report 2017/18				AP12
Budget Category	Entity	£m	£m	£m
		Accepted Budget Position	FY Actuals @ AP12	Forecast variance to budget
RDEL Admin	National Office (NO)	0.04	-0.16	-0.20
	Forest Services (FS)	5.36	5.00	-0.35
TOTAL FC ENGLAND ADMIN		5.39	4.84	-0.55
RDEL Prog	National Office (NO)	0.32	0.52	0.20
	Forest Services (FS)	8.09	8.42	0.34
	Forest Enterprise England (FEE)	19.61	19.47	-0.14
TOTAL FC ENGLAND PROG		28.01	28.41	0.40
TOTAL FC ENGLAND RDEL		33.41	33.25	-0.16
RDEL Prog	Corporate & Forestry Support (CFS)	2.08	1.94	-0.13
	Forest Research (FR)	6.32	6.21	-0.11
TOTAL CENTRAL SERVICES (CS) RDEL		8.39	8.16	-0.24
TOTAL FCE/CS RDEL		41.80	41.40	-0.40
CDEL	Total CDEL (Asset)	1.80	1.19	-0.61
	Total CDEL (Expense)	4.18	4.21	0.03
TOTAL FCE/CS CDEL		5.98	5.40	-0.58
TOTAL FCE/CS RDEL AND CDEL		47.78	46.80	-0.98
RESOURCE AME		2.14	1.53	-0.61
RDPE Grants		27.50	13.30	-14.21