

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 07);
 - Business Planning/SR19; and,
 - the finance risk assessment.

2018/19 Financial Position – End October (Period 07)

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

Category	Q2 Approved Budget	Q3 Pending Changes	Indicative Forecast @ AP7
	£m	£m	£m
Net RDEL	43.02	-1.10	41.92
Net CDEL	10.65	-3.14	7.51
Net RAME	-0.10	0.00	-0.10
RDPE Grants	24.00	0.00	24.00

- Notes:
1. RDEL figures include depreciation
 2. CDEL baseline includes £3.9m R&D Expense
 3. RDPE Grants budget indicative

3. The Defra approved changes to our baseline, together with the Q3 pending changes, are set out in Annex A.
4. The main change since the last report has been to the £5.3m Woodland Carbon Fund (WCF) capital budget held by Forest Services. At the request of Defra £575k has been transferred to the Northern Forest and, following a thorough review of commitments and known agreements, we have handed back a further £3.7m to Defra for re-distribution across the department. This leaves a WCF forecast of £1m for 2018/19 for Forest Services.
5. We have taken the opportunity to review our forward profile for WCF to reflect known and predicted agreements, as well as a further anticipated £5.1m transfer of WCF monies to the Northern Forest in future years.
6. Annex B sets out the forecast financial position in more detail.

Business Planning/SR19

7. Defra Finance have put a strategic finance paper to ExCo (Executive Committee) outlining the Department's current financial position for 2018/19 and its position for 2019/20, illustrating the pressures on the budget for next year. ExCo were asked for a steer on how to proceed to close this gap. Following the agreement of the approach, Ministers will provide a steer on which areas to focus for savings.
8. We expect that during November the Outcome Systems Groups (OSGs) will be required to develop planning options to balance the 2019/20 budget, which will be brought to a Big Room Event in late November/early December to make final decisions. The discussions are likely to be challenging and the FC will be expected to play its part in meeting any residual budget gap.
9. The challenge has been made more difficult by the prospective increase announced recently by the Cabinet Office to the employer contributions for the Civil Service Pension Scheme from an average of 21.1% to 28% from April 2019 resulting from a Scheme Valuation. It is estimated that this would result in an annual increase of £2.8m for FCE/CS which will need to be found before addressing any potential savings measures. Although HM Treasury have indicated that departments may receive some support for increased costs the level is uncertain as is how it will be allocated across the Defra group.
10. The decisions taken in the Big Room will be put to Ministers for approval in December after which budget allocations will be confirmed.
11. The timing of the Spending Review 19 (SR19) process has yet to be confirmed, but is thought likely to be in the Spring/Summer of 2019.

Finance Risk Assessment

2018/19 Budget

12. 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.
13. There is a risk that the pending variances that have not received working level approval within Defra, such as the FR IT and Capital Estates items, will not receive ExCo approval. We are working closely with Defra Finance to mitigate the risk.

2019/20 Budget/SR19

14. There is a risk of material adjustment to FC's baselines through the 2019/20 and SR19 negotiations, which will be mitigated through constructive, evidence based, and engagement with the OSGs.
15. The prospective increase in employer pension contributions will provide an additional significant challenge.

Recommendations

16. The Committee is invited to note and discuss:
- the financial position as at end October (AP07);
 - business planning for 2019/20; and,
 - the finance risk assessment.

Steve Meeks
Finance Director England
November 2018