

Board Paper

18 December 2013

Paper Title	Finance Update
Paper Reference:	Paper NRW B O 51.13
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Purpose of Paper:	To provide the Board an update on the financial position for 2013/14.
Recommendation:	To note the contents of the paper
Decision Required:	Not applicable

Impact: To note – all headings might not be applicable to the topic	Impact on the Environment: Effective use of our income will ensure that scarce resources are focussed on delivering priority outcomes.
	Impact on the Economy: Effective use of our resources ensures we demonstrate value for money to customers that we charge for our service.
	Impact on Community: Effective use of our resources ensures that we maximise the benefits to communities.
	Impact on Knowledge: Not applicable

Issue

1. To provide the Board with an update on financial performance to the end of October 2013.

Background

2. At the last meeting we reported that our budget deficit position was £2.4m, this followed our decision to commit to fund additional work on *P. ramorum* in this financial year.
3. Since the last meeting we have completed the **Quarter 2 Budget Review** within Directorates. The results of which were reported to Executive Team on 22nd October 2013 and they approved the following changes to budgets:
 - A reduction in our forecast income of £1.0m relating to asset sales and the use of reserves.
 - Unfunded pressure bids from Directorates of £0.7m were approved. This included £0.3m for IT licences, all others either had a legal or health and safety obligation attached.
 - We have allocated £0.2m funding to the Euticals project but have since received confirmation from WG that they will fund this expenditure.
 - We have allocated £0.9m of Abstraction Charge income to cover a fair contribution towards funding the ICT Transition programme.
 - A review of expenditure this year on *P. ramorum* was also undertaken and found that additional expenditure of £1.4m (from £2.2m to £3.6m) is required this financial year. However, this additional expenditure has been funded by reducing other expenditure in Forest Operations and Districts.

The net impact of these changes is to increase our deficit to £3.2m.

4. We are awaiting confirmation of our bid to Welsh Government for funding for *P. ramorum* which if successful would reduce the budget deficit position to between £0.7m to £1.2m. If this is confirmed we are confident that we will be able to meet our financial target at the end of the financial year.

Proposals and Next Steps

Financial Performance as at October 2013

5. A summary of our budget position can be found at Annex 1.

Key points are:

- Financial Performance is now measured against the revised budget allocation and profiles approved by Executive Team on 22nd October.
- Expenditure to end of October was £101.9m compared to a budget to date of £103.4m, an under spend of £1.5m (1.5%). The main reason for the variance is on Revenue Projects which are currently under spent against budget by £1.3m (13.2%).
- Income (excluding Grant in Aid) is on target, with actual income of £50.4m against a £50.5m budget, a variance of just £0.1m (0.3%). Charge income remains slightly ahead of budget to end October by £0.3m, whilst European and Other income is running slightly behind budget by £0.4m.

- Payment performance (96%) remains within the Cabinet Office target. Our level of technical debt has increased above the target level at £59.4k; this is unusual and relates to one permit of £44.9k. We are working closely to resolve the issue and fully expect our performance to come back within target.
6. Full year capital spend is projected to be £29m. This is a significant amount of our budget and therefore we are ensuring that we deliver strong governance and value for money through a number of actions, such as:
- strict programme and project management and governance procedures are in place.
 - we utilise competitively tendered contracts and frameworks (through mini-competition). We challenge contractors on the costs throughout their supply chain when setting target costs. We ensure within contracts that contractors bear a share of any risk/overspend ('pain'), while we receive a share of any efficiencies ('gain').
 - all projects over £50k are subject to scrutiny by a Project Appraisal Board – this challenges the Project Executive and Manager on issues such as value for money, procurement strategy & maximising use of external funding sources (such as WEFO funding).
 - Flood Risk streamlining programme – over the last 2 years we have been going through a streamlining programme to take costs out of the design and pre-development stages of capital projects (targeted reduction 25%), to ensure that more resources are invested in construction of a greater number of schemes.

Budget Position 2013/14

7. The Minister is considering our unfunded pressure bid for *P. ramorum*. If successful, we expect to receive £2m or £2.5m of additional funding this year which will be used to offset the deficit.
8. We are still working on the assumption that we can retain the entire Grant in Aid carry forward allocation; this is subject to approval by the Minister.
9. The recent forecasting exercise has eliminated over-programming within the FCRM Capital Investment Programme. The current position shows a surplus of £0.2m. FCRM Budget Managers are looking to introduce new projects into this year's programme to utilise the surplus.
10. Our plan to manage this budget deficit position throughout the remainder of the year is dependent on the outcome of the bid for *P. ramorum* funding. In addition, we continue to work with Budget Managers to closely monitor and mitigate against emerging additional pressures to our budget on Harvesting and Marketing, Forestry Civils and IT Transition costs. We have also built into our plans assumptions regarding potential pay claims.
11. The Quarter 3 Budget Review is currently ongoing within Directorates and Executive Directors have been asked by Emyr Roberts to identify savings that can be offered up to balance the deficit position both in this financial year and helps towards the pressures on our budget for 2014/15.

Risks

12. Delivering our financial targets and outcomes by the end of the year remains our top priority. The actions required to achieve this target are dependent on WG confirmation of additional *P. ramorum* funding this year as well as confirmation that we can retain the Grant in Aid carried forward. Finance continues to work with Directorate Budget Managers to closely monitor and review our financial performance through to the end of the year.

Financial Implications

13. The paper is designed to highlight the financial implications to Natural Resources Wales for 2013/14.

Communications

14. Communications of the issues contained within this report have been reported to the Executive Team during October, and in more detail to individual Directorate teams.