



18 January 2018

Paper Title	Finance Update 2017-18
Paper Reference:	NRW B B 2.18
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Purpose of Paper:	Scrutiny
Recommendation:	<p>To scrutinise:</p> <ul style="list-style-type: none"> - Financial position for 2017-18 as at 30 November 2017. <p>To approve:</p> <ul style="list-style-type: none"> - Revision to the 2017-18 Budget, as a result of the Quarter 3 Review of Budgets. <p>To note:</p> <ul style="list-style-type: none"> - Items sent to Welsh Government for approval since the last Board meeting.

Impact: To note – all headings might not be applicable to the topic	<p>Looking at the <u>long term</u>: This paper focuses on the current financial year, plus sound financial management is an important element in planning for the long term.</p> <p>Taking an <u>integrated</u> approach:</p> <p>Involving a <u>diversity</u> of the population:</p> <p>Working in a <u>collaborative</u> way:</p> <p><u>Preventing</u> issues from occurring: This paper highlights actions being undertaken to mitigate reductions to our future funding</p>
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Issue

1. This paper provides an update on our latest financial position, compared against the budget which was revised at the Mid-Year, as at 30 November 2017 and details of financial approvals by Welsh Government.
2. To provide an update to the Board on the Quarter 3 review of budgets.

Background

3. Financial Performance in the current year is, generally, progressing well. Income is ahead of Budget, though expenditure is behind Budget for reasons explained within this report.
4. In early December, we concluded our Quarter 3 review of budgets which has been endorsed by the Executive Team. This identified further changes needed to the current year's budget.
5. The performance update in this report is at the end of November, and as such is measured against the Budget position prior to this review.

Assessment

Year to Date Financial Report

6. A summary of the financial performance as at the end of November 2017, can be found at **Annex A**.
7. The overall financial position at the end of November is positive. Income is ahead of Budget. Expenditure is behind Budget by more than we would have liked for reasons explained below.
8. Income is ahead of profile by 1% (£1.2m). This is mainly due to commercial income being ahead of budget (£0.9m) due to favourable timber market conditions.
9. Expenditure is 7% (£7.5m) behind budget. The main reasons for the underspend to date are:
 - As described at the last Board meeting we are behind budget (£1.6m) in our Harvesting, Marketing and Silviculture activities and associated Forest Road Infrastructure maintenance costs, due mainly to a change in the make-up of the programme. During this period, we have also seen greater than budgeted timber sales.
 - The ICT budget is behind schedule (£0.9m), due to a combination of delays in the finalisation of the specifications for computer hardware and infrastructure purchases, delays in invoicing for computer software, licences and PSBA network connectivity and also changes in expenditure profiles. Currently, the full year budget is still required.

- Service Level Agreements with legacy bodies are behind budget by £1.4m and includes a provision for residual cost liabilities with FCGB which Welsh Government have negotiated a settlement with Forestry Commission.
- Staff costs are behind budget (£0.7m) and are likely to remain so per current recruitment plans.
- There have been changes in the planned expenditure profiles of some projects, such as the Environment Act and embedding SMNR and LIFE funded projects and we will require to carry forward budgets to next year (£1.5m).
- The Flood Risk Management capital programme is ahead of budget (£2m). We have had formal confirmation from the Minister for the Environment of an additional £2m funding for this financial year. We are confident that we can manage our programme with this additional funding.
- There are other variances contributing to the overall underspend to date of £7.5m which are explained in **Annex A**. We have focused on all of these budgets as part of the Quarter 3 review with budgets and re-assessed profiles.

Quarter 3 Review of Budgets

10. We have finalised our Quarter 3 review of budgets. The results of which were endorsed by the Executive Team in December.

11. The results of the review are summarised in the table below:

Quarter 3 Budget Review	Income Budget	Expenditure Budget - Allocated	Expenditure Budget - Contingency	Expenditure Budget - carry forward 2018-19
Revised Budget as at Mid Year	189.6	185.6	2.4	1.6
1 - Expenditure Review	0.0	-6.1	2.6	3.5
2 - Income Review	1.0	0.2	0.9	0.0
3 - Changes in funding for specific projects	1.9	1.9	0.0	0.0
Result of Quarter3 Budget Review	2.9	-4.0	3.5	3.5
4) General Contingency to be carried forward to 18-19 for Unfunded Pressures	0.0	0.0	-5.9	5.9
Revised Budget as at Quarter 3	192.5	181.6	0.0	11.0

12. The main outcomes of the review are summarised below:

- The review of expenditure has identified a reduction of £6.1m. £2.6m is due to a decrease in budget required within Directorates, which includes a £1.4m reduction in the provision for Job Evaluation in this financial year due to delays in the implementation, savings in Workforce costs (£0.5m) and other Non-Staff costs and Projects (£0.7m). There is also a delay in the implementation of projects funded by additional Welsh Government Grant in Aid (£3.5m), which is to be carried forward into 2018-19. The largest of these are Metal Mines (£1.4m), Sustainable Management of Natural Resource (£0.6m), BETWS

Capital Project (£0.5m), Wales Coastal Path (£0.4m) and Reservoir Compliance (£0.3m).

- A review of income budgets has identified an increase (£1.0m), offset by a related increase in expenditure (£0.2m). This is mainly due to an increase in Timber Sales (£0.9m).
- Funding for specific projects has increased by £1.9m this year, this is largely due to an increase in Grant in Aid for our Flood Capital programme (£2.0m). We have received formal confirmation of this funding from the Minister for the Environment.
- The overall impact of the Quarter 3 Budget review is to increase the contingency available to manage future funding pressures by £3.5m to £5.9m. This funding will now be carried forward into 2018-19 to balance our budget and contribute towards unfunded pressures. The total funding carried forward for specific project has increased by £3.5m to £5.1m, taking our total to be carried forward to £11m. A request to increase our carry forward limit will be submitted to Welsh Government.
- We will need to request an increase to our carry forward limit from Welsh Government and we have already alerted them to this. This will be formally requested once we know how much additional funding, if any, Welsh Government will also provide to help with unfunded pressures next year.

Welsh Government Financial Approvals

13. The table below shows the updated position on the Welsh Government approvals that were included as part of the November Board meeting:

Item	Value	Description	Approval
Frongoch Metal Mine Remediation Project	£1,304k	Project for additional clay-capping of contaminated mine waste at the abandoned Frongoch lead and zinc mine. Further treatment of the residual groundwater discharges will also be required to achieve European standards in the Frongoch Stream. £145.5k has been confirmed for this work from the Contaminated Land Capital Fund.	Approved 7 November 2017
Forest Holidays-Investment	£200k	NRW currently has a minority interest in a company called Forest Holidays. LDC the majority shareholder are in the process of selling their equity share, this will result in NRW being required to sell our current share interest, estimated at £200,000. Approval has been sought to	Approved 22 November 2017

		enable NRW to negotiate the opportunity to reinvest our current stake in Forest Holidays through the new preferred bidder.	
Crindau Pill Flood Risk Management Scheme	£3,780k	Additional funds for the Crindau Pill flood risk management scheme required due to significant complications and delays in the original scheme. Including the additional requirements, the new total will be £14,471,000. This additional funding has been considered and endorsed by FRMAG.	Pending

Key Risks

14. There are risks and opportunities that are not yet quantified and as such were not incorporated into the Revised Budget and can be found in the risk/opportunities table within Annex A.
15. The main financial risk is the final cost of the approved Job Evaluation scheme, which will also impact on future years.

Recommendations

16. To scrutinise the financial position for 2017-18 as at 30 November 2017.
17. Approve the revision to the 2017-18 Budget, arising from the Quarter 3 review of budgets.
18. To note the items sent to Welsh Government for approval since the last Board meeting.

Financial Implications

19. The paper is about the financial position and performance of NRW. There are no additional financial implications arising other than the time spent in the financial management of NRW and in the creation of this report.

Equality Impact assessment (EqIA)

20. Not required.

List of Annexes

Annex A Financial Performance Report for November 2017