

Forestry Commission Great Britain/England

Annual Report and Accounts 2005-06

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(For the year ended 31 March 2006)

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ANNUAL REPORT

INTRODUCTION AND BACKGROUND

Basis of Accounts

The Forestry Commission Great Britain/England Resource Accounts are prepared in accordance with a direction given by HM Treasury in pursuance of section 5(2) of the Government Resources and Accounts Act 2000.

Departmental Accounting Boundary

These accounts incorporate the following entities within the departmental boundary funded by the Westminster Parliament:

- Forestry Commission England.
- Forestry Commission Great Britain.
- Forest Research Agency.

Forest Enterprise England, an executive agency of Forestry Commission England, is a public corporation for national accounting. Accordingly, it is outside the departmental boundary for resource accounting with the net funding reflected in these accounts. Forestry Commission Scotland and Forestry Commission Wales each produce their own Resource Accounts.

The Forestry Commission Main Estimate for Westminster is split into two Requests for Resources (RfRs) to separate the responsibilities of England and Great Britain. Forest Research is designated a Great Britain entity. The full descriptions of the RfRs are:

- RfR1 – To implement the programmes of the England Forestry Strategy
- RfR2 – To take the lead in the development and promotion of sustainable forest management and to support its achievement nationally.

Nature of the business, its strategy, aims and objectives

Status

The Forestry Commission is the government department responsible for advising Forestry Ministers within the Westminster Parliament, Scottish Parliament and National Assembly for Wales on forestry policy and for implementing the three separate forestry policy strategies across England, Scotland and Wales. It has a Chairman and Board of Commissioners. The legislative framework for forestry is principally the Forestry Acts 1967, 1979 and 1981, the Plant Health Act 1967, the Countryside Act (Scotland) 1967 and the Countryside Act 1958.

The Government of Wales Act 1998, the Scotland Act 1998, and the subsequent statutory instruments, specified the Forestry Commission as a cross-border public authority. The legislation transferred the Ministers' responsibilities for forestry in Scotland and Wales to the Scottish Ministers and the National Assembly for Wales respectively. The Forestry Commission changed its structure on 1 April 2003 to reflect a step change in co-operation with rural affairs departments in England, Scotland and Wales. This co-operation is underpinned by concordats worked up individually between each rural affairs department and the relevant Forestry Commission National Office.

Forestry Commission England came into being on 1 April 2003 and remains part of the Forestry Commission. It serves as the forestry department of the Westminster Parliament, advising on, and implementing forestry policies. Through the executive agency, Forest Enterprise England, it also manages the public forest estate to deliver public benefits.

Strategy

Forestry Commission England

In 1998 the Government published a Forestry Strategy for England. The strategy 'A New Focus for England's Woodlands' set out the Government's strategic priorities and programmes for forestry in

England. The strategy was founded on four guiding principles of quality, integration, partnership and public support. At the time of publication the Government said it would review the strategy within ten years and the Department for Environment, Food and Rural Affairs (Defra) issued a consultation document in May 2006 which will inform the development of a new Forestry Strategy for England later in the year. The England Forestry Strategy and the consultation document can be accessed via the Forestry Commission England website at: www.forestry.gov.uk/england

Forestry Commission Great Britain

In the Great Britain role, the Forestry Commission provides advice and support to the UK Government and to the devolved administrations in Scotland and Wales. We set the standards for sustainable forest management and encourage good forestry practice. We conduct forestry research, provide information and we have statutory duties for some regulations that, by agreement with Ministers, are GB-wide. The Forestry Commission's Science and Innovation Strategy for British Forestry was approved by forestry ministers in England, Scotland, Wales and Northern Ireland in July 2005. The strategy sets out how research programmes are determined and how they are linked to forestry strategies and the wider policy objectives of the UK Government and the devolved administrations.

Aims and Objectives

Forestry Commission England

The aims and objectives of Forestry Commission England flow from the England Forestry Strategy and from the wider objectives of Ministers. The Strategy is based on four key programmes which reflect wider policy objectives. The four programmes set out below are not mutually exclusive:

- to increase the contribution of forests and woodlands to local economies and rural development (*Forestry for Rural Development Programme*);
- to expand the role of woodlands in supporting the economic regeneration of former industrial land and disadvantaged communities (*Forestry for Economic Regeneration Programme*);
- to promote public access to woods and forests and develop diverse recreational opportunities (*Forestry for Access, Recreation and Tourism Programme*); and
- to conserve and improve the biodiversity, landscape and cultural heritage of our forests and woodlands (*Forestry for the Environment and Conservation Programme*).

Forestry Commission Great Britain

Through its powers and duties set out in the various Acts, the objective of the Forestry Commission for its Great Britain activities is "*On behalf of all three administrations, to take the lead in development and promotion of sustainable forest management and to support its achievement nationally*". A number of the Forestry Commission's functions are operated by agreement on a Great Britain basis and funded directly by the Westminster Parliament. These include:

- European and International Forestry Policy – Working with other departments, a team formulates UK policy in international negotiations, develops the UK's national forest programme and advises on implementation of international and European obligations;
- Plant Health and Forest Reproductive Materials – The Plant Health Unit has the vital task of preventing entry of harmful pests and diseases from overseas. It also controls the marketing of forest seed, cones, cuttings and plants by approving basic material (e.g. stands, seed orchards), certifying reproductive material and inspecting the nursery trade;
- Setting and Monitoring Standards of Sustainable Forest Management – Developing the UK Forestry Standard setting out how the principles of sustainable forest management will be delivered in practice against internationally agreed criteria. The work includes monitoring the state of the UK forestry sector against UK Indicators of Sustainable Forestry published in 2002 and supporting the UK Woodland Assurance Standard which provides for the independent certification of forest management in the UK.

The Forest Research Agency has its own specific aims and objectives drawn up in the context of the wider Forestry Commission aims and objectives. They are set out in the Agency's Framework Document published in September 2003 and available on the Forestry Commission website at www.forestry.gov.uk.

The annual spending plans for the Forestry Commission's activities in England and those functions which it carries out on a GB-wide basis are published as part of the Westminster Main Estimates. The Departmental Report 2005 for Defra was published in June 2005 and Chapter 5 includes the Forestry Commission Great Britain/England resource plans for the period 2004-05 to 2007-08. The latest Corporate Plan for England and Great Britain covers 2006-07 and is available on the Forestry Commission website at www.forestry.gov.uk.

Management Commentary

Operating review

Forestry Commission England

The England Rural Development Programme (ERDP) sets out the Government's support for agriculture, forestry and the rural economy over the period 2000-06. Forestry Commission England's support to the forestry sector includes the English Woodland Grant Scheme (EWGS), which is part of the ERDP. After two years of development the EWGS was introduced in two phases in July and November 2005. EWGS provides incentives for people to create new woodlands and plan, manage and improve existing woodlands. This was the first significant change to forestry grant schemes in England since the introduction of the Woodland Grant Scheme (WGS) in 1988. EWGS is a practical expression of the devolution of forestry matters and will allow the Forestry Commission to better respond to the regional agendas in England. EWGS also incorporates annual payments to compensate for agricultural income forgone when trees are planted on farmland; this replaces the previous Farm Woodland Premium Scheme operated by Defra.

In October 2005 the Forestry Commission established a 'Woodland ERDP Stakeholders' Group' as a means of obtaining advice from those who would be most affected by the Rural Development Programme. This comprises around 30 members, representing all the key organisations. The group has met several times. Defra have attended all the meetings and it therefore provides a direct two-way communication between woodland stakeholders and Government.

We have been working closely with Defra on the 'Modernising Rural Delivery' Programme to implement the recommendations of the Rural Strategy. The main areas of work have been:

- Legislation – contributing to the Natural Environment and Rural Communities Bill which received Royal Assent on 30 March 2006 and will, amongst other things, establish Natural England and enable Defra and its delivery bodies, including the Forestry Commission, to delegate their functions;
- Rural Funding – preparation to rationalise the large number of separate rural funding streams to a framework around three major funds. The Forestry Commission's EWGS would be part of one of these funds. Implementation of the first phase will be completed by January 2007 when new funding arrangements under the new Rural Development Regulation are put in place; and
- Natural England – preparation for close collaborative working between the Forestry Commission in England and Natural England which is expected to be formally established in October 2006. Collaborative working will be achieved by building on our current interactions with the organisations that will form Natural England. Areas for closer collaboration being considered include the alignment of delivery functions (and in the first instance grants and licensing functions), seeking integrated approaches to land management, the establishment of 'first stop shops', and sharing specialist staff.

During the year, the final Regional Forestry Frameworks were published. These frameworks are regional expressions of the England Forestry Strategy and are prepared through an inclusive, Government led, regional process in which Forestry Commission England plays a significant part. Their form satisfies the needs of the regional agenda, Government bodies and other key stakeholders and each is different and distinctive.

Non-timber income streams from game management, holiday accommodation and recreational opportunities are becoming increasingly important to woodland owners and the local economy. Forestry Commission England supports a wide range of regional and local partnerships which aim to improve markets for wood, help woodland and forestry based business, capitalise on the non-timber values, and provide opportunities to diversify. Examples include: the South West Forest in Devon, Cumbria Woodlands and the Heartwoods Initiative.

Forestry Commission England has continued to work with the Office of the Deputy Prime Minister (ODPM) to ensure its programmes assist in the delivery of the wider social, environmental and economic objectives contained in the Sustainable Communities Plan. This was the second full delivery year for the £23 million Newlands 1 Economic Regeneration Scheme, covering Merseyside, Greater Manchester and North Cheshire, funded by the North West Development Agency (NWDA). The scheme is being delivered in partnership with Community Forests, Groundwork and others such as the British Trust for Conservation Volunteers. It will lead to the restoration of 435 hectares of former industrial land by creating community woodlands and form attractive settings to attract and maintain economic investment. The first site, at Moston Vale was formally opened on 10th April 2006.

The Countryside and Rights of Way Act 2000 (CROW) made new provisions for dedicating access rights to the countryside; amended the law relating to nature conservation and the protection of wildlife, and made further provision for Areas of Outstanding Natural Beauty. The process of dedicating the Forestry Commission's estate following the introduction of CROW commenced in September 2004. By the year end, 140,000 Ha had been dedicated and further dedications will follow subject to third party consents. The New Forest is already mapped as access land under the Law of Property Act.

Putting ancient woodland at the heart of forestry policy has required a range of actions. Forestry Minister Jim Knight MP and Forestry Commission Chairman Lord Clark launched "*Keepers of time: a statement of policy for England's ancient and native woodland*" at a press conference in Haslemere on 29 June 2005. The new policy represents a radical change in emphasis for forestry in England, placing ancient and native woodland at the heart of forestry policy. The delivery of the new policy will involve, amongst other initiatives, a programme to encourage the restoration of ancient native woodlands converted to plantations in the last century. The full policy document can be viewed on the Forestry Commission website at: www.forestry.gov.uk/keepersoftime.

Forestry Minister Jim Knight announced a new policy and action on grey squirrels in a statement to the House of Commons on 20 January 2006. The plan outlines Forestry Commission support for humane control of grey squirrels in England's woodlands focussing resources on where they are causing the greatest threat to sustainable management and associated public benefits, including priority red squirrel populations. The policy and action document can be viewed on the Forestry Commission website at: www.forestry.gov.uk/forestry/INFD-6L4D37

Forestry Commission Great Britain

The objective for the department's activities across Great Britain is to take the lead in development and promotion of sustainable forest management. The United Nations Forum on Forests (UNFF) provides an important focus to promote sustainable forest management globally and to implement existing commitments. The Forestry Commission led the United Kingdom delegation at the fifth and sixth sessions in New York in May 2005 and February 2006.

The UK Forest Partnership for Action was created in the run-up to the 2002 World Summit on Sustainable Development to promote sustainable development across the forestry sector, and brought together key players from government, business and environmental groups. The Forestry Commission continued to provide support for the Partnership, by providing the Secretariat. The Partnership has achieved what it set out to do, both in general terms and also in the priority areas for action (forest certification, forest restoration and protection, illegal logging, timber procurement) promoting sustainable development in the forest sector. It has added value in that it has helped to: develop links for joined-up working, reach a shared understanding, remove barriers, facilitate dialogue, and share knowledge.

The UK is a lead partner in the Global Partnership on Forest Landscape Restoration working with WWF, IUCN and a range of governments and international organisations who recognise the importance of restoring forest cover in parts of the world where forests have been lost or heavily

degraded and who want to be part of a co-ordinated global effort. The Partnership aims to catalyse and reinforces a diverse network of restoration programmes that deliver benefits to local communities and to nature and fulfil international commitments on forests. The Partnership held a global workshop in April 2005, hosted by the Government of Brazil. The workshop considered outputs from national, sub-regional and regional workshops that had already taken place, developed recommendations for further action, and stimulated increased momentum and investment in forest landscape restoration programmes.

Over the year, 932,000 m³ of sawn wood that is subject to quarantine control were imported and Plant Health Inspectors carried out 4,568 inspections. Forty incidents of non-compliance were detected in sawn timber consignments. The majority of these incidents involved documentary infringements where the consignments were accompanied by invalid phytosanitary certificates. As in previous years, we again achieved our Charter Standard target of inspecting consignments on the day of notification of landing, or the next again working day at the latest, in over 99 per cent of cases.

In conjunction with the Defra Plant Health & Seed Inspectorate the Forestry Commission has continued to monitor for outbreaks of the *Phytophthora ramorum* and *P.kernoviae* pathogens. The management of the campaign is being overseen by the Interdepartmental *Phytophthora* Programme Board. Defra and the Forestry Commission have continued to carry out surveys in Cornwall to determine the incidence of *P. kernoviae*. Up to and including December 2005 *P. kernoviae* had been found at 22 locations in Cornwall. In December 2005 we recommended to Ministers that we move from a strategy of eradication of *P. kernoviae* to one of containment leading to eradication wherever possible. A risk matrix was drawn up which ranked the woodlands and heritage gardens infected with *P. kernoviae* on the level of infection, the value of the woodlands, the degree of public access and whether there was plant movement.

During 2005-06 research commissioned by the Forestry Commission ranged from highly applied projects of direct relevance for forest managers to strategic development of concepts and models to inform policy. The science budget also covered analytical services, monitoring and the transfer of knowledge and technology to end-users. The bulk of expenditure was with the Commission's own agency, Forest Research, which presents a separate, detailed report on its activities to Parliament.

A Regulatory Reform Order approved by the Westminster Parliament came into force on 15 March 2006. The Order increased the powers of the Commission in a number of areas of activity in England and Wales by amending the Forestry Act 1967 and the Countryside Act 1968. The Order allows the Commission to:

- form or participate/invest in companies, to provide loans and establish Charitable Trusts;
- delegate its power to charge in connection with the provision of facilities in the public forest estate;
- commercially exploit forestry research; and
- require restocking following unlawful felling without first obtaining a conviction and to enforce restocking requirements against lessees and licensees as well as against freeholders.

Although the Order only applies to England and Wales, we are currently involved in the process to facilitate identical changes in Scotland by passing primary legislation through the Scottish Parliament. However, the power to exploit forestry research applies across England, Wales and Scotland. This is because intellectual property law, unlike laws relating to forestry, is a matter reserved to the Westminster Parliament under the Scotland Act 1998.

Financial Review

Cash funding for our activities in England and our GB functions comes from Westminster, from the European Union and from income from the public forest estate managed by Forest Enterprise England. Like the rest of the public sector, we now also make provision for resource costs which do not involve movements of cash – mainly the cost of capital invested in the public forest estate and depreciation charges for use of assets.

Westminster funding for the Forestry Commission was decided as part of the Government's 2004 Spending Review. The planned sources of income and expenditure up to 2007-08 are shown in the latest Forestry Commission's Corporate Plan for England and Great Britain activities.

Resources in England are used to sustain and expand woodlands, increase recreation opportunities and public access together with woodland services in accordance with the England Forestry Strategy.

Timber sales represent the largest single source of income for Forest Enterprise and its financial performance is closely linked to the strength of the round timber market. The relative strength of the currency world-wide and European demand trends, availability and cost of shipping, and the health of the UK construction sector have all contributed to the continuing improvement in the market for home-grown timber. Nevertheless, timber income remains below the level assumed in our 2004 settlement. Every attempt is being made to maximise income from other sources such as recreation.

At the Great Britain level, our resources support work that benefits all three countries. The largest component is research and development carried out by Forest Research and by other providers. The remaining expenditure is on protecting Britain's trees from pest and diseases, representing British interests on the international stage, and other Great Britain-wide work including the costs of the Board of Forestry Commissioners, the development of the timber market, and the development and promotion of standards for sustainable forest management.

Significant variances against estimate

The comparison of actual resource expenditure to Estimate is shown below:

£m	Estimate	Outturn	Difference
Total resource RfR1	64.5	63.4	1.1
Total resource RfR2	17.5	14.4	3.1
Total resource Great Britain/England	82.0	77.8	4.2
Net cash requirement	62.0	60.5	1.5

For RfR1, the outturn reflects a lower Forest Enterprise cost of capital than included in the estimate due to a less than anticipated increase in asset valuations.

For RfR2, the estimate included some £2 million revenue provision to cover the development of e-business systems aimed at improving efficiency and effectiveness of delivery of services to customers. In accordance with accepted accounting practice such expenditure has been capitalised. Purchase of fixed assets showed an excess on estimate reflecting this adjustment. The balance of the underspend (£1.1 million) reflects the net effect of various measures taken during the year to reduce administration and programme costs whilst ensuring efficient services continued to be delivered.

The Forestry Commission Great Britain/England recorded an underspend of £1.5 million on actual cash expenditure over estimate that represents a 2.4% saving on the net cash requirement of £62 million.

Future Events

Post-Balance Sheet Event

The Forestry Commission has undertaken a challenging and complex public private partnership (PPP) competitive process over the last two years in order to find the most suitable joint venture partner to develop and expand its Forest Holidays' business. On 8 May 2006, the Forestry Commission entered into a joint venture with the Camping and Caravanning Club to take over management of Forest Holidays. The limited liability partnership (LLP) will provide funding for modernisation and expansion of the business together with the necessary skills and vision to grow the business.

Until very recently, the Forestry Commission had no express power to hold shares in a limited company or to hold interest in a LLP. Therefore, in respect of the activities carried on by the Forestry Commission in England and Wales, the Forestry Commission undertook to seek an Order under the Regulatory Reform Act 2001 in order to permit the Forestry Commission to participate in the new entity. The Order was granted on 15 March 2006. However, as the Regulatory Reform Act does not apply to matters which are within the legislative competence of the Scottish Parliament the grant of the Order does not affect the powers of the Forestry Commission in or as regards Scotland.

Therefore, the Forestry Commission still does not have the necessary powers to participate in any company or LLP which has Scottish assets, or which carries on business in Scotland. The Forestry Commission is seeking primary legislation in the Scottish Parliament which would give the Forestry Commission the necessary powers to enter into the joint venture in respect of the Scottish sites. In the meantime, Scottish Ministers have approved a separate LLP in Scotland in which Scottish Ministers will act as a member and hold the public sector interest, in place of the Forestry Commission, until the Forestry Commission obtains the necessary powers.

Following the transfer of the Forest Holidays' business, there will be a significant change to the way in which the Forestry Commission will account for its interest in Forest Holidays. As lessors of the sites to the joint venture, Forest Enterprise England will show a long term debtor balance on its balance sheet to represent the net present value of the future rental payments due by the joint venture companies. The Forestry Commission's equity and loan stock investments in the joint venture will be shown separately on the balance sheet of Forest Enterprise England, representing their current value to the Forestry Commission.

Forest Enterprise England has transferred £577,000 of income received in advance for holidays commencing on or after 8 May 2006 that belongs to the LLP. All Forest Holidays' operations will in future be undertaken by the joint venture and Forest Enterprise England will account for its share of the joint venture's profits and assets and liabilities in accordance with Financial Reporting Standard 9.

Future Work

Forestry Commission England's key issues for the coming year are:

- Timber Market

Timber prices have shown a moderate increase with a strong demand, however it is likely that timber income will remain only marginally better than the historically low levels experienced in recent years. Optimism has been tempered with the announcement of the closure of the Sudbrook Mill in Gwent which will affect the market for hardwood timber. Forest Enterprise England is continuing to pursue alternative timber markets, including short-term export opportunities and longer term developments for wood energy production.

- New Responsibilities

During 2006-07 we are managing the future succession arrangements of the Community Forests. We expect to take on responsibility for the Farm Woodland Premium and Farm Woodland Schemes including legacy payments for the Schemes.

- New Powers

The Regulatory Reform Order to enable joint ventures to take place has gained Royal assent. We are actively considering what other opportunities for further business improvements these new powers will allow.

- GLADE

Work continued throughout 2005 on the Grants and Licences Administration Delivered Electronically (GLADE) project. A limited version is now in operation, which delivers most of the basic functionality and refinement of the system will continue in 2006-07.

- England Rural Development Programme (ERDP)

The ERDP 2000-06 contributes to the delivery of the Government's Strategy for Sustainable Farming and Food. It is the framework for delivering European funding for a wide diversity of schemes, including those for agri-environment, woodlands, rural enterprise and less favoured areas. It is the source of co-financing for the Forestry Commission's grant schemes. The ERDP ends in December 2006 and Defra is currently leading the production of the successor Programme, known as the Rural Development Programme for England (RDPE) 2007-13, on which negotiations are in progress. Defra want to focus the resources available on action that will make a distinctive and significant impact and have proposed a set of national priorities, structured around three themes (enhancing the environment and countryside; making agriculture and forestry more competitive and sustainable; and

enhancing opportunities in rural areas for those who are disadvantaged). In RDPE forestry has a higher profile and also features under all main themes rather than just under the environment measures. We are fully engaged in the development of the Environmental Land Management Fund, which during the RDPE period will bring the Defra family land management funding under one umbrella to deliver the simplification objectives of the Rural Funding Review and Rural Strategy 2004.

Forestry Commission Great Britain's key issues for the coming year are:

- UK Standards and certification

The Forest Guidelines are supporting publications to the UK Forest Standard. Following revision of the standard itself during 2004, we have been working during the year to revise and update the suite of supporting guidelines. They expand upon the Standard by addressing the interaction between forests and a range of particular topics. This is a 3-year project involving wide consultation and we expect the final versions to be produced in 2007.

We have been working with other members of the UK Woodland Assurance Standard (UKWAS) Steering Group to revise the forest certification standard. The UKWAS provides the basis for independent certification in the UK and is used for all forests managed by the Forestry Commission and an increasing percentage of private woodlands. It is endorsed by both major independent forest certification schemes operating in Europe; the Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification Schemes (PEFC). The revision will be formally launched during 2006.

- Plant Health

We have compiled a comprehensive consultation document to explain the complexities of changes to plant health import legislation that require us to change the way we calculate our inspection fees and change the range of material inspected. The consultation will also explain the new rates we propose to charge as a result of the lower volume of timber inspected following EU enlargement. We will be consulting the timber import trade on our proposals early in the new financial year.

- A Science and Innovation Strategy for British Forestry

The strategy was approved by Forestry Ministers in 2005 and implementation will continue under the direction of the Research Strategy Management Board. The strategic research priorities are social and economic development and climate change.

- Climate Change

Britain's woods and forests not only face challenges from climate change, but they also offer solutions to many of the problems that it will pose over the next century. With our range of knowledge, skills and practical experience, we are in a unique position to make a real and valuable contribution, and climate change continues to rise on our policy agenda. Although policy might differ across country boundaries, there is a clear recognition that we will benefit greatly from a common approach to communicating the threats, opportunities and our role in delivering practical solutions for the sector. A steering group has been formed to help in this. The group will guide the way we communicate with our key audiences about how we are tackling the issues and challenge of climate change and co-ordinate our various communications activity across the Commission. The group's first priority was the production of a climate change communications strategy setting out key audiences, messages and general approach.

Management*Ministers*

The Ministers who had responsibility for Forestry Commission Great Britain/England during the year were:

Rt Hon Margaret Beckett MP	Secretary of State, Department for Environment, Food and Rural Affairs
Ben Bradshaw MP	Parliamentary Under-Secretary (Commons), Department for Environment, Food and Rural Affairs (until 12 May 2005)
Jim Knight MP	Parliamentary Under-Secretary (Commons), Department for Environment, Food and Rural Affairs (from 13 May 2005)

Forestry Commissioners and Permanent Head of the Department

The Board of Commissioners gives strategic direction to the Forestry Commission and takes decisions on not-devolved or co-ordinated functions. It has a part time non-executive Chairman, Rt Hon Lord Clark of Windermere, and the Director General, Tim Rollinson, as Permanent Head of the Department, acts as Deputy Chairman. Commissioners who served during the year were:

Chairman

Rt. Hon Lord Clark of Windermere

Executive Forestry Commissioners

Tim Rollinson	Director General and Deputy Chairman *
Bob McIntosh	Director, Forestry Commission Scotland *
Simon Hewitt	Director, Forestry Commission Wales (until 29 April 2005) *
Ian Forshaw	Director, Forestry Commission Wales (from 15 December 2005) *
Paul Hill-Tout	Director, Forestry Commission England *

*Members of the Forestry Commission Executive Board

Non-executive Forestry Commissioners

Anthony Bosanquet	Commissioner for Wales
Gareth Wardell	Commissioner for Wales
Dr Victoria Edwards	Commissioner for England
Martin Gale	Commissioner for Scotland and the forestry industry
Andrew Raven	Commissioner for Scotland (until 5 October 2005)
Tony Cooper	Commissioner for Human Resources

National Committee for England

The Committee is appointed under Section 2(3) of the Forestry Act 1967 to, inter alia, undertake any of the functions of the Forestry Commissioners that they may delegate, subject to any restrictions or conditions as they see fit. Members of the Committee were:

Rt Hon Lord Clark of Windermere	Chair and Forestry Commission Chairman
Dr Victoria Edwards	Non-executive Commissioner for England
Tony Cooper	Non-executive Commissioner for England
Judith Webb	Non-executive member

Gerald Dawe	Non-executive member
Paul Hill-Tout	Director, Forestry Commission England and Executive Commissioner
Rod Leslie	Acting Chief Executive, Forest Enterprise England (until 14 September 2005) and Head of Programme Group, Forestry Commission England (from 15 September 2005)
Simon Hodgson	Chief Executive, Forest Enterprise England (from 15 September 2005)
John Scotney	Head of Corporate Services, Forestry Commission England (until 31 January 2006)
Charlotte Cane	Finance Director, Forestry Commission England (from 31 January 2006)

England Executive Board

The England Executive Board was reconstituted on 17 January 2006. It was established to manage the operations of the business of Forestry Commission England within the policy framework set by Ministers and the National Committee for England. Members who served on the Board were:

Paul Hill-Tout	Director, Forestry Commission England and Executive Commissioner
Simon Hodgson	Chief Executive, Forest Enterprise England
Richard Britton	Head of Forestry Authority and Regions
Rod Leslie	Head of Programme Group, Forestry Commission England
Mark Pritchard	Head of Communications and Secretariat, Forestry Commission England
Charlotte Cane	Finance Director, Forestry Commission England

Other Forestry Commission Senior Staff Group

The Forestry Commission's Senior Staff Group (SSG) operates by analogy with the Senior Civil Service in the Home Civil Service. Members of the SSG, other than those who served on the Board of Commissioners or National Committees, during the year were:

Professor Jim Lynch	Chief Executive, Forest Research Agency*
Kim Lardge	Director Human Resources*
Keith Gliddon	Director Finance*
Wilma Harper	Secretary to Commissioners and Head of Corporate and Forestry Support*

*Members of the Forestry Commission Executive Board

Peter Freer-Smith	Research Director, Forest Research Agency
Craig Heaney	Director, Forestry Commission Business Units
Alan Mitchell	Head of Business Services Division
Roger Herbert	Head of Country Services (until 30 June 2005)
Mike Dudley	Head of International Policy (from 4 July 2005)
David Henderson-Howat	Special Projects
Peter Ranken	Head of Recreation and Development, Forest Enterprise England
Derek Gilfillan	Head of Procurement (from 5 December 2005)

A register of interests is maintained and can be accessed on the Forestry Commission website (www.forestry.gov.uk).

Other Disclosures

Employment Policies

The Forestry Commission values and respects its staff by treating each member with respect and trust and in doing so recognises that each person is different and can make a unique contribution to the work. The purpose of the Forestry Commission's employment policy is to demonstrate that it is an equal opportunity employer and the aim is to be fair to everybody. To do this the Forestry Commission ensures that no eligible job applicant, or employee receives less favourable treatment on the grounds of their gender, or gender re-assignment, ethnic origin, disability, age, nationality, national origin, sexual orientation, marital status, religion and religious or philosophical belief, social class or offending background.

All employees, whether part-time, full time or temporary will be treated fairly and equally. Selection for employment, promotion or training or any other benefit will be on the basis of aptitude and ability. All employees will be helped and encouraged to develop their full potential and the talents and resources of the workforce will be fully utilised to maximise the efficiency of the organisation. No person shall be disadvantaged by conditions or requirements which cannot be shown to be justifiable.

The Forestry Commission also follows good employer practices aimed at ensuring that all staff work in an environment free from both illegal and unfair discrimination and harassment. Consolidated statements of the Commission's obligations with regard to equality of opportunity and diversity are shown in the Staff Handbook. Full details of these initiatives arising from our policies are also set out in the Human Resources intranet site.

The Forestry Commission will monitor the success of its policies by:-

- Collecting and analysing data as appropriate.
- Regularly reviewing procedures [recruitment, performance management, promotion and pay] to ensure that they are free of unfair discrimination.
- Reporting the results of equality and diversity monitoring to the Human Resources Management Sub-Committee on an annual basis.
- Liaising closely with Cabinet Office and other Government Departments to ensure that we are keeping abreast of all changes in legislation and other developments.

Further information on the employment of persons with disabilities, the provision of information to, and consultation with, employees, and the promotion of equal opportunities is available on request from the Human Resources unit of the Forestry Commission.

Pensions

Information on pensions is contained in the Remuneration Report and accounting policy note 1.15.

Supplier Payment Policy

Forestry Commission Great Britain/England complies with the Government's Better Payment Practice Code. Unless otherwise stated in the contract, we aim to pay within 30 days from the receipt of goods and services or the presentation of a valid invoice, whichever is the later. A sample analysis for 2005-06 indicates that 98.3 per cent of invoices paid by the Forestry Commission Great Britain/England and 99.9 per cent of invoices paid by Forest Research were paid within the due date. Arrangements for handling complaints on payment performance are notified to suppliers on contracts.

No interest was paid under the Late Payment of Commercial Debts (Interest) Act 1998.

Auditors

The accounts of Forestry Commission Great Britain/England are audited by the Comptroller and Auditor General under the Government Resources and Accounts Act 2000.

Disclosure of audit information to the auditors

So far as the Accounting Officer is aware, there is no relevant audit information of which the Forestry Commission Great Britain/England auditors are unaware. The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Forestry Commission Great Britain/England auditors are aware of that information.

T J D Rollinson
Accounting Officer
13 July 2006

REMUNERATION REPORT

Remuneration policy

Fees for non-executive Commissioners are determined in accordance with guidelines prescribed by the Cabinet Office. The Forestry Commission's Senior Pay Committee comprises the Chairman, Director General, Director, Forestry Commission Scotland, Director, Forestry Commission England, and three other non-executive Commissioners. The Chairman and non-executive members determine the Director General's pay. The Chairman, Director General and non-executive Commissioners take decisions in respect of Country Directors. The entire committee takes decisions on remaining senior staff posts in accordance with guidelines prescribed by the Cabinet Office.

In reaching its recommendations, the Forestry Commission's Senior Pay Committee has regard to the following considerations:

- The Senior Pay Committee take into account the recommendations of the Senior Salaries Review Body (SSRB). SSRB is responsible for monitoring the operation of the Senior Civil Service pay system and for making recommendations to the Government on the shape of the system, including the salary values for the minimum, progression target rate and maximum of each of the senior pay bands, the range of percentage increases to base salary and range of bonuses.
- Reporting Officers consider the relative performance of each of their senior staff and recommend an appropriate performance tranche, whether a bonus should be paid and if so whether low or high. The Senior Pay Committee consider the recommendations, determine the allocation of senior staff to tranches, and decide the percentage increase to salary and any bonus to be awarded.

Remaining Committee and Board members receive annual salaries paid in accordance with the standard Forestry Commission Staff Pay agreement. Their performance is monitored and reviewed through the Performance Monitoring System (PMS) of the Forestry Commission. Their increase in salary and performance bonus, if awarded, are based on their manager's assessment of their performance.

Employment contracts

Civil Service appointments are made in accordance with the Civil Service Commissioners' Recruitment code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Unless otherwise stated below, the senior staff covered in this report hold appointments which are open-ended until they reach the normal retiring age. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Rt Hon Lord Clark of Windermere was appointed on a six year contract commencing on 10 December 2001.

Anthony Bosanquet was appointed on a six year contract commencing on 18 January 2001.

Gareth Wardell was appointed on a six year and 2 month contract commencing on 1 November 1999.

Dr Victoria Edwards was appointed on a six year and four month contract commencing on 1 November 1999.

Martin Gale was appointed on a five year and eleven month contract commencing on 1 May 2003.

Tony Cooper was appointed on a on a three year contract commencing on 18 January 2004

Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk.

Salary and pension entitlements

The salary and pension entitlements of the Forestry Commissioners, members of the National Committee for England, the England Executive Board and Great Britain senior staff were as follows:

	2005-06		2004-05	
	Salary	Benefits in kind	Salary	Benefits in kind
	£000	To the nearest £100	£000	To the nearest £100
Rt Hon Lord Clark of Windermere	45-50	–	45-50	–
Tim Rollinson	115-120	–	105-110	–
Anthony Bosanquet	5-10	–	5-10	–
Gareth Wardell	10-15	–	10-15	–
Dr Victoria Edwards	5-10	–	5-10	–
Martin Gale	5-10	–	5-10	–
Andrew Raven (<i>until 5 October 2005</i>)	5-10	–	10-15	–
	<i>(10-15 full year equivalent)</i>			
Tony Cooper	5-10	–	5-10	–
Paul Hill-Tout	80-85	–	80-85	–
Judith Webb	5-10	–	0-5	–
Gerald Dawe	0-5	–	0-5	–
John Scotney (<i>until 31 January 2006</i>)	35-40	–	40-45	–
	<i>(40-45 full year equivalent)</i>			
Mark Pritchard	50-55	1,400	50-55	900
Charlotte Cane (<i>from 1 December 2005</i>)	15-20	–	–	–
	<i>(50-55 full year equivalent)</i>			
Richard Britton	55-60	2,000	50-55	1,300
Kim Lardge	80-85	–	35-40	–
		<i>(75-80 full year equivalent)</i>		
Wilma Harper	55-60	–	55-60	–
David Henderson-Howat	80-85	–	90-95	–
Keith Gliddon	70-75	–	55-60	–
Craig Heaney	75-80	1,100	65-70	800
Alan Mitchell	75-80	–	65-70	–
Roger Herbert (<i>until 30 June 2005</i>)	15-20	–	65-70	–
	<i>(65-70 full year equivalent)</i>			
Derek Gilfillan (<i>from 5 December 2005</i>)	15-20	–	–	–
	<i>(50-55 full year equivalent)</i>			
Mike Dudley	50-55	–	–	–
Jim Lynch	80-85	–	80-85	–

The salary and pension entitlements of Bob McIntosh, an Executive Forestry Commissioner, are borne and disclosed in the Forestry Commission Scotland Annual Report and Accounts 2005-06 as he is Director, Forestry Commission Scotland.

The salary and pension entitlements of Simon Hewitt and Ian Forshaw, Executive Forestry Commissioners during the year, are borne and disclosed in the Forestry Commission Wales Annual Report and Accounts 2005-06. Simon Hewitt retired as Director, Forestry Commission Wales on 29 April 2005 and Ian Forshaw was appointed Director, Forestry Commission Wales on 30 April 2005.

The salary and pension entitlements of Rod Leslie and Simon Hodgson, members of the National Committee for England during the year are borne and disclosed in the Forest Enterprise England Annual Report and Accounts 2005-06. Simon Hodgson joined the National Committee for England on 15 September 2005.

The salary and pension entitlements of Peter Ranken, a member of the Forestry Commission Senior Staff Group and Head of Recreation and Development during the year, are borne and disclosed in the Forest Enterprise England Annual Report and Accounts 2005-06.

The salary and pension entitlements of Peter Freer-Smith, a member of the Forestry Commission Senior Staff Group during the year are borne and disclosed in the Forest Research Annual Report and Accounts 2005-06.

The salary and pension entitlements of the members of the Forest Research Management Board and Forest Enterprise England Management Board are shown in each of the agency's Annual Report and Accounts 2005-06.

Salary

'Salary' includes basic salary; performance pay or bonus; overtime and any allowances subject to UK taxation. This report is based on payments made by Forestry Commission Great Britain/England and thus recorded in these accounts.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the HM Revenue and Customs as taxable income. Benefits in kind are given in the form of the private use of a car and house purchase loans.

Pension benefits

	Accrued pension at age 60 at 31 March 2006 and related lump sum £000	Real increase in pension and related lump sum at age 60 £000	CETV at 31 March 2006 £000	CETV at 31 March 2005 £000	Real increase in CETV £000	Employer contribution to partnership pension account Nearest £100
Tim Rollinson	40-45 plus LS of 120-125	2.5-5.0 plus LS of 7.5-10	791	588	49	-
Paul Hill-Tout	25-30 plus LS of 75-80	0-2.5 plus LS of 2.5-5.0	436	323	15	-
John Scotney	15-20 plus LS of 50-55	0-2.5 plus LS of 2.5-5.0	349	264	18	-
Mark Pritchard	15-20 plus LS of 45-50	0-2.5 plus LS of 0-2.5	278	211	5	-
Charlotte Cane	5-10 plus LS of 25-30	0-2.5 plus LS of 0-2.5	161	141	9	-
Richard Britton	15-20 plus LS of 35-40	0-2.5 plus LS of 0-2.5	235	164	14	-
Kim Lardge	0-5.0 plus LS of 0-5	0-2.5 plus LS of 0-2.5	38	10	18	-
Wilma Harper	20-25 plus LS 0-5	0-2.5 plus LS 0-2.5	382	292	4	-
David Henderson-Howat	20-25 plus LS of 70-75	0-2.5 plus LS of 2.5-5.0	466	355	17	-
Keith Gliddon	25-30 plus LS of 85-90	5.0-7.5 plus LS of 15.0-17.5	607	395	115	-
Craig Heaney	30-35 plus LS of 100-105	0-2.5 plus LS of 5.0-7.5	770	600	42	-
Alan Mitchel	35-40 plus LS of 105-110	0-2.5 plus LS of 5.0-7.5	843	656	52	-
Derek Gilfillan	0-5 plus LS of 0-5	0-2.5 plus LS of 0-2.5	2	-	2	-
Mike Dudley	15-20 plus LS of 55-60	0-2.5 plus LS of 0-2.5	361	275	13	-
Jim Lynch	0-5.0 plus LS of 0-5	0-2.5 plus LS of 0-2.5	76	42	25	-

Civil Service Pensions

Pension benefits are provided through the Civil Service Pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

Further details about the Civil Service pension arrangements can be found at the website www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Please note that the factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

T J D Rollinson
Accounting Officer
13 July 2006

STATEMENT OF FORESTRY COMMISSIONERS' AND ACCOUNTING OFFICER'S RESPONSIBILITIES

1. Under section 5(2) of the Government Resources and Accounts Act 2000, the Forestry Commissioners are required to prepare resource accounts for each financial year, in conformity with a Treasury direction, detailing the resources acquired, held or disposed of during the year and the use of resources by the department during the year.
2. The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the department, the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.
3. HM Treasury has appointed the Permanent Head of Department as Principal Accounting Officer of the department with overall responsibility for ensuring that resources authorised by Parliament and sums to be paid out of the Consolidated Fund, in respect of the Forestry Commission, are used for the purposes intended by Parliament. He must ensure that there is a high standard of financial management, including a sound system of internal control; that financial systems and procedures promote the efficient and economical conduct of business and safeguard financial propriety and regularity; that financial considerations are taken into account in decisions on policy proposals; and risk is considered in relation to assessing value for money.
4. In preparing the accounts the Principal Accounting Officer is required to comply with the *Government Financial Reporting Manual* prepared by HM Treasury, and in particular to:
 - observe the Accounts Direction issued by HM Treasury including relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
 - make judgements and estimates on a reasonable basis;
 - state whether applicable accounting standards, as set out in the *Government Financial Reporting Manual*, have been followed, and disclose and explain any material departures in the accounts ;
 - prepare the accounts on the going concern basis.
5. As Principal Accounting Officer, the Director General of the Forestry Commission has designated Director, Forestry Commission England and the Chief Executive of Forest Research as Accounting Officers. The responsibilities of the Director General, as Principal Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the department's assets, are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in *Government Accounting*. Under the terms of the Accounting Officers' Memorandum, the relationship between the department's Principal Accounting Officer and the other Accounting Officers, together with their respective responsibilities, is set out in writing.

STATEMENT ON INTERNAL CONTROL

1. Scope of responsibility

Forestry Commission

As Principal Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Forestry Commission's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The Forestry Commission is a Great Britain cross-border department responsible for forestry matters and which has a Board of Commissioners with duties and powers prescribed by statute. Forestry is a devolved matter. The Secretary of State for Environment, Food and Rural Affairs has responsibility for forestry in England as well as certain activities such as international affairs, plant health and forest research which remain reserved by Westminster. Scottish Ministers and the Welsh Assembly Government have responsibility for forestry in Scotland and Wales respectively. The Forestry Commission in each country works closely with the respective rural affairs department underpinned by individual concordats.

The Secretary of State for Environment, Food and Rural Affairs has overall responsibility for UK forestry interests within the European Union and for international negotiations on forestry, including the formulation of UK policy. The Secretary of State consults with Scottish Ministers, the National Assembly for Wales and the Northern Ireland Assembly on UK-wide issues.

The Forestry Commissioners are statutorily responsible for the stewardship of the estate placed at their disposal by Ministers. The Forestry Commissioners have delegated to the statutory National Committee in each country, the normal exercise of their powers and duties in connection with the estate.

The Director General is the Deputy Chairman of the Forestry Commissioners and the senior official in the Forestry Commission. In addition to his role as a Commissioner, he is the Principal Accounting Officer, formally responsible to the Westminster Parliament for the financial affairs of the Forestry Commission. The accountability arrangements for the Principal Accounting Officer of the Forestry Commission are set out in the Memorandum at Annex 4.1 of *Government Accounting*.

The Forest Research Agency, funded from the Westminster vote, is the principal organisation in Great Britain engaged in forestry and tree related research and is the research agency of the Forestry Commission. The Chief Executive is responsible, normally through the Director General, to the Forestry Commissioners for the management of the Agency. The Chief Executive has a right of direct access to the Commissioners, and to the relevant Minister, and will meet them at least once a year. The Chief Executive is a member of the Forestry Commission's Executive Board.

Forestry Commission England

The National Committee in England is chaired by a non-executive Forestry Commissioner and its members include a further two non-executive Commissioners, the Director, Forestry Commission England, the Agency Chief Executive, a member from the Department for Environment, Food and Rural Affairs, Finance Director, Head of Programme Group and two non-executive members.

The Director, Forestry Commission England is the executive Forestry Commissioner responsible to the Forestry Minister and to the Director General for the work of the Forestry Commission in England. From 1 April 2004, the Treasury appointed Director England as Accounting Officer for the new Request for Resources 1 (RfR1) relating to the implementation of the programmes of the England Forestry Strategy. The exact responsibilities between the Additional Accounting Officer for RfR1 and the Principal Accounting Officer are set out in a separate Letter of Understanding. The Director General acts as the Accounting Officer for Request for Resources 2 (RfR2) that covers the Forestry Commissions' lead role in the development and promotion of sustainable forest management and to support its achievement nationally.

The Chief Executive of the Forest Enterprise England Agency is responsible, normally through the Director, Forestry Commission England, to the National Committee for England for the management

of the Agency. The Chief Executive is a member of the National Committee and is designated as Agency Accounting Officer, responsible for the Agency's accounts and financial procedures and for the proper, effective and efficient use of resources provided to the Agency within the terms of the Framework Document and in pursuit of the agreed objectives and targets. The Chief Executive has a right of direct access to the Commissioners, and to the relevant Minister, and will meet them at least once a year.

Public Accounts Committee

The Director General, Director, Forestry Commission England and the Agency Chief Executives are liable to be summoned to appear before the Public Accounts Committee to answer for their respective responsibilities. It will be for Ministers to decide who should represent them at other Parliamentary Committee hearings.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Forestry Commission Great Britain/England's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Forestry Commission Great Britain/England for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3. Capacity to handle risk

The Forestry Commission Great Britain/England has taken a positive approach to risk that it feels is entirely appropriate to its role and remit. Risk management is the responsibility of every member of staff in Forestry Commission Great Britain/England. Everyone has a role to play in managing risks and therefore understands and accepts responsibility for managing the risks within their own area of authority. Risk awareness and responsibility lies in parallel with the structure of the Forestry Commission's objectives in Great Britain/England and at every level of objective there is an equivalent delegation of responsibility of associated risk.

The resources available for managing risk are finite and so the aim is to achieve an optimum response to risk, prioritised in accordance with the evaluation of risk. The system of internal control incorporates risk management. The system encompasses a number of elements that together facilitate an effective and efficient operation, enabling Forestry Commission Great Britain/England to respond to a variety of operational, financial and commercial risks. These elements include:

- Implementing delivery policies set by the Board of Commissioners, National Committee for England, Forestry Commission Executive Board and other Executive/Management Boards. Written procedures support the policies where appropriate;
- Comprehensive regular reporting to the Board of Commissioners, National Committee and Executive/Management Boards designed to monitor key risks and their controls. Decisions to rectify problems are made at their regular meetings; and
- Planning and budgeting system used to set objectives, agree action plans and allocate resources. Progress towards meeting plan objectives is monitored regularly.

4. The risk and control framework

Forestry Commission Great Britain/England is committed to a process of continuous development and improvement: developing systems in response to any relevant reviews and developments in best practice in this area. In particular, in the period covering the year to 31 March 2006 and up to the signing of the accounts Forestry Commission Great Britain/England has:

- Worked with a private sector risk management expert to develop a series of workshops. The purpose of the workshops is to share experiences of handling risk at country and agency level, to review progress on embedding risk management and to ensure common standards when assessing risks;
- Participated in the Forestry Commission wide, Risk Management Group (RMG), whose purpose is to ensure continued development of risk management within, and the sharing of best practice across, the Commission. The RMG met on four occasions, in July, November and December 2005, and in March 2006;
- Implemented the revised Forestry Commission risk policy statement considered by both the Forestry Commission Executive Board and the Forestry Commission Audit Committee before being approved by the Board of Commissioners in September 2005;
- Updated existing risk registers to reflect newly identified potential risks and appropriate control measures for agreement by management board members. This has included the further enhancement of the Risk Register methodology to clearly define inherent and residual risk; and
- Supported the purchase and population of a commercial risk management software package. The software chosen integrates with that used by Internal Audit for planning and assignment management who has worked with the RMG co-ordinator during the year on its configuration and implementation. The system contains a number of reports designed to assist management in monitoring key risks.

The size and membership of the Forestry Commission Audit Committee is designed to represent all parts of the Forestry Commission. The Committee met three times during the year, in April, July and December 2005, to consider a range of reports from management, and from internal and external audit.

The Audit Committee, in the main, deals with higher level issues concerning control and governance. Country Directors and the Agency Chief Executives are provided with more detailed advice on the work of Internal Audit in particular, and control in general, via their local Internal Control Committee (ICC). The ICC's objectives are to:

- provide a forum for senior management to discuss internal control and audit matters;
- promote understanding of the internal audit role and objectives; and
- assist the Head of Internal Audit in defining the scope of audit coverage and assessing priorities.

The ICC in England met twice during the year, in September 2005 and March 2006 to receive reports on audit activity, risk management and feedback on the work of the Audit Committee. The ICC for Forest Research met three times during the year, in April 2005, December 2005 and March 2006.

During the year, Internal Audit concluded a review of the structure, interactions and functioning of the Board of Commissioners, the Forestry Commission Executive Board and the National Committees. The Board of Commissioners discussed the findings alongside a paper covering some wider issues arising from the requirements of the new Code on Corporate Governance for government bodies. The Board agreed that country based audit committees should be set up, to provide for a more effective review of each set of annual accounts in particular, but the new arrangements were dependent on the Board's agreement of terms of reference for the various decision-making bodies noted above. The Board finally agreed the responsibilities and relationships of the bodies in June 2006. A decision on the future role and conduct of a Forestry Commission Great Britain audit committee was deferred pending further discussion with the current FCAC Chair. Interim one-off arrangements were put in place to review the presentation of the 2005-06 accounts for Forestry Commission Great Britain/England, Forest Enterprise England and Forest Research and associated Internal Audit business, utilising existing ICC members and external audit attendance. Proposed terms of reference for the country audit committees have been drafted and will be finalised once the meeting with the FCAC Chair has taken place in July 2006.

An Internal Audit review in 2004-05 identified that the Forestry Commission, as a whole, did not have fully developed contingency plans in place to effectively manage failure in key business systems. Since then, there has been some progress and most importantly a change of responsibility for

business continuity planning was agreed by the Forestry Commission Executive Board in December 2005. This work is now co-ordinated by Director Finance via the RMG. The change recognises the need for the business areas to prepare contingency plans which meet their needs and which clearly link to business driven risk management. Internal Audit will monitor progress through their involvement with the RMG and pursue more detailed work later in 2006-07.

5. Review of effectiveness

As Principal Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors, the Additional and Agency Accounting Officers and the executive managers across the Forestry Commission who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Executive Boards and the Forestry Commission Audit Committee. Plans to address weaknesses and ensure continuous improvement of the system are in place.

The Head of Internal Audit has prepared a suite of annual reports and assurance statements to Country Directors and Agency Chief Executives in their capacities as Additional and Agency Accounting Officers. The reports include an overall assessment of the adequacy and effectiveness of risk management, control and governance within each entity. As the Principal Accounting Officer, I have received a similar report and assurance statement including any comments specific to the Great Britain core responsibilities. The overall opinion is that internal control within the Forestry Commission continues to provide substantial assurance that material risks to the achievement of objectives are adequately managed.

6. Significant internal control problems

The significant problem involving delays in completion of the monthly bank reconciliations undertaken centrally was reported in last year's statement. The reconciliations were brought up to date during 2005-06 and Internal Audit undertook a verification check in November 2005 to provide assurance that the process was back under proper control for the 2005-06 accounts. In February 2006 Internal Audit again confirmed that the reconciliations were continuing to be performed on time and that any outstanding adjustments had been actioned. They reviewed improvements to the system and were satisfied that sufficient work had been undertaken by management to clear the item from the Statement on Internal Control.

T J D Rollinson
Accounting Officer
13 July 2006

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

I certify that I have audited the financial statements of Forestry Commission Great Britain/England for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Annual Report and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the Financial Statements and the part of Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 21 to 24 reflects the Department's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Annual Report, the unaudited part of the Remuneration Report, and the Management Commentary. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated

the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Forestry Commission Great Britain/England's affairs as at 31 March 2006 and the net cash requirement, net resource outturn, resources applied to objectives, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

18 July 2006

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

Statement of Parliamentary Supply

Summary of Resource 2005-06

	Note	Estimate			Outturn			2005-06	2004-05
		Gross expenditure £000	A-in-A £000	Net Total £000	Gross expenditure £000	A-in-A £000	Net Total £000	Net total outturn compared with estimate: saving/ (excess) £000	Net Total £000
Request for resources 1	2	67,604	(3,112)	64,492	66,531	(3,112)	63,419	1,073	55,574
Request for resources 2	2	17,457	-	17,457	14,370	-	14,370	3,087	12,891
Total resources	3	85,061	(3,112)	81,949	80,901	(3,112)	77,789	4,160	68,465
Non-operating cost A in A		-	-	-	-	-	-	-	-

Net cash requirement 2005-06

	Note	Estimate		Outturn		2005-06	2004-05
		£000	£000	£000	£000	Net total outturn compared with Estimate: saving/ (excess) £000	Outturn £000
Net cash requirement	4	62,016		60,513		1,503	60,328

Summary of income payable to the Consolidated Fund

	Note	Forecast 2005-06		Outturn 2005-06	
		Income £000	Receipts £000	Income £000	Receipts £000
Total		-	-	-	-

Explanations of variances between Estimate and outturn are given in the Management Commentary.

The notes on pages 32 to 51 form part of these accounts.

Operating Cost Statement

for the year ended 31 March 2006

	Note				2005-06			Restated 2004-05	
		Staff Costs	Core Other Costs	Income	Consolidated Staff Costs	Other Costs	Income	Core	Consoli- dated
		£000	£000	£000	£000	£000	£000	£000	£000
Administration Costs:									
Staff Costs	5	16,904			25,818			16,229	24,628
Other administration costs	6		30,633			21,291		31,587	22,490
Operating income	8			(21,243)			(20,520)	(22,625)	(21,908)
Programme costs:									
Request for resources 1:									
Programme costs	7		59,132			59,132		54,988	54,988
EU receipts	8			(3,746)			(3,746)	(4,907)	(4,907)
Other income	8			(2,095)			(2,095)	(746)	(746)
Request for resources 2:									
Programme costs	7		484			3,173		369	2,981
EU receipts	8			-			(998)	-	(1,133)
Other income	8			(418)			(2,054)	(480)	(1,951)
Totals		16,904	90,249	(27,502)	25,818	83,596	(29,413)	74,415	74,442
Net Operating Cost				79,651			80,001	74,415	74,442

All income and expenditure are derived from continuing operations.

Statement of Recognised Gains and Losses

for the year ended 31 March 2006

	Note	2005-06		2004-05	
		Core	Consolidated	Core	Consolidated
		£000	£000	£000	£000
Net gain on revaluation of tangible fixed assets	18	94	838	46	450
Realised element in revaluation	18	7	46	-	-
Recognised gains and losses for the financial year		101	884	46	450

The notes on pages 32 to 51 form part of these accounts.

Balance Sheets

as at 31 March 2006

	Note	Core £000	2005-06 Consolidated £000	Core £000	2004-05 Consolidated £000
Fixed Assets:					
Tangible assets	10	5,848	17,455	4,144	15,258
Intangible Assets	11	1,453	1,560	1,301	1,351
Debtors falling due after more than one year	13	51	83	96	118
Current assets:					
Stocks	12	1,024	2,310	1,061	1,523
Debtors	13	4,647	5,365	4,989	6,373
Cash at bank and in hand	14	1,276	1,503	1,872	2,420
		6,947	9,178	7,922	10,316
Creditors (amounts falling due within one year)	15	(9,377)	(9,820)	(10,351)	(10,960)
Net current liabilities		(2,430)	(642)	(2,429)	(644)
Total assets less current liabilities		4,922	18,456	3,112	16,083
Provisions for liabilities and charges	16	(1,025)	(1,468)	(1,328)	(1,406)
		3,897	16,988	1,784	14,677
Taxpayers' equity:					
General fund	17	3,422	10,767	1,402	9,254
Revaluation reserve	18	475	6,221	382	5,423
		3,897	16,988	1,784	14,677

T J D Rollinson
Accounting Officer
13 July 2006

The notes on pages 32 to 51 form part of these accounts.

Consolidated Cash Flow Statement

for the year ended 31 March 2006

		<u>2005-06</u>	<u>2004-05</u>
	Note	£000	£000
Net cash outflow from operating activities	19(a)	(57,548)	(57,531)
Capital expenditure and financial investment	19(b)	(2,965)	(2,797)
Payments of amount due to Consolidated Fund	19(e)	(2,420)	(4,107)
Surplus cash surrendered to Consolidated Fund	19(e)	–	(57)
Financing	19(d)	62,016	62,748
Increase/(decrease) in cash in the period	19(e)	<u>(917)</u>	<u>(1,744)</u>

The notes on pages 32 to 51 form part of these accounts.

Consolidated Statement of Operating Costs by Departmental Aim and Objectives

for the year ended 31 March 2006

	<u>Gross</u>	<u>2005-06</u>	<u>Net</u>	<u>Gross</u>	<u>Restated</u>	<u>Net</u>
	£000	Income	£000	£000	2004-05	£000
		£000			Income	
					£000	£000
England Objectives						
Increase the contribution of forests and woodlands to local economies and rural development	36,531	(2,671)	33,860	36,756	(2,413)	34,343
Expand the role of woodlands in supporting the economic regeneration of former industrial land and disadvantaged communities	2,420	(414)	2,006	3,647	(1,363)	2,284
Promote public access to woods and forests and develop diverse recreational opportunities	15,271	(841)	14,430	12,404	(588)	11,816
Conserve and improve biodiversity, landscape and cultural heritage of our forests and woodlands	17,737	(2,401)	15,336	14,721	(1,612)	13,109
England Net Operating Costs	71,959	(6,327)	65,632	67,528	(5,976)	61,552
Great Britain Objective						
To take the lead in development and promotion of sustainable forest management and to support its achievement nationally	37,455	(23,086)	14,369	37,559	(24,669)	12,890
Great Britain Net Operating Costs	37,455	(23,086)	14,369	37,559	(24,669)	12,890
Great Britain/England Net Operating Costs	109,414	(29,413)	80,001	105,087	(30,645)	74,442

See note 20 for explanation of apportionments across objectives.

NOTES TO THE RESOURCE ACCOUNTS

1. STATEMENT OF ACCOUNTING POLICIES

These financial statements have been prepared in accordance with the 2005-06 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the *FReM* follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

In addition to the primary statements prepared under UK GAAP, the *FReM* also requires Forestry Commission Great Britain/England to prepare two additional primary statements. The *Statement of Parliamentary Supply* and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement. The *Statement of Operating Cost by Departmental Aim and Objectives* and supporting notes analyse Forestry Commission Great Britain/England's income and expenditure by the objectives agreed with Ministers.

Where the *FReM* permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of Forestry Commission Great Britain/England for the purpose of giving true and fair view has been selected. Forestry Commission Great Britain/England's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business by reference to their current costs.

1.2 Basis of preparation of accounts

These accounts reflect the assets, liabilities and results of the core-department Forestry Commission England and Forest Research together with international matters and topics which, though devolved, are agreed to be best delivered for Great Britain as a whole. Forest Enterprise England, an executive agency, is a public corporation for national accounting and as such is outside the boundary for resource accounting purposes. The Forest Enterprise England accounts are published separately in the Forestry Commission annual report and accounts for Great Britain/England with the net funding of Forest Enterprise England reflected in these accounts.

1.3 Tangible fixed assets

Legal ownership of all land and buildings is vested in the Secretary of State with legal ownership of the timber, including uncut trees, vested in the Forestry Commissioners. Where Forest Enterprise England is the principal beneficial user of the assets of the Forestry Commission estate they are treated as a fixed asset of the agency.

Legal ownership of other tangible fixed assets, primarily office equipment, is vested in the Forestry Commissioners.

Land and buildings

Land and buildings were assessed as at 31 March 2002 in accordance with our policy of revaluing at three-yearly intervals by professionally qualified staff employed by the Forestry Commission following the principles set out in the RICS Red Book. Valuation was on the basis of Open Market Value or Existing Use Value as appropriate under the RICS guidance. From 1 April 2002, land and buildings has been restated to current value annually using appropriate indices provided by the District Valuer.

Land and buildings were scheduled to be re-assessed as at 31 March 2005 in accordance with the three-yearly interval stated in the previous accounting policy. It has been decided, however, to bring the policy in line with UK GAAP and undertake a professional valuation of dwellings and other

buildings on a five-yearly basis with a formal review in the third year. The first five-yearly valuation will be undertaken at 31 March 2008 to coincide with the next full revaluation of the Forest Estate.

In 2004-05, professionally qualified staff employed by the Commission carried out a review into the use of the indices provided by the District Valuer. The review concluded that use of the indices provided a reasonable restatement of the current value of land and buildings. The indices were therefore used to restate values as at 31 March 2006 and will be used in each year until the professional valuation at 31 March 2008.

The normal threshold for capitalisation of buildings is £2,000.

Plant and machinery

Forestry vehicles, machinery and equipment are revalued every five years by professionally qualified staff employed by the Forestry Commission. They are restated to current value in the intervening years using valuations provided by internal professionally qualified staff for specialist forestry machinery and indices provided by the Office for National Statistics for all other assets.

The normal threshold for capitalisation of assets is £3,000.

Information technology (IT)

Information technology asset values are restated to current value each year using indices provided by the Office for National Statistics. The normal threshold for capitalisation of IT assets is £1,500. Items of IT, if treated singly would fall below the capitalisation threshold, but collectively represent a significant asset, are capitalised as a pooled asset.

Assets under construction

Assets under construction are carried at cost and are transferred to the appropriate fixed asset category when completed and ready for use.

1.4 Depreciation

Freehold land is not depreciated.

Depreciation is provided at rates calculated to write off the valuation of freehold buildings and other tangible fixed assets by equal instalments over their estimated useful lives. Lives are in the following ranges:

Buildings	–	20 to 80 years
Plant and machinery	–	up to 20 years
IT	–	4 to 20 years

Impairments of fixed assets are charged to the operating cost statement in the period in which they occur.

1.5 Intangible assets

Purchased software licences with an acquisition value of £5,000 or more are recognised as an intangible fixed asset. Assets are amortised over their expected useful economic life to a maximum of seven years. Management carries out an annual review of software and expected economic lives.

1.6 Stocks and work in progress

Stocks and work in progress are valued as follows:

- (a) finished goods and goods for resale are valued at cost or, where materially different, current replacement cost, and at net realisable value only when they either cannot or will not be used;
- (b) work in progress is valued at the lower of cost, including appropriate overheads, and net realisable value;

- (c) consumable materials and supplies held for continuing use are valued at cost or, where materially different, current replacement costs, and at net realisable value only when they either cannot or will not be used.

Work in progress on long term projects undertaken by Forest Research is valued at the cost of staff time and other direct costs plus attributable overheads based on the normal level of activity.

1.7 Provision for bad and doubtful debts

Specific provisions for bad and doubtful debts are set aside on the basis of a review of individual debts at the end of the year.

1.8 Research and development

As one of its Great Britain functions, the department commissions research from its Forest Research agency and through external contracts awarded by a variety of means including open tender. The Forestry Commission's research strategy, which is the subject of consultation with other government departments and external stakeholders, is published on the Forestry Commission website. All research and development expenditure is charged to the operating cost statement in the year.

1.9 Administrative and programme expenditure

The operating cost statement is analysed between administration and programme costs. Administration costs reflect the costs of running Forestry Commission Great Britain/England, together with associated operating income, and programme costs include payments of grants.

1.10 Grants payable

Grants payable to individuals and bodies by Forestry Commission in accordance with its statutory powers and duties are accounted for as they are approved for payment. No provision is made in the financial statements for grant offers made but not yet approved for payment.

1.11 European Union (EU) funding

The Forestry Commission acts as an agent of the EU for third party grants paid from Objective 1 and Woodland Grant Scheme payments made under the national European Agricultural Guarantee and Guidance Fund. Once grants become recognised, contributions from the EU are claimed. If grants are subsequently recovered because of failure to fulfil the conditions of the Woodland Grant Scheme, the amount of co-financing may be repayable to the EU.

1.12 Capital charges

Charges, reflecting the cost of capital utilised by the core department in England and Forest Research, have been included under Administration costs in the Operating Cost Statement. The charge is calculated at the Government's standard rate of 3.5% in real terms on the average carrying amount of all assets less liabilities, except for cash balances held by the Office of the Paymaster General and amounts due to be surrendered to the Westminster Consolidated Fund.

1.13 Value Added Tax (VAT)

The Forestry Commission is registered for VAT. In order to comply with government accounting regulations and normal commercial practice, income and expenditure shown in the operating cost statement is net of VAT. The Forestry Commission accounts for VAT on a Great Britain basis with any VAT due to or from HM Revenue and Customs at the year-end included in the Forestry Commission Great Britain/England accounts as a debtor or creditor in the balance sheet. Irrecoverable VAT is charged to the operating cost statement in the year in which it is incurred.

1.14 Insurance

In accordance with normal government accounting practice, the Forestry Commission carries its own insurance risks.

1.15 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. Forestry Commission Great Britain/England recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, Forestry Commission Great Britain/England recognises the contributions payable for the year.

Further information on pensions is contained in the Remuneration Report and note 5 to the accounts.

1.16 Provisions

Forestry Commission Great Britain/England provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cashflows are discounted using the real rate set by HM Treasury (currently 2.2%).

1.17 Operating leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

1.18 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, Forestry Commission Great Britain/England discloses for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of Government Accounting.

Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS 12 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

2. ANALYSIS OF NET RESOURCE OUTTURN BY SECTION

						Outturn	2005-06		2004-05
	Admin	Other current	Grants	Gross resource expenditure	A-in-A	Net Total	Net Total	Estimate Net Total	Prior-year outturn
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Request for resources 1									
To implement the programmes of the England Forestry Strategy									
Forestry Commission England DEL	–	64,519	–	64,519	(3,112)	61,407	62,480	1,073	55,574
Forestry Commission England non-budget	–	2,012	–	2,012	–	2,012	2,012	–	–
Total	–	66,531	–	66,531	(3,112)	63,419	64,492	1,073	55,574
Request for resources 2									
To take the lead in development and promotion of sustainable forest management and to support its achievement nationally									
Forestry Commission Great Britain DEL	–	13,427	943	14,370	–	14,370	17,457	3,087	12,891
Total	–	13,427	943	14,370	–	14,370	17,457	3,087	12,891
Resource Outturn	–	79,958	943	80,901	(3,112)	77,789	81,949	4,160	68,465

Explanations of the variances are given in the Management Commentary.

3. RECONCILIATION OF OUTTURN TO NET OPERATING COST AND AGAINST ADMINISTRATION BUDGET

(a) Reconciliation of net resource outturn to net operating cost

		2005-06 Outturn compared with Estimate	2004-05 Outturn
	Note	£000	£000
Net Resource Outturn	2	77,789	68,465
Forest Enterprise England depreciation		2,346	2,253
Forest Enterprise England net capital expenditure		(134)	3,724
Prior Period Adjustment		-	-
Non-supply income (CFERs)		-	-
Non-supply Expenditure		-	-
Net operating cost		80,001	74,442

(b) Outturn against final Administration Budget

	Budget	2005-06 Outturn	2004-05 Outturn
	£000	£000	£000
Gross Administration Budget	-	-	-
Income allowable against the Administration Budget	-	-	-
Net outturn against final Administration Budget	-	-	-

4. RECONCILIATION OF RESOURCES TO CASH REQUIREMENT

		Estimate	Outturn	Net total outturn compared with Estimate: saving/ (excess)
	Note	£000	£000	£000
Resource Outturn	2	81,949	77,789	4,160
Capital:				
Acquisition of fixed assets	10/11	790	2,967	(2,177)
Proceeds of fixed asset disposals		-	(2)	2
Investments		-	-	-
Non-operating cost A in A:				
Proceeds of fixed asset disposals		-	-	-
Accruals adjustments:				
Non-cash items	6	(1,070)	(2,530)	1,460
Changes in working capital other than cash		933	(33)	966
Changes in creditors falling due after more than one year		-	-	-
Use of provision	16	-	555	(555)
Timing between accrual and cash VAT		-	(1,044)	1,044
Non-cash inter-country transfers		-	11	(11)
Other adjustments:				
Adjustment of FE net deficit to financing	7	(20,586)	(17,200)	(3,386)
Net cash requirement		62,016	60,513	1,503

5. STAFF NUMBERS AND RELATED COSTS

5.1 Staff costs

Staff costs comprise:

Forestry Commission England	2005-06			2004-05
	Total	Permanently employed staff	Others	Total
				Total
£000	£000	£000	£000	
Wages and salaries	4,875	4,875	-	4,582
Social security costs	392	392	-	369
Other pension costs	898	898	-	615
Agency staff	89	-	89	87
Inward secondments	34	-	34	-
Total net costs	6,288	6,165	123	5,653

Further staff were employed on a Great Britain basis, which includes Great Britain Silvan House, Shared Services and Forest Research, to provide support to Forestry Commission activities in all three countries and to its agencies. The staff costs were:

Forestry Commission Great Britain	2005-06			2004-05
	Total	Permanently employed staff	Others	Total
				Total
£000	£000	£000	£000	
Wages and salaries	1,687	1,687	-	1,632
Social security costs	145	145	-	141
Other pension costs	313	313	-	213
Agency staff	1	-	1	-
Inward secondments	17	-	17	-
Total net costs	2,163	2,145	18	1,986

Forestry Commission Central Shared Services	2005-06			2004-05
	Total	Permanently employed staff	Others	Total
				Total
£000	£000	£000	£000	
Wages and salaries	6,853	6,853	-	7,132
Social security costs	540	540	-	559
Other pension costs	1,259	1,259	-	941
Agency staff	73	-	73	20
Inward secondments	-	-	-	40
Capitalised costs	(272)	(272)	-	(102)
Sub-total	8,453	8,380	73	8,590
Less recoveries in respect of outward secondments	(94)	(94)	-	(70)
Total net costs	8,359	8,286	73	8,520

Forestry Research	2005-06			2004-05
	Total	Permanently employed staff	Others	Total
				Total
£000	£000	£000	£000	
Wages and salaries	7,090	7,090	-	6,955
Social security costs	547	547	-	539
Other pension costs	1,277	1,277	-	904
Agency staff	-	-	-	1
Total net costs	8,914	8,914	-	8,399

Forestry Commission Great Britain/England	2005-06			2004-05
	Total	Permanently employed staff	Others	Total
	£000	£000	£000	£000
Total costs per Operating Cost Statement	25,818	25,604	214	24,628
Less recoveries in respect of outward secondments	(94)	(94)	–	(70)
Total net costs	25,724	25,510	214	24,558

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Forestry Commission is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation (by Hewitt Bacon Woodrow) was carried out as at 31 March 2003. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2005-06, employers' contributions of £3,740,000 were payable to the PCSPS (2004-05 £2,663,000) at one of four rates in the range 16.2% to 24.6% (2004-05 12% and 18.5%) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2006-07, the salary bands will be revised and the rates will be in a range between 17.1% and 25.5%. The contribution rates reflect benefits accruing during 2005-06 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a **partnership** pension account, a stakeholder pension with an employer contribution. Employers' contributions of £5,800 were paid to one or more of a panel of three appointed **stakeholder** pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £730, 0.8% of pensionable pay, were payable to the **PCSPS** to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the **partnership** pension providers at the balance sheet date were £nil. Contributions prepaid at that date were £nil.

5.2 Average number of persons employed

Staff numbers have been apportioned pro rata to the net expenditure on each objective. The average number of whole-time equivalent persons employed during the year was as follows.

Objective	2005-06			2004-05
	Total	Permanently- employed staff	Others	Total
	£000	£000	£000	£000
England				
Increase the contribution of forests and woodlands to local economies and rural development	93	92	1	95
Expand the role of woodlands in supporting the economic regeneration of former industrial land and disadvantaged communities	5	5	–	5
Promote public access to woods and forests and develop diverse recreational opportunities	41	40	1	34
Conserve and improve the biodiversity, landscape and cultural heritage of our forests and woodlands	44	43	1	36
England Total	183	180	3	170
Great Britain				
To take the lead in development and promotion of sustainable forest management and to support its achievement nationally	579	576	3	592

6. OTHER ADMINISTRATION COSTS

	Note	2005-06		2004-05	
		Core	Consolidated	Core	Consolidated
		£000	£000	£000	£000
Rentals under operating leases:					
Hire of plant and machines		568	568	328	328
Other operating leases		2,010	2,010	2,024	2,024
Research and development expenditure		943	3,241	1,102	3,312
Non-cash items:					
Cost of capital		116	557	21	430
Notional audit fees – audit work		53	53	50	50
Notional audit fees – non-audit work		–	–	–	–
Depreciation		649	1,220	572	1,090
Impairment		63	63	(1)	(1)
(Gains)/Losses on disposal of assets		4	14	7	7
VME revaluation reserve write off		6	6	–	–
Provisions					
Provided in year	16	179	558	444	444
Provisions not required written back	16	(6)	(6)	(174)	(174)
Unwinding of discount	16	60	65	36	36
		1,124	2,530	955	1,882
Other expenditure					
Cost of shared services		16,753	5,026	13,285	4,894
Computer costs		1,951	1,951	2,189	2,189
Travel and subsistence		1,135	1,135	1,220	1,220
Accommodation		1,899	1,899	1,904	1,904
Telecommunication		1,279	1,279	989	989
Premature retirement costs		292	292	521	521
Postage		142	142	161	161
Losses and compensation		115	115	113	113
Other		2,422	1,103	6,796	2,953
Total		30,633	21,291	31,587	22,490

Other administration costs includes the cost of shared central services provided to Forestry Commission England. Six areas of work are identified as shared services:

- Finance and accounting services
- Information and communications technology
- Human Resources, including forestry training services
- Communications
- Grants and licences
- Operational support services

For each of the shared services, a service board composed of ‘intelligent buyers’ from the countries, Forest Research and the service provider have joint accountability for the operation to ensure the needs of the customer and the wider organisation are met. Charges were made at regular intervals during the year with any non-material balances left with the service provider.

Business units covering mechanical and civil engineering and nurseries charge for their services under service level agreements agreed with their own service board. Expenditure is accounted for in each country at the time it was incurred.

The Forest Research Agency undertook a significant proportion of the Forestry Commission’s overall annual research programme in the form of specifically commissioned projects to deliver agreed outputs. A separate annual charge was agreed for each project based on full cost recovery. Costs established in one year are used to determine project charges for future years. The Agency also provided research and survey services for Forest Enterprise England and other parts of the Forestry Commission on a full cost recovery basis

7. PROGRAMME COSTS

	Note	2005-06		2004-05	
		Core £000	Consolidated £000	Restated Core £000	Restated Consolidated £000
Support for forestry and the rural economy, including grants paid to private woodland owners		14,056	14,056	15,093	15,093
Grants paid to private woodland owners from EU receipts		3,746	3,746	4,907	4,907
Other programme costs, including research and publications		2,297	4,986	872	3,484
Sub-total		20,099	22,788	20,872	23,484
Forest Enterprise England funding		39,517	39,517	34,485	34,485
Total		59,616	62,305	55,357	57,969

2004-05 was the first year in the Newlands 1 economic regeneration scheme, a scheme involving a number of partners with the objective of restoring former industrial land by creating community woodlands. The accounting of the scheme has been revised in 2005-06 and the prior year figures adjusted to reflect the change in accounting. The impact on the 2004-05 net operating cost is nil but there is a reduction in both programme expenditure and income of £873,000.

Forestry Commission Great Britain/England programme costs include Forest Enterprise England's deficit of £39,517,000 (2004-05 £34,485,000). After adjusting for non-cash transactions of £19,412,000 (2004-05 £17,713,000), Forest Enterprise received cash funding of £20,105,000 (2004-05 £16,772,000). To reconcile resource outturn to the net cash requirement in the Statement of Parliamentary Supply, the non-cash transactions are adjusted by Forest Enterprise England's net capital expenditure and depreciation to calculate the adjustment of Forest Enterprise England deficit to financing of £17,200,000 (2004-05 £11,736,000).

	2005-06 £000	2004-05 £000
Capital		
Net capital	(134)	3,724
Accruals adjustments		
Cost of capital	15,905	14,690
Non cash items	978	627
Changes in working capital, including cash	2,316	(625)
Changes in provision	347	(703)
Total cash adjustments (note 19a)	19,412	17,713
Adjust supply expenditure for Forest Enterprise net capital	134	(3,724)
Adjust supply expenditure for Forest Enterprise depreciation	(2,346)	(2,253)
Adjustment of FE deficit to financing (Statement of Parliamentary Supply)	17,200	11,736

8. INCOME

			2005-06	2004-05
			Total	Restated Total
			£000	£000
Shared central service charges			19,242	20,915
Other			1,278	993
Operating income			20,520	21,908
	RfR1	RfR2	Total	Total
EU receipts	3,746	998	4,744	6,040
Other Income	2,095	2,054	4,149	2,697
Programme income	5,841	3,052	8,893	8,737
Total income	-	-	29,413	30,645

2004-05 was the first year in the Newlands 1 economic regeneration scheme, a scheme involving a number of partners with the objective of restoring former industrial land by creating community woodlands. The accounting of the scheme has been revised in 2005-06 and the prior year figures adjusted to reflect the change in accounting. The impact on the 2004-05 net operating cost is nil but there is a reduction in both programme income and expenditure of £873,000.

Operating income includes income received by shared central services from Scotland, Wales and Forest Enterprise England whereas the income from Forestry Commission England and Forest Research is excluded because these entities are inside the resource account boundary.

9. ANALYSIS OF NET OPERATING COST BY SPENDING BODY

	Estimate	2005-06	2004-05
	£000	Outturn	Outturn
	£000	£000	£000
Forestry Commission Great Britain/England	81,949	80,001	74,442
Net Operating Cost	81,949	80,001	74,442

10. TANGIBLE FIXED ASSETS

	Land and Buildings	Plant and Machinery	IT	Payments on Account & Assets Under Construction	Total
	£000	£000	£000	£000	£000
Cost or valuation:					
At 1 April 2005	11,709	3,619	7,114	1,790	24,232
Additions	70	199	586	1,593	2,448
Transfers	(117)	24	86	(56)	(63)
Disposals	-	(1,109)	(698)	-	(1,807)
Revaluation to current prices	919	7	(34)	-	892
Impairment	-	(122)	(110)	-	(232)
At 31 March 2006	12,581	2,618	6,944	3,327	25,470
Depreciation:					
At 1 April 2005	1,009	2,403	5,562	-	8,974
Provided during year	263	158	524	-	945
Transfers	(11)	17	4	-	10
Disposals	-	(1,097)	(694)	-	(1,791)
Revaluation to current prices	54	5	(13)	-	46
Impairment	-	(122)	(47)	-	(169)
At 31 March 2006	1,315	1,364	5,336	-	8,015
Net Book Value at:					
31 March 2006	11,266	1,254	1,608	3,327	17,455
1 April 2005	10,700	1,216	1,552	1,790	15,258

Analysis of tangible fixed assets

The net book value of tangible fixed assets comprises:

Core 2006	1,215	22	1,284	3,327	5,848
Agency 2006	10,051	1,232	324	-	11,607
Core 2005	1,166	17	1,171	1,790	4,144
Agency 2005	9,534	1,199	381	-	11,114

Note 1 Accounting Policies sets out the basis on which fixed assets are revalued.

Land and buildings were scheduled to be re-assessed as at 31 March 2005 in accordance with the three-yearly interval stated in the previous accounting policy. It has been decided, however, to bring the policy in line with UK GAAP and undertake a professional valuation of land and buildings on a five-yearly basis with a formal review in the third year. The first five-yearly valuation will be undertaken at 31 March 2008 with annual updates in the intervening years based on indices provided by the District Valuer.

Plant and machinery were subject to a triennial revaluation as at 31 March 2005 by professionally qualified staff employed by the Forestry Commission. The next full revaluation is due as at 31 March 2008 with annual updates in the intervening years based on valuations provided by internal professionally qualified staff for specialist forestry machinery and indices provided by the Office for National Statistics for all other assets.

Information technology assets were restated to current value as at 31 March 2006 using an index provided by the Office for National Statistics.

11. INTANGIBLE FIXED ASSETS

Intangible fixed assets comprises of software licences.

	<u>2005-06</u>	<u>2004-05</u>
	£000	£000
Cost or valuation:		
At 1 April 2005	1,599	1,023
Additions	519	576
Disposals	–	–
Transfers	(30)	–
Revaluation to current prices	(8)	–
At 31 March 2006	<u>2,080</u>	<u>1,599</u>
Amortisation:		
At 1 April 2005	248	–
Provided during year	275	248
Disposals	–	–
Transfers	(3)	–
Revaluation to current prices	–	–
At 31 March 2006	<u>520</u>	<u>248</u>
Net Book Value at:		
31 March 2006	<u>1,560</u>	<u>1,351</u>
1 April 2005	<u>1,351</u>	<u>1,023</u>

Analysis of intangible fixed assets

The net book value of intangible fixed assets comprises:

Core 2006	1,453	
Agency 2006	107	
<hr/>		
Core 2005		1,301
Agency 2005		50

12. STOCKS AND WORK IN PROGRESS

	2005-06		2004-05	
	<u>Core</u>	<u>Consolidated</u>	<u>Core</u>	<u>Consolidated</u>
	£000	£000	£000	£000
Stocks	1,024	1,024	1,061	1,061
Raw materials and work in progress	–	1,286	–	462
Total	<u>1,024</u>	<u>2,310</u>	<u>1,061</u>	<u>1,523</u>

13. DEBTORS**(a) Analysis by type**

	Core	2005-06 Consolidated	Core	2004-05 Consolidated
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Amounts falling due within one year:				
VAT	2,458	2,458	2,305	2,305
Trade debtors	1,311	1,836	1,988	3,163
Other debtors	52	75	84	92
Prepayments	826	996	612	813
	4,647	5,365	4,989	6,373

	Core	2005-06 Consolidated	Core	2004-05 Consolidated
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Amounts falling due after more than one year:				
Other debtors	51	83	96	118
Total	51	83	96	118

(b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2005-06	2004-05	2005-06	2004-05
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Balances with other central government bodies	3,054	2,657	–	–
Balances with local authorities	10	–	–	–
Balances with NHS Trusts	–	–	–	–
Balances with public corporations and trading funds	–	–	–	–
Intra-government balances	3,064	2,657	–	–
Balances with bodies external to government	2,301	3,716	83	118
Total debtors at 31 March	5,365	6,373	83	118

14. CASH AT BANK AND IN HAND

	Core	2005-06 Consolidated	Core	2004-05 Consolidated
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Balance at 1 April	1,872	2,420	3,652	4,164
Net change in cash balances	(596)	(917)	(1,780)	(1,744)
Balance at 31 March	1,276	1,503	1,872	2,420
The following balances at 31 March are held at:				
Balance with Office of Paymaster General	1,276	1,276	1,872	1,872
Cash at commercial banks and cash in hand	–	227	–	548
Balance at 31 March	1,276	1,503	1,872	2,420
Amounts issued from the consolidated fund for supply but not spent at the year end	1,276	1,503	1,872	2,420

15. CREDITORS

(a) Analysis by type

	Core	2005-06 Consolidated	Core	2004-05 Consolidated
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Amounts falling due within one year:				
Other taxation and social security	1,955	1,955	2,050	2,050
Trade creditors	3,922	4,304	3,566	3,877
Other creditors	1,198	1,209	59	60
Accruals and deferred income	799	799	2,256	2,256
Payments received on account	-	50	-	297
Amounts issued from Westminster consolidated fund (supply) but not spent at year end	1,503	1,503	2,420	2,420
Total	<u>9,377</u>	<u>9,820</u>	<u>10,351</u>	<u>10,960</u>

Forest Enterprise England acts as co-ordinator for the Interreg Project which is funded by the European Union. The purpose of the Interreg Project is the promotion and guidance of recreation and conservation in forestry. The duties of co-ordinators include receiving EU funds on behalf of partners for onward transmission once work programmes have been approved. As third party assets these sums are not recorded on the face of these accounts. At 31 March 2006 the amount held in Forestry Commission bank accounts on behalf of partners was 106,000 Euros. This has subsequently all been transferred to the partners concerned.

Amounts held in Forest Research bank accounts on behalf of partners in European Commission projects at 31 March 2006 was £27,000. This has subsequently all been transferred to the partners concerned.

(b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2005-06	2004-05	2005-06	2004-05
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Balances with other central government bodies	4,783	5,531	-	-
Balances with local authorities	299	-	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	15	-	-	-
Intra-government balances	5,097	5,531	-	-
Balances with bodies external to government	4,723	5,429	-	-
Total creditors at 31 March	<u>9,820</u>	<u>10,960</u>	<u>-</u>	<u>-</u>

16. PROVISION FOR LIABILITIES AND CHARGES

	Early departure costs	
	Core	Consolidated
	£000	£000
Balance at 1 April 2005	1,328	1,406
Provided in the year	179	558
Provisions not required written back	(6)	(6)
Utilised in the year	(536)	(555)
Unwinding of discount	60	65
Balance at 31 March 2006	1,025	1,468

Early departure costs

Forestry Commission Great Britain/England meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. Forestry Commission Great Britain/England provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the Treasury discount rate of 2.2% in real terms.

17. GENERAL FUND

	2005-06		2004-05	
	Core	Consolidated	Core	Consolidated
	£000	£000	£000	£000
Balance at 1 April	1,402	9,254	(1,971)	4,955
Net operating cost for the year	(79,651)	(80,001)	(74,415)	(74,442)
Net Parliamentary funding	62,554	62,016	62,341	62,748
Forest Enterprise England non-cash adjustments	19,412	19,412	17,713	17,713
Notional cost of capital	116	557	21	430
Transfer of fixed assets from/to other forestry bodies	6	(100)	-	113
Realised element of revaluation reserve	7	46	-	-
Timing between accrual and cash VAT	1,037	1,044	-	-
Non-cash inter-country transfers	(11)	(11)	83	107
Notional audit fees	53	53	50	50
Amounts issued from the Consolidated Fund for supply but not spent at year end	(1,503)	(1,503)	(2,420)	(2,420)
Balance at 31 March	3,422	10,767	1,402	9,254

18. REVALUATION RESERVE

	2005-06		2004-05	
	Core	Consolidated	Core	Consolidated
	£000	£000	£000	£000
Balance at 1 April	382	5,423	336	4,973
Arising on revaluation during the year	94	838	46	450
Realised element of revaluation reserve	(7)	(46)	-	-
Write-off	6	6	-	-
Balance at 31 March	475	6,221	382	5,423

19. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating cost to operating cash flows

		<u>2005-06</u>	<u>2004-05</u>
	Note	£000	£000
Net operating cost	9	80,001	74,442
Adjustments for non cash transactions	6	(2,530)	(1,882)
Timing between accrual and cash VAT		(1,044)	–
Non-cash inter-country transfers		11	(107)
Forest Enterprise England non-cash adjustments		(19,412)	(17,713)
Increase/(decrease) in stock		787	(40)
Increase/(decrease) in debtors		(1,043)	(153)
(Increase)/decrease in creditors		1,140	4,048
less movements in creditors relating to items not passing through OCS		(917)	(1,744)
Use of provisions	16	555	680
Net cash outflow from operating activities		<u>57,548</u>	<u>57,531</u>

(b) Analysis of capital expenditure and financial investment

		<u>2005-06</u>	<u>2004-05</u>
	Note	£000	£000
Tangible fixed assets additions	10	2,448	2,221
Intangible fixed assets additions	11	519	576
Proceeds of disposal of fixed assets		(2)	–
Loans to other bodies		–	–
Repayment of loans to other bodies		–	–
Net cash outflow from operating activities		<u>2,965</u>	<u>2,797</u>

(c) Analysis of capital expenditure and financial investment by Request for Resources

	<u>Capital expenditure</u>	<u>Loans</u>	<u>A in A</u>	<u>Net total</u>
	£000	£000	£000	£000
Request for resource 1	79	–	–	79
Request for resource 2	2,886	–	–	2,886
Net movement in debtors/creditors	–	–	–	–
Total 2005-06	<u>2,965</u>	<u>–</u>	<u>–</u>	<u>2,965</u>
Total 2004-05	<u>2,797</u>	<u>–</u>	<u>–</u>	<u>2,797</u>

(d) Analysis of financing

		<u>2005-06</u>	<u>2004-05</u>
	Note	£000	£000
From the Consolidated Fund	17	62,016	62,748
Net financing		<u>62,016</u>	<u>62,748</u>

(e) Reconciliation of Net Cash Requirement to increase/(decrease) in cash

		<u>2005-06</u>	<u>2004-05</u>
	Note	£000	£000
Net cash requirement		(60,513)	(60,328)
From the Consolidated Fund (Supply)	19(d)	62,016	62,748
Payment of amount due to Consolidated Fund		(2,420)	(4,107)
Surplus cash surrendered to Consolidated Fund		–	(57)
Increase/(decrease) in cash		<u>(917)</u>	<u>(1,744)</u>

20. NOTE TO THE CONSOLIDATED STATEMENT OF OPERATING COSTS BY DEPARTMENTAL AIM AND OBJECTIVES

Expenditure in the schedule comprises the direct costs incurred by Forestry Commission England's national office and payments made for centrally provided services. An analysis was undertaken to determine the costs attributable to each of the objectives for the core department. In a multi-benefit forestry strategy where many activities will contribute to more than one objective, the allocation of costs has been undertaken by senior staff in each area based on an informed judgement of each activity.

21. CAPITAL COMMITMENTS

There were no contracted capital commitments at 31 March 2006.

22. COMMITMENTS UNDER OPERATING LEASES

Operating leases

Operating lease rentals are charged on a straight-line basis over the term of the lease. Commitments on operating leases for the next year are as follows:

	2005-06		2004-05	
	Core	Consolidated	Core	Consolidated
	£000	£000	£000	£000
Building leases expiring within:				
One year	42	42	63	63
Two to five years	311	311	–	–
More than five years	1,650	1,650	1,961	1,961
Total	2,003	2,003	2,024	2,024
Other leases expiring within:				
One year	–	–	93	93
Two to five years	261	261	235	235
More than five years	10	10	–	–
Total	271	271	328	328

23. OTHER FINANCIAL COMMITMENTS

Planting and replanting grants

Following approval of a management plan for planting proposals Forestry Commission England undertakes to pay planting grants in two instalments. Replanting grants are payable in one instalment. At 31 March 2006, Forestry Commission England was committed under draft and signed contracts to the payment of future instalments of planting and replanting grants amounting to £20 million (2004-05 – £12.3 million signed contracts).

Existing woodlands

Grants for the management of existing woodlands are payable annually in arrears during the 5-year currency of an approved plan, provided specific objectives are met. Grants, which support capital investment work to improve public benefits from woodlands, including planning grants, are usually payable in one instalment. Forestry Commission England was committed under draft and signed contracts to the payment of future instalments of grants which support existing woodlands amounting to £11.9 million at 31 March 2006 (2004-05 – £18 million signed contracts).

24. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2006 (£nil at 31 March 2005).

25. LOSSES AND SPECIAL PAYMENTS

	2005-06		2004-05	
	Number	£000	Number	£000
Losses total	75	196	22	44
Special payments total	25	23	23	25

26. RELATED PARTY TRANSACTIONS

Forestry Commission England's executive agency Forest Enterprise England is regarded as a related party. During the year, Forestry Commission England has had a significant number of material transactions with Forest Enterprise England.

In addition, Forestry Commission Great Britain/England has had various material transactions with other government departments and other central government bodies. The main entities within government with which the Forestry Commission has had dealings are H M Treasury, UK Co-ordinating Body, the Paymaster General's Office, HM Revenue and Customs, the Department for the Environment, Food and Rural Affairs, the Office of the Deputy Prime Minister, the North West Development Agency and Yorkshire Forward.

The husband of Judith Webb, a non-executive member of the National Committee for England, received a Woodland Grant of £420.

In the year to 31 March 2006, Forest Enterprise England entered into material transactions involving Martin Gale, a non-executive Forestry Commissioner. At 31 March 2006, Martin Gale was Chairman of Tilhill Forestry and Vice President, International Forestry, UPM-Kymmene Corporation. UPM-Kymmene is the parent company of Shotton Paper, Caledonian Paper and Tilhill Forestry Ltd. Tilhill Forestry has an interest in BSW Timber plc.

The value of purchases from Forest Enterprise England was:

BSW Timber plc	£1,501,000
Tilhill Forestry	£1,089,000

Amounts owing to Forest Enterprise England at 31 March 2006 were:

BSW Timber plc	£231,000
Tilhill Forestry	£36,000

Professor Jim Lynch, Chief Executive of Forest Research, is distinguished Professor of Life Sciences at the University of Surrey. The value of payments to the University for services provided in the year to 31 March 2006 was £48,000. Sam Evans and Peter Freer-Smith hold visiting professorships at the Universities of Sheffield and Southampton respectively, with which £12,000 and £7,000 was spent on research services. Other members of staff hold professorships at UK and foreign universities but no financial transactions took place with these in 2005-06.

27. FINANCIAL INSTRUMENTS

FRS 13, *Derivatives and Other Financial Instruments*, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which government departments are financed, Forestry Commission Great Britain/England is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed

companies to which FRS 13 mainly applies. The department has no powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities and are held not to change the risks facing the department in undertaking its activities.

As permitted by FRS 13, debtors and creditors which mature and become payable within 12 months from the balance sheet date have been omitted from the liquidity profile.

Liquidity risk

The UK Government makes provision for the use of resources by Forestry Commission Great Britain/England, for revenue and capital purposes, in its budget for each financial year. Resources and accruing resources may be used only for the purposes specified and up to the amounts specified in the budget. The budget also specifies an overall cash authorisation to operate for the financial year. Forestry Commission Great Britain/England is not, therefore, exposed to significant liquidity risks.

Interest-rate risk

Forestry Commission Great Britain/England is not exposed to interest-rate risk.

Foreign currency risk

Forestry Commission Great Britain/England is not exposed to foreign currency risk.

Fair Values

There is no difference between book value and fair value for the cash at bank shown in Note 14. Fair value for the provisions shown in Note 16 is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted by the Treasury rate of 2.2% in real terms.

28. ENTITIES WITHIN THE DEPARTMENTAL BOUNDARY

The entities within the boundary during 2005-06 were as follows:

(a) Supply-financed agencies:

Forest Research Agency, which incurred a net deficit of £350,000.

(b) Non-executive NDPBs:

None

(c) Other entities:

None

The annual reports and accounts of the Forest Research Agency are published separately.

ACCOUNTS DIRECTION GIVEN BY THE TREASURY IN ACCORDANCE WITH SECTION 5(2) OF THE GOVERNMENT RESOURCES AND ACCOUNTS ACT 2000

1. This direction applies to those government departments and pension schemes listed in the attached appendix.*
2. These departments and pension schemes shall prepare resource accounts for the year ended 31 March 2006 in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual issued by H M Treasury ("the FReM") which is in force for 2005-06.
3. The accounts for **government departments** shall be prepared so as to:
 - (a) give a true and fair view of the state of affairs at 31 March 2006 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year then ended; and
 - (b) provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.
4. The accounts for **pension schemes** shall be prepared so as to:
 - (a) give a true and fair view of the state of affairs at 31 March 2006 and of the net resource outturn and cash flows for the financial year then ended; and
 - (b) provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.
5. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with the Treasury.

David Cruden FCA

Head of Central Accountancy Team, Her Majesty's Treasury
13 January 2006

* The Forestry Commission was one of the departments listed in the appendix which is referred to.

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