



THE NATIONAL
FOREST



Annual Report and Accounts 2008 – 09

National Forest Company Annual Report and Accounts 2008 – 09

Presented to Parliament by the Secretary of State for Environment, Food and Rural Affairs in pursuance of section 25(10) of the Government Resources and Accounts Act 2000 (Companies) Order 2008.

Ordered by the House of Commons to be printed on 14 July 2009



The National Forest Company leads the creation of The National Forest, a new wooded landscape across 200 square miles of central England.

This ambitious objective is being achieved through working partnerships with landowners, businesses, public, private and voluntary organisations and local communities.

The National Forest Company was established by Government in 1995. The company is limited by guarantee (registered number 2991970) and sponsored by the Department for Environment, Food and Rural Affairs (Defra).

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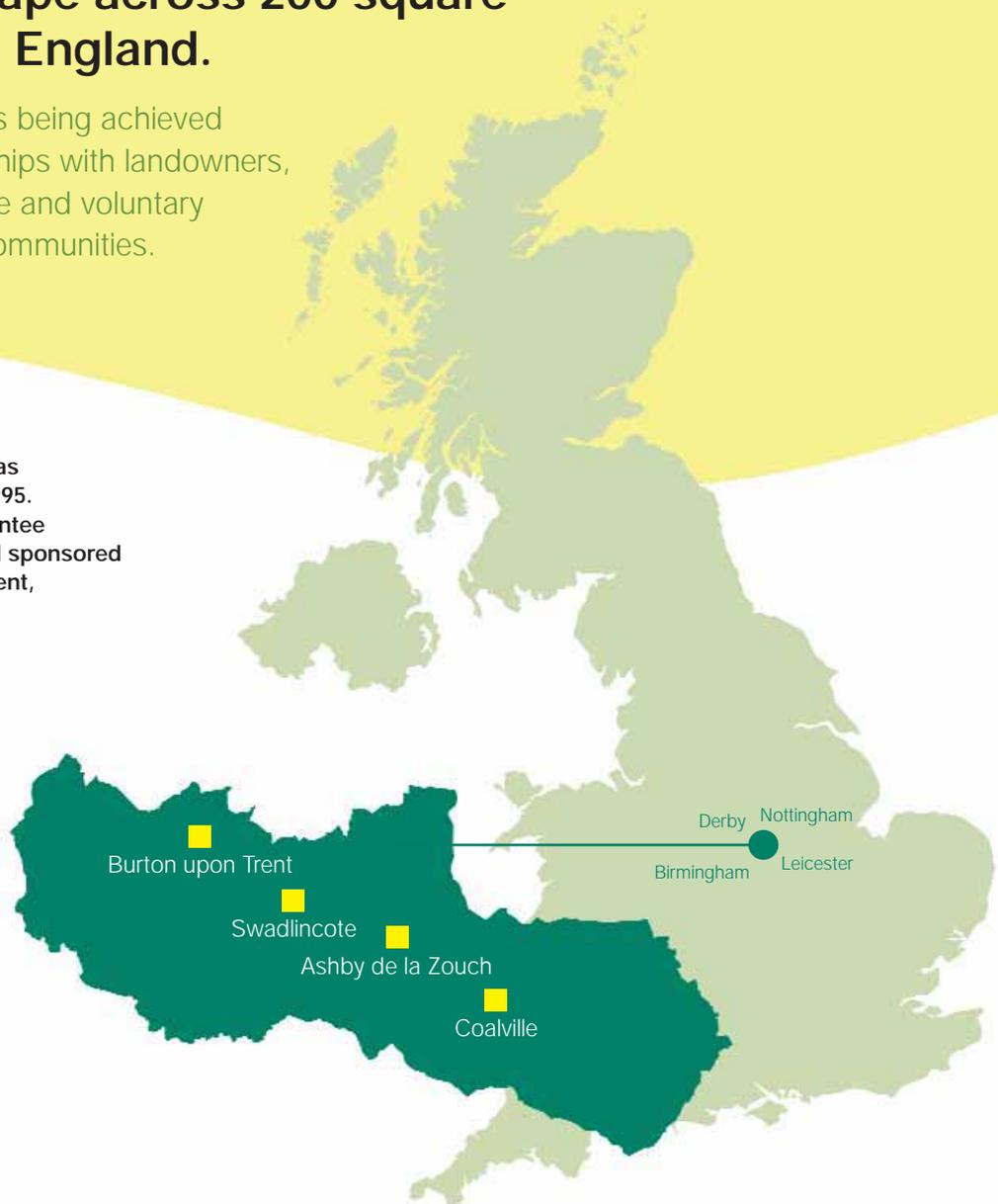
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ISBN: 9 78 010296 1058



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It is a pleasure to introduce this Annual Report.

I shall remember 2008 – 2009 as the year in which affection for and pride in The National Forest was restated clearly and with passion by friends and partners, as we reviewed our progress and looked to the future. Over 1,000 residents contributed to our consultation on the next five years and their deep appreciation of the quality of life provided by The National Forest is an immense encouragement to us all.

Out of the consultation we have an ambitious and exciting plan for The National Forest to 2014. Excellent progress against the strategy was confirmed and the outcomes of the review achieved a consensus at all levels.

Activity to 2014 is captured in five key messages:

- (i) **Keep creating The National Forest (Forest creation)**
- (ii) **Make the most of what we've got (Quality)**
- (iii) **Communities at the heart (Participation)**
- (iv) **Telling the story (Communication)**
- (v) **A national showcase (Research and exemplar role)**

This gives us a balanced framework of activity for the next five years, fully supported by partners.

One challenge evident in the year is to continue creating The National Forest when the availability of land for planting is, for a number of reasons, tight. Forest cover is now at around 18%, against a target of about a third. Therefore, whilst few respondents to our consultation felt that the pace of Forest creation is a critical issue, our commitment to landscape transformation must remain for the foreseeable future. The target for annual Forest creation will reduce to 200 – 250ha (still described as 'heroic' by one organisational respondee) and we will be developing further our techniques for sensitive, imaginative and ambitious Forest creation, including connecting up the Forest where appropriate.

I am very glad to acknowledge the support of Defra, this year in particular, taking an active part in our review throughout and a real interest in its outcomes. We were delighted to have the enthusiastic support of Huw Irranca-Davies, Minister for the Natural and Marine Environment, at the launch of the Delivery Plan to 2014.

Whilst fully aware of the pressures on partners, whom I thank for their continuing commitment, we look forward to the coming year, armed with a clear onward direction and confidence in how we achieve the next stage in creating The National Forest.

Dinah Nichols
Chair

Chair's Foreword



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1: Bluebells at Willesley Wood. 2: Promoting the Forest and celebrating the town's heritage as part of the refurbishment of Burton upon Trent railway station (*Darren Cresswell*). 3: Cuckoo flower. 4: Employee engagement as part of Lloyds TSB Autolease sponsorship (*NFC*). 5: NFC Chair with Minister, Huw Irranca-Davies, planting a tree at the National Forest Youth Hostel (*Darren Cresswell*).



Performance against targets

This was another strong year against targets, with the vast majority achieved or exceeded. The tables in the next section provide a succinct but comprehensive account of activity.

Where there is work in progress, for example on woodfuel, the long-term nature of this activity is acknowledged: but at the end of 2008/09, in all areas activity has moved forward.

As in the previous year and as outlined by the Chair, the only major target not achieved was Forest creation: land availability for purchase and planting was low and the Changing Landscapes Scheme was new to potential participants. 121ha of new Forest creation was achieved, against a target of 150ha.

Accepting the absence of further land to acquire, Directors therefore agreed the purchase of 45ha of existing woodland in the Heart of the Forest as part of the strategic plan to create a high quality, coherent park in the centre of The National Forest.

Headline achievements

Significant activity in the year included:

- **The National Forest recognised as one of the first three UK examples of the European Landscape Convention.**
- **The Woodland Owners' Club re-established, as a driver for good woodland management, including dealing with pests and diseases.**
- **A comprehensive bird survey completed, applying national surveying methods.**
- **Further high quality visitor signage and furniture installed in the East and West Midlands. (The tourism economy was confirmed as being worth more than £260m a year).**
- **The first National Forest Walking Festival, supported by the National Forest Company.**

Sustainability and the long term

It is the ambition of the National Forest Company to be an exemplar of sustainability in all its aspects. Currently this means that there is the demand both to continue to create the Forest and at the same time invest in everything that makes the most of this growing asset: this will put a demand on finite resources and skills are being developed within the team to accommodate new requirements. More is being achieved despite a real reduction in the already slim running costs budget.

More was invested in our fundraising capacity, putting in place professional systems for the future; individuals and smaller businesses continued to engage with the Forest despite the recession.

The National Forest Company continued to control its energy use and to consider sustainability in its contracting and procurement.

Summary: pride in progress, re-orientation for the future

All relatively long-term projects have a moment – or period – in which more of the same will not achieve the original objectives.

This year the National Forest Company and its partners can take justifiable pride in progress made to date and the value placed in the Forest. But the bigger success has been together to take an honest and yet optimistic look at how the Forest can be taken forward in changing times.

The answer? To do our core business of Forest creation so that each tree counts for more; and to focus firmly on the long-term benefits and learning to be accrued from this pre-eminent example of an emerging visitor destination and sustainable development in practice.

On behalf of my stalwart, industrious and supportive colleagues, I thank Directors, partners and our funders at Defra for much valued collaboration and support in a creative year.

Chief Executive's Review of the Year



Above: Newly planted woodland at Pick Triangle, Heart of the National Forest.



Achievements against objectives and targets agreed for 2008/09

Key Objective 1: Forest creation

Forest creation was the single most challenging aspect of 2008/09. A buoyant agricultural market and a new grant scheme just bedding in resulted in a shortfall of 29ha against the lower end of the target range (150ha). Only a limited amount of land came on the market for acquisition and, when it did, in some cases prices exceeded NFC independent valuations.

However it was encouraging that the new Changing Landscapes Scheme generated 11 new sites, over 50ha of new Forest sites and considerable enthusiasm from those who participated in it. This can be built on in 2009/10.

Strategic acquisition of already planted sites will always be a small part of National Forest Company expenditure, but it has its place where connectivity, improved access and better management can be secured. Thus it was pleasing to acquire 45ha of strategically significant existing woodland in the Heart of the National Forest.

In 2009 the National Forest Company has a higher Forest creation target to achieve than was met in 2008, despite the overall annual target reducing compared with the assumptions of the 2004 – 2014 Forest Strategy. As an outcome of the strategic review, the Company will redouble its efforts through a range of mechanisms and through targeting opportunities.

Objective: To secure further Forest creation, contributing to the delivery of targets contained within the Forest Strategy 2004 – 2014 and the National Forest Biodiversity Action Plan.

Targets	Progress
Achieve 150 – 200ha of new Forest creation and 50ha of nature conservation sites.	Not achieved (new Forest creation). Exceeded (nature conservation sites) 121ha of new Forest creation achieved. 58ha of nature conservation sites secured.
Pursue land acquisition opportunities.	Achieved (but little land available to secure) Active pursuit. 14ha secured. In addition, 45ha of strategically significant existing woodland secured.
Introduce and promote the Changing Landscapes Scheme (CLS), launching in time for the 2008/09 planting season.	Achieved New scheme launched and promoted. 11 schemes covering 51ha approved and being implemented.

Key Objective 1



Above: Bignall's Wood, Staunton Harold.



Key Objective 2: Forest quality and sustainable management

This is an increasingly important area for activity and programmes by the National Forest Company and its partners. Its significance to consultees in the strategic review was also considerable, from funders to local communities.

The Woodland Owners' Club succeeds the earlier Tender Scheme Winners' Club, with a focus on good woodland management. In the course of the first meeting a landowner was heard to say 'Now I know what a good tree looks like': this learning will be built on. Feanedock Covert in the Heart of the National Forest is being used as a demonstration of good silvicultural practice and this will be invaluable as a means of sharing how landowners can maximise the potential value of woodlands owned by landowners in the Forest. At the same time the National Forest Company recognises the range of approaches to management by the diverse landowners within the Forest: management for biodiversity will sit alongside more commercial considerations.

The National Forest Company enjoys wide collaboration with the Forestry Commission, including in site management and development and community involvement. It is pleasing to be developing with Forestry Commission colleagues a sustained approach to management of existing woodland.

There is no room for complacency about pests and diseases in the Forest and in 2008/09 progress has been made both in an overall assessment of risks from pests and diseases and in taking forward a targeted, humane and proportionate approach to squirrel control. This will begin to be implemented in 2009 and close monitoring will also take place regarding other risks.

Following earlier work to track national sustainable development indicators for The National Forest, bird populations have been monitored through a major survey and this will be repeated.

Objective: To achieve a high quality, sustainable National Forest.

Targets	Progress
Re-establish a National Forest Woodland Owners' Club for marketing, networking and promoting good practice – two meetings to be held in 2008/09.	Achieved
Recognising the emphasis on national strategy on woodland management, work closely with FC on the targeting of existing woodland in need of management – agree a joint approach by December 2008.	Ongoing Programme agreed in principle, with funding and in kind support from FC.
Use an NFC site to demonstrate best practice in the management and improvement of young woodlands and interpret it to visitors.	Achieved Management plans prepared for existing woodland on NFC site.
Take forward findings from State of the Forest surveys, including those in relation to squirrel and deer management and tree health, providing advice to landowners on good practice. Hold a dissemination/advice event on squirrels and develop an action plan.	Achieved <i>Squirrels</i> – Action plan developed, with expert partners. <i>Deer</i> – Programme of work developed with the Deer Initiative. Population monitoring undertaken. <i>Tree Health</i> – Monitoring report distributed to forestry organisations.
Complete a Forest-wide bird survey with British Trust for Ornithology (BTO), reflecting the findings of the sustainable development exemplar report 2007.	Achieved Comprehensive survey undertaken across the Forest area by BTO and results disseminated.
Research community perceptions, as part of the mid strategy review and reflecting the findings of the sustainable development exemplar report 2007.	Achieved Community perceptions study and Citizens' Panel surveys undertaken. 1,200 community views canvassed.

Key Objective 2



Above: Felling an oak at Feanedock Covert: as part of forest management this allowed better trees the space to grow, opened a way through the woods and provided timber (*Darren Cresswell*).

Opposite page: Bullfinch, a threatened species flourishing in The National Forest (*Rosie Rees/BTO*).



Key Objective 3: Climate Change

Nationally, policy work on forestry and climate change is more evolutionary than certain and responsibilities are still bedding down with key partners. In this context, the National Forest Company has primarily been concerned to ensure that its silviculture is consistent with emerging best practice and that it contributes to knowledge about future trends.

A new research project testing species tolerance was formally agreed with Forest Research and our approach to local provenance continues to evolve to meet changing knowledge.

In addition, pioneering work to identify areas in which to target connectivity will enable an approach to climate change resilience through largescale habitat creation, as well as contributing to Forest creation.

In working with business sponsors, the National Forest Company has continued to benefit from a careful and evidenced approach to how tree planting can contribute to carbon mitigation.

Objective: To demonstrate a leadership role in responding to climate change, both in forest creation practice and in work with other forestry organisations to develop a national approach to domestic forestry and climate change.

Targets	Progress
Contribute to best practice in forestry for climate change adaptation and mitigation, and help to develop a clearer national policy.	Achieved New national research initiative formally agreed with Forest Research to trial tree provenances linked to future climate change.
Undertake habitat creation and management to promote a resilient landscape, including piloting habitat connectivity, for a resilient landscape.	Achieved Data inputting to the habitat connectivity GIS system is complete. Research undertaken to assess how connectivity principles could be applied and what incentives landowners require.
With FC, continue to build the demand for woodfuel and seek new commitments to installations.	In progress Presentations made to interested parties, detailed discussions with National Trust. Proposal for partnership working with FC agreed. Two schemes committed and other feasibility studies undertaken for further installations.
Continue to monitor the efficiency and sustainable practice of the NFC and where possible reduce its carbon footprint. Review options for further improvements to the Company's sustainability practice.	Achieved Sustainability in procurement strengthened via contracts. Continuing efforts to control electricity consumption and waste and secure/monitor savings on staff mileage. Telephone conferencing used more regularly.

Key Objective 3



Above: National Forest plantations provide valuable links between mature woodlands that allow woodland species to expand and adapt their ranges as our climate changes (*Image courtesy of Leicestershire County Council*).

Opposite page: Extracting thinnings using a mini-forwarder (*NFC*).



Key Objective 4: Sustainable Economic Development

One clear outcome of the review was the consensus that likely development pressures on The National Forest have to be shaped to benefit and not undermine the green infrastructure already created in and by The National Forest.

It is therefore time to renew ambitions about the quantity and quality of green infrastructure that should accompany development in The National Forest. In 2008, planning colleagues agreed to increase the percentages of greenspace expected within The National Forest as a result of development. In principle agreement was secured for a shared framework for green infrastructure across local authorities, in the context of growth, and this will be taken forward.

Locally sourced woodfuel is a significant part of the contribution The National Forest can make to climate change mitigation and also to the Forest's economy. The domestic market for logs, along with community and other facilities for chips, have been further stimulated this year; a woodland economy programme in conjunction with the Forestry Commission and, it is hoped, emda, will give further impetus from 2009.

The National Forest as a sustainable tourism destination continues to gather pace. For the first time this year short breaks were developed with Leicester Shire Promotions and in the West and East Midlands further high quality signage and furniture contributed to the visitors' experience.

The National Forest Wood Fair broke previous records for stall holders and attendees. A strong partnership with Leicestershire County Council makes this one of the more resilient wood fairs in the country.

Objective: To realise the economic potential of the Forest, building on its environmental foundations, and to consolidate the sustainable development achieved to date.

Targets	Progress
Take a leadership role on development proposals which impact on the sustainability of the Forest, including promoting green infrastructure within Growth Point proposals, working towards the production of a growth and design framework across the Forest. Promote an NFC position statement on development in The National Forest, in the context of the growth points, and make progress towards a framework with partners.	Achieved National Forest Company actively involved in both Growth Points. Agreement with local authorities on shared ambition to move towards a growth and design framework.
With partners, develop the next phase of the woodland economy, linking forestry-based and sustainable tourism businesses. Produce revised action plan by end of September 2008.	Achieved Plans underway for the next phase of the woodland economy work. An interim grants programme has been operated resulting in 12 grants and 2 NFC partnership projects, totalling £69,650.
Continue to develop The National Forest as a sustainable tourism destination, including the development and promotion of short breaks – complete Visitor Infrastructure Project (VIP) in the West Midlands.	Achieved VIP project funded by Advantage West Midlands completed. Phase 2 of emda funded project underway. Themed breaks launched and promoted in partnership with Leicester Shire Promotions.
Work with LCC to deliver a successful 4th National Forest Wood Fair – attract 85 exhibitors, of which 30 are fee paying, and 3,500 visitors.	Exceeded (total exhibitors and attendees) Not achieved (fee paying exhibitors) 80 wood based exhibitors and 14 food related exhibitors. Over 3,500 visitors attended. 17 fee paying exhibitors.

Key Objective 4



Above: National Forest Wood Fair, a key event for the promotion of the developing woodland economy.

Opposite page: Signage and interpretation installed as part of the Visitor Infrastructure Project.



Key Objective 5: Access, participation and learning

Increasing the profile of walking was a key focus during the year. Improved walking leaflets were produced and the walking section of the website expanded to make reference to around 60 additional walks provided by partners.

In an exciting year for access, the Conkers circuit, an 8km trail in the Heart of the Forest, was substantially completed and plans were laid for a long distance trail across the Forest. Initial steps were taken towards a high quality cycling centre and trail.

Finally, it is pleasing to see that participation continues to grow: the objective and achievement of progress against targets only tracks known numbers at visitors' centres and in programmes in which the National Forest Company is directly involved. 'Tree for All', through which children exercise an entitlement to plant a tree, saw major growth in numbers this year. We were glad to work with Groundwork on an inclusion project with participants from Leicester.

Objective: To make further improvements to access and participation in the Forest, broadening the range of people using and enjoying it.

Targets	Progress
Achieve 125 – 185ha of new or planned public access.	Achieved 178ha achieved.
Develop partnership and funding opportunities, and engage landowners, to progress the long distance trail, Conkers circuit and, subject to the outcome of an options study, a cycle centre and trail. An implementation plan for the long distance trail to be produced by March 2009.	Achieved The CONKERS Circuit, a £1.1m project to create an 8.5km hard surfaced walking and cycling trail around the Heart of the Forest was substantially completed by March 2009. Options/feasibility study completed and funding bids submitted for family cycling/mountain biking centre. Study undertaken to determine the economic value and potential visitor use of the long distance trail.
Update the National Forest walks and Access for All packs.	Partially achieved 12 Forest walks (including five 'Access for All') reworked with new leaflets and a new promotional flier for all walks produced. 11 other routes in production. The website expanded to include partners' walks.
Instigate a review and update of signage/interpretation within the Heart of the Forest Park with the Heart of the Forest Foundation.	Achieved Signage installed at CONKERS Waterside and on 5 NFC/FC sites in the Heart of the Forest.
Engage 20,000 people in Forest-related events commissioned by NFC and 40,000 children in environmental education visits to the Forest.	Exceeded Over 23,200 people have taken an active part in the Forest. 23 days of 'Tree for All' enabled 1,355 children to plant trees and take part in environmental activities. A further 41,000 children took part in environmental education sessions.

Key Objective 5



Above: A volunteer-led walk at Hartshorne, during the National Forest Walking Festival.



Key Objective 6: Leadership, organisation and efficiency

Amidst the challenges of delivery, the excitement of new projects and the discipline of the strategic review, the company continued to pay attention to its leadership role and organisational arrangements.

Given the recession, the performance of business support and individual engagement was pleasing: in both cases a decline was reversed in the latter part of the year.

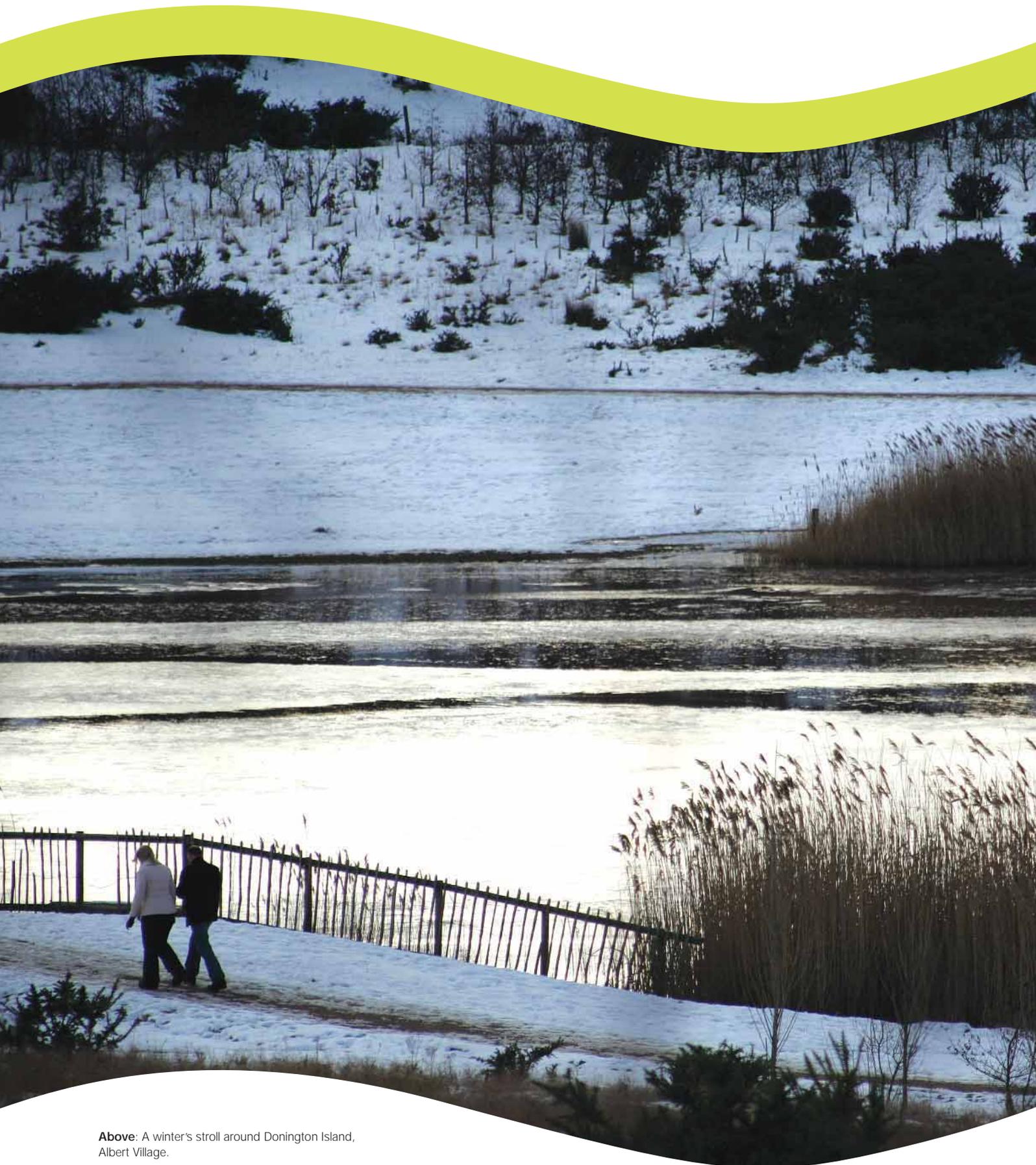
Following the awarding of the Sustainable Development UK award in March 2008, the UK role of the Forest was further confirmed through the production of the first action plan and recognition of The National Forest as one of the first case studies for the UK.

The strategic review included consideration of the fitness for purpose of the governance and organisational arrangements of the Company. These will be kept under review, particularly in the light of the public sector funding constraints of the next five years. Meanwhile it was pleasing to have confirmation of partners' confidence in the structure and ways of working of the National Forest Company: that trust will be preserved and developed in the years to come.

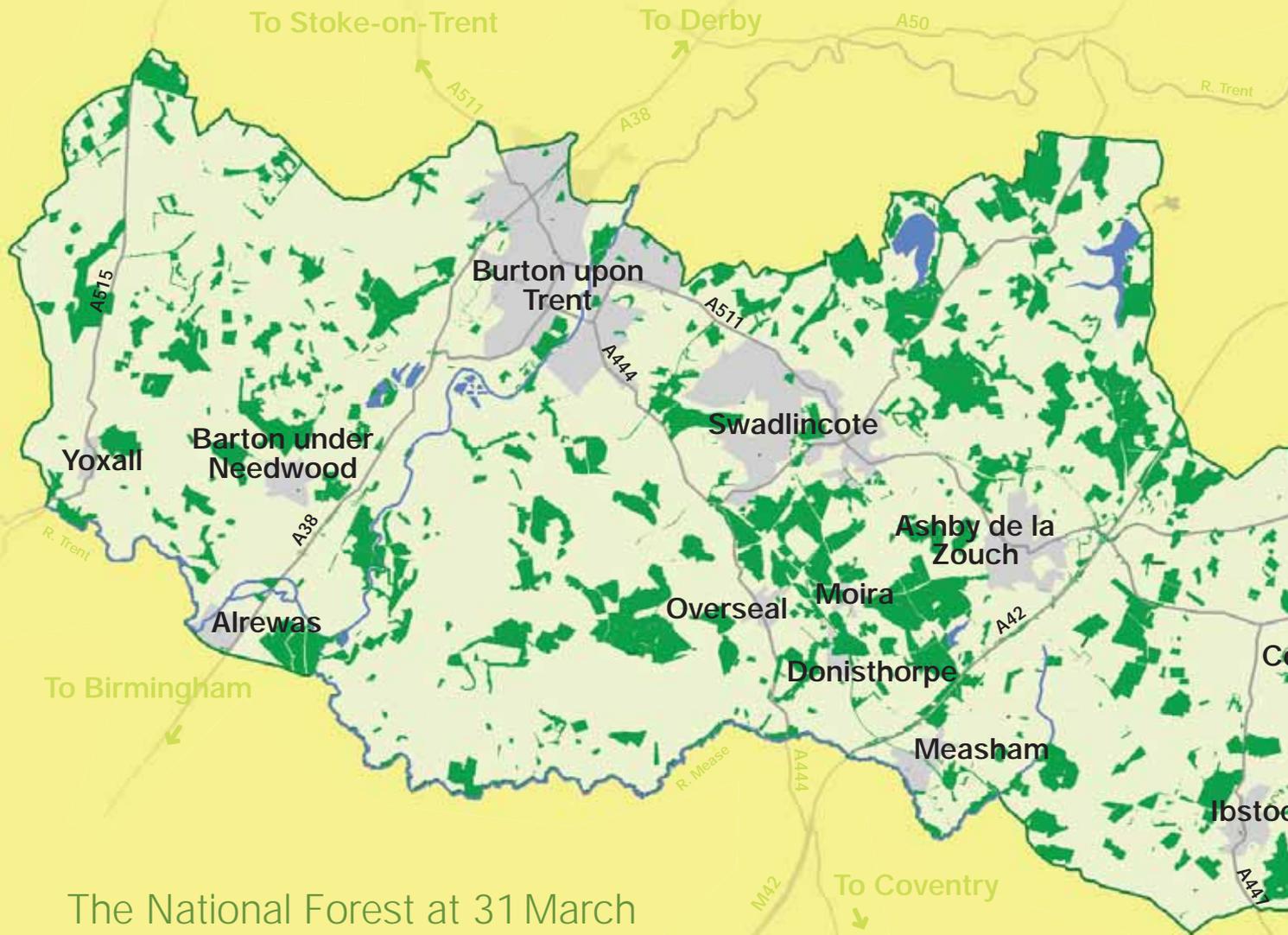
Objective: To further develop funding streams, maximising resources for Forest creation and ensuring that operations are effective, efficient and fit for purpose.

Targets	Progress
Through a mid term review of the ten year strategy 2004 – 2014, including governance, resources and working arrangements, achieve a shared commitment to the implementation of the strategy to 2014. Launch a new delivery plan by March 2009.	Achieved Mid term strategy review undertaken, involving wide consultation. New Delivery Plan to 2014 launched in March 2009 in presence of Minister.
Further engage businesses and individuals in the Forest's creation and continue to diversify and increase funding sources and programmes for Forest creation and management. Produce an action plan with targets by October 2008.	Achieved First 6 months of Private Sector Fundraising plan implemented. 26 businesses sponsored or took part in Business Benefits Scheme generating an increase in income of 10% compared with 2007/08. Income generated via 'Plant a Tree' was 3% down compared with 2007/08 but recovering at end of year. Over 1,200 people attended planting events. Logo guidelines re-published and promoted.
Build on the national exemplar status of The National Forest, continuing to exercise leadership with other organisations on forestry and landscape issues by promoting the Forest's role in implementing the European Landscape Convention. National Forest to be included as an ELC case study by March 2009.	Achieved The National Forest Company produced the first European Landscape Convention (ELC) action plan in the country: promoted as a case study on Natural England's (NE) landscape character network website and through NE awareness raising seminars.
Implement the annual action plan associated with the three year Marketing & Communications Strategy 2007 – 2010.	Achieved Full programme of communication undertaken with key target audiences. Website redesigned.

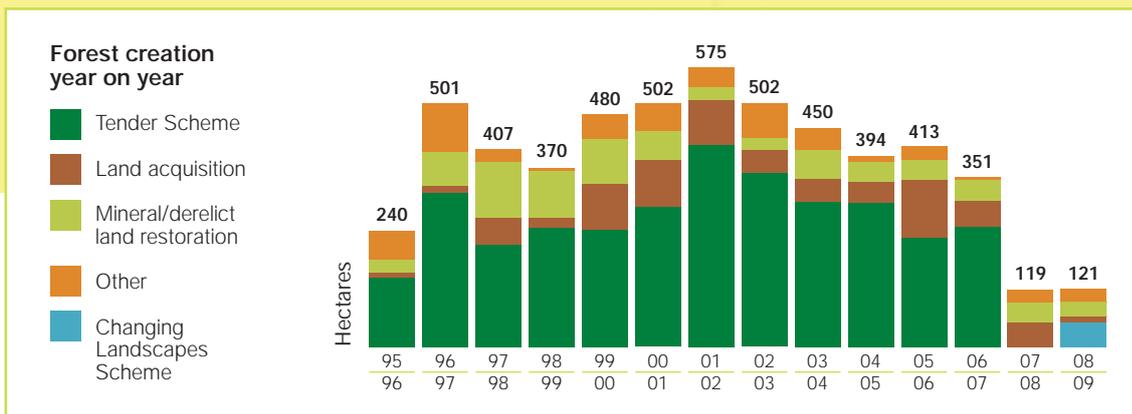
Key Objective 6



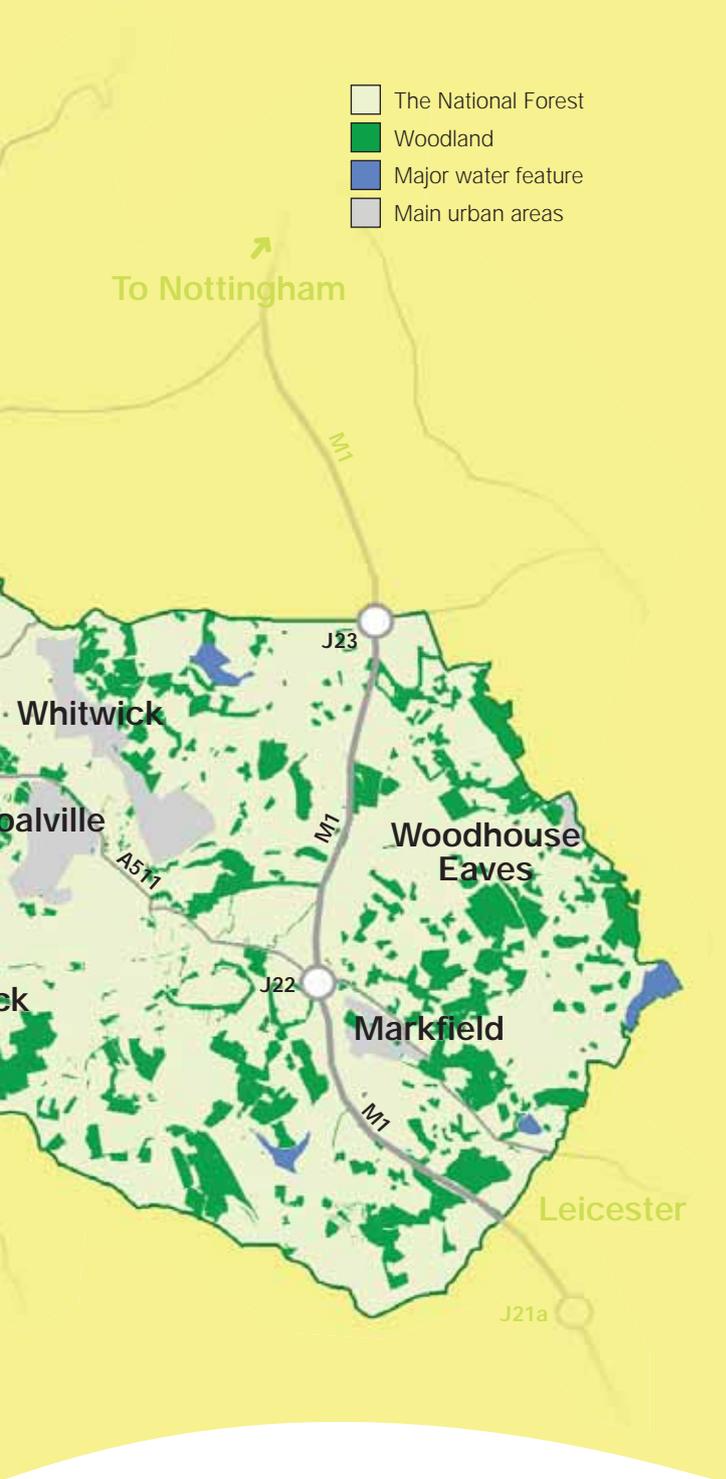
Above: A winter's stroll around Donington Island, Albert Village.



The National Forest at 31 March 2009 with woodland cover at 18%



Growing Achievements



Above: The changing coalfield landscape of North West Leicestershire as seen from Pick Triangle.

Board of Directors



1 Dinah Nichols (Chair)

Former Director General Environment, Department for Environment, Food and Rural Affairs (Defra). Dinah is a Commissioner/ Board Member, The Crown Estate (Royal appointment) and Chair of Groundwork North London. She is a Non-executive Director of Pennon Group Plc and Shires Smaller Companies Plc. Dinah is a Trustee/Board member of The Travel Foundation and Encams. She is a Member of the Policy Committee (advisory) of the Council for the Protection of Rural England (CPRE).

2 Sophie Churchill (Chief Executive)

Former Chief Executive of Regen WM. Sophie is a Director of the Heart of the National Forest Foundation.

3 Russ Canning

A chartered landscape architect and town planner. Russ is Managing Director of Russ Canning & Company Limited. He is a Non-executive Director of the Oxford Sailing Club.

4 Martin Glynn

Director, Rural Development Initiatives Ltd and RDI Associates Ltd. Martin is a Member of the Forestry Commission, Regional Advisory Committee, Yorkshire and the Humber Region and a Member of the Yorkshire and Humber Rural Affairs Forum. He is a Member of the Yorkshire and Humber RDPE Skills Industry Advisory Panel.

5 Oliver Johnson

Oliver is Chief Executive, The Wine Society.

6 Valerie Le Vaillant

A chartered architect, town planner and surveyor. Valerie is Managing Director, Le Vaillant Owen Consultancy Ltd and Chair of the Thames Region Environmental Protection Advisory Committee. She is a Non-executive Director, Places for People Group; Barts & The London NHS Trust; and Generator Group LLP. Valerie is Member, Covent Garden Market Authority; Member, Church Buildings Council; Director, Dover Harbour Board; and Director, Deal & Walmer Chamber of Trade.

7 Robin Pellew

Former Chief Executive, National Trust for Scotland and WWF-UK (World Wildlife Fund). Robin is an independent heritage/visitor attraction consultant. He is a Trustee, Cambridge Preservation Society.

8 Susan Warren

Head of Sustainable Cities, Forum for the Future until her resignation at the end of March 2009. She was formerly Deputy Executive Director, Groundwork North Northamptonshire.

9 Judith Webb

Judith runs her own business, JW Associates. She is a Non-executive, Forestry Commissioner; a Secretary of State appointee to the Cotswold Conservation Board; and an independent member of the Joint Nature Conservation Committee. She is Chair of the England Woodland Biodiversity Group; West Midlands Woodland and Forestry Forum; and the Deer Initiative's Best Practice Group.

Report of the Directors

The Directors present their report and the audited financial statements for the year ended 31 March 2009.

Principal activities

The Company is a company limited by guarantee, established on 1 April 1995, as a Non-Departmental Public Body funded by the Department for Environment, Food and Rural Affairs (Defra). Its remit is to oversee the implementation of the Government approved Forest Strategy for the creation of The National Forest located in central England.

Funding

Grant in aid is paid to the Company under Section 153 of the Environmental Protection Act 1990. For 2008/09 grant in aid was set at £3.6 million and confirmation has been received that it will remain unchanged for 2009/10.

Whilst the full allocation of grant in aid for 2008/09 was drawn down, the Company was unable to provide grant support, as approved by the Board, for the construction of an aerial walkway at Conkers due to other private and public sector funding contributions not being confirmed by the year end. As a consequence £290,000 of grant in aid retained will, as agreed with Defra, be carried forward into 2009/10 and be offset against the £3.6 million allocation for the year. The implication of this is that the Company will only draw down £3.31 million grant in aid in 2009/10.

Business review and future developments

The NFC Board agreed key objectives and targets for 2008/09 which were detailed in the Corporate Plan approved by Defra. These were consistent with the delivery of the Forest Strategy 2004 – 2014.

2008/09 saw the completion of the mid term review of the Forest Strategy 2004 – 2014 and production of the Delivery Plan for 2009 – 2014. Work had commenced in 2007/08 with an audit of progress against the objectives of the ten year strategy; the NFC Board agreeing the terms of reference for the review; and meetings with key partner organisations to secure their engagement in the process. The new Delivery Plan, produced after consultation with residents and partners, was unveiled at an event in March 2009 in the presence of the Minister for the Natural and Marine Environment, Wildlife and Rural Affairs. The contents of the Delivery Plan will determine the work of the NFC over the coming years.

A summary of the main activity during the year, analysed under the headings used in the 2008 Corporate Plan, is as follows:

Key objective 1 – Forest creation

Activity included:

- securing 121ha of new Forest creation against a target range of 150 – 200ha. In addition, 45ha of existing woodland was acquired which does not count against the target. The shortfall against the target range reflects the lack of opportunities that arose to acquire land in accordance with the terms of the Company's Land Acquisition Policy. It was also the first year of operating the new Changing Landscapes Scheme (CLS), although to secure eleven schemes delivering 51ha was highly creditable. Woodland cover across the Forest at the end of March 2009 was 9,035ha which represents 18% of the area, over half of the eventual target of around one third; and
- 58ha of nature conservation sites were secured (Target 50ha).

Key objective 2 – Forest quality and sustainable management

Activity included:

- re-establishing a National Forest Woodland Owners' Club focusing on woodland management, networking and good practice;
- taking forward findings from State of the Forest surveys, including developing an approach to squirrel control; working with the Deer Initiative on deer management and population monitoring; and producing a paper on the incidence of diseases/insect damage to trees which was distributed to forestry organisations;
- completing a Forest-wide bird survey with the British Trust for Ornithology and disseminating the results; and
- undertaking a community perceptions study as part of the mid term review of the Forest Strategy.

Key objective 3 – Climate Change

Activity included:

- agreeing a new national research initiative with Forest Research to trial tree provenance linked to future climate change;
- completing data inputting to the habitat connectivity geographic information system (GIS) thereby identifying priority areas across the Forest. The NFC is working with Natural England and the National Trust to develop long term

habitat connectivity through the Higher Level Scheme;

- continuing to promote woodfuel as fossil fuel substitute and an incentive for woodland management. The year saw two schemes committed at Rosliston Forestry Centre and feasibility studies undertaken for installations at Conkers and a new works depot for South Derbyshire District Council; and
- further enhancing the sustainable practices of the NFC via procurement and continuing efforts to secure efficiencies in electricity consumption, waste within the office and staff travel.

Key objective 4 – Sustainable economic development

Activity included:

- taking a leadership role on development proposals which impact on the sustainability of the Forest, including promoting green infrastructure within Growth Point proposals, working towards the production of a growth and design framework across the Forest. This has involved commenting on planning policy consultation documents and development consultation/planning applications and attending developer meetings regarding major planning proposals;
- working with partners to develop the next phase of the woodland economy, linking forestry-based and sustainable tourism businesses. Activity has involved the awarding of grants, including one for £150,000 to South Derbyshire District Council for the construction of workshops at Rosliston Forestry Centre aimed at small businesses working within the woodland economy; developing a new approach as set out in 'Making Woods Work' approved by the NFC Board; and partnership working with the Forestry Commission;
- completing the extension of the Visitor Infrastructure Project (VIP) into the West Midlands part of the Forest and commencing Phase 2 of the project in the East Midlands part of the Forest;
- working with consultants on the production of a 20 year vision and action plan for The National Forest as a sustainable tourism destination, to be completed by June 2009; and
- working with Leicestershire County Council on the organising of the 4th National Forest Wood Fair which attracted 94 wood based and food exhibitors (Target 85) and over 3,500 visitors (Target 3,500).

Report of the Directors continued...

Key objective 5 – Access, participation and learning

Activity included:

- securing 178ha of new or planned public access (Target range 125 – 185ha);
- working with partners and pursuing funding opportunities to progress the Conkers Circuit which was substantially completed by March; completing an options/feasibility study for a family cycling/mountain-biking centre and undertaking a study to determine the economic value and potential visitor use of a long distance trail;
- updating the National Forest and Access for All walks packs and adding a new walks section to the Forest website;
- working with the Heart of the National Forest Foundation on the installation of new signage at Conkers Waterside and five other sites in the Heart of the Forest as part of the VIP East Midlands extension programme; and
- engaging 23,200 people in Forest related activities (Target 20,000) and over 41,000 children in environmental education visits to the Forest (Target 40,000).

Key objective 6 – Leadership, organisation and efficiency

Activity included:

- completing the mid-term review of the Forest Strategy;
- producing an action plan for the engagement of businesses and individuals in the Forest's creation;
- producing the first European Landscape Convention action plan in the country which is being promoted as a case study on Natural England's Landscape Character Network website; and
- implementing the second year action plan associated with the Marketing and Communications Strategy 2007 – 2010.

Looking ahead to 2009/10, the NFC Board has agreed key objectives and targets which reflect the contents of the new Delivery Plan 2009 – 2014. Forest creation will continue at a revised annual target rate of 200 – 250ha; partnership working, including greater community participation in management of woodlands, will be prominent; and the role of The National Forest as a national exemplar of sustainable development will

be consolidated. Activity will centre around the five themes emerging from consultation on the Forest Strategy, namely:

- Keep creating The National Forest
- Make the most of what we've created
- Communities at the heart
- Telling the story
- A national showcase

Land Acquisition and Disposal

The Company is permitted to acquire land, in accordance with its Land Acquisition Policy agreed with Defra, where it will secure significant National Forest objectives and represents good value for money. Following acquisition, it is normal practice for the freehold ownership of sites to be transferred to partner organisations as soon as possible after purchase, subject to guarantees that the land will be developed and managed for specified Forest purposes. Where Forest Enterprise (FE) is the preferred partner an expedited procedure is followed to enable an early transfer of the freehold of the land to FE. In such cases the freehold in the land will be vested in the Secretary of State and 'placed at the disposal of the Forestry Commissioners'.

It is, in accordance with the Land Acquisition Policy, possible for the NFC to hold up to a maximum of 300ha of land at any time. After allowing for acquisitions and disposals completed during the year, the Company held 133.6ha of land at 31 March 2009 (2008: 124.9ha).

Research and Development

The NFC spent £98,306 (2008: £100,469) on research during the year. The main areas of activity during 2008/09 included:

- Community perceptions research
- Breeding birds survey
- Production of a tourism vision for The National Forest
- Mountain bike trail feasibility study

Losses, special payments and gifts

The Company did not write off any losses or make any special payments or gifts during the year.

Payment of Creditors

The Company aims to pay all undisputed invoices within 30 days of the invoice date and, where possible, within 10 days in accordance with the commitment made

by Government in October 2008. Whilst every effort is made to achieve these targets it is not formally monitored at present although consideration is being given to the practicalities of addressing this. No claims were received during the year from suppliers for late payment of invoices under The Late Payment of Commercial Debts (Interest) Act 1998.

Freedom of Information Act 2000

The provisions of the Act came into force on 1 January 2005. The NFC has developed procedures to deal with requests for information that may be received. The Company continues to maintain its Publication Scheme which was approved by the Information Commissioner.

Consultation with Employees

The Company's pay and grading arrangements applied throughout the year were analogous to those of its sponsor Department. No consultation was therefore required with staff as regards the annual salary review on 1 July 2008. The salary review negotiated within core-Defra was applied to all Company staff at Grade 7 and below. The Company consults with all staff on operational matters and in the formulation of policy and targets.

Sickness absence

Staff absence due to sickness equated to an average of 4.3 days per employee during the year (2008: 4.0 days).

Equal Opportunities

The Company is an equal opportunities employer. It is committed to a policy of non-discrimination on grounds of sex or marital status, sexual orientation, health (including pregnancy), disability, age, colour, race, nationality or ethnic or national origin. Staff are required to observe this policy of non-discrimination in their dealings with members of the public and colleagues at work. All new staff are appointed on the basis of ability, qualification and suitability for the post.

Disability Equality Scheme

In accordance with its duties under the Disability Discrimination Acts 1995 and 2005, the NFC has produced a Disability Equality Scheme Policy Statement and associated action plan. Both are publicly available via the Forest website.

Report of the Directors continued...

Results and dividends

The deficit for the year before accounting for the receipt of revenue grant in aid amounted to £2,950,821 (2008: deficit of £2,672,762).

Fixed Assets

The movement in the tangible fixed assets account is set out in note 8 to the Financial Statements. In the opinion of the Directors there is no significant difference between the carrying value and the value in the market in which the Company is able to sell land.

Directors

The Directors of the Company as at 31 March 2009 are set out on page 22. Their initial appointment dates are as follows:

R Canning 1 April 2005
S Churchill 1 February 2006
M Glynn 1 April 2004
O Johnson 1 April 2004
D Nichols 1 April 2005
V Le Vaillan 1 April 2005
R Pellew 1 April 2007
S Warren 1 April 2007
J Webb 1 August 2007

Auditors

Mazars LLP were engaged to provide internal audit services to the NFC during the 2008/09 financial year. The Comptroller and Auditor General was appointed as auditor of the Company's 2008/09 financial statements.

Website

The Annual Report and Accounts will be made available on the National Forest website www.nationalforest.org



Sophie Churchill
Chief Executive/Accounting Officer



Mike Dewsnap Secretary
2 July 2009

Remuneration Report

The NFC Board has agreed that it is not necessary for the Company to have a Remuneration Committee.

The remuneration relating to the Executives and Non-executive Board Members in post in 2008/09 is detailed below in terms of salary, other payments, allowances and pension benefits. This information is subject to audit.

The average number of employees, including Directors, employed was:	2009	2008
Directors (including Chief Executive)	9	9
Staff	19	18
	28	27
Staff costs, including Directors, totalled:	£	£
Salaries	714,097	639,838
Social security costs	54,353	50,531
Other pension costs	128,028	117,221
	896,478	807,590

Remuneration of Non-executive Board Members

Non-executive Directors are appointed by the NFC following approval of their appointment by the Minister within the Department for Environment, Food and Rural Affairs (Defra) responsible for the Company. Appointments are made in accordance with guidance issued by the Commissioner for Public Appointments. Directors are appointed for a three year term of office and may be re-appointed for a further period of up to three years.

Remuneration of Directors accords with senior civil service pay arrangements. Salaries are reviewed annually on 1 April, with any increase applied being in accordance with the recommendations of the Senior Salary Review Body. The Review Body recommended a multi-year pay arrangement, which was accepted by Government, covering the period 2008 – 2011. For 2008/09, this resulted in an average base pay increase across Departments of 2.5%. This average was applied to the remuneration of NFC Directors with effect from 1 April 2008.

Emoluments of Chair:

(The Chair is remunerated on the basis of working an average of one day per week).

Name	Contract Expiry Date	Taxable Benefits	2009 £ Remuneration	Taxable Benefits	2008 £ Remuneration
Dinah Nichols	31 March 2011	1,815	17,041	1,041	16,625

Emoluments of Non-executive Directors:

(Non-executive Directors are remunerated on the basis of working an average of one day per month).

Name	Contract Expiry Date	Taxable Benefits	2009 £ Remuneration	Taxable Benefits	2008 £ Remuneration
Russ Canning	31 March 2011	881	3,124	1,462	3,048
Martin Glynn	31 March 2010	1,029	3,124	2,031	3,048
Oliver Johnson	31 March 2010	870	3,124	769	3,048
Valerie Le Vaillant	31 March 2011	1,644	3,124	1,878	3,048
Robin Pellew	31 March 2010	1,350	3,124	1,173	3,048
Susan Warren	31 March 2010	1,097	3,124	745	3,048
Peter Webster	30 June 2007*	-	-	52	762
Judith Webb	31 March 2010	928	3,124	635	3,048

*Peter Webster resigned with effect from 30 June 2007 on the grounds of ill health.

Remuneration Report continued...

Remuneration of the Chief Executive

The Chief Executive is the only executive Director of the NFC and the only Director eligible for membership of the Principal Civil Service Pension Scheme (PCSPS). She is also the highest paid Director.

The Chief Executive, Sophie Churchill, was appointed for a term of five years commencing on 1 February 2006 and expiring on 31 January 2011, unless terminated earlier by either party giving at least 26 weeks notice in writing. The appointment was subject to the approval of Defra which conferred Accounting Officer status on her. The salary for the post falls within the range for a Grade 5 within Defra's grading structure. The salary payable is reviewed on 1 April each year. In addition to her salary, the Chief Executive is entitled to a non-consolidated, non-pensionable performance related bonus of up to 10% of annual salary. This is determined by reference to the extent to which predetermined objectives and targets, as contained in a job plan agreed between the Chief Executive and Chair, have been achieved. These are predominantly those set out in the Corporate Plan agreed between the Company and Defra. The level of bonus payable is determined by the Chair, after consultation with fellow Directors. The recommendation is agreed with Defra.

Name	Age	Contract Start Date	Contract Expiry Date	2009 £	2008 £
Sophie Churchill	45	1 February 2006	31 January 2011		
Salary				68,407	66,739
Non-consolidated bonuses				5,815*	4,672
Pension scheme contributions made by employer				15,870	15,483
				<u>90,092</u>	<u>86,894</u>

* Subject to final confirmation.

The Chief Executive is a member of the **Principal Civil Service Pension Scheme (PCSPS)**.

The Company operates a defined benefit pension scheme as an admitted body under the PCSPS. This is an unfunded multi-employer defined benefit scheme. Contributions on a pay as you go basis are credited to the Exchequer under arrangements governed by the Superannuation Act 1972. The NFC is unable to identify its share of the underlying assets and liabilities of the Scheme. The scheme actuary valued the scheme as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation www.civilservice-pensions.gov.uk

For 2008/09, employer's contributions of £128,028 were payable to the PCSPS (2008: £117,221) at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands (the rates are unchanged from those applied in 2007/08). The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2009/10, the rates will be in the range 16.7% to 24.3%. The contribution rates are set to meet the cost of the benefits accruing during 2008/09 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (**classic**, **premium** or **classic plus**); or a 'whole career' scheme (**nuvos**). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus** and **nuvos** are increased annually in line with changes in the Retail Price Index (RPI). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a good quality "money purchase" stakeholder pension 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**, **classic plus** and **nuvos**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings 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. **Classic plus** is essentially a hybrid with benefits in respect of service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 calculated as in **premium**. In **nuvos** a member builds up a pension based on his/her pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. In all cases members may opt to commute pension for lump sum up to the limits set by the Finance Act 2004.

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 panel of three providers. 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). The NFC has not, to date, made any contributions to a partnership pension account.

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

Remuneration Report continued...

Benefits to which the Chief Executive qualifies under the Scheme are:

	2009 £
<hr/>	
Sophie Churchill	
Salary, including performance pay (within the range)	70,000 – 75,000
Real increase in pension at age 60 (within the range)	0 – 2,500
Real increase in related lump sum at age 60 (within the range)	-
Total accrued pension at age 60 at 31/3/09 (within range)	5,000 – 10,000
Total accrued related lump sum at age 60 at 31/3/09 (within range)	-
Cash equivalent transfer value (CETV) at 31/3/08 (nearest £'000)	82,000
Cash equivalent transfer value (CETV) at 31/03/09 (nearest £'000)	101,000
Real increase in CETV after adjustment for inflation and market investment factors (nearest £'000).	8,000

The **accrued pension** quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus** and 65 for members of **nuvos**.

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 of 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 figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The **real increase in CETV** reflects the increase effectively funded by the employer. It does not include 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.

Remuneration of the Executive

All staff below the level of Chief Executive are employed in substantive posts, subject to the completion of a satisfactory probationary period. The terms of the pay review applied to staff at Grade 6 and below within core-Defra, on 1 July each year, are applied to staff employed by the NFC.

Within the organisation structure, immediately below the Chief Executive post, are three Chief Officer posts. These are at Grade 7 within the Defra grading structure. The NFC Board, upon the recommendation of the Audit Committee, has agreed that it is not necessary for salary and pension information in respect of these senior officers to be disclosed in the Remuneration Report.



Sophie Churchill
Chief Executive/Accounting Officer

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the surplus or deficit of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In so far as the Directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

By order of the Board



Mike Dewsnap Secretary
2 July 2009

Statement on Internal Control

Scope of responsibility

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

Company mission

The Company's mission is to oversee the creation of The National Forest, a 200 square mile multi-purpose forest in central England. This is being achieved primarily through partnership working and by utilising grant in aid provided by Defra, the Company's sponsor Department.

The risk and control framework

Risk strategy and risk management

The National Forest Company's (NFC's) Risk Management Policy is approved by its Board. This specifies the roles of the Board, Audit Committee, Chief Executive in her capacity as Accounting Officer and the executive.

During 2008/09 consideration was given to the process for producing and maintaining the Risk Register and monitoring actions taken to address identified risks. It was agreed that:

- Executive management review and identify the main risks faced in achieving corporate objectives and targets; identify the actions planned or being taken and controls in place to mitigate these risks; and score the remaining risk taking into consideration 'significance' and 'probability'.
- Responsibility for each risk is allocated to a manager.
- The Audit Committee reviews the resulting register to ensure it is clear, that it cannot identify other risks and that broadly the scores are reasonable.
- The Board is presented with, and debates, the highest scored risks.
- A governance role for each risk is allocated to an NFC Committee or Group or, where this is not appropriate, to a Non-executive Director. The Chair of the Committee or Group or the nominated Director will then confirm annually to the Audit Committee that the risk has been managed and that the actions identified to address it have been taken.

Risk management is a standing agenda item for meetings of the Audit Committee.

Many of the top risks identified in the 2008/09 register remained unchanged from those detailed in the previous register although some risk scores changed. The highest scored risks related to the availability of affordable land; the engagement of landowners in forest creation in a year when a new grant scheme was introduced; the engagement of partners and securing of further public and private sector funding in the challenging economic climate; and threats to the Forest's environment arising from planned growth/development proposals.

Project and Programme Management

The delivery of projects, including major capital projects, features prominently in creating The National Forest. The NFC assumes either a lead role in the delivery of such projects or supports delivery by partner organisations.

Where the NFC takes the lead, and taking into consideration the limited staff resources at its disposal, consideration is given to the most effective means of managing project delivery. An option used for large projects is to create a steering group involving partners and funders and to buy in project management skills. This was the case with the Visitor Infrastructure Project which has attracted over £1 million of funding from emda and Advantage West Midlands over the last 3 years and which continues to be delivered to timetable and within budget.

With many projects, the NFC either accepts an invitation to have representation on project steering groups, as has been the case when working with the Heart of the National Forest Foundation, or supports projects via grants. In the latter case grant conditions apply which provide the necessary safeguards to the NFC's interests and public funds.

Strategy and planning

The creation of The National Forest accords with the objectives of the Forest Strategy for 2004 – 2014. Linked with the strategy is a delivery plan which sets out the means by which the continuing creation and promotion of the Forest will be undertaken. It was agreed at the time of producing the current strategy that it would be reviewed at its mid-point. This commenced in 2007/08 when the Board

agreed the aims, process and parameters for the review; an audit of progress against strategy targets was undertaken; and meetings were held with key partners to secure their engagement in the process. During 2008/09 there has been wide consultation on the strategy which culminated in the production of a Delivery Plan for 2009 – 2014, launched in March 2009. A priority for 2009/10 will be to communicate the contents of the Delivery Plan and secure the commitment of partners to assist with delivery of specified actions.

The Forest Strategy and associated Delivery Plan inform the contents of the annual Corporate Plan which is agreed by the NFC Board and approved by Defra. Regular update reports on progress against Corporate Plan objectives and targets are given to the NFC Board.

In support of delivering Forest Strategy and Corporate Plan objectives and targets, the Company produces other strategies and associated action plans. There are currently three year strategies covering 'Public Sector: partnerships and funding', 'Fundraising: private sector and individuals' and 'Marketing & Communications'.

Corporate governance

I am the Company's only executive Director, joined on the Board by the Chair and seven Non-executive Directors who are appointed by the Company subject to the approval of Defra. The Board met five times during 2008/09 with agendas covering strategic and operational matters. Directors are expected to comply with a 'Code of Conduct for Directors of the National Forest Company'. A standing item on the agenda for Board meetings is 'Declaration of Interests'. With effect from October 2008, in accordance with the provisions of Section 175 of the Companies Act 2006, Directors are required to declare any 'situational conflicts' they consider they may or potentially may have. A Register of Directors' Interests is maintained, a summary of which is included in the Annual Report.

A key committee of the Board is the Audit Committee which comprises three Non-executive Directors. As Accounting Officer, I attend meetings of the Committee. The Chairman of the Audit Committee gives regular reports to the Board on business conducted at Committee meetings and an annual written report. The Committee met

Statement on Internal Control continued...

three times during the year ended 31 March 2009.

There are three other committees of the Board, all chaired by Non-executive Directors. These are the Land Acquisition Group, Corporate Affairs Group and the Strategic Marketing and Communications Group. In addition there are five themed working groups, Access & Recreation, Tourism, Planning, Nature Conservation and Woodland Economy which are chaired by Non-executive Directors and where membership comprises representatives from partner organisations. Minutes of meetings are copied to all Directors for information.

Non-executive Directors are normally appointed for a three year term of office and may be re-appointed for a further term of up to three years. The next time vacancies arise on the Board is in April 2010 when recruitment will take into consideration the skills and experience lost through the two retiring Directors and any other skills gaps that exist.

Management of change

The NFC's most valuable resource is its employees. There is collective ownership of delivering Forest Strategy objectives and targets. Any changes to organisational goals or the means by which they are to be achieved are discussed with staff. The culture of the organisation involves regular internal communication as evidenced by fortnightly team meetings, section meetings and a flow of emails ensuring that important messages are communicated consistently to all staff. In the last year, staff were particularly involved in the emerging priorities generated from the mid-point review of the 2004 – 2014 Forest Strategy.

Performance management

Whilst I have overall responsibility for the achievement of Corporate Plan objectives and targets, they do fall into the annual job plans agreed for each member of staff. The delivery of targets and assessment of the individual's performance is monitored and assessed through the staff review system. At the end of the year, an Annual Review is undertaken which includes an assessment of how the individual has performed during the year and which determines any entitlement to a performance related bonus.

The National Forest is being created for public benefit and therefore the engagement and views of the general

public are important and welcomed. These were sought as part of the consultation on the mid term review of the Forest Strategy. Feedback received indicated a high level of support for The National Forest and satisfaction with the improvements it is bringing to the area.

The Company has established procedures and arrangements for dealing with complaints and requests made under the Freedom of Information Act. During the year ended 31 March 2009, 14 complaints were received (compared with five in the previous year), most of which related to sites in the National Forest not owned by the NFC. In addition, 3 requests for information were received under the FOI Act (compared with 4 in the previous year). All complaints and requests for information were responded to within the specified timescale.

Data handling

As Accounting Officer I am responsible for the handling of personal and sensitive information and managing the risks associated with this. The systems of control in place have been further enhanced during the year and all staff have been reminded of their responsibilities and good practice when transferring data electronically or on removable media and of the need for safe disposal of classified waste. No data handling incidents occurred during the year.

Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than 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 Company 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 the Company for the year ended 31 March 2009 and up to the date of approval of the Annual Report and Accounts and accords with Treasury guidance.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the

system of internal control. This is informed by the work of the internal auditors and the executive managers within the Company who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, the Audit Committee and by implementation of agreed audit recommendations aimed at improving systems in place.

The Company's internal auditors operate in accordance with Government Internal Audit Standards. An agreed programme of work was undertaken during 2008/09 which covered core financial systems, land acquisition, the Changing Landscapes Scheme, fundraising from the private sector and individuals and the business continuity plan. The work undertaken during the year informed the opinion expressed in the Annual Internal Audit Report that the NFC 'has in place an appropriate framework for identifying, evaluating and managing the significant risks faced by the Company... for the year ended 31 March 2009 the National Forest Company has adequate and effective risk management, control and governance processes to manage the achievement of the organisation's objectives'.

Conclusion

There are no matters of concern which need to be referred to in this Statement on Internal Control.



Sophie Churchill
Chief Executive/Accounting Officer

Endorsed on behalf of the Board by:



Dinah Nichols
Chair

The Certificate and Report of the Comptroller and Auditor General to the Members of the National Forest Company

I certify that I have audited the financial statements of the National Forest Company for the year ended 31 March 2009 under the Government Resources and Accounts Act 2000. These comprise the Income and Expenditure Account, the Balance Sheet, and the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Directors and auditor

The Directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Directors' 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 are properly prepared in accordance with the Companies Act 1985. I report to you whether, in my opinion, the information given in the Report of the Directors is consistent with the financial statements. 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.

In addition, I report to you if, in my opinion, the National Forest Company 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 law regarding Directors' remuneration and other transactions is not disclosed.

I read the other information contained in the Report and Financial Statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the unaudited

part of the Remuneration Report. I consider the implications 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 opinions

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. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company'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 are free from material misstatement, whether caused by fraud or other irregularity 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.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2009 and of its deficit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and the part of the remuneration report to be audited has been properly prepared in accordance with the Government Financial Reporting Manual; and
- the information given in the Directors' Report is consistent with the financial statements.

Opinion on Regularity

In my opinion, 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.

Report

I have no observations to make on these financial statements.

Amyas C E Morse

Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London
SW1W 9SS

8 July 2009

Income and Expenditure Account

for the year ended 31 March 2009	<i>Note</i>	2009 £	2008 £
Income			
Other operating income	2	752,938	1,178,347
Expenditure			
Administrative expenses		(1,495,400)	(1,284,335)
Programme expenditure		(2,217,914)	(2,123,309)
Expenditure from donations and contributions received		(28,957)	(261,392)
Expenditure from reserves		-	(220,500)
Notional cost of capital	3	(71,915)	(58,624)
Operating deficit			
Interest receivable and similar income	4	(3,061,248)	(2,769,813)
	5	48,750	48,034
Deficit on ordinary activities before taxation			
Tax on interest receivable	7	(3,012,498)	(2,721,779)
		(10,238)	(9,607)
Deficit on ordinary activities after taxation			
Reversal of notional cost of capital	3	(3,022,736)	(2,731,386)
		71,915	58,624
Deficit for the year			
Financing received as Grant in aid	12	(2,950,821)	(2,672,762)
Revenue reserve brought forward	6	3,482,333	2,944,274
		762,294	490,782
Revenue reserve carried forward			
	12	1,293,806	762,294

All of the Company's activities are classed as continuing.

There were no recognised gains or losses in the year other than those included in the Income and Expenditure Account.

The notes on pages 35 to 39 form part of these accounts.

Balance Sheet and Cash Flow Statement

Balance Sheet at 31 March 2009	<i>Note</i>	2009 £	2009 £	2008 £	2008 £
Fixed assets					
Tangible assets	8		1,008,169		1,061,614
Current assets					
Debtors	9	174,860		189,401	
Cash at bank and in hand		1,185,947		604,046	
		1,360,807		793,447	
Creditors:					
amounts falling due within one year	10	(71,389)		(39,990)	
Net current assets			1,289,418		753,457
Total assets less current liabilities			2,297,587		1,815,071
Creditors:					
amounts falling due after more than one year	11		(6,116)		(4,337)
Net assets			2,291,471		1,810,734
Capital					
Revenue Reserve	12		1,293,806		762,294
Capital Reserve	12		997,665		1,048,440
			2,291,471		1,810,734

The financial statements were approved by the Board on 2 July 2009 and signed on its behalf by

Dinah Nichols – *Chair*

Sophie Churchill – *Chief Executive/Accounting Officer*

Cash Flow Statement for the year ended 31 March 2009	<i>Note</i>	2009 £	2008 £
Net cash outflow from operating activities	14	(2,771,133)	(2,221,920)
Returns on investment and servicing of finance			
Interest received		48,750	48,034
Taxation			
Corporation Tax paid		(9,607)	(6,622)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(117,667)	(405,726)
Movement on capital reserve		(50,775)	155,000
		(168,442)	(250,726)
Financing			
Grant in aid		3,482,333	2,944,274
Increase in cash	15	581,901	513,040

The notes on pages 35 to 39 form part of these accounts.

Notes on Financial Statements

1 Accounting policies

Basis of accounting

The financial statements are prepared in accordance with generally accepted accounting practice in the United Kingdom (UK GAAP) and the Companies Act requirements, the disclosure and accounting requirements contained in Government Accounting and in the Financial Reporting Manual (FRM), in so far as these are appropriate for the National Forest Company and are in force for the financial year for which the statements are prepared. The financial statements are prepared under the modified historical cost convention by the inclusion of fixed assets at their value to the business by reference to current costs.

International Financial Reporting Standards (IFRS)

The Company is preparing for the transition from UK accounting standards to IFRS, to be implemented with effect from the 2009/10 financial year. Consideration has been given to the implications for the NFC and a restated Balance Sheet as at 31 March 2008 has been prepared. Shadow accounts for 2008/09 are to be produced and sent to the Company's auditors by September 2009.

Income

Grant in Aid received to finance activities and expenditure which support the statutory and other objectives of the entity is treated as financing, credited to the Revenue Reserve, because it is regarded as contributions from a controlling related party.

Grant relating to capital expenditure is credited either to deferred capital grant or the capital reserve depending on the nature of the spend. It is released to expenditure over the expected useful life of the asset.

Other operating income is analysed in Note 2 to the Financial Statements.

Tangible fixed assets and depreciation

Depreciation is provided evenly on the cost of tangible fixed assets, to write them down to their estimated residual values over their expected useful lives. The principal annual rates used for fixtures, fittings and computer equipment are based upon expected useful lives of between 3 and 9 years.

In accordance with the Land Acquisition Policy agreed with Defra, the NFC is permitted to own land. It should, however, at the time of acquisition or shortly thereafter, agree the means of disposal and should only in exceptional circumstances own any land for more than 10 years. When the exit strategy and eventual proceeds are agreed, the difference between the cost of the land and the eventual disposal consideration, where lower, is charged to depreciation over the period for which the land is to be held. Where land is acquired and as a result of a proposed change of use there is an impairment in the value of the land, the loss on impairment is charged to the Income and Expenditure Account in the year of the impairment. Where land is acquired which is retained but not depreciated, the cost of the land is credited to a Capital Reserve.

Capital Reserve

The Capital Reserve represents a deferred income account in respect of land.

Modified historical cost accounting

The tangible fixed assets held by the Company comprise land, fixtures and fittings and computer equipment. The effect of revaluing these assets on a modified historical cost basis, as specified in Treasury guidance, is not considered material. No adjustment has therefore been made. The Company reviews, on an annual basis, the effect of applying the principles of modified historical cost accounting.

Leased assets

Rentals payable under operating leases are charged to the Income and Expenditure Account as incurred.

Research

Research expenditure is charged wholly against revenue in the year in which the expenditure was incurred.

Non controlling party grants

Grants used for revenue expenditure are credited to the Income and Expenditure Account in the same period as the expenditure to which they contribute.

Related party transactions

Defra is regarded as a related party. During the year, the NFC received grant in aid from the Department as disclosed in Note 6.

During the year, none of the Directors, staff or other related parties has undertaken any material transactions with the NFC, other than those disclosed in Note 16.

Financial Instruments

Financial assets are recognised when the Company becomes party to a financial instrument contract or in the case of trade debtors when goods and services are delivered. Financial assets are derecognised when the contractual rights have expired or the asset has been transferred. Initially recognised at fair value, the classification of financial assets depends on the nature and purpose of the financial asset and is determined at the time of initial recognition. Financial liabilities are recognised on a similar basis with the liability discharged when the liability has been paid or expired.

Notes on Financial Statements continued...

2 Other operating income	2009	2008
	£	£
Donations and sponsorship	163,057	86,950
Visitor Infrastructure Project	403,925	279,100
Grants received	85,040	475,692
Sundry income	100,916	336,605
	<u>752,938</u>	<u>1,178,347</u>

Sundry income includes monies received from Section 106 agreements and local authority contributions towards, and advertising revenue from, visitor guide campaigns.

3 Notional cost of capital

Treasury guidance requires that as part of operating costs, to the extent that there is no real charge for it, the notional cost of capital be calculated. To this end the notional cost of capital has been calculated at 3.5% of the average of total assets less total liabilities. An entry reversing this amount has also been made in accordance with the guidance.

4 Operating deficit	2009	2008
	£	£
The operating deficit is arrived at after charging/(crediting)		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	8,232	7,014
Depreciation of tangible fixed assets		
normal depreciation	98,837	103,336
exceptional depreciation	72,275	155,000
Release of Government grants – capital		
- normal	(98,837)	(103,336)
- exceptional	(72,275)	(155,000)
Operating leases	34,911	34,266
	<u>34,911</u>	<u>34,266</u>

In accordance with the Accounting Policies set out on page 35, when land is acquired, the difference between the cost of the land and the eventual sale proceeds is charged to depreciation over the period for which the land is to be held. The freehold of land at Donisthorpe acquired in 2007/08 is to be transferred for nil proceeds to Leicestershire County Council in 2009/10. The cost of £72,275 paid for this land was charged/credited as exceptional depreciation and amortisation in 2008/09.

5 Interest receivable and similar income	£	£
Bank interest receivable	48,750	48,034

6 Grant in Aid	£	£
Received in the year	3,600,000	3,350,000
Expenditure on fixed assets	(117,667)	(405,726)
	<u>3,482,333</u>	<u>2,944,274</u>

7 Taxation	£	£
Corporation Tax	10,238	9,607

Grant income and donations received by the Company are not subject to Corporation Tax. Interest received of £48,750 (2008: £48,034) is however taxable at the rate of 21% (2008: 20%), resulting in the above tax charge.

Notes on Financial Statements continued...

8 Tangible assets	Freehold Land £	Fixtures and fittings £	Computer equipment £	Total £
Cost or valuation				
At 1 April 2008	1,382,750	151,984	70,388	1,605,122
Purchased during the year	111,500	2,945	3,222	117,667
Disposals during the year	(155,000)	(1,414)	(2,830)	(159,244)
At 31 March 2009	<u>1,339,250</u>	<u>153,515</u>	<u>70,780</u>	<u>1,563,545</u>
Depreciation				
At 1 April 2008	334,310	151,634	57,564	543,508
Charges in the period	162,275	70	8,767	171,112
Depreciation charged on disposals	(155,000)	(1,414)	(2,830)	(159,244)
At 31 March 2009	<u>341,585</u>	<u>150,290</u>	<u>63,501</u>	<u>555,376</u>
Net Book Value 31 March 2009	<u>997,665</u>	<u>3,225</u>	<u>7,279</u>	<u>1,008,169</u>
Net Book Value 31 March 2008	<u>1,048,440</u>	<u>350</u>	<u>12,824</u>	<u>1,061,614</u>

9 Debtors	2009 £	2008 £
Prepayments and accrued income	111,069	110,621
Other taxation and social security	30,219	44,826
Other debtors		
- due within one year	18,136	19,507
- due in more than one year	15,436	14,447
	<u>174,860</u>	<u>189,401</u>

10 Creditors: amounts falling due within one year	2009 £	2008 £
Corporation Tax payable	10,238	9,607
Deferred income		
- government grants (capital)	4,388	8,837
Accruals and other deferred income	56,763	21,546
	<u>71,389</u>	<u>39,990</u>

11 Creditors: amounts falling due after more than one year	2009 £	2008 £
Deferred income – government grants (capital)		
- between two to five years	6,116	4,337
	<u>6,116</u>	<u>4,337</u>

12 Reserves	Capital reserve £	Revenue reserve £
At 1 April 2008	1,048,440	762,294
Released through income and expenditure	(162,275)	-
Deficit for the year	-	(2,950,821)
Grant in aid financing	111,500	3,482,333
At 31 March 2009	<u>997,665</u>	<u>1,293,806</u>

Notes on Financial Statements continued...

13 Financial commitments

Operating lease commitments

The payments which the Company is committed to make in the next year under operating leases are as follows:

Land and buildings, leases expiring between one and five years

2009
£

2008
£

34,633 35,069

The Company is committed to make payments under the National Forest Tender Scheme and Changing Landscapes Scheme as follows:

Within one year

208,301 441,199

Two to five years

895,027 1,188,114

1,103,328 1,629,313

The Company is funded by Defra and the Directors expect funding to continue at levels that will cover these commitments.

Capital commitments

The Company is committed to making a payment to the Forestry Commission for maintenance and development of the Hicks Lodge site.

Within one year

47,714 -

14 Reconciliation of operating deficit to net cash inflow from operating activities

	2009 £	2008 £
Operating deficit	(3,061,248)	(2,769,813)
Notional cost of capital	71,915	58,624
Depreciation of tangible assets	171,112	258,336
Decrease in debtors	14,541	266,122
Increase/(decrease) in creditors	32,547	(35,189)
Net cash inflow from operating activities	<u>(2,771,133)</u>	<u>(2,221,920)</u>

15 Analysis of changes in net funds

	April 2008 £	Cash flows £	31 March 2009 £
Cash in hand and at bank	<u>604,046</u>	<u>581,901</u>	<u>1,185,947</u>

16 Transactions with related parties

The NFC is a Non-Departmental Public Body (NDPB) sponsored by Defra which is regarded as the Company's controlling related party. During the year, the Company received £3,482,333 (2008: £2,944,274) as financing, revenue grant in aid and £117,667 (2008: £405,726) capital grant in aid from Defra.

In accordance with the Land Acquisition Policy agreed between the Company and Defra, where Forest Enterprise (FE) is the preferred partner, an expedited procedure is followed to enable an early transfer of the freehold of the land to FE. In such cases the freehold in the land is vested in the Secretary of State and 'placed at the disposal of the Forestry Commissioners'. During the year three such acquisitions were completed at a cost to the Company of £254,250 (2008: £597,500).

During the year, no Director, key manager or other related parties has undertaken any material transactions with the Company. During the year ended 31 March 2006, a loan was made to Sophie Churchill, Chief Executive and a Director, under the terms of the scheme for car loans to employees. This loan had been repaid by 31 March 2009 (loan outstanding 31 March 2008: £2,250).

Notes on Financial Statements continued...

17 Financial Instruments

FRS 13, 25, 26 and 29 require disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities.

The NFC has no borrowings and relies primarily on Defra grants for its cash requirements and is therefore not exposed to the degree of financial risk faced by business entities. Financial assets and liabilities are generated by day to day operational activities rather than being held to change the risks facing the NFC in undertaking its activities. The following paragraphs provide an overview of the major financial risks for the NFC and how they are managed at the individual level.

Liquidity Risk

The NFC has no borrowings and relies primarily on Defra grants for its cash requirements and is therefore not exposed to any significant liquidity risks.

Market Risk – Interest Rate Risk

The NFC has no financial liabilities such as bank loans. The majority of the NFC's financial assets and financial liabilities carry nil or fixed rates of interest. The NFC is therefore not exposed to any significant interest rate risk.

Credit Risk

Credit risk is the possibility that other parties might fail to pay amounts due to the NFC. Credit risk arises from deposits with banks as well as credit exposures to the NFC's trade debtors. The NFC's surplus operating cash is only invested with banks that are rated independently with a minimum rating of A1, P1, F1, or A+. Cash assets are held with the Co-operative Bank.

Foreign Currency Risk

The NFC has no foreign currency income or expenditure. All material assets and liabilities are denominated in sterling. The NFC is therefore not exposed to any significant foreign currency risk.

Fair Values

The fair values of financial assets and financial liabilities for the NFC approximate to their book values.

18 Post Balance Sheet events

There have been no adjusting or non-adjusting post balance sheet events.

The Report of the Directors and Accounts has been authorised for issue on 8 July 2009 by the National Forest Company's Chief Executive and Directors.

Summary of main achievements during the five years 2004/05 to 2008/09

	2004/05	2005/06	2006/07	2007/08	2008/09
New Forest creation					
Target	350-400ha	440-475ha	340-360ha	185-190ha	150-200ha
Outturn	394ha	413ha	351ha	119ha	121ha
Public access					
New full open access sites					
Target	400ha	420ha	325ha	200ha	125-185ha
Outturn	448ha	457ha	387ha	261ha	178ha
Nature conservation and cultural heritage habitat created or brought into management					
Target	130ha	130ha	100ha	35ha	50ha
Outturn	130ha	125ha	100ha	39ha	58ha
Number of people involved in Forest related activities					
Target	12,000	12,000	12,000	13,000	20,000
Outturn	12,300	13,400	20,600	21,000	23,200
Number of children involved in environmental education visits to the Forest					
Target			30,000	33,000	40,000
Outturn			37,800	38,000	41,000

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ID6172334 07/09

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ISBN 978-0-10-296105-8



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