

# **Forestry Commission Great Britain/England**

## **Annual Report 2007-08**

Incorporating:

Forestry Commission Great Britain/England Resource Accounts  
and  
Forest Enterprise England Agency Accounts

---

# **Forestry Commission Great Britain/England**

## **Annual Report 2007-08**

Incorporating:

Forestry Commission Great Britain/England Resource Accounts  
and  
Forest Enterprise England Agency Accounts

**(For the year ended 31 March 2008)**

*Ordered by the House of Commons to be printed  
21 July 2008*

---

---

**© Crown Copyright 2008**

The text in this document (excluding the Royal Arms and other departmental or agency logos) may be reproduced free of charge in any format or medium providing it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the document specified.

Where we have identified any third party copyright material you will need to obtain permission from the copyright holders concerned.

For any other use of this material please write to Office of Public Sector Information, Information Policy Team, Kew, Richmond, Surrey TW9 4DU or e-mail: [licensing@opsi.gov.uk](mailto:licensing@opsi.gov.uk)

ISBN: 978 0 10 295551 4

## Contents

	Page
Foreword by the Chairman	4
Introduction by the Director General	5
Introduction by the Director England	6
<b>ANNUAL REPORT</b>	<b>7</b>
Management commentary	9
Corporate social responsibility	18
Leadership and governance	22
<b>FORESTRY COMMISSION GREAT BRITAIN/ENGLAND RESOURCE ACCOUNTS</b>	<b>27</b>
Financial commentary	28
Remuneration report	31
Statement of accounting officer's responsibilities	36
Statement on internal control	37
Certificate and report of Comptroller and Auditor General	42
Financial statements	44
<b>FOREST ENTERPRISE ENGLAND AGENCY ACCOUNTS</b>	<b>71</b>
Financial commentary	72
Remuneration report	74
Statement of accounting officer's responsibilities	77
Statement on internal control	78
Certificate and report of Comptroller and Auditor General	82
Financial statements	84

## Foreword by the Rt Hon Lord Clark of Windermere, Chairman

As I look back over the year, one of the features which impresses me is the extent of partnership working in which the Forestry Commission has been involved. For instance, last year the Commissioners visited the south west of England to look at the work being done by the Neroche Project. This offered a great opportunity to see the fruits of the work being done by the Commission and its partners.

The Neroche Project is a good example of the Commission working with partners across the countryside to provide benefits for both wildlife and local people. It is a key part of our work under the Government's 'Keepers of Time' policy to celebrate and protect our unique ancient woodlands.

We also visited the north east of Scotland last September, where again it was encouraging to see examples on the ground of the Commission and our stakeholders and partners working together so well. The enthusiasm and commitment by all concerned was most impressive. In this instance, the site visit demonstrated very well the value of the wide-ranging benefits that Scots pine forests can deliver. This year we will be visiting Wales to see yet more effective and imaginative ways of delivering across a range of policy priorities.

These examples demonstrate clearly that whilst the Commission is an organisation that has a reputation for delivering, we have realised we can achieve even more by working with others.

I am conscious that this partnership working has served us well within GB but we also have challenges which will have international implications. In particular, I think of the climate change agenda. Here the Commission is working hard.

Increasingly, I believe our work in this sphere will become more and more important and we have ambitious plans to meet this challenge.

## Introduction by Tim Rollinson, Director General

We have worked hard over the past year to raise awareness of forestry's role in helping society to adapt to a changing climate. We organised a conference 'Forests and Climate Change – A Convenient Truth?' in London in November 2007. In preparation for the event we put together a DVD presentation which sets out an action plan for the forest sector. Since the conference was held we have worked with the Food and Agriculture Organisation of the United Nations to produce a global version of the DVD, translated into all the languages of the UN. I am pleased to be able to help other countries understand the important role that forests can play in helping us all to tackle the greatest challenge facing the world today.

We are now taking forward a range of actions at GB level. These include exploring options to set up a new Centre for Forestry and Climate Change. This would bring together expertise on forestry and climate change and act as an authoritative and accessible source of knowledge and analysis.

Following publication of our People Strategy our efforts have turned to implementation. As a large employer we are committed to equality of opportunity in all areas of employment. We have worked hard over the year to deliver services that meet the needs of all social groups. We are preparing a new Equality and Diversity Strategy and have been publishing and analysing a much wider range of information about our workforce than ever before. Our Race Equality Scheme is now under review and a major training exercise for our staff is underway.

The range of activities we are involved in continues to expand. A new Renewable Energy Business Unit has been set up to develop renewable energy opportunities on our land. We have commissioned a survey to identify areas suitable for wind and hydro developments and will continue to expand this important area of our work.

This report provides many examples of what we are doing at both Great Britain and England levels. Our greatest strength is in making things happen on the ground and I am proud of the efforts of our staff for what they have achieved in the past year.

Sadly, the year was marked by the tragic death of Ian Forshaw, our Director Wales, who died suddenly on 20 September 2007. Ian led the work of the Forestry Commission in Wales with a great clarity of purpose, relishing the challenges of the top job and earning the respect of all who worked with him. Ian was not only a leading forestry professional and a highly respected colleague but also a friend to many across all parts of the forestry sector.

## Introduction by Paul Hill-Tout, Director England

Introducing the Annual Report is my opportunity to draw attention to the most significant events of the year. It is always a challenge to decide what these were. For some it may be the opening of one of our new facilities, perhaps the new visitor centres at Dalby and Fineshade or the new classroom complex at Cannock Chase. Others may see the publication of the new 'Strategy for England's Trees Woods and Forests' or the approval by the EC of the new Rural Development Programme for England, running to the end of 2013 as the most significant events. Elsewhere actions on climate change, bringing SSSIs into favourable condition or the production of almost 1.5 million tonnes of timber will be seen as most significant.

For me the difficulty in choosing the most significant events just goes to illustrate the range and diversity of the Commission's activity, connecting with different people in different areas about different issues. We frequently sum this up as the delivery of public benefits, which when you read this report, I hope you will agree we have achieved.

One event that stands out from all others for me was the eagerly anticipated publication of the 'Strategy for England's Trees Woods and Forests'. The England Forestry Strategy has served us well, but after ten years it is time to move on. The new strategy provides a refreshed mandate for tackling both old and new challenges. This will be taken forward in the Delivery Plan which we have been preparing with Natural England and which we look forward to publishing next year.

## ANNUAL REPORT

### *Status*

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

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

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

### *Strategy*

#### Forestry Commission England

In 1998, the Government published a Forestry Strategy for England. The strategy, 'A New Focus for England's Woodlands' set out the Government's strategic priorities and programmes for forestry in England. At the time of publication the Government said it would review the strategy within ten years. This review concluded during the year with the publication, in June, by the Department for Environment, Food and Rural Affairs (Defra), 'A Strategy for England's Trees, Woods and Forests'. This year has seen the start of the development of a Delivery Plan for the new strategy by the Forestry Commission England in partnership with Natural England.

The new strategy document is available on the Defra website at: <http://www.defra.gov.uk/wildlife-countryside/rddteam/forestry.htm>

#### Forestry Commission Great Britain

In the Great Britain role, the Forestry Commission provides advice and support to the UK Government and to the devolved administrations in Scotland and Wales. We set the standards for sustainable forest management and encourage good forestry practice. We conduct forestry research, provide information and we have statutory duties for some regulations that, by agreement with Ministers, are GB-wide. Working with other departments, it formulates UK policy in international negotiations develops the UK's national forest programme and advises on implementation of international and European obligations.

### *Aims and Objectives*

#### Forestry Commission England

The aims and objectives of Forestry Commission England set out the Corporate Plan for 2007-08 were based on the England Forestry Strategy and the wider objectives of Ministers. The Strategy is based on four key programmes, which reflect wider policy objectives. The four programmes set out below are not mutually exclusive:



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

The new 'Strategy for England's Trees Woods and Forests', published during the year, will be addressed in future plans.

#### Forestry Commission Great Britain

Through its powers and duties set out in the various Acts, the objective of the Forestry Commission for its Great Britain activities is "*On behalf of all three administrations, to take the lead in development and promotion of sustainable forest management and to support its achievement nationally*".

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

The annual spending plans for the Forestry Commission's activities in England and those functions that it carries out on a GB-wide basis are published as part of the Westminster Main Estimates. The Departmental Report 2005 for Defra was published in June 2005 and Chapter 5 includes the Forestry Commission Great Britain/England resource plans for the period 2004-05 to 2007-08. The latest Corporate Plans for England and Great Britain cover 2007-08 and are available on the Forestry Commission website at [www.forestry.gov.uk](http://www.forestry.gov.uk). From 2008-09 funding for the Forestry Commission's activities in GB and England will come via the Department for Environment, Food and Rural Affairs following the merger of the Forestry Commission's Vote into that for Defra.

#### *Our values – how we behave in fulfilling our objectives*

- **Teamwork** – Working as teams with colleagues and others to ensure that trees, woods and forests meet the needs of people in each part of the country.
- **Professionalism** – Enjoying and taking pride in our work, achieving high standards of quality, efficiency and sustainability.
- **Respect** – Treating one another with consideration and trust, recognising each person's contribution.
- **Communication** – Being open, honest and straightforward with colleagues and others, as willing to listen as to tell.
- **Learning** – Always learning, from outside the Forestry Commission as well as from within.
- **Creativity** – Not being afraid to try new ways of doing things.

## MANAGEMENT COMMENTARY

### Events

In April, Lord Clark opened the new environmentally friendly Dalby Visitor Centre in North Yorkshire as part of a major regeneration programme to promote tourism, new business and employment in Yorkshire and the Humber region. The Forestry Commission has worked with Yorkshire Forward, Ryedale District Council, the Government Office for Yorkshire and the Humber and North York Moors National Park Authority on the £4.3 million project to enhance visitor facilities and attractions in the area. Other elements of the regeneration include Dalby Courtyard, where old farm buildings have been redeveloped to provide workshop and sales space for local artists and craftspeople as well as office units, a café and a bike hire company. Additionally, 55 kilometres of new mountain bike trails forming four routes of varying difficulty have been completed. The visitor centre itself has been constructed using natural materials and gets nearly all the energy it uses from renewable sources. Since its opening, the Centre has beaten 18 short-listed projects to win the annual Prime Minister's Better Public Building Award, which recognises good design, efficient procurement, good teamwork between client, designer and contractors, sound financial management and whole life value for money. A formal presentation of the award took place in November. It has also won the Sustainability category in the Royal Institution of Chartered Surveyors (RICS) Pro-Yorkshire Awards.

Lord Clark officially opened the Top Lodge at Fineshade in June. Top Lodge is a £1 million re-development of the Commission's Northamptonshire base creating an eco-centre that brings together local partners in a venue that celebrates the local environment and heritage of one of Northamptonshire's most historic woodlands. The environmentally friendly facility comprises an education centre, a craft market, the Rockingham Forest Red Kite Project with an RSPB Shop and Lodge Café, which will promote healthy food and local produce. In addition courses, demonstrations and ranger-led walks will offer people the opportunity to learn about Rockingham Forest's industrial past and rich diversity of wildlife. The project was led by the Forestry Commission with funding from the Department for Communities and Local Government (CLG) via the Growth Area Funding and other national and local partners, including the River Nene Regional Partnership, the RSPB and the Rockingham Forest Craft Guild.

In January, the Princess Royal opened the Tree House Centre at Cannock Chase. The new classroom complex includes many environmental features such as passive solar and woodfuel heating, a Sedum roof and a grey water recycling system. Funded by the multinational building materials company, CEMEX, it is the first 100% approved FSC building in FC ownership. Her Royal Highness also opened a Heritage Lottery Trail across Cannock Chase, which is a partnership project between the Forestry Commission and two local authorities, and was funded by a Heritage Lottery Fund grant.

Work was completed on Jeskyns Community Woodland and Greenspace, a new 147 hectare community woodland near Gravesend, which was funded by CLG as part of the Thames Gateway. In July, Jeskyns opened its doors to local residents to enjoy a free 'Discovery Day'. This event provided an opportunity for residents to engage with the rangers and discover the range of facilities Jeskyns has on offer as part of the Thames Gateway green infrastructure.

Discover Wistlandpound, a unique new £1 million fully accessible natural and social heritage centre on Exmoor, was officially opened in November by Sarah Piercey, Great Britain wheelchair marathon athlete, and Jon Amos, Team Manager and Head Coach of the Great Britain paralympic powerlifting squad. The result of a collaboration by the Forestry Commission, Calvert Trust Exmoor and South West Lakes Trust, the Centre is aimed at people of all abilities and ages and will enable wheelchair users and those with limited mobility to enjoy this popular beauty spot.

Following the launch of the innovative 'Growing Adventure' report on independent play, Lord Clark hosted a visit to Hamsterley Forest for Helen Goodman, MP for Bishop Auckland, to look at issues including design planning, native woodland restoration, recreational development and plans for the new visitor centre.

Sport England used the Commission's facilities at Haldon Forest Park to host a meeting in April between Sports Minister, Richard Caborn MP, and stakeholders. Whilst on site, Mr Caborn took time out to look at the range of facilities available in the park which we have delivered with support from Sport England's 'Active England' programme.

In July, our groundbreaking 'Offenders and Nature' scheme received an Outstanding Schemes award from the Howard League for Penal Reform in the Community Programme Awards 2007. The award recognised the Commission's work with Natural England and the Ministry of Justice to develop and support offenders and nature schemes, which involve offenders in vital forest conservation and maintenance work as part of their community or custodial sentences. To date, more than 1,000 offenders have been involved in Forestry Commission projects across England, but it is the work at Bedgebury that was highlighted in the award. Bedgebury has been working with Kent Probation Service since 2004, and hosts working groups of offenders for several days of the week.

Restoration work at Bramshill Forest, North Hampshire, carried out by the Forestry Commission in partnership with CEMEX, has been acknowledged with a national award. Bramshill Forest has been mined for sand and gravel over the last four decades. The forest, which forms part of the Thames Basin Heath Special Protection Area, supports a range of recreation activities and produces a valuable timber resource. Restoration after mineral extraction has left the site with improved conditions for tree growth, conservation enhancements, sustainable habitats for endangered wildlife and a pleasant environment. The techniques developed through a long-standing collaboration between South East England Forest District, Forest Research and the quarry company are now used in mineral and brownfield restoration projects around the country.

In October, Bedgebury National Pinetum and Forest in the High Weald of Kent won the top accolade for Sports Tourism at the Tourism South East Tourism ExSEllence Awards and went forward to the Visit Britain national tourism awards finals.

### **Climate change and woodfuel**

The official opening of the Sembcorp Biomass Power Station took place in November. It is using around 300,000 tonnes of wood from a number of sources to generate 30 MW of electricity, enough to power around 30,000 homes. About 50,000 tonnes of the wood needed will come from short rotation coppice grown within 50 miles of the site. About 80,000 tonnes will come from forests in the form of small roundwood, of which the Commission is supplying 50,000 tonnes from Kielder and North Yorkshire. A similar amount will come from sawmill co-products and the remaining wood requirement will come in the form of recycled material. This biomass power station is an important 'first' in developing the large-scale use of wood for power generation in England. The plant is an important new market for the Commission and the timber growers in the North East. The knock on effect of this new market should be an increase in woodland management activity in the region, which can be beneficial for wildlife conservation, biodiversity and recreation. The power station itself will produce 'green' energy, making a contribution to the efforts to reduce our reliance on fossil fuels and non-renewable energy sources.

### **Grants and regulations**

The Rural Development Programme for England (RDPE) is England's mechanism for delivering European agricultural and rural development funding allocated to England, combined with related Exchequer funding for agri-environment, forestry and rural socio-economic support. The RDPE has a total budget of £3.9 billion for 2007-13, of which £231 million is in the indicative planned expenditure for forestry.

All RDPE grant schemes were transferred to Defra's accounts from 1 April 2008. Forestry Commission England will continue to administer and pay these grants on behalf of Defra. But the cost of the grants, and the associated income from the EU, will show in Defra's accounts in future rather than in the Forestry Commission's accounts.

RDPE received EC approval in December 2007 and we arranged for prompt issue of English Woodland Grant Scheme (EWGS) contracts to support sector activity over the winter season. The total area of woodland creation paid in 2007-08 was 2,260 hectares. Delay in RDPE approval resulted in a higher than normal number of cases not proceeding, although the total was in line with the seven year RDPE target of an average of 2,200 hectares per year. Total woodland regeneration payments amounted to £1.3m over 1,300 hectares. This was the highest area paid since 2000-01 and reflects the improving timber market. Regeneration payments under EWGS were well aligned with the 'Keepers of Time Policy' with 75% of the value (and 60% of the area) relating to activity on ancient woodland sites or the conversion of conifers to native species.

As part of the process for settling 2008-09 budgets with Defra, the Forestry Commission agreed to defer £1.75m of Exchequer expenditure on EWGS planned for 2008-09 to later years of the programme. We communicated how we planned to handle applications for 2008-09 funding via our EWGS 2008-09 Budget Management Announcement in February 2008.

The controls on tree felling resulted in the Forestry Commission issuing 2,207 felling licences that were not linked to EWGS. These covered 5,800,359 cubic metres of timber. We received 180 reports of illegal felling and investigated 32 in more detail. This year saw the first full year where we were able to use new powers granted under the Regulatory Reform Order (RRO). This allows us to issue a restocking notice without first securing a prosecution. As a result we sought 2 prosecutions of which one to date has been successful, the second has still to be resolved. We issued 1 restocking notice as a result of this prosecution and a further 20 restocking notices under the RRO. We issued 6 formal warnings and agreed no further action was required in 3 other cases. We have 1 case still pending.

A number of changes were made in August to the Habitats Regulations to increase the legal protection given to European Protected Species (EPS). A significant number of the species covered by the Regulations are found in woodland and we have been developing the means of implementing these changes and embedding them within the forestry sector in England. We have been working with partners to produce a series of guidance notes and other tools to help support and advise woodland owners and managers on how to manage woodland where there are protected species present. If activities cannot be modified, an EPS licence may be required. The Forestry Commission also organised a series of regional seminars for the woodland sector, which took place from November to January.

### **Strategy for England's Trees, Woods and Forests**

The new 'Strategy for England's Trees, Woods and Forests' (ETWF) was officially launched in June by Barry Gardiner MP, Parliamentary Under-Secretary, Defra, accompanied by Lord Clark. The launch took place at Ollerton Pit Wood in Nottinghamshire, which was chosen because the Sherwood Forest Community Rangers project features in one of the case studies in the Strategy.

The Strategy has significant new focus, with climate change, urban trees, and green infrastructures being included. The five aims of Government intervention in trees woods and forests in England can be summarised as: to secure trees and woodlands for future generations; to ensure resilience to climate change; to protect and enhance natural resources; to increase the contribution that trees, woods and forests make to our quality of life; and to improve the competitiveness of woodland businesses and products.

The Commission is working on a joint delivery plan with Natural England which will be published in Autumn 2008. In January, representatives of the Forestry Commission met the CLG Parliamentary Under Secretary of State, Baroness Andrews, to consider CLG input into the ETWF Delivery Plan.

### **Rural development**

The South East Development Agency are supporting an innovative project in the New Forest to develop an affordable, sustainable, modular and locally appropriate solution to rural housing provision across the region. The project, based on the construction of two commoning holdings in the New Forest, is a partnership initiative between Forestry Commission, the New Forest National Park Authority, Roderick James Architects LLP and the regional Forestry and Woodlands Partnership. The project aims to ensure good quality affordable housing provision to underpin the future sustainability of commoning (and its associated environmental and cultural benefits) in the New Forest through the development of low cost housing which meets the needs of commoners and reflects the character and heritage of the New Forest National Park. A model process and design approach are being developed that can be available for others to use in similar rural contexts. The project is trialling a sustainably constructed timber house design suitable for rural areas with increased environmental standards to lower the carbon footprint for new housing in the South East region, and aims to develop the supply chain for local timber and woodland products into the construction market.

In September, the Forestry Commission's National Development Group sponsored a one-day 'Building with Wood' conference at Exeter University. The conference was aimed at the construction industry, and raised awareness of the role of timber in sustainable construction. This event was organised by a broadly-based local partnership, and was supported by the Woodland Renaissance Programme, the

Building Research Establishment, Timber Research and Development Association, the Royal Institute of British Architects, the Confederation of Forest Industries UK Limited, and Wood for Good.

### **Economic regeneration**

This agenda has continued to evolve in line with Government's wider aspirations for housing growth and regeneration as set out in the Sustainable Communities Plan. This has enabled us to develop a closer collaboration with CLG in terms of the delivery of shared quality of life objectives relating to sustainable development, green infrastructure and social need. Examples of closer working include the secondment of a member of CLG's Housing Growth Team to support the Commission's work on growth and green infrastructure and the Commission's representation on CLG's Eco-town Expert Advisory Group.

In April, the Chairman hosted an event in the House of Commons to showcase the Commission's work on the urban and greenspace agenda. This was backed by a pack of fact sheets outlining the broad range of our work in the urban environment.

The River Nene Regional Park (which is within the Government's Housing Growth Areas) has been formalised as a Community Interest Company and the Forestry Commission has been invited to join the Board. The success of the regional park in the East Midlands was highlighted with the launch of 'Connecting People and Spaces – A Green Infrastructure Network for the Region' at a conference at Melton Mowbray in April, where the Forestry Commission exhibited a stand.

The Forestry Commission successfully co-hosted an exhibition stand with Natural England and other 'environmental partners' at the Thames Gateway Forum. This is a major annual event which brings together all the key public and private sector organisations behind the Thames Gateway initiative.

In March, the Government published its response to English Partnerships' recommendations to the National Brownfield Strategy, 'Securing the Future Supply of Brownfield Land'. The report includes nine key recommendations, one of which is to "Secure the treatment and long term maintenance of amenity land and other sites that are lacking development potential". The response highlights the key role of ETWF in supporting this recommendation and uses Newlands as a case study. It also recognises the role of the Land Restoration Trust, in which the Commission is a partner, as a means of addressing the need to ensure "restored land is maintained and appropriate mechanisms put in place for management".

In June, the official announcement of the £36 million programme to regenerate brownfield land across the North West (Newlands 2) took place. Lord Clark, accompanied by Stephen Broomhead, Chief Executive of NWDA, and representatives of the Lancashire Wildlife Trust, held a photo call at Brockholes, a former gravel extraction site near Preston which was purchased by Lancashire Wildlife Trust using £800,000 funding from the Newlands 1 programme. The programme includes a £480,000 three year core funding package for the North West's two Community Forests and a bespoke mini sites and 'Green Streeting' regeneration package of around £5 million to be delivered by the Community Forests.

Lancashire County Council and Global Renewables (GR), an Australian mining company, have signed a groundbreaking 25 year waste treatment PFI. GR will 'mine' Lancashire waste seeking to extract the highest values from each element, including organic waste. As part of the contract GR will plant (and maintain for 25 years) a minimum of 40 hectares per year of new native woodlands in Lancashire. The Commission has been working with the partnership for a number of years and is now helping to create the woodland implementation plan for the contract.

The two year transitional programme for England's Community Forests to facilitate their move from central to regional/local core support ended in March 2007. We have continued to work with Community Forests in order to help them embed themselves in regional and local structures and funding programmes. The Commission will continue to support the forests and incorporate them into our approach to green infrastructure, growth and regeneration, and have been exploring their potential as a key delivery partner for the revised ETWF.

### Recreation, access and tourism

In October, Lord Clark attended the PROGRESS project conference that took place in Fontainebleau.

PROGRESS (PROMotion and Guidance for Recreation on Ecologically Sensitive Sites) is a £2.5 million initiative co-funded by the EU Interreg IIIB Programme, the CLG and the project's five partner organisations, including the Forestry Commission.

The conference was the culmination of this four year international project, which aimed to reduce the impacts arising from the increasing demands of recreation on protected conservation areas. The project helped us understand more about how the New Forest in the UK and the Forêt de Fontainebleau in France are being affected by recreation and how to reduce the impact of recreational pressure.

A demonstration project, initially funded by Forestry Commission, has been successful in getting further funding from the Faith Communities Capacity Fund (supported by the CLG). This funding is helping to introduce the use of woodland for health, recreation and education to those sectors of society who may currently feel excluded from woodland and open green spaces. It will help to integrate groups of all faiths by working together on an exciting new project with a common social and environmental purpose through picnics, guided walks, outdoor discussion groups etc. Most of the site work will be focused on Maulden Woods near Bedford.

### Environment and conservation

Progress against the target for putting SSSIs into 'favourable and recovering' condition on the public forest estate has now reached 93%. Condition of woodland SSSIs in other ownerships is 88%. We have entered into a new partnership with Natural England and the New Forest National Park Authority with the objective of bringing the remaining 4,000 hectares of SSSI in the New Forest into favourable condition. This partnership agreement brings the key partners together in establishing an agreed approach and method of working, levers in additional funding and creates a mechanism for holding the funds required to undertake the necessary work programmes.

The Forestry Commission has signed a joint participation agreement with the Woodland Trust to collaborate on transferring our tree data to the Ancient Tree Hunt (ATH) database. The ATH is a five year project (2006-11) to find and map all the Ancient Trees across the UK, led by the Woodland Trust in partnership with the Ancient Tree Forum and the Tree Register of the British Isles. We are reviewing all of the records we currently have for veteran and ancient trees on the public forest estate with the intention of including them in the mapping project. Currently unrecorded areas will be mapped as a part of the project.

In February, Defra announced the 'Feral Wild Boar in England Action Plan'. Feral wild boar occur in woodland in the south-east and south-west. The Deer Initiative (DI) has been charged with leading on the provision of advice to landowners and managers. The most significant area for the public forest estate is the Forest of Dean, where there is the greatest contact between boar and members of the public and the Commission's rangers are occasionally asked for assistance by the authorities where public safety is involved or where an animal has been critically injured.

The Forestry Commission has taken action to tackle the decline in rare woodland butterflies and moths and help them to thrive once again. Launched in May, the Lepidoptera on Forestry Commission Land in England Conservation Strategy 2007-17 is a commitment by Forestry Commission England and Butterfly Conservation to conserve and increase populations of butterflies and moths in the nation's woodlands. 140 Forestry Commission woods were identified in the strategy as key sites for woodland butterflies and moths. Of these, 77 have been designated as A grade priority sites, because they support some of the UK's most endangered species.

We have been engaging with the Red Squirrel Protection Partnership (RSPP) and Red Alert North England to discuss the way forward for efforts to protect the remaining red squirrel populations in northern England and develop a sustainable strategy involving landowners and volunteers.

The National Pinetum at Bedgebury continues to work in partnership with the Royal Botanic Gardens Edinburgh to deliver the world-leading Conifer Conservation Programme. To celebrate 100 years of scouting, 200 local scouts planted 240 Chilean Plum Yew trees.

Two members of staff have been appointed to the International Union for the Conservation of Nature and Natural Resources (IUCN) Tree Specialist Group. This is in addition to their existing roles on the IUCN Conifer Specialist Group.

The Arboreta are in discussion with the Royal Botanic Gardens Kew and the Millennium Seed Bank to establish a 'Memorandum of Understanding'. This is a direct result of a successful joint field trip to the US West Coast and Tasmania where significant collections of threatened conifer seed were made. This will compliment the 'Memorandum of Understanding' we already have with the Royal Botanic Gardens Edinburgh.

Following a joint application between the Forestry Commission and Colney Memorial Parks Ltd, planning approval was granted for a woodland burial facility covering 31 hectares at Wilton Park Wood in the Chilterns. This is the first such development on FC land. Harvesting works for the access roads and buildings have been completed, with construction due to start in June 2008.

### **Personal Data Related Incidents**

Departments are required to set out in the Management Commentary to the 2007-08 resource accounts, the following:

- A summary of protected personal data related incidents formally reported to the Information Commissioner's office over the financial year;
- Centrally recorded protected personal data related incidents not formally reported to the Information Commissioner's Office in the financial year;
- Protected personal data related incidents in previous financial years;
- Statement and actions to manage information risk.

There were no protected personal data related incidents reported for Forestry Commission GB/England including Forest Enterprise England in 2007-08 or previous financial years. The Forestry Commission will continue to monitor and assess its information risks in order to identify and address any weaknesses and ensure continued improvement of its systems. Further information on the handling of information risk is contained in the Statement on Internal Control.

### **International Activities**

In April, the United Nations Forum on Forests reached agreement on a non-legally binding international instrument for sustainable forest management as well as a multi-year programme of work for the period 2007-15. The instrument, albeit voluntary, provides a framework for countries to identify national policies and measures to help deliver the global objectives on forests, and the programme of work sets out thematic issues to be addressed before 2015.

The UK's offer to host the 18th Commonwealth Forestry Conference in Edinburgh in 2010 was warmly accepted, and International Policy staff, who provide the Organising Committee Secretariat, are well advanced with the initial preparations for the Conference.

In November, the UK Environment and Forestry Minister, Phil Woolas, headed the UK delegation to the 5th Ministerial Conference on the Protection of Forests in Europe, and adopted a Ministerial Declaration as well as Resolutions on 'Forests, Wood and Energy' and 'Forests and Water'. The Ministerial Declaration sets the policy context and the need for action by highlighting key challenges facing forests and forestry and the overall framework for their role in contributing to climate change mitigation, energy supply and water protection.

The Forestry Commission led the development of the forestry content for the UK's Sustainable Development Dialogues (SDD), the work programmes for China, Brazil and Mexico have key forestry elements included, whilst work on the India and South Africa programme is currently under development. In May 2007, a high level delegation from the Forestry Commission visited China to launch the UK-China Forestry Working Group and develop an action plan for forestry co-operation between 2007-09. The Forestry Commission has also hosted a number of important bilateral meetings with key forest countries, notably the Russian Federation and Sweden.

### **Standards**

The Forestry Commission is currently revising the UK Forestry Standard and its associated guidelines to ensure they reflect current best practice. It is hoped to publish the revised UK Forestry Standard in 2009.

### Research

During 2007-08 the Forestry Commission commissioned a wide body of research in support of the Science and Innovation Strategy. The bulk of expenditure was with the Commission's own agency, Forest Research, which presents a separate, detailed report on its activities to Parliament.

During the year, the Forestry Commission also changed the way in which it commissions research to better reflect diverging country requirements. This new commissioning structure has been well accepted by all involved and has significantly improved the transparency and debate surrounding what is commissioned.

In 2007-08 a wide ranging review of the Tree Breeding research undertaken by Forest Research was completed and it has been decided to combine the conifer and broadleaved breeding work. The new programme will have a balance between traditional methods of tree breeding and, where possible, take advantage of advancing technologies such as somatic embryogenesis, marker aided selection and cryo-preservation. The combined programme will also cover a broader range of species to consider climate change scenarios.

### Better Regulation

We are playing a full part in the Government's Better Regulation initiative by taking forward the forestry-related elements of the exercise. Our first Simplification Plan launched in November 2006 saved our stakeholders affected by forestry regulations some £375,000 each year (26 per cent of the total administrative burden). We therefore met the five-year target set for us in the first year. In addition the Plan set out what measures to save those stakeholders (timber merchants, haulage contractors etc.) who, although not affected by regulatory control, face administrative costs when dealing with us. Again most of these measures are now in place saving these businesses some £1.3 million each year (a reduction in their costs of some 30 per cent).

Our second Simplification Plan, '*Making Regulation Work For Everyone*', launched in December 2007 set out further measures that will potentially save our Plant Health stakeholders some £16,000 each year and timber hauliers/contractors a minimum of £40,000 each year. Although these savings might seem small they are significant in terms of the businesses involved.

The Plant Health Service was Highly Commended in the 2007 National Business Awards "Better Regulation" category in 2007 for its work in regulating wood packaging material produced for use in international trade.

### Plant Health

Inspections:	Number Carried Out	Number in breach of regulations
on 1.2 million m <sup>3</sup> of imported sawn wood	5,411	23
of goods with associated wood packaging material	5,000	266

The Forestry Commission has continued its control programme in respect of *Phytophthora ramorum* and *Phytophthora kernoviae*. This has involved clearing of *Rhododendron ponticum* from infected sites, mainly in Cornwall and also in South Wales. During the year, outbreaks of *P.ramorum* and *P.kernoviae* were detected at garden sites in Scotland.

We surveyed horse chestnut trees across Great Britain to investigate the disease known as Horse Chestnut Bleeding Canker, caused by the bacterium *Pseudomonas syringae* pv. *aesculi*, not previously recorded in Great Britain. Over 2,500 horse chestnut trees were examined and almost half showed symptoms similar to those caused by the disease.

Following the detection of Oak Processionary Moth (*Thaumetopoea processionae*) in London in 2006, we launched our Pest Contingency Plan in June 2007. As a result of intensive surveys in Brent, Ealing, Hounslow and Richmond, over 700 nests were found and destroyed. An amendment to the Plant Health (Forestry) Order 2005 came into force on 31 March 2008 requiring all oak trees imported from



the rest of the European Union to have been grown in a nursery in an area known to be free of the pest. A formal request for "protected zone" status was made to the European Commission which may result in EU-wide measures being introduced.

### Forest Enterprise Summary of Key Performance Measures 2007-08

<i>Sustainable Forest Management</i>	<i>Target for 2007-08</i>	<i>Achieved</i>
Percentage of forest estate certified as sustainably managed.	100%	100%
Percentage of estate managed in accordance with approved Forest Design Plans.	96%	96%
<i>Social</i>		
Increase in area of forest estate with public access.	0 hectares	100 hectares
Area of new woodland created in priority areas for improving the environment of disadvantaged urban communities.	110 hectares	113 hectares
<i>Economic</i>		
Percentage of annual timber increment which is harvested.	75% <sup>1</sup>	75%
Income generated from sources other than timber production and sales of land and property.	£24.8 million	£28.4 million
<i>Environmental</i>		
Percentage of SSSIs in favourable or recovering condition.	88% <sup>2</sup>	93%
Progress with implementing relevant UK Biodiversity Action Plan targets.	Thin over 3,000 hectares Plantations on ancient woodland sites	3,301 hectares
<i>Operational</i>		
Cost per cubic metre of production.	£13.91	£14.55 <sup>3</sup>
Profit/(Loss) on timber operations.	£8.1 million	£14.4 million
Number of reportable accidents per hundred employees.	1.8	1.5
Percentage of customers and community partners "satisfied"	Key sites will achieve an average satisfaction score >0 <sup>4</sup>	All key sites achieved an average satisfaction score >0

<sup>1</sup>Defined as volume harvested/volume growth on FE estate as estimated by the national inventory of Woodlands and Trees.

<sup>2</sup>Assessment of condition is carried out on a 6 year cycle by Natural England. We are aiming to have 95% in favourable condition by 2010 (dependent on funding).

<sup>3</sup>The target was overshoot due to taking advantage of a strong market to work some difficult and sensitive sites in the Lake District and the Peak District.

<sup>4</sup>The customer satisfaction score ranges from -2 (much worse than expected) to +2 (much better than expected).

## Performance against Spending Review 2004 Targets for 2006 – 2008

Key Result	Target	Progress to 31 March 2008
<b>Great Britain</b>		
<b>Sustainable Development</b> Sustainable development is advanced through the role of woodlands and forestry	Achieve an improvement in trends in specified UK Indicators of Sustainable Forestry during 2006-2008. A2 (woodland creation), A6 (area of sustainably managed woodland), D3 (timber production) & E3 (public awareness).	The latest UK statistics show positive trends for certified woodland area, timber harvested and public awareness, but a decline in new woodland creation.
<b>England</b>		
<b>Sustainable Development</b> Sustainable development is advanced through the role of woodlands and forestry	Create 6,000 hectares of new woodland from 2006-08.	4,899 hectares – shortfall within 2007-08 due to delay and uncertainty of RDPE approval halting contract approval for 11 months in 2007 and increased commodity prices making landowners reluctant to plant.
	Promote an increase in the area of woodland certified against the UK Woodland Assurance Standard for sustainable forest management in England by 25,000 hectares from 2006-2008.	Area of certification has been maintained but there has been no increase.
<b>Rural Development</b> Local economies and rural development are enhanced by the contribution from forests and woodlands	Seek to improve the confidence of woodland and forestry related businesses by 5% on the 2005 baseline.	Survey on the confidence of woodland and forestry related business to be published Summer 2008.
<b>Economic Regeneration</b> Disadvantaged urban communities are given new life and investment attracted by improving the environment	Create 1,200 hectares of new woodlands in priority areas (e.g. Coalfield Areas and the 'top' 20% of most deprived wards) from 2006-2008.	1,514 hectares – target exceeded – linked to effective targeting of new planting and partnerships with Land Restoration Trust and Regional Development Agencies.
<b>Access and Recreation</b> People have healthier lifestyles and are more environmentally aware	Expand the area of woodlands with public access by 2,700 hectares over the period 2006-08 in priority areas established by the 2003 baseline study.	4,386 hectares – target exceeded – good results from working with local authorities.
	Increase the number of day visits by 5% over the 2005 baseline by 2008.	Awaiting survey results.
<b>Environment and Conservation</b> Future generations inherit improved biodiversity, landscape and cultural heritage in our forests by conserving and improving woodlands	To increase the area of all SSSIs where the Forestry Commission has statutory responsibilities which are in favourable or recovering condition to 87% by 2008 to ensure that 95% are in favourable or recovering condition by 2010.	88% – including 88% for all woodland SSSIs and 93% for all SSSIs (woodland and non-woodland) on the public forest estate.
	Lead the implementation of the UK Biodiversity Action Plan and Habitat Action Plan for woodlands in England for delivery by 2015.	Progress report will be available in November 2008 as part of UK BAP reporting. As a key part of the implementation of "Keepers of Time" the restoration of ancient woodland is proceeding both on the FC estate and in the private sector. Creation progress is slightly behind target. Woodland improvement remains the biggest challenge. Comprehensive guidance on managing ancient and native woodland (showing managers how to improve the condition of their woods), has been written, and went out to consultation in May 2008.
	Reverse the long-term decline in the number of woodland birds by 2020 as measured annually against underlying trends using the Woodland Birds Index.	The indicator shows that woodland bird declines seems to have stabilised. However, this overall stable picture masks the continuing decline of woodland specialist species such as willow tit and wood warbler and in contrast, there are considerable increases in common woodland resident species such as chaffinch and robin. Targeting tools are being piloted to focus woodland management on core bird populations.
<b>Value for Money</b>	Ensure a unit cost of grant administration of 16p at 2008.	16p – first Farm Woodland payments made during the year following successful transfer of responsibility to Forestry Commission.
	Achieve 85% of compliance with the customer service standard for grant schemes in England.	Overall outturn for 2006-08 79%. Shortfall in 2007-08 due to delay in approval of RDPE programme. Felling licence performance exceeded standard (93%).
	Reduce the unit cost of timber production on the FC estate to £13.55 per cubic metre by 2008 whilst increasing the proportion of woodland managed with low impact silvicultural systems.	2006-07 – £13.27; 2007-08 £14.55. The target was missed in 2007-08 due to taking advantage of a strong market to work some difficult and sensitive sites in the Lake District and the Peak District.

## CORPORATE SOCIAL RESPONSIBILITY

### Climate change

Climate change is the greatest challenge facing the world today. The important role of forests in tackling climate change is becoming ever more apparent, and was underlined by the 4th Assessment Report published by the Inter-Governmental Panel of Climate Change in 2007.

In November 2007, the Forestry Commission held an international conference entitled "Forests and Climate Change – a Convenient Truth?" in London. The conference was attended by experts from across Europe and the UK and received a keynote address from Phil Woolas, Minister for the Environment. Tim Rollinson, the Commission's Director-General, spoke to a DVD presentation that has subsequently been widely circulated and has received much acclaim. The Commission is now working with the Food and Agriculture Organisation to produce a global version of the DVD. Further to the conference, the Commission has initiated a network of interested parties to look at future work on forestry and climate change.

The Commission is taking forward several important actions at a GB level. These include putting in place a framework for woodland carbon management and emissions offsetting, and setting up a UK assessment of forestry's contribution to mitigating and adapting to climate change. The Commission is also examining options for establishing a Centre for Forestry and Climate Change. Its central function will be to bring together expertise on climate change, and to act as an authoritative and accessible source of knowledge and analysis that can underpin future action on climate change.

Details about what the Commission is doing for climate change can be found on our website at <http://www.forestry.gov.uk/forestry/infd-6umkar>.

### Greenerways

The Forestry Commission's Corporate Sustainability programme, known as Greenerways has undergone further development during the year. The underpinning documentation for the development of an Environmental Management System (EMS) has been put in place, and baseline data for a number of activities has been collected. This includes data on carbon emissions from buildings and carbon emissions from travel. As a result of this data collection exercise it has been possible to set broad targets for reductions in carbon emissions to take effect from 1 April 2008. We have also published operational instruction and guidance on the management of waste, which is a key component of an EMS, and also helps to ensure that the Commission is and remains legally compliant in this area. In support of this exercise, work has started to develop on-line databases to record and monitor progress against targets.

At the end of the year it was agreed that the programme will be set up as a "shared service" within Corporate and Forestry Support Division, to ensure that this important area of work becomes further embedded in the business programmes of the Commission. Greenerways now has its own Programme Board, responsible to the Commission's Executive Board, to steer future development.

### Social sustainability

As the UK's largest single provider of outdoor recreation we believe that we have a unique contribution to make to the Government's objectives for health and wellbeing given that our forests receive millions of visitors per year. We therefore continue to undertake research into social inclusion and environmental equity, wellbeing, governance and cultural heritage and in Scotland are working closely with the Scottish Government to capitalise on the potential for forests to contribute to health. We also provided a case study to the Sustainable Development Commission for their report on sustainability in Government which described our project with prisoners from HMP Dartmoor who are learning practical skills for environmental projects. The project continues, funded by Dartmoor National Park Sustainability Fund and Devon Renaissance.

## Renewables

The Forestry Commission's managed estate holds considerable potential in terms of Renewable Energy. Accordingly the FC has recently established a small Renewable Energy Business Unit (REBU), based in Stirling within the Forestry Business Units (FBUs) in order to form a centre of expertise to assist FCS, FCW, FCE in maximizing benefits from such potential. This unit will be focused on wind and hydro power and currently is working on three main projects, as follows;

- Hydro Power Development;
- Commercial Negotiations; and
- Remaining Renewable Energy Potential Quantification (Wind and Hydro).

## Partnerships and communities

Forestry Commission England is empowered to pay grants to private landowners, for and in connection with, the use and management of land for forestry purposes. Historically, nearly all the support given to the non-state woodland ownerships has been through grants to individual landowners. Now, in addition to our core grants delivery mechanism under the Rural Development Programme, the Commission increasingly works through numerous national and regional partners and partnerships to deliver other forms of support to the wider sector.

We have made a commitment to make local communities a priority in the way public forests are managed and England's Forestry Minister has pledged that local people will have an even greater involvement in decisions that will affect their community. Forest Enterprise England will build on its many partnership successes, working closely with communities. The measures demonstrate a pledge to bring the Government closer to people and in particular will mean:

- Local people will be more involved in the plans and shape of local woodlands;
- The needs of local businesses and contractors will be given higher priority;
- More recreational information will be provided;
- Local job opportunities will be promoted and;
- There is a recognition that different communities have different needs and should be accounted for.

## Forestry Commission Brand

We reviewed our brand and our corporate identity to ensure that they continue to be effective and help our customers to understand who we are and what we do. We decided that recognition of the Forestry Commission and our logo was high and that there should be no significant changes to logo or livery. What was needed was more consistency in approach to visual design, imagery, use of corporate colours and clothing. This resulted in a drive to discuss our brand values with our own staff, in some new corporate publications, and in the adoption of a range of new guidelines on the brand and the use of our corporate identity.

## Staff

### *People initiatives*

Following publication of our new People Strategy and Action Plan, work has progressed on several high priority projects. We have begun a review of our Postfilling/Recruitment policies and procedures. We have also purchased a new eRecruitment system, which will significantly improve our efficiency and effectiveness in attracting applicants for vacancies and in administering the postfilling/recruitment process. We have completed a review of our Pay & Reward Strategy, to set out the Forestry Commission's approach to pay and reward over the next five years. We have begun a review of our Discipline & Grievance policies and procedures.

### *Equality and Diversity*

The Forestry Commission recognises that in order to deliver the many varied benefits that forestry can provide for everyone our staff need to be representative of the British population today. We therefore aim to employ people with a wide range of appropriate skills, knowledge and behaviours from a diversity of backgrounds, in order to benefit from the fact that diversity in the workforce adds real value to the business by incorporating different experiences, viewpoints, cultures and ideas.

We are committed to equality of opportunity in all areas of employment. We will ensure we treat all staff fairly, with dignity and respect, regardless of race, disability, gender, age, sexual orientation and religion and belief. Diversity is fundamental not only to our employment practices but also to the way in which we deliver services, develop policy and engage with communities.

We are committed to developing an organisation in which fairness and equality of opportunity are central to our business. We will promote diversity in policy development and deliver services that meet the needs of all social groups. To this end we are developing more effective means of ensuring that our research and statistical analysis are evidenced-based and that they represent the needs of all sectors of the population. We will work to develop better links with all stakeholders especially 'hard to reach' groups, to help us both develop, monitor and evaluate our policies and services.

The Forestry Commission is committed to embedding and mainstreaming equality and diversity. This is reflected in our People Strategy which has the overarching objective:

“We want to better reflect the society we serve as a Government department. Diversity is central to good people management and modern organisational development”.

The Forestry Commission has now appointed a specific Equality and Diversity team. Among the main tasks for the year was drafting a specific Equality and Diversity Strategy to articulate the Commission's approach to equality and diversity, and to demonstrate our commitment to delivering practical outcomes over the next five years.

The team has also carried out the requisite monitoring and analysis of the Forestry Commission's workforce. The Race, Disability and Gender Monitoring Reports can be found on our Internet site, along with our current Equality Schemes. The Race Equality Scheme is currently under review.

### *Learning and Development*

A new permanent head of L&D was appointed in December 2007. L&D has been heavily involved with the implementation of the People strategy, specifically:

- To design and deliver four levels of diversity training;
- Finalising and integrating the new competency framework;
- GB wide Management Development Programme founded upon on the success of the FC Scotland pilot;
- Realigning our L&D portfolio to reflect changes; and
- Supporting the new Graduate Programme.

L&D helped run the Forestry Commission “Who we are” workshops, enabling our managers to explore the Forestry Commission brand and story and what it means in each part of the FC.

The Technical Training team has bought in some external associates to boost the amount of training provision. A Silvicultural Trainer was recruited reflecting the increased training demand for silvicultural practices.

Specific training events developed and delivered included:

- HAVS (Hand-arm vibration): GB wide delivery;
- Dealing with the management of Wild boar in areas across England;
- Completing the training of Greenerways Champions in units across the FC and;

- Extending the numbers of Certificates Of Competence scheme to include other high risk skills e.g. wood chippers, powered pruners, quad bikes, All Terrain Vehicles and clearing saws.

Technical trainers delivered SHAD events on contract to the HSE across GB providing contractors, forest management companies and estate owners guidance on the latest H&S issues.

#### *Health and safety*

##### Policy

It is the policy of the Forestry Commission to ensure the health and safety of all its employees, and to provide appropriately for the health and safety of others, including contractors, visitors, neighbours and members of the public who use our forests.

##### Programmes

During the year the Safety, Health & Environment introduced systems to improve the way we manage our employees exposure to vibration and noise at work. Next year we plan to contribute to a project to improve the way we manage health and safety in construction work.

##### Accidents

The following figures set out the incidence of reportable accidents (those causing incapacity for more than three days) for all staff in 2007-08 and the preceding years.

Year	No of accidents per 100 employees
2007-08	0.81
2006-07	0.38
2005-06	0.98
2004-05	0.93

##### **Honours**

The following Forestry Commission nominees were successful in The Queen's Honours List;

Mr Craig Heaney OBE. Lately Director Business Units. For services to forestry engineering;

Professor James Lynch OBE. Chief Executive Forest Research. For services as Programme Co-ordinator, Biological Resource Management for the Organisation for Economic Co-operation and Development (OECD);

Mr John Gulliver MBE. Head Keeper New Forest. For services to wildlife conservation in the New Forest;

Mr Ronald Murdoch Campbell MBE. Lately Wildlife Ranger, Isle of Mull. For services to conservation and to the local community of Buessan on the Isle of Mull; and

Mr Mark Andrew Johnston MBE. Research Fellow in Arboriculture and Urban Forestry, Myerscough College, Preston. For services to the forestry industry.

## LEADERSHIP AND GOVERNANCE

### *Ministers*

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

Rt Hon David Milliband MP	Secretary of State, Department for Environment, Food and Rural Affairs (until 27 June 2007)
Rt Hon Hilary Benn MP	Secretary of State, Department for Environment, Food and Rural Affairs (from 28 June 2007)
Barry Gardiner MP	Parliamentary Under-Secretary (Commons), Department for Environment, Food and Rural Affairs (until 28 June 2007)
Joan Ruddock MP	Parliamentary Under-Secretary (Commons), Department for Environment, Food and Rural Affairs (from 29 June 2007)

### *Forestry Commissioners and Permanent Head of the Department*

The Board of Commissioners gives strategic direction to the Forestry Commission. Commissioners who served during the year were:

#### **Chairman**

Rt Hon Lord Clark of Windermere

#### **Executive Forestry Commissioners**

Tim Rollinson	Director General and Deputy Chairman
Dr Bob McIntosh	Director Scotland
Ian Forshaw	Director Wales (until 20th September 2007)
Trefor Owen	Director Wales (from 19th March 2008, Acting Director Wales from 25 September 2007 to 18th March 2008)
Paul Hill-Tout	Director England

#### **Non-executive Forestry Commissioners**

Martin Gale CBE	Commissioner for Scotland
Dr Calum MacDonald	Commissioner for Scotland
Sir Harry Studholme	Commissioner for England
Dr Olutayo Adebawale	Commissioner for England
Jon Owen Jones	Commissioner for Wales
Judith Webb	Commissioner for Wales

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

The Board of Forestry Commissioners met in June, September and December 2007, and March 2008. They discussed a wide range of GB and international forestry issues, including forest research, health and safety, corporate governance, Forest Holidays, renewable energy, climate change, and the revision of the UK Forestry Standard.

At each meeting, the Board also discussed the Director General's report, and country reports from the Forestry Commission's Directors in England, Scotland and Wales. Papers for these meetings and further information on the Board of Commissioners are available on our website: [www.forestry.gov.uk](http://www.forestry.gov.uk).

*The Executive Board*

The Executive Board is responsible for:

- Developing and delivering plans to reflect the long-term objectives and priorities established by the Board of Forestry Commissioners;
- Overseeing the day-to-day management and direction of the Forestry Commission;
- Monitoring performance to ensure that the Forestry Commission is properly and effectively managed; and
- Ensuring effective communication.

The members of the Executive Board who served during the year were:

Tim Rollinson	Director General
Dr Bob McIntosh	Director Scotland
Ian Forshaw	Director Wales (until 20th September 2007)
Trefor Owen	Director Wales (from 19th March 2008, Acting Director Wales from 25 September 2007 to 18th March 2008)
Paul Hill-Tout	Director England
Professor Jim Lynch OBE	Chief Executive, Forest Research Agency (until 30 September 2007)
Dr Peter Freer-Smith	Acting Chief Executive, Forest Research Agency (from 1 October 2007)
Kim Lardge	Director Human Resources (until 18 January 2008)
Jean Lindsay	Director Human Resources (from 29 November 2007)
Keith Gliddon	Director Finance
Wilma Harper	Secretary and Head of Corporate and Forestry Support

The Executive Board met in May, June, August, October and December 2007 and February 2008.

The Executive Board addressed a wide range of issues during the year including climate change, revaluation of the FC estate, commercialisation of recreation, renewable energy, Review of Inventory and Forecasting Unit, Greenerways, 2012 Olympics, Forests and Health, Competency Framework, Forest Research Development Strategy, Pay and Reward Strategy, Visitor Safety Review Project and Equal Pay Audit. There are also several issues discussed by the EB at every meeting, including the FC's finances, communications and the equality and diversity agenda. Specifically this year, the EB examined the statistical analysis of the FC's workforce and how to increase numbers of BME and disabled employees.

Further information on the Executive Board is available on our website, [www.forestry.gov.uk](http://www.forestry.gov.uk).



*National Committee for England*

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

Rt Hon Lord Clark of Windermere	Chair and Forestry Commission Chairman
Sir Harry Studholme	Commissioner for England
Dr Olutayo Adebawale	Commissioner for England
Gerald Dawe	Non-executive member (until 7 January 2008)
Keith Oates	Non-executive member (from 14 May 2007)
William Weston	Non-executive member (from 7 January 2008)
David Coleman	Non-executive member (Defra)
Paul Hill-Tout	Director, Forestry Commission England and Commissioner
Simon Hodgson	Chief Executive, Forest Enterprise England
Charlotte Cane	Finance Director, Forestry Commission England
Rod Leslie	Head of Programme Group, Forestry Commission England (until 28 February 2008)
Simon Pryor	Acting Head of Programme Group, Forestry Commission England (from 18 March 2008)

*England Executive Board*

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

Paul Hill-Tout	Chair, Director, Forestry Commission England and Commissioner
Simon Hodgson	Chief Executive, Forest Enterprise England
Richard Britton	Head of Forestry Authority and Regions
Rod Leslie	Head of Programme Group, Forestry Commission England (until 26 February 2008)
Simon Pryor	Acting Head of Programme Group, Forestry Commission England (from 26 February 2008)
Mark Pritchard	Head of Communications and Secretariat, Forestry Commission England
Charlotte Cane	Finance Director, Forestry Commission England
Sarah England	Human Resources Business Partner, Forestry Commission England (from 1 May 2007)

*Forest Research Management Board*

Forest Research Agency has a separate management board with Peter Freer-Smith as its Acting Chief Executive. Full details can be found in the Agency Annual Report and Accounts.

*Forest Enterprise England Management Board*

The Agency Management Board gives strategic direction and leadership to the forest districts within England. The membership for 2007-08 was:

Simon Hodgson	Chief Executive
Rob Guest	Forest District Manager, Forest of Dean (1 April 2007 to 31 March 2008)
Brian Mahony	Head of Sustainable Forestry and Land Management
Mark Thornycroft	Head of Estates
James Swabey	Head of Recreation and Public Affairs
Ken Milsom	Head of Human Resources (until 31 December 2007)
Steve Meeks	Head of Finance
Jo O'Hara	Head of Corporate and Forest Planning

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

*Audit and Risk Committee*

In England, the National Committee and Accounting Officers are supported by a sub committee known as the Audit and Risk Committee (ARC). Its purpose is to help them in their responsibilities for the effective management of risk control and governance across the organisation in England. Through its work the ARC provides independent assurance to the National Committee on those key activities which support the achievement of country objectives. Assurance is also provided on the GB element of the Forestry Commission's work through the review of the annual accounts and the findings from work carried out by Internal and External Audit. The ARC operates in accordance with the principles contained in the Treasury's Audit Committee Handbook. The members of the ARC for England are:

Sir Harry Studholme	non-executive Chair and Commissioner for England
Olutayo Adebawale	non-executive Commissioner for England
Keith Oates	non-executive member England National Committee

Further information on the responsibilities and work of the Audit Committee during the year is provided in the Statement on Internal Control (SIC).

*Corporate Governance*

The SIC provides a summary of the way in which Forestry Commission Great Britain/England manages its Governance and Internal Control. Forestry Commission Great Britain/England has applied the principles of the Treasury's Code of Good Practice for Corporate Governance in the context of its own circumstances.

**Principal risks, uncertainties and opportunities**

Forestry Commission Great Britain/England has identified the following principal risks, uncertainties and opportunities in achieving its aims and objectives:

**Economic** – this relates to the management of the estate to benefit the wider economy. This includes opportunities or possible adverse effects relating to the maximisation of the value of the wood resource and maintenance of high and stable levels of economic growth and employment.

**Reputational** – this relates to the level of criticism that might be levelled at our Minister or Forestry Commission Great Britain/England and the effect that this might have on our relationships with other organisations and with the public.

**Environmental** – this relates to the implications for the targets of maintaining and enhancing the biodiversity, cultural value and landscape character of our estate, making a positive contribution to the environment, effective protection of the environment and prudent use of natural resources.

**Social** – this relates to the implications for the targets of contributing to the quality of life for a wide range of people by creating opportunities to enjoy trees, woods and forests and helping communities to benefit from woods and forests whilst recognising the needs of everyone.

#### *Risk Management Policy*

The Risk Management Policy of Forestry Commission Great Britain/England is to be fully committed to effective risk management, adopting best practice in the identification, evaluation and control of risks, in order to:

- Integrate risk management into the culture of Forestry Commission Great Britain/England;
- Eliminate or reduce risks to an acceptable level;
- Anticipate and respond to changing social, environmental and legislative requirements;
- Prevent injury and damage and reduce the cost of risk;
- Raise awareness of the need for risk management and;
- Ensure that Business Continuity Plans are prepared for each Region and each of the services needed to deliver the FC's business (Finance, IT,HR, Grants and Regulations and Communications).

By adopting its Risk Management Policy, Forestry Commission Great Britain/England recognises Risk Management as a key function in helping to ensure it achieves its aims and objectives.

# **FORESTRY COMMISSION GREAT BRITAIN/ENGLAND**

## **RESOURCE ACCOUNTS 2007-08**

## FINANCIAL COMMENTARY

### *Basis of accounts*

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

### *Departmental accounting boundary*

The Forestry Commission Main Estimate for Westminster provides for the net funding for the Forestry Commission's activities in England and those functions which it carries out on a Great Britain-wide basis. It is, therefore, split into two Requests for Resources (RfRs) to separate the responsibilities of England and Great Britain. The full descriptions of the RfRs are:

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

RfR1 includes the operation of the Forestry Commission's estate in England by its agency, Forest Enterprise England. It is a public corporation for national accounting purposes and accordingly is outside the departmental boundary for resource accounting. Its net funding is, therefore, reflected wholly under RfR1 programme costs.

RfR2 includes the operation of the Forest Research Agency which is designated a Great Britain entity and is, therefore, consolidated in these accounts. The principal place of business of Forest Research is Alice Holt Lodge, Farnham, Surrey.

Forestry Commission Scotland and Forestry Commission Wales each produce their own Resource Accounts.

### *Financial Review*

Resources to fund our activities in England and our GB functions come from Westminster, from Regional Development Agencies, from the European Union, and from income from the public forest estate managed by Forest Enterprise England.

Westminster funding for the Forestry Commission was decided as part of the Government's 2004 Spending Review. The planned sources of income and expenditure up to 2010-11 are shown in the latest Forestry Commission's Corporate Plan for England and for Great Britain activities. Our Westminster funding for 2008-09 has been decided as part of the Government's 2007 Comprehensive Spending Review.

Resources in England are used to sustain and expand woodlands, increase recreation opportunities and public access together with woodland services in accordance with the England Forestry Strategy. This strategy was replaced during 2007-08 by a 'Strategy for England's Trees, Woods and Forests'. We are drawing up an implementation plan during 2008-09 so that our resources will be used to support the new strategy.

Timber sales represent the largest single source of income for Forest Enterprise and its financial strength is closely linked to the strength of the UK timber market. The relative strength of the currency, world-wide and European demand trends, availability and cost of shipping, and the health of the UK construction sector have all contributed to the continuing improvement in the market for home-grown timber. Early indications are that this upward trend will not continue into 2008-09. Every attempt is also made to maximise income from the wider Estate's assets.

*Significant variances against estimate*

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

£m	Estimate	Outturn	Difference
Total resource RfR1	72,152	65,717	6,435
Total resource RfR2	18,217	17,915	302
Total resource GB/England	90,369	83,632	6,737
Net cash requirement	69,786	64,543	5,243

The total resource net under spend in RfR1 principally arose from savings in cost of capital charges, timber income and grant under spend. Cost of capital was under estimate by £1.7m, because the value of the Estate was less than anticipated. Timber income was £9.8m above estimate because prices continued to increase during the year. This was partly offset by an increase in net operating expenditure of £8.2m. Take up on the Farm Woodland grant scheme, which we administered for the first time in 2007/08, was slower than we had anticipated and delays in approval of the RDPE programme caused delays in offering the Woodland Grants. These led to an under spend on grants of £3.1m.

The cash underspend of £5.2m is 7.5% less than estimate. The majority of the cash underspend arises from the underspend in grants mentioned above. A further £0.8m is as a result of receiving deferred income relating to the Newlands project. The remainder is due to various timing differences in payments and receipts.

*Reconciliation of resource expenditure between Estimates, Accounts and Budgets*

	2007-08	2006-07
	£000	£000
<b>Net Resource Outturn (Estimates)</b>	90,369	83,156
<i>Adjustments to remove:</i>		
Provision voted for earlier years	-	-
<i>Adjustments to additionally include:</i>		
Non-voted expenditure in the OCS	-	-
Consolidated Fund Extra Receipts in the OCS	-	-
Other adjustments	(814)	(6,905)
<b>Net Operating Cost (Accounts)</b>	89,555	76,251
<i>Adjustments to remove:</i>		
Capital grants to local authorities	-	-
Capital grants financed from the Capital Modernisation Fund	-	-
European Union income and related adjustments	-	-
Voted expenditure outside the budget	-	-
<i>Adjustments to additionally include:</i>		
Other Consolidated Fund Extra Receipts	-	-
Resource consumption of non departmental public bodies	-	-
Unallocated resource provision	-	-
Other adjustments	3,467	9,558
<b>Resource Budget Outturn (Budget)</b>	93,022	85,809
of which		
Departmental Expenditure Limits (DEL)	93,022	85,809
Annually Managed Expenditure (AME)	-	-

*Market stability*

The timber haulage sectors are facing inflationary pressures due to oil inflation. But these increased costs have been more than offset by the increase in timber prices. Indications are that the timber market is unlikely to see rising prices in 2008-09 or for the foreseeable future.

**Other Disclosures***Supplier Payment Policy*

Forestry Commission Great Britain/England complies with the Government's Better Payment Practice Code. Unless otherwise stated in the contract, we aim to pay within 30 days from the receipt of goods and services or the presentation of a valid invoice, whichever is the later. A sample analysis for 2007-08 indicates that 99.4% of invoices paid by Forestry Commission Great Britain, 98% of invoices paid by Forestry Commission England and 100% of invoices paid by Forest Research were paid within the due date. Arrangements for handling complaints on payment performance are notified to suppliers on contracts. No interest was paid under the Late Payment of Commercial Debts (Interest) Act 1998.

*Pensions*

Information on pensions is contained in the Remuneration Report and accounting policy note 1.5.

*Auditors*

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

*Disclosure of audit information to the auditors*

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

*T J D Rollinson*  
Accounting Officer  
11 July 2008

## REMUNERATION REPORT

### Remuneration policy

Fees for non-executive Commissioners and National Committee members who are not Forestry Commission employees are determined in accordance with guidelines prescribed by the Cabinet Office. The Forestry Commission's Senior Pay Committee comprises the Chairman, Director General, Director Scotland, Director England, and three other non-executive Commissioners. The Chairman and non-executive members determine the Director General's pay. The Chairman, Director General and non-executive Commissioners take decisions in respect of Country Directors. The entire committee takes decisions on the remaining senior staff posts.

In reaching its decisions on an individual's salary and bonus, the Senior Pay Committee has regard to the following considerations:

- Guidelines circulated by the Cabinet Office implementing Government decisions on the recommendations of the Senior Salaries Review Body (SSRB). The SSRB is responsible for monitoring the operation of the Senior Civil Service pay system and for making recommendations to the Government on the shape of the system. This includes the salary values for the minimum and maximum of each of the senior pay bands, the range of percentage increases to base salary and range of bonuses. Further information on the work of the SSRB can be found at [www.ome.uk.com](http://www.ome.uk.com).
- Reporting Officers' recommendations on the relative performance of each of their senior staff, whether a bonus should be paid and if so whether low or high. The Senior Pay Committee consider the recommendations, determine the allocation of senior staff to tranches, and decide the percentage increase to salary and any bonus to be awarded.

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

### Employment contracts

Civil Service appointments are made in accordance with the Civil Service Commissioners' Recruitment code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made. Unless otherwise stated below, the senior staff covered in this report hold appointments that are open-ended until they reach the normal retiring age, with a maximum notice period of six months. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. Non-executives are generally appointed for a fixed term of three years with a maximum notice period of one month. Contracts are renewable for further fixed terms if both parties agree. In the event of early termination, for whatever reason, there is no provision for compensation.



Details of letters of appointment for the non-executives and senior staff who do not have open-ended appointments who served during the year are:

	Date of current contract/letter	Unexpired term (months*)
Rt Hon Lord Clark of Windermere	10/12/2007	14.5
Martin Gale	1/4/2006	12
Dr Calum MacDonald	1/4/2006	12
Dr Olutayo Adebowale	1/4/2006	12
Jon Owen Jones	18/1/2007	21.5
Judith Webb	18/1/2007	21.5
Gerald Dawe (until 7 January 2008)	21/7/2006	n/a
Sir Harry Studholme	18/1/2007	21.5
David Coleman	24/5/2005	n/a
Professor Jim Lynch (until 30 September 2007)	1/7/2003	n/a
Keith Oates	14/5/2007	25.5
William Weston	7/1/2008	33
Simon Pryor	3/3/2008	n/a

\*months remaining from 31 March 2008

David Coleman, a member of the National Committee for England, is employed by Defra and does not receive any additional remuneration from Forestry Commission England.

#### Salary and pension entitlements (information subject to audit)

The salary and pension entitlements of the civil servants, who are members of the Great Britain Executive Board, the National Committee for England and the England Executive Board were as follows:

	2007-08		2006-07	
	<u>Salary</u>	Benefits in kind	<u>Salary</u>	Benefits in kind
	£000	To the nearest £100	£000	To the nearest £100
Tim Rollinson	130-135	-	120-125	-
Paul Hill-Tout	85-90	-	85-90	-
Professor Jim Lynch	40-45 <sup>1</sup>	-	85-90	-
Kim Lardge	75-80 <sup>2</sup>	-	80-85	1,300
Jean Lindsay	15-20 <sup>3</sup>	-	-	-
Sarah England	45-50 <sup>4</sup>	1,800	-	-
Simon Pryor	5-10 <sup>5</sup>	-	-	-
Keith Gliddon	75-80	-	75-80	-
Wilma Harper	65-70	-	60-65	-
Mark Pritchard	50-55	1,000	45-50	900
Charlotte Cane	50-55	-	50-55	-
Richard Britton	55-60	2,000	55-60	2,000
Rod Leslie	60-65	-	60-65	-

<sup>1</sup>Figure quoted is for the period 1 April 2007 to 30 September 2007. The full year equivalent is 80-85.

<sup>2</sup>Figure quoted is for the period 1 April 2007 to 18 January 2008. The full year equivalent is 80-85.

<sup>3</sup>Figure quoted is for the period 20 November 2007 to 31 March 2008. The full year equivalent is 65-70.

<sup>4</sup>Figure quoted is for the period 1 May 2007 to 31 March 2008. The full year equivalent is 50-55.

<sup>5</sup>Figure quoted is for the period 26 February 2008 to 31 March 2008. The full year equivalent is 50-55.

The salary and pension entitlements of Bob McIntosh, an Executive Forestry Commissioner, are borne and disclosed in the Forestry Commission Scotland Annual Report and Accounts 2007-08 as he is Director, Forestry Commission Scotland.

The salary and pension entitlements of Trefor Owen, an Executive Forestry Commissioner during the year, are borne and disclosed in the Forestry Commission Wales Annual Report and Accounts 2007-08.

The salary and pension entitlements of Simon Hodgson, a member of the National Committee for England during the year are borne and disclosed in the Forest Enterprise England Annual Report and Accounts 2007-08.

The salary and pension entitlements of the members of the Forest Research Management Board and Forest Enterprise England Management Board are shown in each of the agency's Annual Report and Accounts 2007-08.

### Salary

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

### Benefits in kind

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

### Pension benefits (information subject to audit)

	Accrued pension at age 60 at 31 March 2008 and related lump sum £000	Real increase in pension and related lump sum at age 60 £000	CETV at 31 March 2008 £000	CETV at 31 March 2007** £000	Real increase in CETV £000	Employer contribution to partnership pension account Nearest £000
Tim Rollinson	45-50 plus LS of 140-145	0-2.5 plus LS of 5.0-7.5	1,004	845	37	-
Paul Hill-Tout	25-30 plus LS of 85-90	0-2.5 plus LS of 0-2.5	550	467	11	-
Professor Jim Lynch	5-10 plus LS of 0-5	0-2.5 plus LS of 0-2.5	121	101	13	-
Kim Lardge	5-10 plus LS of 0-5	0-2.5 plus LS of 0-2.5	97	65	21	-
Jean Lindsay	10-15 plus LS of 40-45	2.5-5.0 plus LS of 7.5-10.0	263	179	55	-
Sarah England	15-20 plus LS of 45-50	0-2.5 plus LS of 0-2.5	221	177	-	-
Simon Pryor	0-5 plus LS of 10-15	0-2.5 plus LS of 0-2.5	72	54	9	-
Keith Gliddon	30-35 plus LS of 95-100	0-2.5 plus LS of 0-2.5	742	640	15	-
Wilma Harper	25-30 plus LS of 0-5	0-2.5 plus LS of 0-2.5	451	398	10	-
Mark Pritchard	15-20 plus LS of 55-60	0-2.5 plus LS of 0-2.5	360	291	9	-
Charlotte Cane	10-15 plus LS of 35-40	0-2.5 plus LS of 2.5-5.0	240	188	15	-
Richard Britton	15-20 plus LS of 35-40	0-2.5 plus LS of (2.5)-0	294	251	10	-
Rod Leslie	30-35 plus LS of 80-85	5.0-7.5 plus LS of 7.5-10.0	621	453	114	-

\*\* Due to certain factors being incorrect in last years CETV calculator there may be a slight difference between the final period CETV for 2006/07 and the start of period CETV for 2007/08.

### Civil Service Pensions

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 Prices Index (RPI). Members joining from October 2002 may opt for the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, 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 (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a hybrid with benefits in respect of service before 1 October 2002 calculated broadly as for classic and benefits for service from October 2002 calculated as in premium. In nuvos a member builds up a pension based on his 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 2.30% 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 give up (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 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.

Further details about the Principal Civil Service Pension Scheme can be found at the website [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)

### Cash Equivalent Transfer Values

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

**Real increase in CETV**

This reflects the increase in CETV 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 non-executives*

The non-executive Forestry Commissioners and members of the National Committee for England received the following remuneration for their services during the year ended 31 March 2008.

	<b>£000</b>
Rt Hon Lord Clark of Windermere	50
Martin Gale	11
Dr Calum MacDonald	14
Sir Harry Studholme	11
Dr Olutayo Adebawale	14
Jon Owen Jones	14
Judith Webb	11
Keith Oates (from 14 May 2007)	4
William Weston (from 7 January 2008)	1
Gerald Dawe (until 7 January 2008)	2

*T J D Rollinson*  
Accounting Officer  
11 July 2008

## STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under the Government Resources and Accounts Act 2000, HM Treasury has directed Forestry Commission Great Britain/England to prepare, for each financial year, resource accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the department during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the department and of its net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the principal Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- observe the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

HM Treasury has appointed the Permanent Head of the Department as principal Accounting Officer of the department. In addition, HM Treasury has appointed an additional Accounting Officer to be accountable for that part of the department's accounts relating to Forestry Commission England's specified request for resources and the associated assets, liabilities and cash flows. This appointment does not detract from the Head of Department's overall responsibility as Accounting Officer for the department's accounts.

The allocation of Accounting Officer responsibilities in the department is as follows:

Request for resources 1: Paul Hill-Tout, Director, Forestry Commission England

Request for resources 2: Tim Rollinson, Director General, Forestry Commission

In addition, Director, Forestry Commission England has designated an additional Accounting Officer to be accountable for that part of the department's accounts relating to the Forest Enterprise England Agency within Request for resources 1 and the associated assets, liabilities and cash flows. This appointment does not detract from the Head of Department's overall responsibility as Accounting Officer for the department's accounts. In addition, Director General, Forestry Commission has designated an additional Accounting Officer to be accountable for that part of the department's accounts relating to the Forest Research Agency resources within Request for resources 2 and the associated assets, liabilities and cash flows. This appointment does not detract from the Head of Department's overall responsibility as Accounting Officer for the department's accounts.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding Forestry Commission Great Britain/England's assets, are set out in the Accounting Officers' Memorandum, issued by HM Treasury and published in *Managing Public Money*. Under the terms of the Accounting Officers' Memorandum, the relationship between the department's principal and additional Accounting Officers, together with their respective responsibilities, is set out in writing.

## STATEMENT ON INTERNAL CONTROL

### 1. Scope of responsibility

#### *Forestry Commission*

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

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

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

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

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

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

#### *Forestry Commission England*

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

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

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

#### *Public Accounts Committee*

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

## **2. The purpose of the system of internal control**

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Forestry Commission Great Britain/England's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Forestry Commission Great Britain/England for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

## **3. Capacity to handle risk**

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

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

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

## **4. The risk and control framework**

Forestry Commission Great Britain/England is committed to a process of continuous development and improvement: developing systems in response to any relevant reviews and developments in best practice in this area. In particular, in the period covering the year to 31 March 2008 and up to the signing of the accounts Forestry Commission Great Britain/England has:

- Worked with a private sector risk management consultant to develop a set of Business Continuity Plans. One for each Region together with 5 National Plans covering Finance (including procurement), Human Resources, IT, Grants and Regulations and Communications. Completion of the plans is expected by June 2008. The purpose of the plans is to ensure that there are procedures in place to facilitate the recovery of the FC's critical business activities or key enabling capabilities should a break in continuity occur. This process is also part of the embedding of risk and its management at the cost centre management level ensuring common standards across our organisation in England;
- Participated in the Forestry Commission wide, Risk Management Group (RMG), whose purpose is to ensure continued development of risk management within, and the sharing of best practice across, the Commission. The RMG met on 3 occasions, in July and November 2007 and February 2008.
- Undertook a thorough review of the existing risk registers using 5 members of the England Executive Board facilitated by our risk management consultant. In order to reflect newly identified potential risks and appropriate control measures. This has included the further enhancement of the Risk Register methodology to clearly define inherent and residual risk; and also improved the reporting procedures to the ARC and National Committee.
- Continued to use and adapt the risk management software package working towards greater integration with Internal Audit and their planning.

An Internal Audit review in 2004-05 identified that the Forestry Commission needed fully developed contingency plans. The RMG identified a prioritised list of plans and work has started on these during 2007-08. Further resource has been committed to ensuring that the plans are completed during 2008-09.

Following a review of the effectiveness of existing Audit Committee arrangements across the Forestry Commission, a revised structure, reflecting the needs of each country, was put in place during 2007-08. In England, the National Committee has established an Audit and Risk Committee (ARC) as a sub-committee to support them in their responsibilities for the effective management of risk, control and governance. Through its work the ARC provides independent assurance to the National Committee on these key activities which support the achievement of country objectives.

Assurance is also provided on the GB element of the Forestry Commission's work through the review of the annual accounts and the findings from work carried out by Internal and External Audit. The ARC operates in accordance with the principles contained in the Treasury's Audit Committee Handbook. The members of the ARC for England are:

- Sir Harry Studholme non-executive Chair and Commissioner for England,
- Dr Olutayo Adebawale non-executive Commissioner for England and
- Keith Oates non-executive member of the National Committee.

The Committee met 3 times in July and October 2007 and February 2008. On all 3 occasions they considered a range of reports from management, and from internal and external audit.

The ARC advises the National Committee and Accounting Officers on:

- the strategic processes for risk, control and governance in FC England and FE England;
- the Statement on Internal Control in FC Great Britain/England and FE England;
- the accounting policies, the accounts and the annual report of FC Great Britain/England and FE England, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter(s) of representation to the external auditors;
- the planned activity and results of both internal and external audit;
- adequacy of management response to issues identified by audit activity, including internal audit reports and external audit's management letter;



- assurances relating to the corporate governance requirements for Forestry Commission England and Forest Enterprise England; and
- anti-fraud policies and whistle-blowing processes.

The ARC will also periodically review its own effectiveness and report the results of that review to the National Committee.

## 5. Data Handling in Government

The Accounting Officer needs comprehensive and reliable assurance from managers, internal audit and assurance providers that risks, including information risks are being effectively managed.

In November 2007, the Government in response to a number of high profile losses of personal information launched a cross-government review of Departments' procedures for the storage and use of data. The terms of reference for the work were to examine:

- the procedures in departments and agencies for the protection of data;
- their consistency with current government-wide policies and standards;
- the arrangements for ensuring that procedures are being fully and properly implemented, and to make recommendations on improvements that should be made.

The review reported in March 2008 and set out the mandatory process measures that all departments must put in place to ensure information risks are identified and managed. In line with the requirements, the Forestry Commission has taken the following steps to strengthen its handling of information risk and is developing its own action plan in line with revised guidance produced by the Cabinet Office and the Devolved Administrations.

- The Director General of the Forestry Commission has appointed his Finance Director, a member of the Forestry Commission's Executive Board, as the Senior Information Risk Owner (SIRO). The SIRO chairs an Information Systems Management Forum which meets on a formal and regular basis to co-ordinate the Forestry Commission's approach to information security and to monitor progress against an action plan. Regular updates will be provided to Forestry Commission Executive Board members.
- As a government department the Forestry Commission internally enforces the standards of the Manual of Protective Security. In addition, to meet Service Level Agreements we have with other government departments on whose behalf we carry out EU grant payments, we have a project underway to achieve compliance with ISO/IEC 27001 the standard for Information Security Management Systems. Compliance with the Standard will also ensure that we are in compliance with the Data Protection Act's Seventh principle that "appropriate technical and organisational measures shall be taken against unauthorised or unlawful processing of personal data and against accidental loss or destruction of, or damage to, personal data."

The Forestry Commission GB/England Audit and Risk Committee (ARC) received an update on information risk management at its meeting in February 2008. Information risk will be a standing agenda item for the ARC during 2008-09.

## 6. Review of effectiveness

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

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

As reported in the Management Commentary, there were no protected personal data related incidents reported for Forestry Commission GB/England in 2007-08 or previous financial years.

#### **7. Significant internal control problems**

There were no significant problems to report.

*T J D Rollinson*  
Accounting Officer  
11 July 2008

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

I certify that I have audited the financial statements Forest Commission Great Britain & England for the year ended 31 March 2008 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

### Respective responsibilities of the Accounting Officer and auditor

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, the information which comprises the Management commentary, Corporate Responsibility, Leadership and Governance included in the Annual Report, 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 the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

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

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Foreword by the Chairman, Introduction by the Director General, Introduction by the Director England and the unaudited part of the Remuneration Report. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

### Basis of audit opinion

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

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

## Opinions

### Audit opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2008, and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information which comprises the Management commentary, Corporate Responsibility, Leadership and Governance included within the Annual 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.

*TJ Burr*  
Comptroller and Auditor General

21 July 2008

National Audit Office  
151 Buckingham Palace Road  
Victoria  
London  
SW1W 9SS

## Statement of Parliamentary Supply

### Summary of Resource Outturn 2007-08

	Note	Estimate			Outturn			2007-08	2006-07
		Gross expenditure £000	A-in-A £000	Net Total £000	Gross expenditure £000	A-in-A £000	Net Total £000	Net total outturn compared with estimate: saving/ (excess) £000	Outturn £000
Request for resources 1	2	72,152	-	72,152	65,717	-	65,717	6,435	53,654
Request for resources 2	2	18,217	-	18,217	17,915	-	17,915	302	16,443
Total resources	3	90,369	-	90,369	83,632	-	83,632	6,737	70,097
Non-operating cost A in A		-	-	-	-	-	-	-	-

### Net cash requirement 2007-08

	Note	Estimate £000	Outturn £000	2007-08 £000 Net total Outturn compared with estimate: saving/ (excess) £000	2006-07 £000 Outturn £000
Net cash requirement	4	69,786	64,543	5,243	62,113

### Summary of income payable to the Consolidated Fund

	Note	Forecast Income £000	2007-08 Receipts £000	Outturn Income £000	2007-08 Receipts £000
Total		-	-	-	-

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

The notes on pages 49 to 68 form part of these accounts.

## Operating Cost Statement

for the year ended 31 March 2008

	Note				2007-08 Consolidated			2006-07	
		Staff Costs	Core Other Costs	Income	Staff Costs	Other Costs	Income	Core	Consoli- dated
		£000	£000	£000	£000	£000	£000	£000	
<b>Administration Costs:</b>									
Staff Costs	5	18,655			28,240			17,412	26,929
Other administration costs	6		16,794			19,745		14,930	17,909
Operating income	7			(14,924)			(14,924)	(14,242)	(14,242)
<b>Programme costs:</b>									
<b>Request for resources 1:</b>									
Programme costs	8		66,734			66,734		53,085	53,085
EU receipts	9			(8,192)			(8,192)	(4,153)	(4,153)
Other income	9			(1,236)			(1,236)	(1,818)	(1,818)
<b>Request for resources 2:</b>									
Programme costs	8		678			3,365		870	3,192
EU receipts	9			-			(65)	-	(995)
Other income	9			(426)			(4,112)	(342)	(3,656)
<b>Totals</b>		<b>18,655</b>	<b>84,206</b>	<b>(24,778)</b>	<b>28,240</b>	<b>89,844</b>	<b>(28,529)</b>	<b>65,742</b>	<b>76,251</b>
<b>Net Operating Cost</b>				<b>78,083</b>			<b>89,555</b>	<b>65,742</b>	<b>76,251</b>

All income and expenditure are derived from continuing operations.

## Statement of Recognised Gains and Losses

for the year ended 31 March 2008

	Note	2007-08 Consolidated		2006-07	
		Core £000	Consolidated £000	Core £000	Consolidated £000
Net gain on revaluation of tangible fixed assets	19	100	1,306	164	1,497
<b>Recognised gains and losses for the financial year</b>		<b>100</b>	<b>1,306</b>	<b>164</b>	<b>1,497</b>

The notes on pages 49 to 68 form part of these accounts.

**Balance Sheet**

as at 31 March 2008

		<b>2007-08</b>		<b>2006-07</b>	
		<b>Core</b>	<b>Consolidated</b>	<b>Core</b>	<b>Consolidated</b>
	Note	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
<b>Fixed assets:</b>					
Tangible assets	11	7,222	21,374	6,949	19,751
Intangible assets	12	1,306	1,465	1,175	1,358
Debtors falling due after more than one year	14	58	102	61	112
<b>Current assets:</b>					
Stocks	13	170	1,121	173	1,567
Debtors	14	5,761	6,685	3,986	4,644
Cash at bank and in hand	15	4,968	5,243	2,862	3,110
		<b>10,899</b>	<b>13,049</b>	<b>7,021</b>	<b>9,321</b>
Creditors (amounts falling due within one year)	16	(13,959)	(15,144)	(9,891)	(10,551)
<b>Net current liabilities</b>		<b>(3,060)</b>	<b>(2,095)</b>	<b>(2,870)</b>	<b>(1,230)</b>
<b>Total assets less current liabilities</b>		<b>5,526</b>	<b>20,846</b>	<b>5,315</b>	<b>19,991</b>
Provisions for liabilities and charges	17	(937)	(1,040)	(730)	(900)
		<b>4,589</b>	<b>19,806</b>	<b>4,585</b>	<b>19,091</b>
<b>Taxpayers' equity:</b>					
General fund	18	3,878	10,964	3,959	11,454
Revaluation reserve	19	711	8,842	626	7,637
		<b>4,589</b>	<b>19,806</b>	<b>4,585</b>	<b>19,091</b>

*T J D Rollinson*  
Accounting Officer  
11 July 2008

## Consolidated Cash Flow Statement

for the year ended 31 March 2008

		<u>2007-08</u>	<u>2006-07</u>
	Note	£000	£000
Net cash outflow from operating activities	20(a)	(61,607)	(59,708)
Capital expenditure and financial investment	20(b)	(2,936)	(2,405)
Payments of amount due to Consolidated Fund	20(e)	(3,110)	(1,503)
Financing	20(d)	69,786	65,223
<b>Increase in cash in the period</b>	20(e)	<u><b>2,133</b></u>	<u><b>1,607</b></u>

The notes on pages 49 to 68 form part of these accounts.



## Consolidated Statement of Operating Costs by Departmental Aim and Objectives

for the year ended 31 March 2008

	<u>Gross</u>	<u>2007-08</u>	<u>Net</u>	<u>Gross</u>	<u>2006-07</u>	<u>Net</u>
	£000	Income	£000	£000	Income	£000
		£000			£000	
<b>England Objectives</b>						
Increase the contribution of forests and woodlands to local economies and rural development	23,120	(977)	22,143	18,777	(631)	18,146
Expand the role of woodlands in supporting the economic regeneration of former industrial land and disadvantaged communities	5,757	(1,468)	4,289	4,675	(948)	3,727
Promote public access to woods and forests and develop diverse recreational opportunities	24,435	(2,445)	21,990	19,845	(1,579)	18,266
Conserve and improve biodiversity, landscape and cultural heritage of our forests and woodlands	28,105	(4,887)	23,218	22,826	(3,157)	19,669
<b>England Net Operating Costs</b>	<b>81,417</b>	<b>(9,777)</b>	<b>71,640</b>	<b>66,123</b>	<b>(6,315)</b>	<b>59,808</b>
<b>Great Britain Objective</b>						
To take the lead in development and promotion of sustainable forest management and to support its achievement nationally	36,667	(18,752)	17,915	34,992	(18,549)	16,443
<b>Great Britain Net Operating Costs</b>	<b>36,667</b>	<b>(18,752)</b>	<b>17,915</b>	<b>34,992</b>	<b>(18,549)</b>	<b>16,443</b>
<b>Great Britain/England Net Operating Costs</b>	<b>118,084</b>	<b>(28,529)</b>	<b>89,555</b>	<b>101,115</b>	<b>(24,864)</b>	<b>76,251</b>

See note 21 for explanation of apportionment across objectives.

## NOTES TO THE RESOURCE ACCOUNTS

### 1. STATEMENT OF ACCOUNTING POLICIES

These financial statements have been prepared in accordance with the 2007-08 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the *FReM* follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

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

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

#### 1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets.

#### 1.2 Basis of consolidation

These accounts comprise a consolidation of the non-agency parts of the department (the core department) and those entities which fall within the departmental boundary as defined in the *FReM* (chapter 1.5). Transactions between entities included in the consolidation are eliminated.

A list of all those entities within the departmental boundary is given in note 30.

#### 1.3 Administration and programme expenditure

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

#### 1.4 Capital charges

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

#### 1.5 Pensions

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

## 1.6 Contingent liabilities

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

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

## 1.7 Tangible fixed assets

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

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

Tangible fixed assets are revalued annually as at 31 March. With the agreement of HM Treasury, from 1 April 2008, future revaluations shall take place on 1 April.

### Land and buildings

Professionally qualified staff employed by the Forestry Commission undertake a full revaluation of dwellings and other buildings at five yearly intervals coinciding with that for the forest estate and non-forest land. They follow the principles set out in the RICS Red Book and value on the basis of Open Market Value, Existing Use Value, Depreciated Replacement Cost or Discounted Cash Flow as appropriate under the RICS guidance. Indices provided by the District Valuer are used to restate values between full valuations. The next full valuation shall take place on 1 April 2008. The normal threshold for capitalisation of buildings is £10,000.

### Plant and machinery

Vehicles and plant are revalued every five years by professionally qualified staff employed by the Forestry Commission. They are restated to current value in the intervening years using valuations provided by internal professionally qualified staff for specialist forestry machinery and indices provided by the Office for National Statistics for all other assets. The normal threshold for capitalisation of assets is £3,000.

### Office machinery and equipment

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

### Assets under construction

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

### 1.8 Depreciation

Freehold land is not depreciated in line with FRS 15.

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

Buildings	–	20 to 80 years
Plant and machinery	–	up to 20 years
Office machinery and equipment	–	4 to 20 years

Impairments of fixed assets are charged to the revaluation reserve until the carrying amount of the asset reaches its depreciated historical cost and thereafter in the operating cost statement.

### 1.9 Intangible assets

Purchased software licences with an acquisition value of £5,000 or more are recognised as an intangible fixed asset. Assets are amortised over their expected useful economic life to a maximum of seven years. Management carries out an annual review of software and expected economic lives. Intangible asset values are restated to current value each year using indices provided by the Office for National Statistics.

### 1.10 Stocks and work in progress

Stocks and work in progress are valued as follows:

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

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

### 1.11 Research and development

As one of its Great Britain functions, the department commissions research from its Forest Research agency and through external contracts awarded by a variety of means including open tender. All research and development expenditure is charged to the operating cost statement in the year.

### 1.12 Operating income

Operating income represents income receivable from fees and charges for services provided.

### 1.13 Operating leases

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

### 1.14 Grants payable

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

### 1.15 European Union (EU) funding

EU funding is accounted for on the same basis as grants payable and uses the same accrual point. EU income is accrued where the related expenditure has been accrued. If grants are subsequently recovered because of failure to fulfil the conditions of the relevant woodland grant scheme, the amount of co-financing may be repayable to the EU.

### 1.16 Provisions

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

### 1.17 Value Added Tax (VAT)

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

## 2. ANALYSIS OF NET RESOURCE OUTTURN BY SECTION

						Outturn	2007-08		2006-07
	Admin	Other current	Grants	Gross resource expenditure	A-in-A	Net Total	Net Total	Estimate Net Total	Prior-year outturn
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Request for resources 1</b>									
To implement the programmes of the England Forestry Strategy									
Forestry Commission England DEL	-	65,717	-	65,717	-	65,717	72,152	6,435	53,654
Forestry Commission England non-budget									
<b>Total</b>	<b>-</b>	<b>65,717</b>	<b>-</b>	<b>65,717</b>	<b>-</b>	<b>65,717</b>	<b>72,152</b>	<b>6,435</b>	<b>53,654</b>
<b>Request for resources 2</b>									
To take the lead in development and promotion of sustainable forest management and to support its achievement nationally									
Forestry Commission Great Britain DEL	-	16,635	1,280	17,915	-	17,915	18,217	302	16,443
<b>Total</b>	<b>-</b>	<b>16,635</b>	<b>1,280</b>	<b>17,915</b>	<b>-</b>	<b>17,915</b>	<b>18,217</b>	<b>302</b>	<b>16,443</b>
<b>Resource Outturn</b>	<b>-</b>	<b>82,352</b>	<b>1,280</b>	<b>83,632</b>	<b>-</b>	<b>83,632</b>	<b>90,369</b>	<b>6,737</b>	<b>70,097</b>

Explanations of the variances are given in the financial commentary.

**3. RECONCILIATION OF NET RESOURCE OUTTURN TO NET OPERATING COST**

	Note	Outturn £000	Supply Estimate £000	2007-08 Outturn compared with Estimate £000	2006-07 Outturn £000
<b>Net Resource Outturn</b>	2	<b>83,632</b>	<b>90,369</b>	<b>6,737</b>	<b>70,097</b>
Forest Enterprise England depreciation		2,156	-	(2,156)	2,107
Forest Enterprise England net capital income/(expenditure)		3,767	-	(3,767)	4,047
Prior Period Adjustment		-	-	-	-
Non-supply income (CFERs)		-	-	-	-
Non-supply Expenditure		-	-	-	-
<b>Net operating cost</b>		<b>89,555</b>	<b>90,369</b>	<b>814</b>	<b>76,251</b>

**4. RECONCILIATION OF RESOURCES TO CASH REQUIREMENT**

	Note	Estimate £000	Outturn £000	Net total outturn compared with Estimate: saving/ (excess) £000
<b>Resource Outturn</b>	2	90,369	83,632	6,737
<b>Capital:</b>				
Acquisition of fixed assets	11/12	2,640	2,936	(296)
Proceeds of fixed asset disposals				
Investments				
<b>Non-operating cost A in A:</b>				
Proceeds of fixed asset disposals				
<b>Accruals adjustments:</b>				
Non-cash items:	6	(2,570)	(3,605)	1,035
Changes in working capital other than cash	20a	933	(875)	1,808
Changes in creditors falling due after more than one year				
Use of provision	17	-	370	(370)
Timing between accrual and cash VAT			(185)	185
Non-cash inter-country transfers		-	343	(343)
<b>Other adjustments:</b>				
Adjustment of FE net deficit to financing	8	(21,586)	(18,073)	(3,513)
<b>Net cash requirement</b>		<b>69,786</b>	<b>64,543</b>	<b>5,243</b>

Explanations of variances between estimate and outturn are given in the financial commentary.

## 5. STAFF NUMBERS AND RELATED COSTS

## 5(a) Staff costs

Staff costs comprise Forestry Commission England and staff employed on a Great Britain basis, which includes Great Britain, Central Shared Services and Forest Research, to provide support to Forestry Commission activities in all three countries and to its agencies:

	2007-08		2006-07	
	Total £000	Permanently employed staff	Others	Total £000
<b>Forestry Commission England</b>				
Wages and salaries	5,663	5,663	-	5,363
Social security costs	444	444	-	427
Other pension costs	1,098	1,098	-	1,040
Agency staff	597	-	597	122
Inward secondments	134	134	-	38
<b>Total net costs</b>	<b>7,936</b>	<b>7,339</b>	<b>597</b>	<b>6,990</b>
<b>Forestry Commission Great Britain</b>				
Wages and salaries	1,729	1,729	-	1,674
Social security costs	149	149	-	145
Other pension costs	333	333	-	325
Agency staff	-	-	-	-
Inward secondments	5	5	-	8
<b>Total net costs</b>	<b>2,216</b>	<b>2,216</b>	<b>-</b>	<b>2,152</b>
Less recoveries in respect of outward secondments	(180)	(180)	-	(152)
<b>Total net costs</b>	<b>2,036</b>	<b>2,036</b>	<b>-</b>	<b>2,000</b>
<b>Forestry Commission Central Shared Services</b>				
Wages and salaries	6,809	6,809	-	6,646
Social security costs	520	520	-	520
Other pension costs	1,295	1,295	-	1,274
Agency staff	202	-	202	62
Inward secondments	27	27	-	46
Capitalised costs	(350)	(350)	-	(278)
<b>Sub-total</b>	<b>8,503</b>	<b>8,301</b>	<b>202</b>	<b>8,270</b>
Less recoveries in respect of outward secondments	(59)	(59)	-	(44)
<b>Total net costs</b>	<b>8,444</b>	<b>8,242</b>	<b>202</b>	<b>8,226</b>
<b>Forestry Commission Great Britain/England</b>				
<b>Core department</b>				
Total costs per Operating Cost Statement	18,655	17,856	799	17,412
Less recoveries in respect of outward secondments	(239)	(239)	-	(196)
<b>Total net costs</b>	<b>18,416</b>	<b>17,617</b>	<b>799</b>	<b>17,216</b>
<b>Forest Research</b>				
Wages and salaries	7,551	7,551	-	7,515
Social security costs	573	573	-	585
Other pension costs	1,426	1,426	-	1,390
Agency staff	35	-	35	27
<b>Total net costs</b>	<b>9,585</b>	<b>9,550</b>	<b>35</b>	<b>9,517</b>
<b>Forestry Commission Great Britain/England</b>				
<b>Consolidated department</b>				
Total costs per Operating Cost Statement	28,240	27,406	834	26,929
Less recoveries in respect of outward secondments	(239)	(239)	-	(196)
<b>Total net costs</b>	<b>28,001</b>	<b>27,167</b>	<b>834</b>	<b>26,733</b>

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Forestry Commission is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2007-08, employers' contributions of £4,128,000 were payable to the PCSPS (2006-07 £4,020,000) at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands (the rates in 2006-07 were between 17.1% and 25.5%). The scheme's actuary reviews employer contributions every four years following a full scheme valuation. From 2008-09, the salary bands will be revised and the rates will remain the same. The contribution rates are set to meet the cost of the benefits accruing during 2007-08 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a **partnership** pension account, a stakeholder pension with an employer contribution. Employers' contributions of £24,000 (2006-07 £18,000) were paid to one or more of a panel of three appointed **stakeholder** pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £2,000, 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

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

There were no early retirements on ill health grounds in the year.

#### 5(b) Average number of persons employed

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

Objective	2007-08			2006-07
	Total	Permanently -employed staff	Others	Total
				number
<b>England</b>				
Increase the contribution of forests and woodlands to local economies and rural development	66	61	5	58
Expand the role of woodlands in supporting the economic regeneration of former industrial land and disadvantaged communities	13	12	1	13
Promote public access to woods and forests and develop diverse recreational opportunities	66	60	6	58
Conserve and improve the biodiversity, landscape and cultural heritage of our forests and woodlands	70	64	6	62
<b>England Total</b>	<b>215</b>	<b>197</b>	<b>18</b>	<b>191</b>
<b>Great Britain</b>				
To take the lead in development and promotion of sustainable forest management and to support its achievement nationally	560	555	5	561
Staff engaged in capital projects	-	-	-	5
	<b>560</b>	<b>555</b>	<b>5</b>	<b>566</b>



**6. OTHER ADMINISTRATION COSTS**

	2007-08		2006-07	
	Core	Consolidated	Core	Consolidated
	£000	£000	£000	£000
Staff transfers	428	496	362	424
Computer costs	2,287	2,376	1,875	1,967
Travel and subsistence	1,201	1,759	1,174	1,766
Accommodation	1,616	2,263	1,619	2,269
Communication	1,391	1,522	1,688	1,834
Training	465	526	317	384
Premature retirement costs	114	110	45	338
Losses and compensation	23	33	506	514
Legal	412	557	106	168
Other	2,701	2,718	2,217	2,350
	<u>10,638</u>	<u>12,360</u>	<u>9,909</u>	<u>12,014</u>
<b>Rentals under operating leases:</b>				
Hire of plant and machinery	213	213	207	207
Other operating leases	2,287	2,287	2,273	2,273
	<u>2,500</u>	<u>2,500</u>	<u>2,480</u>	<u>2,480</u>
<b>Research and development expenditure:</b>	1,280	1,280	1,013	1,013
<b>Non-cash items:</b>				
Cost of capital	170	681	156	631
Notional audit fees – audit work	70	70	58	58
Notional audit fees – non-audit work	–	–	–	–
Depreciation of tangible fixed assets	1,219	1,836	750	1,338
Depreciation of intangible fixed assets	324	377	278	318
(Gains)/losses on disposal of assets	24	62	98	98
Impairment	69	69	45	45
VME revaluation reserve write-off	–	–	–	–
Provisions				
Provided in year	524	528	135	281
Provisions not required written back	(1)	–	(5)	(374)
Unwinding of discount	(23)	(18)	14	7
	<u>2,376</u>	<u>3,605</u>	<u>1,528</u>	<u>2,402</u>
<b>Total</b>	<b><u>16,794</u></b>	<b><u>19,745</u></b>	<b><u>14,930</u></b>	<b><u>17,909</u></b>

**7. OPERATING INCOME**

	2007-08		2006-07	
	Core	Consolidated	Core	Consolidated
	£000	£000	£000	£000
<b>Shared services</b>				
Income from Scotland	6,777	6,777	6,427	6,427
Income from Wales	3,139	3,139	2,895	2,895
Income from Forest Enterprise England	3,801	3,801	3,759	3,759
	<u>13,717</u>	<u>13,717</u>	<u>13,081</u>	<u>13,081</u>
Income from operating leases	448	448	468	468
Other operating income	759	759	693	693
<b>Total</b>	<b><u>14,924</u></b>	<b><u>14,924</u></b>	<b><u>14,242</u></b>	<b><u>14,242</u></b>

On consolidation, the internal income received by central shared services from Forestry Commission Great Britain £3,574,000 (2006-07 £3,540,000), Forestry Commission England £3,131,000 (2006-07 £2,806,000) and Forest Research £797,000 (2006-07 £757,000) was removed from operating income. Six areas of work are identified as shared services:

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

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

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

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

All income from operating leases are from buildings that are sub-leased and not owned by Forestry Commission Great Britain/England.

## 8. PROGRAMME COSTS

	<u>Core</u>	<u>2007-08 Consolidated</u>	<u>Core</u>	<u>2006-07 Consolidated</u>
	£000	£000	£000	£000
<b>Request for resources 1</b>				
Support for forestry and the rural economy, including grants paid to private woodland owners	17,905	17,905	12,680	12,680
Grants paid to private woodland owners from EU receipts	8,192	8,192	4,153	4,153
Other programme costs	1,236	1,236	1,642	1,642
<b>Sub-total</b>	<b>27,333</b>	<b>27,333</b>	<b>18,475</b>	<b>18,475</b>
Forest Enterprise England funding	39,401	39,401	34,610	34,610
<b>Total</b>	<b>66,734</b>	<b>66,734</b>	<b>53,085</b>	<b>53,085</b>
<b>Request for resources 2</b>				
Other programme costs, including research and publications	678	3,365	870	3,192
<b>Total</b>	<b>678</b>	<b>3,365</b>	<b>870</b>	<b>3,192</b>

Forestry Commission Great Britain/England programme costs include Forest Enterprise England's deficit of £39,401,000 (2006-07 £34,610,000). After adjusting for non-cash transactions and capital of £23,996,000 (2006-07 £15,207,000), Forest Enterprise received cash funding of £15,405,000 (2006-07 £19,403,000). To reconcile resource outturn to the net cash requirement in the Statement of Parliamentary Supply, the non-cash transactions are adjusted by Forest Enterprise England's net capital expenditure and depreciation to calculate the adjustment of Forest Enterprise England deficit to financing of £18,073,000 (2006-07 £9,053,000).

	<u>2007-08</u>	<u>2006-07</u>
	£000	£000
<b>Capital</b>		
Net capital expenditure	411	336
Donations toward capital expenditure	353	552
Government grants toward capital expenditure	3,003	3,159
<b>Accruals adjustments</b>		
Cost of capital	19,476	17,039
Non cash items	1,737	(2,878)
Changes in working capital, including cash	(681)	(2,961)
Changes in provision	(294)	(40)
<b>Total cash adjustments (note 20a)</b>	<b>23,996</b>	<b>15,207</b>
Adjust supply expenditure for Forest Enterprise net capital	(411)	(336)
Adjust supply expenditure for Forest Enterprise depreciation	(2,156)	(2,107)
Donations toward capital expenditure	(353)	(552)
Government grants toward capital expenditure	(3,003)	(3,159)
<b>Adjustment of FE deficit to financing (Statement of Parliamentary Supply)</b>	<b>18,073</b>	<b>9,053</b>

## 9. PROGRAMME INCOME

	<u>2007-08</u>		<u>2006-07</u>	
	<u>Core</u>	<u>Consolidated</u>	<u>Core</u>	<u>Consolidated</u>
	£000	£000	£000	£000
<b>Request for resources 1</b>				
EU receipts	8,192	8,192	4,153	4,153
Other income	1,236	1,236	1,818	1,818
<b>Total</b>	<b>9,428</b>	<b>9,428</b>	<b>5,971</b>	<b>5,971</b>
<b>Request for resources 2</b>				
EU receipts	–	65	–	995
Other income	426	4,112	342	3,656
<b>Total</b>	<b>426</b>	<b>4,177</b>	<b>342</b>	<b>4,651</b>

## 10. ANALYSIS OF NET OPERATING COST BY SPENDING BODY

	<u>Estimate</u>	<u>2007-08</u>	<u>2006-07</u>
	£000	£000	£000
Forestry Commission Great Britain/England	89,769	88,157	76,230
Forest Research Agency	600	1,398	21
<b>Net Operating Cost</b>	<b>90,369</b>	<b>89,555</b>	<b>76,251</b>

## 11. TANGIBLE FIXED ASSETS

	Land and Buildings	Plant and Machinery	OME	Payments on Account & Assets Under Construction	Total
	£000	£000	£000	£000	£000
<b>Cost or valuation:</b>					
At 1 April 2007	13,887	2,848	6,675	1,336	24,746
Adjustment to value at 1 April 2007					
Additions	46	656	1,105	746	2,553
Transfers	(195)	(2)	759	(867)	(305)
Disposals	-	(522)	(827)	-	(1,349)
Revaluation to current prices	1,428	22	(19)	-	1,431
Impairment	-	-	(114)	-	(114)
<b>At 31 March 2008</b>	<b>15,166</b>	<b>3,002</b>	<b>7,579</b>	<b>1,215</b>	<b>26,962</b>
<b>Depreciation:</b>					
At 1 April 2007	1,407	1,504	2,084	-	4,995
Adjustment to value at 1 April 2007					
Provided during year	311	243	1,282	-	1,836
Transfers	(29)	-	-	-	(29)
Disposals	-	(485)	(802)	-	(1,287)
Revaluation to current prices	116	8	(6)	-	118
Impairment	-	-	(45)	-	(45)
<b>At 31 March 2008</b>	<b>1,805</b>	<b>1,270</b>	<b>2,513</b>	<b>-</b>	<b>5,588</b>
<b>Net Book Value at:</b>					
<b>31 March 2008</b>	<b>13,361</b>	<b>1,732</b>	<b>5,066</b>	<b>1,215</b>	<b>21,374</b>
<b>1 April 2007</b>	<b>12,480</b>	<b>1,344</b>	<b>4,591</b>	<b>1,336</b>	<b>19,751</b>

**Analysis of tangible fixed assets**

The net book value of tangible fixed assets comprises:

<b>Core 2008</b>	<b>1,210</b>	<b>25</b>	<b>4,772</b>	<b>1,215</b>	<b>7,222</b>
<b>Agency 2008</b>	<b>12,151</b>	<b>1,707</b>	<b>294</b>	<b>-</b>	<b>14,152</b>
Core 2007	1,330	18	4,265	1,336	6,949
Agency 2007	11,150	1,326	326	-	12,802

Land and buildings were valued at £9,372,000 as at 31 March 2002 by professionally qualified land agents employed by the Forestry Commission on the basis of open market value or existing use value as appropriate under the RICS guidance. They were scheduled to be re-assessed as at 31 March 2005 in accordance with the three-yearly interval stated in the previous accounting policy. To bring the policy in line with UK GAAP, professional valuations of land and buildings will be undertaken on a five-yearly basis. The first five-yearly valuation will be as at 1 April 2008 with annual updates in the intervening years based on indices provided by the District Valuer.

Plant and machinery was valued at £1,731,000 as at 31 March 2008 based on indices provided by the Office for National Statistics for all other assets.

Office machinery and equipment assets were restated to a current value of £5,067,000 as at 31 March 2008 using an index provided by the Office for National Statistics.

**12. INTANGIBLE FIXED ASSETS**

Intangible fixed assets comprise of software licences.

	<u>2007-08</u>	<u>2006-07</u>
	£000	£000
<b>Cost or valuation:</b>		
At 1 April 2007	2,197	2,080
Additions	383	107
Disposals	–	–
Transfers	108	–
Revaluation to current prices	(9)	10
<b>At 31 March 2008</b>	<b><u>2,679</u></b>	<b><u>2,197</u></b>
<b>Amortisation:</b>		
At 1 April 2007	839	520
Provided during year	377	318
Disposals	–	–
Transfers	–	–
Revaluation to current prices	(2)	1
<b>At 31 March 2008</b>	<b><u>1,214</u></b>	<b><u>839</u></b>
<b>Net Book Value at:</b>		
<b>31 March 2008</b>	<b><u>1,465</u></b>	<b><u>1,358</u></b>
<b>1 April 2007</b>	<b><u>1,358</u></b>	<b><u>1,560</u></b>

**Analysis of intangible fixed assets**

The net book value of intangible fixed assets comprises:

	<u>£000</u>
<b>Core 2008</b>	<b><u>1,306</u></b>
<b>Agency 2008</b>	<b><u>159</u></b>
<b>Core 2007</b>	<b><u>1,175</u></b>
<b>Agency 2007</b>	<b><u>183</u></b>

**13. STOCKS AND WORK IN PROGRESS**

	<u>2007-08</u>		<u>2006-07</u>	
	<u>Core</u>	<u>Consolidated</u>	<u>Core</u>	<u>Consolidated</u>
	£000	£000	£000	£000
Stocks	170	173	173	173
Raw materials and work in progress	–	948	–	1,394
<b>Total</b>	<b><u>170</u></b>	<b><u>1,121</u></b>	<b><u>173</u></b>	<b><u>1,567</u></b>

**14. DEBTORS****14(a) Analysis by type**

	2007-08		2006-07	
	Core	Consolidated	Core	Consolidated
	£000	£000	£000	£000
<b>Amounts falling due within one year:</b>				
VAT	2,737	2,737	1,475	1,475
Trade debtors	311	1,039	501	974
Other debtors	143	147	117	141
House purchase loans to employees	15	23	15	22
EU funding accrued income	1,355	1,355	997	997
Prepayments and accrued income	1,200	1,384	881	1,035
	<b>5,761</b>	<b>6,685</b>	<b>3,986</b>	<b>4,644</b>
	Core	Consolidated	Core	Consolidated
	£000	£000	£000	£000
<b>Amounts falling due after more than one year:</b>				
House purchase loans to employees	58	102	61	112

Forestry Commission Great Britain/England had house purchase loans totalling £125,000 outstanding at 31 March 2008 relating to 24 employees. The core department had house purchase loans totalling £73,000 outstanding at 31 March 2008 relating to 17 employees.

**14(b) Intra-Government Balances**

	Amounts falling due within one year		Amounts falling due after more than one year	
	2007-08	2006-07	2007-08	2006-07
	£000	£000	£000	£000
Balances with other central government bodies	4,022	2,616	-	-
Balances with local authorities	68	-	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-
Intra-government balances	4,090	2,616	-	-
Balances with bodies external to government	2,595	2,028	102	112
<b>Total debtors at 31 March</b>	<b>6,685</b>	<b>4,644</b>	<b>102</b>	<b>112</b>

**15. CASH AT BANK AND IN HAND**

	2007-08		2006-07	
	Core	Consolidated	Core	Consolidated
	£000	£000	£000	£000
Balance at 1 April	2,862	3,110	1,276	1,503
Net change in cash balances	2,106	2,133	1,586	1,607
<b>Balance at 31 March</b>	<b>4,968</b>	<b>5,243</b>	<b>2,862</b>	<b>3,110</b>
The following balances at 31 March are held at:				
Balance with Office of Paymaster General	4,968	4,968	2,862	2,862
Cash at commercial banks and cash in hand	-	275	-	248
<b>Balance at 31 March</b>	<b>4,968</b>	<b>5,243</b>	<b>2,862</b>	<b>3,110</b>
Amounts issued from the consolidated fund for supply but not spent at the year end	4,968	5,243	2,862	3,110

**16. CREDITORS****16(a) Analysis by type**

	2007-08		2006-07	
	Core	Consolidated	Core	Consolidated
	£000	£000	£000	£000
<b>Amounts falling due within one year:</b>				
Other taxation and social security	2,661	2,661	1,989	1,989
Trade creditors	2,027	2,875	2,712	3,204
Other creditors	1,657	1,670	1,322	1,334
Accruals and deferred income	2,371	2,371	758	758
Payments received on account	–	324	–	156
Amounts issued from Westminster consolidated fund (supply) but not spent at year end	5,243	5,243	3,110	3,110
<b>Total</b>	<b>13,959</b>	<b>15,144</b>	<b>9,891</b>	<b>10,551</b>

Forest Enterprise England acts as co-ordinator for the Interreg Project which is funded by the European Union. The purpose of the Interreg Project is the promotion and guidance of recreation and conservation in forestry. The project has been extended for a further year until October 2008. The duties of co-ordinators include receiving EU funds on behalf of partners for onward transmission once work programmes have been approved. As third party assets these sums are not recorded on the face of these accounts. At 31 March 2008 the amount held in Forestry Commission bank accounts on behalf of partners was £66,445 (£nil in 2006-07).

Amounts held in Forest Research bank accounts on behalf of partners in European Commission projects at 31 March 2008 was £275,000 (£260,000 in 2006-07). This has subsequently all been transferred to the partners concerned.

**16(b) Intra-Government Balances**

	Amounts falling due within one year		Amounts falling due after more than one year	
	2007-08	2006-07	2007-08	2006-07
	£000	£000	£000	£000
Balances with other central government bodies	4,494	6,520	–	–
Balances with local authorities	68	281	–	–
Balances with NHS Trusts	–	–	–	–
Balances with public corporations and trading funds	–	2	–	–
Intra-government balances	4,562	6,803	–	–
Balances with bodies external to government	10,582	3,748	–	–
<b>Total creditors at 31 March</b>	<b>15,144</b>	<b>10,551</b>	<b>–</b>	<b>–</b>

**17. PROVISION FOR LIABILITIES AND CHARGES****Early departure costs**

	2007-08		2006-07	
	Core	Consolidated	Core	Consolidated
	£000	£000	£000	£000
Balance at 1 April	730	900	1,025	1,468
Provided in the year	524	528	135	281
Provisions not required written back	–	–	(5)	(374)
Utilised in the year	(294)	(370)	(439)	(482)
Unwinding of discount	(23)	(18)	14	7
<b>Balance at 31 March</b>	<b>937</b>	<b>1,040</b>	<b>730</b>	<b>900</b>

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

## 18. GENERAL FUND

	2007-08		2006-07	
	Core	Consolidated	Core	Consolidated
	£000	£000	£000	£000
Balance at 1 April 2007	3,959	11,454	3,422	10,767
Net operating cost for the year	(78,083)	(89,555)	(65,742)	(76,251)
Internal charges adjustment	(10,074)	–	(10,488)	–
Net Parliamentary funding	69,397	69,786	65,580	65,223
Forest Enterprise England non-cash adjustments	23,996	23,996	15,207	15,207
Notional cost of capital	170	681	156	631
Transfer of fixed assets from/to other forestry bodies	(168)	(168)	4	(9)
Realised element of revaluation reserve	15	101	13	81
Timing between accrual and cash VAT	183	185	(1,099)	(1,101)
Non-cash inter-country transfers	(344)	(343)	(42)	(42)
Notional audit fees	70	70	58	58
Amounts issued from the Consolidated Fund for supply but not spent at year end	(5,243)	(5,243)	(3,110)	(3,110)
<b>Balance at 31 March 2008</b>	<b>3,878</b>	<b>10,964</b>	<b>3,959</b>	<b>11,454</b>

## 19. REVALUATION RESERVE

	2007-08		2006-07	
	Core	Consolidated	Core	Consolidated
	£000	£000	£000	£000
Balance at 1 April	626	7,637	475	6,221
Arising on revaluation during the year	100	1,306	164	1,497
Realised element of revaluation reserve	(15)	(101)	(13)	(81)
Write-off	–	–	–	–
<b>Balance at 31 March</b>	<b>711</b>	<b>8,842</b>	<b>626</b>	<b>7,637</b>

## 20. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### 20(a) Reconciliation of operating cost to operating cash flows

	Note	2007-08	2006-07
		£000	£000
<b>Net operating cost</b>	10	<b>89,555</b>	<b>76,251</b>
Adjustments for non cash transactions	6	(3,605)	(2,402)
Timing between accrual and cash VAT		(185)	1,101
Non-cash inter-country services		343	42
Forest Enterprise England non-cash adjustments		(23,996)	(15,207)
(Decrease) in stock		(446)	(743)
(Decrease)/increase in debtors		2,031	(692)
(Increase) in creditors		(4,593)	(731)
less movements in creditors relating to items not passing through OCS		2,133	1,607
Use of provisions	17	370	482
<b>Net cash outflow from operating activities</b>		<b>61,607</b>	<b>59,708</b>



**20(b) Analysis of capital expenditure and financial investment**

		<u>2007-08</u>	<u>2006-07</u>
	Note	£000	£000
Tangible fixed assets additions	11	2,553	2,299
Intangible fixed assets additions	12	383	107
Proceeds of disposal of fixed assets		-	(1)
Loans to other bodies		-	-
Repayment of loans to other bodies		-	-
<b>Net cash outflow from investing activities</b>		<b><u>2,936</u></b>	<b><u>2,405</u></b>

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

	<u>Capital expenditure</u>	<u>Loans</u>	<u>A in A</u>	<u>Net total</u>
	£000	£000	£000	£000
Request for resource 1	718	-	-	718
Request for resource 2	2,218	-	-	2,218
Net movement in debtors/creditors	-	-	-	-
<b>Total 2007-08</b>	<b><u>2,936</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>2,936</u></b>
<b>Total 2006-07</b>	<b><u>2,405</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>2,405</u></b>

**20(d) Analysis of financing**

		<u>2007-08</u>	<u>2006-07</u>
	Note	£000	£000
From the Consolidated Fund	18	69,786	65,223
<b>Net financing</b>		<b><u>69,786</u></b>	<b><u>65,223</u></b>

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

		<u>2007-08</u>	<u>2006-07</u>
	Note	£000	£000
Net cash requirement		<b>(64,543)</b>	<b>(62,113)</b>
From the Consolidated Fund (Supply)	20(d)	69,786	65,223
Payment of amount due to Consolidated Fund		(3,110)	(1,503)
<b>Increase in cash</b>		<b><u>2,133</u></b>	<b><u>1,607</u></b>

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

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

### Capital employed by Departmental Aim and Objectives at 31 March 2008

Forestry Commission Great Britain/England's capital is employed for both programme and administration purposes. Its distribution amongst objectives is not markedly different from the proportion of related gross expenditure. Capital employed has therefore been allocated to objectives in proportion to gross expenditure.

	<u>2007-08</u>	<u>2006-07</u>
	£000	£000
<b>England Objectives</b>		
Increase the contribution of forests and woodlands to local economies and rural development	3,677	3,545
Expand the role of woodlands in supporting the economic regeneration of former industrial land and disadvantaged communities	915	883
Promote public access to woods and forests and develop diverse recreational opportunities	3,888	3,747
Conserve and improve biodiversity, landscape and cultural heritage of our forests and woodlands	4,473	4,310
<b>England capital employed</b>	<b><u>12,953</u></b>	<b><u>12,485</u></b>
<b>Great Britain Objective</b>		
To take the lead in development and promotion of sustainable forest management and to support its achievement nationally	6,853	6,606
<b>Great Britain Objective</b>	<b><u>6,853</u></b>	<b><u>6,606</u></b>
<b>Capital employed</b>	<b><u>19,806</u></b>	<b><u>19,091</u></b>

## 22. CAPITAL COMMITMENTS

There were no contracted capital commitments at 31 March 2008.

**23. COMMITMENTS UNDER OPERATING LEASES****Operating leases**

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

	<u>Core</u>	<u>2007-08 Consolidated</u>	<u>Core</u>	<u>2006-07 Consolidated</u>
	£000	£000	£000	£000
Building leases expiring within:				
One year	18	18	–	–
Two to five years	371	371	392	392
More than five years	1,881	1,881	1,881	1,881
<b>Total</b>	<b><u>2,270</u></b>	<b><u>2,270</u></b>	<b><u>2,273</u></b>	<b><u>2,273</u></b>
Building lease rentals include irrecoverable VAT.				
Other leases expiring within:				
One year	58	58	–	–
Two to five years	155	155	207	207
More than five years	–	–	–	–
<b>Total</b>	<b><u>213</u></b>	<b><u>213</u></b>	<b><u>207</u></b>	<b><u>207</u></b>

**24. OTHER FINANCIAL COMMITMENTS****Planting and replanting grants**

Following approval of a management plan for planting proposals, Forestry Commission England undertakes to pay planting grants in instalments. Replanting grants are payable in one instalment. At 31 March 2008, Forestry Commission England was committed under draft and signed contracts to the payment of future instalments of planting and replanting grants amounting to £1.9 million (2006-07 – £135.2 million).

**Existing woodlands**

Grants for the management of existing woodlands are payable annually in arrears during the five year existence of an approved plan, provided specific objectives are met. Grants, which support capital investment work to improve public benefits from woodlands, including planning grants, are usually payable in one instalment. Forestry Commission England was committed under draft and signed contracts to the payment of future instalments of grants which support existing woodlands amounting to £10.5 million at 31 March 2008 (2006-07 – £18 million).

From 1 April 2008 all RDPE grant schemes were transferred to Defra's accounts, although Forestry Commission England continue to administer them on behalf of Defra. The commitments for planting, replanting and management grants as at 31 March 2008 are therefore for non-RDPE grant payments only.

**25. CONTINGENT LIABILITIES**

There were three contingent liabilities at 31 March 2008 in respect of ex-employees of the Forest Research Agency.

**26. LOSSES AND SPECIAL PAYMENTS**

	2007-08		2006-07	
	Number	£000	Number	£000
Losses total	18	29	19	448
Special payments total	7	16	8	13

**27. POST BALANCE SHEET EVENTS**

In accordance with the requirements of FRS21, post balance sheet events are considered up to the date on which the accounts are authorised for issue. These accounts were authorised for issue on July 2008.

**28. RELATED PARTY TRANSACTIONS**

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

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

In the year to 31 March 2008, Forest Enterprise England entered into material transactions involving Martin Gale, a non-executive Forestry Commissioner, which are disclosed in their Annual Report and Accounts for 2007-08.

Professor Jim Lynch, Chief Executive of the Forest Research Agency until 30th September 2007, is Distinguished Professor of Life Sciences at the University of Surrey. The value of payments to the University for services provided in the year to 31 March 2008 was £64,000. Andy Moffat, Head of Environmental and Human Sciences Division at the Agency, holds a visiting professorship at the University of Reading with which £3,000 was spent on research services. Other members of staff hold professorships at UK and foreign universities but no financial transactions took place with these in 2007-08.

Sir Harry Studholme, Commissioner for England and Chair of the National Committee received Farm Woodland Premium Scheme grants totalling £26,676 during the year. There were no further payments due at 31 March 2008.

Judith Webb, Non-executive Commissioner for Wales, trading as JW associates, received payments totalling £20,877 for various assignments including the delivery of consultancy reports on the England Forestry Industry Partnership and the Regional Forestry Framework and a Sites of Special Scientific Interest (SSSI) assessment contract.

**29. FINANCIAL INSTRUMENTS**

FRS 13, *Derivatives and Other Financial Instruments*, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which government departments are financed, Forestry Commission Great Britain/England is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The department has no powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities and are held not to change the risks facing the department in undertaking its activities.

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

#### *Liquidity risk*

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

#### *Interest-rate risk*

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

#### *Foreign currency risk*

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

#### *Fair Values*

There is no difference between book value and fair value for the cash at bank shown in Note 15. Fair value for the provisions shown in Note 17 is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted by the Treasury rate of 2.2% in real terms.

---

### **30. ENTITIES WITHIN THE DEPARTMENTAL BOUNDARY**

The entities within the boundary during 2007-08 were as follows:

**(a) Supply-financed agencies:**

Forest Research Agency, which incurred a net deficit of £1,398,000. The aggregate amount of its capital and reserves as at 31 March 2008 was £15,217,000. The annual report and accounts of the Forest Research Agency are published separately.

**(b) Non-executive NDPBs:**

None

**(c) Other entities:**

None

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

1. This direction applies to those **government departments** and **pension schemes** listed in the attached appendix.\*
2. These departments and pension schemes shall prepare resource accounts for the year ended 31 March 2008 in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual issued by H M Treasury ("the FReM") which is in force for 2007-08.
3. The accounts for **government departments** shall be prepared so as to:
  - (a) give a true and fair view of the state of affairs at 31 March 2008 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year then ended; and
  - (b) provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.
4. The accounts for **pension schemes** shall be prepared so as to:
  - (a) give a true and fair view of the state of affairs at 31 March 2008 and of the net resource outturn and cash flows for the financial year then ended;
  - (b) provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them; and
  - (c) ensure that the contributions payable to the Scheme during the year have been paid in accordance with the Scheme rules and the recommendations of the Actuary.
5. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with the Treasury.

*David Watkins*

Head of Financial Reporting Policy Team, Her Majesty's Treasury

11 December 2007

---

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

# **Forest Enterprise England**

**Annual Accounts 2007-08**

## FINANCIAL COMMENTARY

### *Basis of accounts*

The Forest Enterprise England accounts have been prepared under a direction given by the Treasury in accordance with Section 7 of the Government Resources and Accounts Act 2000. The direction is produced as an appendix to the accounts.

### *Departmental accounting boundary*

Forest Enterprise England is designated as a public corporation for national accounting purposes, by the Office of National Statistics, in accordance with European System of Accounts (ESA) 95. Accordingly, it is outside the departmental boundary for resource accounting purposes but with the net funding reflected in the Forestry Commission Great Britain/England Resource Accounts.

### *Status*

Forest Enterprise is part of Forestry Commission England, which serves as the forestry department of the Westminster Parliament to advise on and implement forestry policies. Through the executive Agency, it also manages the public forest estate to deliver public benefits. The Secretary of State for Environment, Food and Rural Affairs is answerable to the Westminster Parliament for Forestry Commission Great Britain/England's overall policies and performance. Further information on Forestry Commission Great Britain/England can be found in its Annual Report and Accounts.

### *Financial review*

Details of the financial performance targets set for Forest Enterprise England by the Forestry Commission National Committee for England and achievement against those targets are shown in Note 24 to the accounts.

Forest Enterprise England incurred a deficit on its Income and Expenditure Account, before cost of capital, of £19.9 million (2006-07 £17.6 million). The operating deficit increased by £2.3 million and the key factors are described below:

- We exceeded our marketing and sales plans by 1.9%, dispatching 1,491,000 cubic metres of timber with a value of £26.3 million (2006-07 £20.3 million).
- £6.1 million was raised from property sales. This comprised £2.9 million from woodland rationalisation sales, £2.4 million from the disposal of houses and £0.8 million from development and other sales. A loss of £0.605 million on the disposals was incurred, including £0.331 million expenses. The surplus of £2.6 million achieved in 2006-07 was due in part to a number of properties achieving premium values above their open market value.
- Acquisitions totalled 316 hectares. These comprised 174 hectares in Sherwood and Lincs, 100 hectares in the West Midlands, 25 hectares in East Anglia, 16 hectares in North West England and 1 hectare in the Forest of Dean.
- The net cost of recreation, conservation and heritage was £15.3 million. The reduction in net cost of £0.5 million reflected increased income from our commercial activities.
- The value of the forest estate increased by £89.7 million and other land increased to £41.7 million using indices. Building assets were revalued upwards by £3.8 million using information provided by the District Valuer and buildings under construction at the year end amounted to £6.8 million. The main projects being taken forward, with the assistance of external funding, are the visitor centres at Grizedale in the Lake District, Beechenhurst in the Forest of Dean, Dalby in the North York Moors, and Fineshade in Northants. Other key projects undertaken, also with the help of external funding, were the Kielder Observatory and Cannock Education Building.



- The 2006-07 operating deficit included a £2.9 million surplus on the sale of discontinued operations. Taking account of the professional revaluations, this resulted in an overstatement of the surplus by £951,000. This amount has been charged to the Operating Cost Statement in 2007-08.

After adjusting the total deficit for items not involving the movement in cash and for capital expenditure and receipts, the net cash funding received from Forestry Commission England was £15.4 million (2006-07 £19.4 million).

#### *Forest Holidays*

In May 2006, the Forestry Commission entered into a partnership with the Camping and Caravanning Club to take over management of its Forest Holidays' business. As the investment in the partnership is outside the departmental boundary and Forest Enterprise England does not exercise budgetary control over the partnership, then, in accordance with FreM 2.4, the investment is treated as a fixed asset investment. In accordance with the initial business plan, no income has been received from the investment in the partnership.

The Forest Holidays business is developing well. Investment and turnover is slightly ahead of original expectations. Expansion of a new site in England is under consideration.

## **OTHER DISCLOSURES**

#### *Research and Development*

Forest Research, an executive agency of the Forestry Commission, is responsible for carrying out forest research and allied work. Although forestry is a devolved subject, Forest Research continues to be funded from Westminster. More information on the work of Forest Research can be found on the Forestry Commission website <http://www.forestry.gov.uk/research>.

#### *Pensions*

Information on pensions is contained in the Remuneration Report and accounting policy note 1.3.

#### *Supplier Payment Policy*

Forest Enterprise England complies with the Government's Better Payment Practice Code. Unless otherwise stated in the contract, we aim to pay within 30 days from the receipt of goods and services or the presentation of a valid invoice, whichever is the later. A sample analysis for 2007-08 indicates that 98.0% (2006-07 97.1%) of invoices were paid within the due date. Arrangements for handling complaints on payment performance are notified to suppliers on contracts.

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

#### *Auditors*

These accounts are audited by the Comptroller and Auditor General.

#### *Disclosure of audit information to the auditors*

So far as the Accounting Officer is aware, there is no relevant audit information of which the Forest Enterprise England auditors are unaware. The Accounting Officer has taken all the necessary steps required to make himself aware of any relevant audit information and to establish that the Forest Enterprise England auditors are aware of that information.

*Simon Hodgson*  
Accounting Officer

11 July 2008

## REMUNERATION REPORT

### Remuneration policy

The Chief Executive was appointed on a full-time permanent basis through a fair and open external recruitment exercise under the terms of the Civil Service Commissioners Recruitment Code. The Chief Executive's salary is determined by the Forestry Commission's Senior Pay Committee which comprises the Chairman, Director General, Director Scotland, Director England, and three other non-executive Commissioners. In reaching its recommendations, the Forestry Commission's Senior Pay Committee has regard to the following considerations:

- Guidelines circulated by the Cabinet Office implementing Government decisions on the recommendations of the Senior Salaries Review Body (SSRB). The SSRB is responsible for monitoring the operation of the Senior Civil Service pay system and for making recommendations to the Government on the shape of the system. This includes the salary values for the minimum and maximum of each of the senior pay bands, the range of percentage increases to base salary and range of bonuses. Further information on the work of the SSRB can be found at [www.ome.uk.com](http://www.ome.uk.com).
- Reporting Officers' recommendations on the relative performance of each of their senior staff, whether a bonus should be paid, and if so, whether low or high. The Senior Pay Committee consider the recommendations, determine the allocation of senior staff to tranches, and decide the percentage increase to salary and any bonus to be awarded.

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

### Employment contracts

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

Members of the Forest Enterprise England Management Board hold appointments that are open-ended until they reach the normal retiring age, with a maximum notice period of six months. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

### Salary and pension entitlements

The salary and pension entitlements of the members of the Forest Enterprise England Management Board were as follows:

	2007-08		2006-07	
	Salary £000	Benefits in kind £100	Salary £000	Benefits in kind £100
Simon Hodgson	75-80	1,500	70-75	1,500
Rob Guest	50-55	1,400	-	-
Brian Mahony	60-65	-	55-60	-
Mark Thornycroft	55-60	-	55-60	-
James Swabey	50-55	-	50-55	-
Ken Milsom	35-40 <sup>1</sup>	-	45-50	-
Steve Meeks	45-50	-	45-50	-
Jo O'Hara	35-40	-	30-35	-

<sup>1</sup>Figure quoted is for period 1 April 2007 to 31 December 2007. Full year equivalent is 45-50.

## Salary

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

## Benefits in kind

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

## Pension benefits

	Accrued pension at age 60 at 31 March 2008 and related lump sum £000	Real increase in pension and related lump sum at age 60 £000	CETV at 31 March 2008 £000	CETV at 31 March 2007** £000	Real increase in CETV £000	Employer contribution to partnership pension account Nearest £100
Simon Hodgson	10-15 plus LS of 40-45	0-2.5 plus LS of 2.5-5.0	280	231	14	-
Rob Guest	10-15 plus LS of 35-40	0-2.5 plus LS of 2.5-5.0	300	247	15	-
Brian Mahony	20-25 plus LS of 50-55	0-2.5 plus LS of 0-2.5	439	365	18	-
Mark Thornycroft	15-20 plus LS of 50-55	0-2.5 plus LS of 0-2.5	400	340	17	-
Ken Milsom	20-25 plus LS of 70-75	(2.5)-0 plus LS of (2.5)-0	613	551	(5)	-
Steve Meeks	15-20 plus LS of 50-55	0-2.5 plus LS of 0-2.5	295	236	10	-
James Swabey	25-30 plus LS 0-5	0-2.5 plus LS of 0-2.5	504	404	20	-
Jo O'Hara	5-10 plus LS of 25-30	0-2.5 plus LS of 0-2.5	139	110	9	-

\*\* Due to certain factors being incorrect in last years CETV calculator there may be a slight difference between the final period CETV for 2006/07 and the start of period CETV for 2007/08.

## Civil Service Pensions

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 Prices Index (RPI). Members joining from October 2002 may opt for the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, 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 (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a hybrid with benefits in respect of service before 1 October 2002 calculated broadly as for classic and benefits for service

from October 2002 calculated as in premium. In nuvos a member builds up a pension based on his 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 2.30% of their pensionable earnings in that scheme year and the accrued pension is updated in line with RPI. In all cases members may opt to give up (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 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.

Further details about the Principal Civil Service Pension Scheme can be found at the website [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)

### **Cash Equivalent Transfer Values**

Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement that 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 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are drawn.

### **Real increase in CETV**

This reflects the increase in CETV 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.

*Simon Hodgson*  
Accounting Officer  
11 July 2008

## STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Forestry Commission to prepare for each financial year a statement of accounts for Forest Enterprise England in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Forest Enterprise England and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of HM Treasury's *Managing Public Money* and in particular to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

Director, Forestry Commission England as the additional Accounting Officer for Forestry Commission England has designated the Chief Executive as the Accounting Officer for Forest Enterprise England. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding Forest Enterprise England's assets, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in *Managing Public Money*.

## STATEMENT ON INTERNAL CONTROL

### Statement on Internal Control

#### 1. Scope of responsibility

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

The Forestry Commission is a Great Britain cross-border department responsible for forestry matters which has a Board of Commissioners with duties and powers prescribed by statute. Forestry is a devolved matter. The Secretary of State for Environment, Food and Rural Affairs has responsibility for forestry in England as well as certain activities such as international affairs, plant health and forest research which remain reserved by Westminster.

The Forestry Commissioners are statutorily responsible for the stewardship of the estate placed at their disposal by Ministers. The Forestry Commissioners have delegated to the statutory National Committee for England, the normal exercise of their powers and duties in connection with the estate. In turn, the National Committee has delegated management of the estate to the Agency. The National Committee in England is chaired by a non-executive Forestry Commissioner and its members include a further two non-executive Commissioners, the Director England, the Agency Chief Executive, a member from the Department for Environment, Food and Rural Affairs, Finance Director, Head of Programme Group and two non-executive members.

The Director General is the Deputy Chairman of the Forestry Commissioners and the senior official in the Forestry Commission. In addition to his role as a Commissioner, he is the Principal Accounting Officer, formally responsible to the Westminster Parliament for the financial affairs of the Forestry Commission, including the Agency. In practice, the Director General's role in relation to the Agency is delegated to Director England as Additional Accounting Officer.

Director England is the executive Forestry Commissioner responsible to the Forestry Minister and to the Director General for the work of the Forestry Commission in England. Director England is appointed Additional Accounting Officer and is a member of the National Committee. He is responsible, on behalf of the Forestry Commissioners, for the oversight of the Agency. In particular, Director England is responsible for advising the National Committee and Ministers on the Agency's Corporate Plan and performance targets and for ensuring the Agency operates a proper system of financial management. Director England also advises the National Committee and Ministers on the strategic direction of the Agency, performance management and on ensuring that the Agency has the resources, delegations and authorities necessary to effectively deliver its remit.

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

- preparing the Agency's Corporate Plans and for achieving the targets set in them;
- appointment and organisation of the Agency's staff, and deployment of other resources to achieve the aims and objectives;
- maintaining financial and management information systems to assist in the monitoring and control of performance;
- preparing and submitting the Agency's Annual Report and Accounts; and
- establishing and chairing an Agency Management Board comprising senior managers within the Agency.

The Director General, Director England and Agency Chief Executive are liable to be summoned to appear before the Public Accounts Committee to answer for their respective responsibilities. It will be for Ministers to decide who should represent them at other Parliamentary Committee hearings. In practice, where a Committee's interest is confined to the day-to-day operations of the Agency, Ministers will normally regard the Chief Executive as the person best placed to appear on their behalf.

## **2. The purpose of the system of internal control**

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Forest Enterprise England 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 Forest Enterprise England for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

## **3. Capacity to handle risk**

Risk management is the responsibility of every member of staff in Forest Enterprise England. Everyone has a role to play in managing risks and, therefore, understands and accepts responsibility for managing the risks within their own area of authority. Risk awareness and responsibility lies in parallel with the structure of Forest Enterprise England's objectives and at every level of objective there is equivalent delegation of responsibility of associated risk.

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

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

## **4. The risk and control framework**

Forest Enterprise England is committed to a process of continuous development and improvement: developing systems in response to any relevant reviews and developments in best practice in this area. In particular, in the period covering the year to 31 March 2008 and up to the signing of the accounts Forest Enterprise England has:

- Updated the existing Forest Enterprise England risk register, which was considered and approved by the England Executive Board on 9 July 2007. This meeting was facilitated by our private sector risk management consultant and considered current content, scoring, adequacy of controls and identified omissions. The next formal review was conducted by the Agency Management Board in May 2008.
- Participated in the Commission wide, Risk Management Group (RMG), which met on 2 August 2007, 8 November 2007 and 26 March 2008 to consider and ensure continued development of risk management and business continuity planning and the sharing of best practice across the FC.

- contributed to the process of external consultancy in developing Business Continuity Plan (BCP) templates for the Forestry Commission during 2007-08. This has enabled a regionally based BCP template to be piloted in the East Midlands during 2007-08, which will be rolled out across all regions within England during 2008-09. The purpose of these plans is to ensure that there are procedures in place to facilitate the recovery critical business activities or key enabling capabilities should a break in continuity occur. This process is also part of the embedding of risk and its management at regional and cost centre level ensuring common standards across our organisation in England.

The England Audit and Risk Committee (ARC) met on 3 July 2007, 31 October 2007 and 5 February 2008 and considered a range of reports from management, and from internal and external audit.

The Audit and Risk Committee (ARC) membership consists of 3 non-executives, the Director, Agency Chief Executive and Finance Director for England, the Head of Internal Audit and a National Audit Office representative. It deals with higher level issues concerning control and governance and will support the National Committee, Country Director and the Agency Chief Executive. It is provided with detailed advice on the work of Internal Audit in particular, and control in general.

The ARC advises the National Committee and Accounting Officers on:

- the strategic processes for risk, control and governance in Forestry Commission England and Forest Enterprise England;
- the Statement on Internal Control in Forestry Commission Great Britain/England and Forest Enterprise England;
- the accounting policies, the accounts and the annual report of Forestry Commission Great Britain/England and Forest Enterprise England, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter(s) of representation to the external auditors;
- the planned activity and results of both internal and external audit;
- the adequacy of management response to issues identified by audit activity, including internal audit reports and external audit's management letter;
- assurances relating to the corporate governance requirements for Forestry Commission England and Forest Enterprise England; and
- anti-fraud policies and whistle-blowing processes,

The ARC will also periodically review its own effectiveness and report the results of that review to the National Committee.

## 5. Data Handling in Government

The Accounting Officer needs comprehensive and reliable assurance from managers, internal audit and assurance providers that risks, including information risks are being effectively managed.

In November 2007, the Government in response to a number of high profile losses of personal information launched a cross-government review of Departments' procedures for the storage and use of data. The terms of reference for the work were to examine:

- the procedures in departments and agencies for the protection of data;
- their consistency with current government-wide policies and standards;
- the arrangements for ensuring that procedures are being fully and properly implemented, and to make recommendations on improvements that should be made.

The review reported in March 2008 and set out the mandatory process measures that all departments must put in place to ensure information risks are identified and managed. In line with the requirements, the Forestry Commission has taken the following steps to strengthen its handling of information risk and is developing its own action plan in line with revised guidance produced by the Cabinet Office and the Devolved Administrations.



- The Director General of the Forestry Commission has appointed his Finance Director, a member of the Forestry Commission's Executive Board, as the Senior Information Risk Owner (SIRO). The SIRO chairs an Information Systems Management Forum which meets on a formal and regular basis to co-ordinate the Forestry Commission's approach to information security and to monitor progress against an action plan. Regular updates will be provided to Forestry Commission Executive Board members.

As a government department the Forestry Commission internally enforces the standards of the Manual of Protective Security. In addition, to meet Service Level Agreements we have with other government departments on whose behalf we carry out EU grant payments, we have a project underway to achieve compliance with ISO/IEC 27001 the standard for Information Security Management Systems. Compliance with the Standard will also ensure that we are in compliance with the Data Protection Act's Seventh principle that "appropriate technical and organisational measures shall be taken against unauthorised or unlawful processing of personal data and against accidental loss or destruction of, or damage to, personal data."

The Forestry Commission England Audit and Risk Committee (ARC) received an update on information risk management at its meeting in February 2008. Information risk will be a standing agenda item for the ARC during 2008-09.

As reported in the Management Commentary, there were no protected personal data related incidents reported for Forestry Commission GB/England in 2007-08 or previous financial years.

## 6. Review of effectiveness

As Agency Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by:

- The executive managers within Forest Enterprise England who have responsibility for the development and maintenance of the internal control framework;
- The work of the internal auditors, who submit to the ARC reports which include the Head of Internal Audit's independent and objective opinion on the adequacy and effectiveness of the systems of internal control together with recommendations for improvement; and
- Comments made by the external auditors in their management letters and other reports.

The Head of Internal Audit has prepared an annual report and assurance statement to me as Agency Chief Executive and Accounting Officer. The report includes an overall assessment of the adequacy and effectiveness of risk management, control and governance within Forestry Commission England and Forest Enterprise England. The Director General as Principal Accounting Officer has received a similar report and assurance statement including any comments specific to the Great Britain core responsibilities. The overall opinion is that internal control within Forestry Commission England and Forest Enterprise England continues to provide substantial assurance that material risks to the achievement of objectives are identified and adequately managed.

## 7. Significant internal control problems

There were no significant internal control problems to report.

*S Hodgson*  
Accounting Officer  
11 July 2008

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

I certify that I have audited the financial statement of the Forest Enterprise for the year ended 31 March 2008 under the Government Resources and Accounts Act 2000. These comprise the Income and Expenditure Account and Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cashflow 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 Agency, the Chief Executive and Auditor**

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the Financial Statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises a management commentary and a review of current and future development and performance, 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 the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Agency's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report which comprises, Foreword by the Chairman, Introduction by the Director England, leadership and governance, and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

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

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

## Opinions

### Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2008, and of the net deficit, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- the information given within the Annual Report, which comprises management commentary and a review of current and future development and performance, is consistent with the financial statements.

### Audit 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.

*T J Burr*  
Comptroller and Auditor General

21 July 2008

National Audit Office  
151 Buckingham Palace Road  
Victoria  
London  
SW1W 9SS

**Income and Expenditure Account**

for the Year Ended 31 March 2008

	2007-08	2006-07
Note	<u>£000</u>	<u>£000</u>
<b>Operating Income</b>		
Sales of Timber	26,281	20,338
Forest Protection and Maintenance	373	1,822
Management and Development of Estate	2	
Continuing operations	9,849	5,830
Discontinued operations	22	1,951
	<u>36,525</u>	<u>29,941</u>
<b>Operating Expenditure</b>		
Forest Planning	3,084	2,942
Harvesting and Haulage of Timber	11,907	11,087
Forest Roads	2,913	2,341
Forest Protection and Maintenance	13,706	14,517
Management and Development of Estate	2	
Continuing operations	9,830	5,328
Discontinued operations	98	1,047
	<u>41,538</u>	<u>37,262</u>
<b>Operating Deficit</b>	<b>(5,013)</b>	<b>(7,321)</b>
<b>Recreation, Conservation &amp; Heritage</b>		
Income	14,734	14,266
Expenditure	30,001	30,023
	<u>(15,267)</u>	<u>(15,757)</u>
<b>Operating Deficit Net of R,C &amp; H</b>	<b>(20,280)</b>	<b>(23,078)</b>
Surplus on sale of discontinued operations	4	2,937
Surplus/(deficit) on sale of properties	4	2,570
	<u>346</u>	<u>2,570</u>
Deficit	<b>(19,934)</b>	<b>(17,571)</b>
Notional cost of capital	5	(17,039)
	<u>(19,476)</u>	<u>(17,039)</u>
<b>Net Deficit for the Year</b>	<b>(39,401)</b>	<b>(34,610)</b>
Transferred to General Fund	13	(34,610)
	<u>(39,401)</u>	<u>(34,610)</u>

There have been no acquisitions during the year

*The notes on pages 88 to 104 form part of these accounts*

**Statement of Total Recognised Gains and Losses**

for the Year Ended 31 March 2008

		<u>2007-08</u>	<u>2006-07</u>
	Note	<u>£000</u>	<u>£000</u>
Net deficit for the year		<b>(39,401)</b>	(34,610)
Revaluation surplus for the year	14	<b>105,469</b>	28,093
Movement in donated asset reserve	15(a)	<b>389</b>	705
Movement in government grant reserve	15(b)	<b>3,003</b>	3,049
Total recognised gains and losses for the financial year		<b><u>69,460</u></b>	<u>(2,763)</u>

*The notes on pages 88 to 104 form part of these accounts*

**Balance Sheet**

as at 31 March 2008

		<u>2007-08</u>	<u>2006-07</u>
		£000	£000
<b>Fixed Assets</b>			
Tangible assets	6	591,286	488,868
Investment	7	4,297	
<b>Debtors falling due after more than one year</b>	9	9,445	12,941
<b>Current Assets</b>			
Stocks	8	3,564	3,367
Debtors	9	12,566	9,478
Cash at banks and in hand	10	<u>35</u>	<u>19</u>
		<b>16,165</b>	<b>12,864</b>
<b>Creditors (amounts falling due within one year)</b>	11	<b>(9,777)</b>	<b>(7,518)</b>
<b>Net Current Assets</b>		<u><b>6,388</b></u>	<u><b>5,346</b></u>
<b>Total assets less current liabilities</b>		<b>611,416</b>	<b>507,155</b>
<b>Creditors (amounts falling due after more than one year)</b>	11	<b>(2,359)</b>	<b>(2,319)</b>
<b>Provision for Liabilities and Charges</b>	12	<u><b>(574)</b></u>	<u><b>(868)</b></u>
		<u><b>608,483</b></u>	<u><b>503,968</b></u>
<b>Capital and Reserves</b>			
General fund	13	<b>350,346</b>	352,196
Revaluation reserve	14	<b>247,340</b>	144,359
Donated Asset Reserve	15	<b>1,567</b>	1,185
Government Grant Reserve	15	<u><b>9,230</b></u>	<u><b>6,228</b></u>
		<u><b>608,483</b></u>	<u><b>503,968</b></u>

*S Hodgson*  
Accounting Officer  
11 July 2008

**Cash Flow Statement**

for the Year Ended 31 March 2008

		<u>2007-08</u>	<u>2006-07</u>
	Note	£000	£000
Net cash outflow from operating activities	16a	<b>(19,157)</b>	(23,450)
Capital expenditure and financial investment	16b	<b>411</b>	336
Financing	16c	<b>18,762</b>	23,114
Increase in cash	10	<b>16</b>	–

*The notes on pages 88 to 104 form part of these accounts*

## Notes to the accounts

### Note 1 Accounting policies

These financial statements have been prepared in accordance with the 2007-08 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the *FReM* follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

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

#### 1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets.

#### 1.2 Capital charges

A notional charge, reflecting the cost of capital used by Forest Enterprise England, is included in the income and expenditure account. The charge is calculated at the government's standard rate of 3.5% in real terms on the average carrying amount of all assets less liabilities except for cash balances held by the Office of the Paymaster General.

#### 1.3 Pensions

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

#### 1.4 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, Forest Enterprise England discloses for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of HM Treasury's Managing Public Money.

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

#### 1.5 Tangible fixed assets

Legal ownership of all land and buildings is vested in the Secretary of State with legal ownership of the timber, including uncut trees, vested in the Forestry Commissioners. Legal ownership of other tangible fixed assets is vested in the Forestry Commissioners. Where the agency is the principal beneficial user of assets owned by the Secretary of State or Forestry Commissioners these are treated as a fixed asset of the agency. See also 'Land and Buildings Leased to Customers' at 1.9 below and 'Leases' at 1.13. below.

Tangible fixed assets are revalued annually as at 31 March. With the agreement of HM Treasury, from 1 April 2008, future revaluations shall take place on 1 April.



### Forest estate

A full valuation is undertaken at five yearly intervals by a panel comprising Forest Enterprise England's country land agent and two external valuers. In accordance with the RICS Appraisal and Valuation Standards (the "Red Book"), the valuation is based on the assets' existing use. This is because the forest estate is regarded as a non-specialised asset that is occupied by its owners for the purposes of their business. The next full valuation shall take place on 1 April 2008. From that date, accounts shall be prepared under International Accounting Standards and the Forest Estate shall be valued under the Existing Use and Fair Value bases as appropriate. Indices provided by the valuation panels are used to restate values in the intervening years. Use of the indices shall continue after 1 April 2008.

### Non-forest land

Professionally qualified staff employed by the Forestry Commission undertake a full revaluation of non-forest land at five yearly intervals coinciding with that for the forest estate. They follow the principles set out in the RICS Red Book and value on the basis of Open Market Value, Existing Use Value, Depreciated Replacement Cost or Discounted Cash Flow as appropriate under the RICS guidance. Unequipped agricultural land indices provided by the District Valuer are used to restate values between full valuations. The next full valuation shall take place on 1 April 2008.

### Dwellings and other buildings

Professionally qualified staff employed by the Forestry Commission undertake a full revaluation of dwellings and other buildings following the principles set out in the RICS Red Book. Valuation is on the basis of Open Market Value or Existing Use Value as appropriate under the RICS guidance. Dwellings and other buildings were scheduled to be re-assessed as at 31 March 2005 in accordance with the three-yearly interval stated in the previous accounting policy. It has been decided, however, to bring the policy in line with UK GAAP and undertake a professional valuation of dwellings and other buildings on a five-yearly basis. The first five-yearly valuation will be undertaken at 1 April 2008 to coincide with the next full revaluation of the Forest Estate. Between full valuations, dwellings and other buildings are restated to current value using appropriate indices provided by the District Valuer. The normal threshold for capitalisation of buildings is £2,000.

### Expenditure on infrastructure

To maximise the environmental, social and economic benefits of the Forest Estate and Other Land, the Commission improves and develops access and services by adding to the infrastructure on its sites. Infrastructure includes new roads, bridges, culverts etc. Costs in respect of infrastructure works are expensed as they occur. The Commission takes the view that the professional valuations of the Forest Estate and Other Land properly recognise the contribution that infrastructure items make to land values.

### Surplus properties

Fixed assets are reviewed regularly to ensure they continue to contribute positively to policy and business objectives. Assets that no longer provide the required level of contribution are considered for disposal by senior management. Decisions to sell such properties take into account a number of factors including the social and environmental effects as well as marketability. Surplus properties are retained in their fixed asset category and continue to be valued on the appropriate basis as set out in the preceding paragraphs. However, values may be materially affected by development factors such as the award of planning permissions. Where this occurs, assets are revalued to an Open Market Value based on advice provided by the selling agents and taking account of the circumstances of the sales. Revaluation takes place in the quarter following the development event.

### Forestry vehicles, machinery and equipment

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

and indices provided by the Office for National Statistics for all other assets. The normal threshold for capitalisation of assets is £3,000.

#### Office machinery and equipment

Office machinery and equipment values are restated to current value each year using indices provided by the Office for National Statistics. The normal threshold for capitalisation of assets is £1,500.

#### Assets under construction

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

### **1.6 Donations**

Donations in respect of capital expenditure are credited to a donated asset reserve. Subsequent revaluations are also taken to this reserve. Each year, an amount equal to the depreciation charge on the asset is released from the donated asset reserve to the Income and Expenditure account. Where the donor contributes only part of the cost of the fixed asset, only that proportion is released from the donated asset reserve.

### **1.7 Government grants receivable**

Government grants in respect of capital expenditure are credited to a government grant reserve. Subsequent revaluations are also taken to this reserve. Each year, an amount equal to the depreciation charge on the asset is released from the government grant reserve to the Income and Expenditure account. Where the grant contributes only part of the cost of the fixed asset, only that proportion is released from the government grant reserve. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

### **1.8 Depreciation**

Land (forest estate and non-forest) held under freehold is not depreciated in accordance with FRS 15.

Depreciation is provided on all other tangible fixed, including donated, assets at rates calculated to write off the valuation, less estimated residual values, of each asset evenly over its expected useful life. Asset lives are as follows:

Land held under a finance lease	– unexpired term of the lease
Lease premium	– unexpired term of the lease
Freehold buildings	– up to 60 years
Buildings held under a finance lease	– lesser of unexpired term of lease and 60 years
Forestry vehicles, machinery and equipment	– over 3 to 16 years
Office equipment	– over 4 to 20 years

### **1.9 Land and Buildings Leased to Customers**

*Land and buildings leased to external parties is deemed to be sold at a commercial price and taken to the Operating Cost Statement at the inception of the lease. Debtors under finance leases represent the discounted cash value of the outstanding amounts due under the agreements. The discount rates reflect the appropriate commercial environment. Finance lease interest is recognised over the primary period of the lease so as to produce a constant rate of return on the net cash investments. Assets leased to external parties under operating leases is capitalised under the appropriate accounting policy. Operating lease income is accounted for on a straight line basis with any rental increases recognised during the period to which they relate.*

### 1.10 Subsidiaries, associates and joint ventures

Where Forest Enterprise England holds investments in subsidiaries, associates or joint ventures and does not exercise in-year budgetary control, then, in accordance with FReM 2.4, the investment will be treated as a fixed asset investment.

### 1.11 Stocks

Finished goods and work in progress are valued as follows:-

- a. timber at the cost of production;
- b. seed at the lower of cost of collection or net realisable value;
- c. plants and livestock at net realisable value;
- d. consumable materials and supplies held for continuing use are valued at cost or, where materially different, current replacement costs, and at net realisable value only when they either cannot or will not be used.

Cost of production and collection comprises labour and attributable administrative expenses based on the normal level of activity. Net realisable value is based on estimated selling prices, less further costs expected to be incurred to completion and disposal.

### 1.12 Turnover

Turnover represents income receivable from forestry and related activities and is stated net of value added tax.

### 1.13 Leases

Where substantially all the risks and rewards of ownership of a leased asset are borne by the Forestry Commission (a Finance Lease), the right to use the asset is recorded as a tangible fixed asset of the agency. A corresponding debt is recorded to the lessor represented by the minimum lease payments discounted by the Treasury discount rate of 3.5% in real terms. The interest element of the finance lease payment is charged to the Income and Expenditure Account over the period of the lease at a constant rate in relation to the balance outstanding. Costs in respect of operating leases (any lease other than a Finance Lease) are charged on a straight-line basis to expenditure over the lease term.

Where land held under a lease give the Forestry Commissioners a right to carry out forestry activities on the land, the value of timber including uncut trees, is treated as a fixed asset of the agency. These values are included in the valuation of the forest estate.

### 1.14 Provisions

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

### 1.15 Value added tax (VAT)

The Forestry Commission is registered for VAT and accounts for it on a Great Britain basis, which includes any VAT transactions for Forest Enterprise England. Any VAT due to or from HM Revenue and Customs at the year end is included in the Forestry Commission Great Britain/England accounts as a debtor or creditor in the balance sheet. Irrecoverable VAT is charged to the income and expenditure account in the year in which it is incurred.

### 1.16 Third party assets

Third party assets are not recorded on the face of these accounts. A disclosure is made in the accounts of amounts owing to third parties at the balance sheet date.

**Note 2 Operating deficit**

The operating deficit net of recreation, conservation and heritage is stated after charging:

	<u>2007-08</u>	<u>2006-07</u>
	<u>£000</u>	<u>£000</u>
Depreciation of fixed assets	<b>2,156</b>	2,107
Hire of plant and equipment	<b>835</b>	586
Operating lease rentals:		
Land and buildings	<b>121</b>	116
Plant and machinery	<b>1,656</b>	1,817
Auditors' remuneration – audit work	<b>70</b>	60
Auditors' remuneration – non-audit work		–
Shared central services	<b>3,722</b>	3,759

Expenditure includes the cost of shared central services provided to Forest Enterprise England. As part of the Forestry Devolution Review, shared central services are defined as those where a single provider is considered the best solution, in terms of practicality, cost or the needs of stakeholders although primary direction comes from the countries. Six areas of work are identified as shared services:

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

For each of the shared services, a service board was formed composed of 'intelligent buyers' from the countries and Forest Research together with the service provider. The boards have joint accountability for the operation of these services to ensure the needs of the customer and the wider organisation are met. Charges were made at regular intervals during the year.

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

The Forest Research Agency provides research development and survey services to Forest Enterprise England through a service level agreement and charges internal Forest Enterprise England customers in the year. The Forest Research Agency is charged for shared services and business unit costs where appropriate.

Income and expenditure from management and development of the estate included in the operating deficit are:

	<u>Income</u>	<u>Expenditure</u>	<u>2007-08</u> <u>Net</u>	<u>2006-07</u> <u>Net</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
<b>Continuing operations</b>				
Estate Management	2,887	3,563	(676)	42
Other	6,962	6,267	695	460
	<u>9,849</u>	<u>9,830</u>	<u>19</u>	<u>502</u>
<b>Discontinued operations</b>				
Forest Holidays	22	98	(76)	904
<b>Totals</b>	<u>9,871</u>	<u>9,928</u>	<u>(57)</u>	<u>1,406</u>

Estate Management reflects the net cost of managing the non-forested estate which comprises houses, farms, agricultural land and all other lettings. It includes surplus assets which are disposed of wherever possible.

Other expenditure includes agency work carried out on a full cost recovery basis, net income earned by Mechanical Engineering Services business unit and sale of Christmas trees.

### Note 3 Staff costs and numbers

#### 3.1 Employees and costs

The average number of whole time equivalent persons employed in Forest Enterprise England during the year was 954 (965 in 2006-07). In addition, the number of whole time equivalents employed as Agency\Temporary staff was 5 (4 in 2006-07). The aggregate payroll costs were as follows:

	<u>2007-08</u>	<u>2006-07</u>
	<u>£000</u>	<u>£000</u>
Salaries	21,658	21,198
Social Security Costs	1,514	1,511
Other pension costs	3,731	3,607
Agency\temporary staff	116	113
	<u>27,019</u>	<u>26,429</u>
Less recoveries in respect of outward secondments	(31)	(89)
	<u>26,988</u>	<u>26,340</u>

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Forestry Commission is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2007-08, employers' contributions of £3,731,000 were payable to the PCSPS (2006-07 £3,574,000) at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands (the rates in 2006-07 were between 17.1% and 25.5%). The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2007-08, the salary bands will be revised and the rates will remain the same. The contribution rates are set to meet the cost of the benefits accruing during 2007-08 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a **partnership** pension account, a stakeholder pension with an employer contribution. Employers' contributions of £41,000 were paid to one or more of a panel of three appointed **stakeholder** pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £2,600, 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

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

No individuals retired early on ill health grounds.

#### Note 4 Sale of properties

	<u>2007-08</u>	<u>2006-07</u>
	£000	£000
Income	6,093	19,077
Book value	5,365	13,209
	<u>728</u>	<u>5,868</u>
Disposal costs		
External costs	192	169
Administration expenses	190	192
	<u>382</u>	<u>361</u>
Surplus/(deficit) on sale of properties	<u>346</u>	<u>5,507</u>

#### Note 5 Notional cost of capital

Notional cost of capital based on 3.5% of average total assets less liabilities employed in 2007-08 amounted to £19,467,000 (£17,039,000 in 2006-07).

## Note 6 Tangible fixed assets

	Forest Estate	Land	Dwellings and Other Buildings	VME	OME	POA & AUC	Total
	£000	£000	£000	£000	£000	£000	£000
<b>Valuation:</b>							
At 1 April 2007	398,137	33,181	57,263	5,285	299	6,233	500,398
Additions	334	6	-	139	61	1,882	2,422
Donations/government grants	-	-	-	-	-	3,356	3,356
Transfers	-	-	4,499	(9)	-	(4,498)	(8)
Disposals	(2,773)	(94)	(2,651)	(797)	(78)	-	(6,393)
Write-off	-	-	-	-	-	(148)	(148)
Revaluation	92,166	8,600	4,103	126	-	-	104,995
Impairment	-	-	-	-	(17)	-	(17)
<b>At 31 March 2008</b>	<b>487,864</b>	<b>41,693</b>	<b>63,214</b>	<b>4,744</b>	<b>265</b>	<b>6,825</b>	<b>604,605</b>
<b>Depreciation:</b>							
At 1 April 2007	-	-	7,301	4,083	146	-	11,530
Provided during year	-	-	1,736	369	51	-	2,156
Transfers	-	-	-	-	-	-	-
Disposals	-	-	(153)	(748)	(77)	-	(978)
Revaluation	-	-	547	69	-	-	616
Impairment	-	-	-	-	(5)	-	(5)
<b>At 31 March 2008</b>	<b>-</b>	<b>-</b>	<b>9,431</b>	<b>3,773</b>	<b>115</b>	<b>-</b>	<b>13,319</b>
<b>Net book value at 31 March 2008</b>	<b>487,864</b>	<b>41,693</b>	<b>53,783</b>	<b>971</b>	<b>150</b>	<b>6,825</b>	<b>591,286</b>
Net book value at 1 April 2007	398,137	33,181	49,962	1,202	153	6,233	488,868

The forest estate was revalued at £330,305,000 as at 31 March 2003 by a country valuation panel comprising John Clegg & Co. Chartered Surveyors, Bidwells Chartered Surveyors and professionally qualified land agents employed by the Forestry Commission. The valuation was based on a sample number of properties and the results extrapolated by professionally qualified staff employed by the Forestry Commission. Values are determined using the RICS Existing Use basis. The next full revaluation is due as at 1 April 2008 with annual updates in the intervening years based on an external professional opinion. For 2007-08, valuations were updated using indexation information provided by John Clegg & Co. Chartered Surveyors and Bidwells Chartered Surveyors.

Non-forest land was valued at £20,651,000 and dwellings and other buildings at £34,584,000 as at 31 March 2002 by professionally qualified land agents employed by the Forestry Commission. This was on the basis of Open Market Value, Existing Use Value, Depreciated Replacement Cost Value or Discounted Cash Flow Value as appropriate under the RICS guidance. The properties were scheduled to be re-assessed as at 31 March 2005 in accordance with the three-yearly interval stated in the previous accounting policy. To bring the policy in line with UK GAAP, professional valuations of non-forest land and dwellings and other buildings will be undertaken on a five-yearly basis. The first five-yearly valuation will be at 1 April 2008, to coincide with the next full revaluation of the Forest Estate. Annual updates in the intervening years are based on indices provided by the District Valuer.

The forest estate and other land and buildings assets comprise both freehold and leasehold assets.

As at 31 March 2008, management had taken the decision that 3 Dwellings and Other Buildings and 27 properties within the Forest Estate and Other Land were surplus to operational requirements. For marketing and other reasons these properties may not be disposed of immediately. They are included in the financial statements at a net book value of £2,420,000. These values have been determined using an Open Market Valuation basis by internal, professionally qualified staff. Prior to revaluation the net book values were £597,000.

Plant and machinery was valued at £2,085,000 as at 31 March 2005. Professionally qualified staff employed by the Forestry Commission valued specialist forestry machinery. All other assets were valued using indices provided by the Office for National Statistics. The next full revaluation is due at 31 March 2010. In the intervening years annual updates will be carried out based on the opinions of professionally qualified staff employed by the Forestry Commission or on indices provided by the Office for National Statistics.

Office machinery and equipment (OME) was restated to a current value of £150,000 at 31 March 2008 using an index provided by the Office for National Statistics.

Additions to assets under construction included £353,000 funded by donations, £1,804,000 funded by UK government grants and £1,199,000 funded by EU grants.

#### **Note 7 Fixed asset investments**

In May 2006, the Forestry Commission entered into a partnership with the Camping and Caravanning Club to take over management of its Forest Holidays business. The net book value of Forest Enterprise England's cabin and campsite land and buildings transferred to the partnership was £10,454,000. The 2006-07 accounts of Forest Enterprise England showed that in return, it received £13,391,000 comprising:

- a fixed asset investment valued at nil at 31 March 2007;
- as lessors of the sites to the partnership, Forest Enterprise England showed a long-term debtor balance on its balance sheet representing the net present value of the future rental payments over 75 years due by the partnership company totalling £10,087,000; and
- a long-term debtor of £3,304,000 with the capital and interest due to be repaid in five instalments commencing year end 31 March 2012.

The fixed asset investment was valued at nil because the Forestry Commission considered that the book value of the long term lease debtor together with the loan amount represented substantially all of the Forestry Commission's share of the partnership's value. To test this view, Barrs & Co., specialist leisure consultants and valuers, carried out an external professional valuation of the Forest Holidays arrangements as at 31 March 2008. This work showed that the following adjustments were required to the 2007-08 accounts as the overall impact of the changes is below the threshold for making prior year adjustments:

- the valuers concluded that the Forestry Commission's partnership share of the LLP was marketable and appropriate evidence existed to value this. A fixed asset investment of £3,173,000 was accounted for as an addition to assets in 2007-08. This reflects the value of Forest Enterprise England's share of the LLP as at 8 May 2006. The investment was revalued to £4,297,000 as at 31 March 2008.
- The finance lease debtor as at 31 March 2007 was calculated using HM Treasury's standard rate of 3.5% per annum rather than an appropriate commercial rate as required under the Financial Reporting Manual. The debtor was recalculated using a discount rate of 6.6%, reducing the value from £10,087,000 to £5,961,000. The debtor was revalued to £6,112,000 as at 31 March 2008 to reflect revised rental payments and a commercial discount rate of 6.3%.
- In 2006-07 Forest Enterprise England recognised a profit on disposal of £2,937,000 for the Forest Holidays business activity. Taking account of the professional revaluations, this resulted in an overstatement of the surplus by £951,000. This amount has been charged to the Operating Cost Statement in 2007-08.



Review of the long term loan instruments showed that the amount allocated to Forest Enterprise England in 2006-07 was understated by £261,000. The loan value has been increased to reflect this with a consequential adjustment recognised in 2007-08.

In accordance with the Forest Holidays' business plan, no returns have been received from the investment.

#### Note 8 Stocks

	<u>2007-08</u>	<u>2006-07</u>
	£000	£000
Timber	587	535
Plants and seed	2,406	2,332
Consumable materials, supplies and livestock	571	500
	<u>3,564</u>	<u>3,367</u>

#### Note 9 Debtors

##### 9(a) Analysis by type

	<u>2007-08</u>	<u>2006-07</u>
	£000	£000
<b>Amounts falling due within one year:</b>		
Trade debtors	7,768	6,276
Other debtors	25	85
House purchase loans to employees	52	26
Partnership lease	394	331
Prepayments and accrued income	4,327	2,760
	<u>12,566</u>	<u>9,478</u>
<b>Amounts falling due after more than one year:</b>		
Partnership loan	3,565	3,304
Partnership lease	5,718	9,425
House purchase loans to employees	162	212
	<u>9,445</u>	<u>12,941</u>
	<u>22,011</u>	<u>22,419</u>

Forest Enterprise England had house purchase loans totalling £214,000 outstanding at 31 March 2008 relating to 25 employees.

**9(b) Intra-Government Balances**

	Amounts falling due within one year £000		Amounts falling due after more than one year £000	
	2007-08	2006-07	2007-08	2006-07
Balances with other central government bodies	17	35	-	-
Balances with local authorities	253	93	-	-
Balances with public corporations and trading funds	2	1	-	-
Intra-government balances	272	129	-	-
Balances with bodies external to government	12,294	9,349	9,445	12,941
<b>Total debtors at 31 March</b>	<b>12,566</b>	<b>9,478</b>	<b>9,445</b>	<b>12,941</b>

**Note 10 Cash at banks and In hand**

	2007-08 £000	2006-07 £000
Cash at commercial banks and in hand	35	19
	<b>35</b>	<b>19</b>

**Note 11 Creditors****11(a) Analysis by type**

	2007-08 £000	2006-07 £000
<b>Amounts falling due within one year:</b>		
Trade creditors	5,112	3,267
Other creditors	122	166
Accruals and deferred income	4,451	3,975
Current part of finance leases	74	103
Payments received on account	18	7
	<b>9,777</b>	<b>7,518</b>
<b>Amounts falling due after more than one year:</b>		
Finance leases	2,359	2,319
	<b>12,136</b>	<b>9,837</b>

Forest Enterprise England acts as co-ordinator for the Interreg Project which is funded by the European Union. The purpose of the Interreg Project is the promotion and guidance of recreation and conservation in forestry. The project has been extended for a further year until October 2008. The duties of co-ordinators include receiving EU funds on behalf of partners for onward transmission once work programmes have been approved. As third party assets these sums are not recorded on the face of these accounts. At 31 March 2008 the amount held in Forestry Commission bank accounts on behalf of partners was £66,445 (£nil in 2006-07).

**11(b) Intra-Government Balances**

	Amounts falling due within one year £000		Amounts falling due after more than one year £000	
	2007-08	2006-07	2007-08	2006-07
Balances with other central government bodies	2	11	-	-
Balances with local authorities	124	253	-	-
Balances with NHS Trusts	0	-	-	-
Balances with public corporations and trading funds	1	-	-	-
Intra-government balances	<u>127</u>	<u>264</u>	<u>-</u>	<u>-</u>
Balances with bodies external to government	9,650	7,254	2,359	2,319
<b>Total creditors at 31 March</b>	<u><b>9,777</b></u>	<u><b>7,518</b></u>	<u><b>2,359</b></u>	<u><b>2,319</b></u>

**Note 12 Provision for liabilities and charges**

	Early departure costs £000	Public legal claims £000	Other legal claims £000	Total £000
<b>Balance at 1 April 2007</b>	<b>314</b>	<b>251</b>	<b>303</b>	<b>868</b>
Provided in the year	167	82	120	369
Provisions not required written back	-	(145)	(65)	(210)
Provisions utilised in the year	(287)	(76)	(92)	(455)
Unwinding of discount	2	-	-	2
<b>Balance at 31 March 2008</b>	<u><b>196</b></u>	<u><b>112</b></u>	<u><b>266</b></u>	<u><b>574</b></u>

*Early departure costs*

Forest Enterprise England meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. Forest Enterprise England provides for this in full when the early retirement programme becomes binding on the agency by establishing a provision for the estimated payments.

*Public and other legal claims*

Provision has been made for various legal claims against Forest Enterprise England. The provision reflects all known claims where legal advice indicates that it is more than probable that the claim will be successful and the amount of the claim can be reliably estimated.

Legal claims which may succeed but are less likely to do so or cannot be estimated reliably are disclosed as contingent liabilities. Public legal claims are those claims from the public for personal injury or damage caused to property, and other legal claims are for compensation for injury to employees.

**Note 13 General fund**

	<u>2007-08</u>	<u>2006-07</u>
	<u>£000</u>	<u>£000</u>
Balance at 1 April	<b>352,196</b>	346,412
<b>Movement in year:</b>		
Net deficit for the year	<b>(39,401)</b>	(34,610)
Notional cost of capital	<b>19,476</b>	17,039
Cash deficit funded by Forestry Commission	<b>15,406</b>	19,403
Transfers of fixed assets from/to other Forestry Bodies	<b>(9)</b>	(2)
Transferred to general fund (realised element of revaluation reserve)	<b>2,488</b>	3,359
Timing between accrual and cash VAT	<b>(125)</b>	541
Non-cash inter-country transfers	<b>324</b>	54
	<b>(1,850)</b>	5,784
<b>Balance at 31 March</b>	<b><u>350,346</u></b>	<u>352,196</u>

**Note 14 Revaluation reserve**

	<u>2007-08</u>	<u>2006-07</u>
	<u>£000</u>	<u>£000</u>
Balance at 1 April	<b>144,359</b>	119,625
<b>Arising on revaluation during the year:</b>		
Forest Estate	<b>92,166</b>	17,731
Land	<b>8,600</b>	4,668
Forest Holidays	<b>1,126</b>	-
Dwellings and other buildings	<b>3,520</b>	5,694
VME	<b>57</b>	-
	<b>105,469</b>	28,093
Transferred to general fund (realised element of revaluation reserve)	<b>(2,488)</b>	(3,359)
<b>Balance at 31 March</b>	<b><u>247,340</u></b>	<u>144,359</u>

The following realised revaluation surpluses were transferred to the General Fund:

	<u>2007-08</u>	<u>2006-07</u>
	<u>£000</u>	<u>£000</u>
Buildings	<b>(2,488)</b>	(3,359)
VME	<b>-</b>	-
	<b><u>(2,488)</u></b>	<u>(3,359)</u>

**Note 15 Reserves****15 (a) Donated asset reserve**

	<u>2007-08</u>	<u>2006-07</u>
	<u>£000</u>	<u>£000</u>
Balance at 1 April	1,185	486
Additions during the year	353	662
Revaluations	36	43
Release to I&E	(7)	(6)
Balance at 31 March	<u>1,567</u>	<u>1,185</u>

**15 (b) Government grant reserve**

	<u>UK</u>	<u>EU</u>	<u>2007-08</u>	<u>2006-07</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Balance at 1 April	4,934	1,294	6,228	3,181
Additions during the year	1,804	1,199	3,003	3,049
Revaluations	–	–	–	–
Release to I&E	(1)	–	(1)	(2)
Balance at 31 March	<u>6,737</u>	<u>2,493</u>	<u>9,230</u>	<u>6,228</u>

**Note 16 Notes to the Cash Flow Statement****16(a) Reconciliation of net deficit to operating cash flows**

	<u>2007-08</u>	<u>2006-07</u>
	<u>£000</u>	<u>£000</u>
Net deficit for the year	(39,401)	(34,610)
Notional cost of capital	19,476	17,039
Depreciation charges	2,156	2,107
Donated asset reserve released	(8)	(8)
(Profit) on sale of properties	(728)	(5,868)
Tangible fixed asset write-off	148	327
Impairment of tangible fixed assets	12	8
(Profit) on sale of other tangible fixed assets	(42)	(39)
Timing between accrual and cash VAT	(125)	541
Non-cash inter-country transfers	324	54
(Increase)/decrease in stocks	(197)	63
Decrease/(Increase) in debtors	404	(13,351)
less movements in debtors relating to items not passing through I&E	(3,172)	13,060
(Decrease) in creditors	2,299	(2,733)
(Decrease) in provisions	(294)	(40)
<b>Net cash outflow from operating activities</b>	<u>(19,157)</u>	<u>(23,450)</u>

**16(b) Analysis of capital expenditure and financial investment**

	<u>2007-08</u>	<u>2006-07</u>
	<u>£000</u>	<u>£000</u>
Payments to acquire tangible fixed assets	(5,778)	(5,806)
Receipts from sale of properties	6,093	5,686
Receipts from sale of other tangible fixed assets	92	125
Lease repayment	4	331
<b>Net cash inflow from investing activities</b>	<b><u>411</u></b>	<b><u>336</u></b>

**16(c) Analysis of financing**

	<u>2007-08</u>	<u>2006-07</u>
	<u>£000</u>	<u>£000</u>
Deficit funded by Forestry Commission	15,406	19,403
Donations toward capital expenditure	353	662
Government grants towards capital expenditure	3,003	3,049
<b>Net financing</b>	<b><u>18,762</u></b>	<b><u>23,114</u></b>

**Note 17 Capital commitments**

Amounts contracted for but not provided in the accounts amounted to £1,793,000 (£4,212,000 for 2006-07) and relates to various building works: £210,000 for a Mountain Bike Facility and £27,000 for an Observatory at Kielder Forest District; £89,000 for Commoners Houses in the New Forest; £308,000 for the Beechenhurst Visitor Centre at the Forest of Dean; £45,000 at Top Lodge at Northants Forest District; £654,000 at the Grizedale Visitor Centre; and £150,000 at the Cannock Education Centre and £310,000 at Rosliston Cabins at West Midlands Forest District.

**Note 18 Commitments under leases****Operating leases**

Commitments on operating lease rentals for the next year are as follows:

	<u>2007-08</u>	<u>2006-07</u>
	<u>£000</u>	<u>£000</u>
Land and building leases expiring within:		
One year	–	–
Two to five years	42	–
More than five years	80	116
	<b><u>122</u></b>	<b><u>116</u></b>
Plant and machinery leases expiring within:		
One year	344	168
Two to five years	1,312	1,628
More than five years	0	21
	<b><u>1,656</u></b>	<b><u>1,817</u></b>

**Finance leases**

Obligations under finance leases fall due as follows:

	<u>2007-08</u>	<u>2006-07</u>
	<u>£000</u>	<u>£000</u>
Rentals due in one year or less	74	103
Rentals due in more than one year but not more than two years	74	103
Rentals due in more than two years but not more than five years	147	206
Rentals due in more than five years	<u>2,037</u>	<u>2,010</u>
	<u>2,332</u>	<u>2,422</u>

**Note 19 Other financial commitments**

Forest Enterprise England has entered into non-cancellable contracts for artist fees and stage rental for the 'Forest Concert Tour 2008' at various venues in England of £2,059,576 (£2,054,000 for 2006-07).

**Note 20 Contingent liabilities**

There were no contingent liabilities.

**Note 21 Post Balance Sheet Events**

In accordance with the requirements of FRS21, post balance sheet events are considered up to the date on which the accounts are authorised for issue. These accounts were authorised for issue on 21 July 2008.

**Note 22 Related party transactions**

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

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

During the year, Forest Enterprise England entered into the following material transactions involving the non-executive Commissioners of the Forestry Commission:-

Martin Gale, a non-executive Forestry Commissioner, was Chairman of Tilhill Forestry until 30th May 2007, and Vice President of UPM Corporation until 30th May 2007 and is a non-executive Director of BSW Timber plc. UPM Corporation is the parent company of Caledonian Paper and Tilhill Forestry Ltd. Tilhill Forestry has an interest in BSW Timber plc.

The value of purchases from Forest Enterprise England was:

BSW Timber plc	£1,719,000
Tilhill Forestry	£3,270,000

Amounts owing to Forest Enterprise England at 31 March 2008 were:

BSW Timber plc	£384,000
Tilhill Forestry	£516,000

Simon Hodgson, Chief Executive of Forest Enterprise England, is Chair of the England Forest Industries Partnership that approved a Forestry Commission England grant of £50,000 to the Confederation of Forest Industries UK Ltd.

**Note 23 Financial instruments**

FRS 13, *Derivatives and Other Financial Instruments*, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which government departments are financed, Forest Enterprise England is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The department has no powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities and are held not to change the risks facing the department in undertaking its activities.

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

*Liquidity risk*

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

*Interest-rate risk*

Forest Enterprise England is not exposed to interest-rate risk.

*Foreign currency risk*

Forest Enterprise England is not exposed to foreign currency risk.

*Fair Values*

There is no difference between book value and fair value for the cash at bank shown in Note 10. Fair value for the provisions shown in Note 12 is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted by the Treasury rate of 3.5% in real terms.

**Note 24 Financial performance measures**

The financial performance measures set by the National Committee for England for 2007-08 and the actual outturns achieved were:

	<b>Achieved</b>	<b>Target</b>
	<b>£000</b>	<b>£000</b>
Operating deficit	<b>39,401</b>	40,325
Cash deficit	<b>19,157</b>	20,177
Gross receipts from sale of properties	<b>6,093</b>	6,057



## ACCOUNTS DIRECTION GIVEN BY THE TREASURY IN ACCORDANCE WITH SECTION 7 OF THE GOVERNMENT RESOURCES AND ACCOUNTS ACT 2000

1. The Forestry Commission shall prepare accounts for Forest Enterprise of its activities in England for the financial year ended 31 March 2008 and subsequent years, comprising:
  - (a) an annual report;
  - (b) a statement of Accounting Officer's responsibilities;
  - (c) a statement on internal control;
  - (d) an income and expenditure account;
  - (e) a statement of total recognised gains and losses;
  - (f) a balance sheet; and
  - (g) a cash flow statement,including such notes as may be necessary for the purposes referred to in the following paragraphs.
2. The accounts shall give a true and fair view of the income and expenditure, and cash flows for the financial year, and the state of affairs as at the end of the financial year.
3. Subject to this requirement, the accounts shall be prepared in accordance with:
  - (a) generally accepted accounting practice in the United Kingdom (UK GAAP) having regard for the requirements of the *Government Financial Reporting Manual*;
  - (b) the disclosure and accounting requirements contained in *The Fees and Charges Guide* (in particular those relating to the need for segmental information for services or forms of service provided) and in any other guidance which HM Treasury may issue from time to time in respect of accounts which are required to give a true and fair view;
  - (c) the accounting and disclosure requirements of *Managing Public Money* as amended or augmented from time to time,insofar as these are appropriate to Forest Enterprise and are in force for the financial year for which the accounts are to be prepared.
4. Additional requirements are set out in Schedule 1 attached.
5. Clarification of the application of the accounting and disclosure requirements of the Companies Act and accounting standards is given in Schedule 2 attached.
6. The **income and expenditure account** and **balance sheet** shall be prepared under the historical cost convention modified by the inclusion of:
  - (a) the forest estate at its existing use value;
  - (b) land and buildings at their existing use value where a market exists, otherwise at depreciated replacement cost;
  - (c) machinery, plant and equipment at current replacement cost;
  - (d) commercial recreation assets at their existing use value; and
  - (e) stocks of seed at the lower of cost or net realisable value, stocks of plants and livestock at net realisable value and stocks of consumable materials at current replacement cost.
7. This direction shall be reproduced as an appendix to the accounts and supersedes that dated 21 May 2002.

IAN CARRUTHERS

Director, Government Reporting, HM Treasury

27 February 2006

## SCHEDULE 1

### ADDITIONAL REQUIREMENTS

#### Annual Report

1. The Annual Report shall be prepared in accordance with the provisions of the *Government Financial Reporting Manual*.

#### Income and Expenditure Account

2. The income and expenditure account shall be in a form which discloses the information described below, as the recommended formats described in Schedule 4 to the Companies Act are not appropriate for Forest Enterprise:
  - (a) under "operating income":
    - sales of timber
    - other forest sales
    - other activities
  - (b) under "operating expenditure (by activity)":
    - harvesting and haulage of timber
    - restocking after felling
    - forest roads
    - forest maintenance and protection
    - other activities
  - (c) the resulting operating surplus/deficit shall be shown as a separate heading
  - (d) under "recreation, conservation and heritage":
    - income
    - expenditure
  - (e) giving operating surplus/deficit net of recreation, conservation and heritage
  - (f) the surplus/deficit arising from the sale of properties and the notional cost of capital
  - (g) the "net surplus/deficit for the year" which shall be transferred to the general fund.
3. Minor changes may be made to the headings in the accounts without the approval of HM Treasury.

#### Notes to the Accounts

4. The notes to the accounts shall include, inter alia, details of the total income, expenditure and operating result for each of the operations shown within "other activities", together with explanatory notes of the financial objectives set and performance achieved.

## SCHEDULE 2

### APPLICATION OF THE ACCOUNTING AND DISCLOSURE REQUIREMENTS OF THE COMPANIES ACT AND ACCOUNTING STANDARDS

#### Companies Act

1. The disclosure exemptions permitted by the Companies Act shall not apply to Forest Enterprise unless specifically approved by HM Treasury.
2. Forest Enterprise is not required to provide the historical cost information described in paragraph 33(3) of Schedule 4 to the Companies Act.

#### Accounting standards

3. Forest Enterprise is not required to include a note showing historical cost profits and losses as described in FRS 3.



Published by TSO (The Stationery Office) and available from:

**Online**

**[www.tsoshop.co.uk](http://www.tsoshop.co.uk)**

**Mail, Telephone, Fax & E-mail**

TSO

PO Box 29, Norwich NR3 1GN

Telephone orders/General enquiries: 0870 600 5522

Order through the Parliamentary Hotline *Lo-call* 0845 7 023474

Fax orders: 0870 600 5533

Email: [customer.services@tso.co.uk](mailto:customer.services@tso.co.uk)

Textphone: 0870 240 3701

**TSO Shops**

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 606 5588

**The Parliamentary Bookshop**

12 Bridge Street, Parliament Square

London SW1A 2JX

**TSO@Blackwell and other Accredited Agents**

ISBN 978-0-10-295551-4



9 780102 955514