

# Annual Report and Accounts 2010–2011





# Forest Research

## Annual Report and Accounts 2010–2011

Presented to the House of Commons pursuant to Section 7  
of The Government Resources and Accounts Act 2000

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# Chief Executive's Introduction



**There have been a number of notable achievements at Forest Research (FR) during the past year, which continue to uphold our reputation as the UK's leading institute for forest and tree-related research.**

Three of our scientists have authored a book on *Managing Native Broadleaved Woodland* (published by The Stationery Office), which has received critical acclaim. We have helped to launch and host the Urban Regeneration and Greenspace Partnership website ([www.forestry.gov.uk/fr/urgp](http://www.forestry.gov.uk/fr/urgp)), and coordinated and co-authored the woodlands element of the National Ecosystem Assessment. Working with our counterparts, Forest Research India, and supported by the Department for Environment, Food and Rural Affairs (Defra) and the Department for International Development (DFID), we have collaborated with The Global Partnership on Forest Landscape

Restoration (GPFLR) to look at the links between forest restoration and ecosystem services in India. We have also secured our first tranche of investment in our spin-out company C-Cure Solutions Ltd, which was launched with the University of Surrey in 2009–10.

Both our Alice Holt site in Surrey and our Northern Research Station (NRS) near Edinburgh have secured full ISO 14001 status for environmental management, showing our commitment to minimising our impact on the environment.

**Our achievements continue to uphold our reputation as the UK's leading institute for forest and tree-related research.**

Of particular note has been the development of Forest Research in Wales, which supports Forestry Commission Wales's activities aimed at delivering the policy priorities of Woodlands for Wales, the Welsh Government's strategy for trees and woodlands. We have developed a number of successful collaborations with the Universities of Aberystwyth, Bangor, Cardiff and Swansea in topics ranging from ground and aerial radar use to *Hylobius* control. We are especially excited about our plans with Aberystwyth University IBERS (Institute of Biological, Environmental and Rural Sciences) and IGES (Institute of





Geography and Earth Sciences) to launch the Dyfi Catchment and Woodland Platform later in 2011.

In addition to this, we have had another strong commercial year with external income exceeding targets by £300,000. To have achieved this, in a time of funding and staff recruitment constraints, is a significant achievement and is a testament to the expertise, skills and drive of our staff.

We are very grateful to all our partners and collaborators with whom we work. Indeed, it is the very nature of our work, which crosses regional and national boundaries and is both multi- and interdisciplinary in nature, that means we seek out opportunities to work with, and for, other organisations. These include the Forestry Commission, departments across central government, the devolved administrations in Wales, Scotland and Northern Ireland, the wider public sector, non-governmental organisations (NGOs), universities, the private sector and the European Commission.

I mentioned in last year's *Annual Report and Accounts* that I believed biosecurity would become an area of growing concern, and so it has, as illustrated in the following case studies. Our research into tree diseases has been crucial to understanding what can be done next. Of course we do not know, or claim to know, all the answers, and our work to further our understanding and find solutions continues. This year I would like to express particular thanks to the many individuals, NGOs, landowners, scientific colleagues and professional bodies that have assisted us with forest and tree biosecurity matters. We are particularly grateful for the support and enthusiastic cooperation of the forestry and arboricultural sectors and to many forest owners for access to their forests, without which we would not have been able to progress our research.

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In place of maintaining a standing Advisory Committee on Forestry Research, we intend to host a Visiting Group later this year, comprising scientists of international repute to independently assess our research programmes, science quality and knowledge exchange. That said, we are very grateful that during 2010–11 Professor Sir David Read has continued to provide advice on the quality of our science and our research priorities, and has agreed to provide input to the first organisation-wide Visiting Group during 2011–12.

Whilst we continue to invest in particular areas of research, we have had to review and reprioritise much of our activity over the past year. However, our staff have proved themselves to be more than capable of adapting to these changes and providing innovative approaches to moving the Agency forward and I would like to express my thanks, and those of Forest Research's Executive Board, to them all for the way they have responded to the challenges we face.

I would particularly like to express my appreciation of their professionalism, involvement and success in developing and growing our business.



**Dr James Pendlebury**  
Chief Executive





## Forest Research Corporate Plan Key Performance Indicators – Progress Report

Key Performance Indicator (KPI)	Commentary
1. To enhance its scientific governance and strategic capacity, FR will establish a new Advisory Committee for Forestry Research (ACFR) comprising internationally recognised independent scientific experts.	<b>Carried forward:</b> The recruitment of a new ACFR is on hold and has been carried forward into a corporate objective for the 2011-12 Corporate Plan.
2. FR will promote and implement its Science Strategy and, as part of this, will implement the Government's new Universal Ethical Code for Scientists.	<b>Met:</b> A science strategy has been produced; a short version is currently being proposed for publication. The Universal Ethical Code for Scientists has been adopted.
3. During 2010-11 FR will further develop its molecular biology facilities and epidemiological capabilities in order to address current and emerging tree health issues.	<b>Met:</b> FR has purchased a new real-time PCR machine for Alice Holt. Two pathology rooms have been modernised at Alice Holt and the laboratory facilities at NRS have been upgraded.
4. In Wales, FR will complete the scoping of a Research Forest/Natural Laboratory concept and, in collaboration with partners, will identify location(s) and funding.	<b>Primary purpose met; carried forward:</b> A scoping document has been circulated and developed through frequent and ongoing interactions with a range of partners; work is ongoing. The Dyfi catchment area has been identified as the location for the Dyfi Catchment Woodland Research Platform, with a steering group of scientists from Aberystwyth University's IBERS (Institute of Biological, Environmental and Rural Sciences) and IGES (Institute of Geography and Earth Sciences). The initiative will be formally launched in mid-2011.
5. As part of FR's science and communications activities, FR will organise a major conference on trees and forests in British society; co-organise a conference on tree diseases; launch a new e-monograph publication series that gives in-depth analysis of specific topics and/or issues; and organise a minimum of three strategic events in Wales. FR will consider the Library Review and ensure that the Library is fit for purpose.	<p><b>Met:</b> FR held a conference on trees and forests in British society in Edinburgh on 13-15 April 2010 (receiving 115 delegates) and, with the Royal Forestry Society, co-organised a major conference on tree health in Warwick on 21 April (with 250 delegates).</p> <p>The first three e-monographs were published between January and March 2011, discussing: opportunity mapping for Woodlands; short-rotation forestry; and woods and forests in British society. They are now available on FR's website.</p> <p>The first strategic event in Wales, a climate change workshop, was held in conjunction with Forestry Commission Wales on 18 May 2010 and was very well received. In July FR's Executive Board (FREB) attended the Royal Welsh Show and a seminar was held to promote our work and presence in Wales.</p> <p>An action plan to modernise the Forestry Commission (FC) library was presented to the April 2011 FREB meeting.</p>
6. With support from the Forestry Commission, FR will meet its annual business plan, deliver its agreed outputs to customers and continue to expand its partnerships, external income and capacity for innovation. FR will seek to secure a total of £5.3 million of other external (i.e. non-FC GB) income.	<b>Met:</b> FR delivered its agreed outputs to customers, expanded its partnerships and external income. Income from non-FC GB customers was £5.6 million, exceeding the target of £5.3 million.
7. FR will participate in the FC corporate programmes including Business Sustainability, Information Security, and Equality and Diversity. FR will implement an Electronic Expense Management System (EEMS) and Alice Holt and NRS will be submitted for ISO 14001 approval.	<p><b>Met:</b> Alice Holt and NRS secured full ISO 14001 status in June 2010, as part of the Business Sustainability programme, which is now being extended to other parts of the FC. All staff have complied with protecting Information Training and passed Level 1. The FR Senior Information Risk Officer attends the Information Security Management Forum, and also provides reports to FREB and (annually) the Audit and Risk Committee.</p> <p>Equality and Diversity is core to FR activity. EEMS was introduced for use by FREB, lease car users and staff in the Chief Executive's office in January 2011, with roll out to all FR staff commencing in April 2011.</p>
8. Through its own investment and through projects such as our Innovation and New Markets Project (a Department for Business, Innovation and Skills (BIS) funded Public Sector Research Exploitation Fund Round 4 (PSRE4) project), FR will identify, investigate and, where possible, develop innovative products or services and capacity through supporting and investing in staff.	<b>Met:</b> The Innovation and New Markets project invested all its funds in innovation projects. This resulted in the formation of two spin-out companies. A formal ceremony to mark the success of the INM project was held on 29 March 2011, with the FC Chair, Pam Warhurst, presenting awards. The final end of year report has been submitted to BIS.

# About Forest Research



**Forest Research is the Forestry Commission's Research Agency and is the UK's foremost body for forest and tree related research.**

## **Background**

The overall objective of the Forestry Commission (FC) is to lead the development and promotion of sustainable forest management and to support its achievement internationally. Forest Research (FR) is the Forestry Commission's research agency and main research provider.

## **FR's Aim**

To be a robust, market-relevant and flexible research organisation with a reputation for innovative applied science.

## **FR's Strategic Objectives**

1. To provide robust science to inform the development and delivery of UK Government and devolved administration forest policies.
2. To provide innovative applied research, development and monitoring services to UK, European and international forestry stakeholders.
3. To transfer research knowledge directly, or in partnership with others, to UK and international audiences.

## **Research funding**

Much of FR's work is funded by the FC with Corporate and Forestry Support acting as purchaser of research and other services in support of the forestry policies of the UK Government and the devolved administrations of Scotland, Wales and Northern Ireland. In addition, FC England, Scotland and Wales purchase research, development and surveys specifically related to their respective forest estates. FR has also been increasingly successful in securing funding from other government departments, the European Commission, UK research councils, commercial organisations, private individuals and charities. Collaborative bids with other research providers and consortium funding have become increasingly important, placing emphasis on effective partnership working.



### Activities

Research and development are essential components in delivery of the benefits of sustainable forestry in a multifunctional landscape. FR's research, surveys and related scientific services address the social, economic and environmental components of sustainability. There is a focus on providing knowledge and practical solutions based on high-quality science. Our projects provide understanding, policy advice and guidelines on the implementation of best practice (on issues such as forest hydrology, continuous cover forestry, timber quality, land reclamation and the restoration of native woodlands). Much of the research is directed at increasing the many benefits of woodlands.

The protection of woodlands from pests and diseases, and predicting the impacts of environmental change are also overarching themes. FR works closely with the FC, the European Commission and other international bodies to ensure compliance with international agreements on the sustainable management of forests and the consideration of social and economic issues. The Agency also carries out work on genetic conservation, tree improvement, seed testing, method studies, product evaluation, crop inventory, surveys and monitoring.

### Resources

FR currently employs 236 (full-time equivalent) staff at Alice Holt Lodge in Hampshire, the Northern Research Station near Edinburgh, the FC Wales National Office in Aberystwyth and at field stations across England, Scotland and Wales. Contact information is given on the back cover.

**There is a focus on providing knowledge and practical solutions based on high-quality science.**



# Centre for Forestry and Climate Change



**Our research into climate change aims to help all those involved in managing trees and woodlands to adapt their management practices so that our current and future woodlands and forests are better able to cope with the changing climate and play a part in mitigating its effects.**

We coordinate the many strands of climate-related work at Forest Research in order to consolidate information and advice on sustainable forest management. We also work on existing and potential new threats to tree health. The following examples illustrate the range of our activities this year.

## **Detecting and tracing disease patterns**

A devastating bleeding canker disease of horse chestnut is caused by the bacterial pathogen, *Pseudomonas syringae* pv. *aesculi* (*Pae*), which is believed to have originated in India and been introduced into Britain very recently. This year, Forest Research has been investigating the infection processes of *Pae* and its pathways of spread throughout Europe. *Pae* infects woody branches of horse chestnut directly via lenticels, leaf scars and other discontinuities in the bark (see image, top). An ongoing series of experiments has demonstrated that *Pae* can survive and remain viable for extended periods in soil.

Our scientists, alongside colleagues from the University of Edinburgh, recently completed work to generate the *Pae* genome sequence and are now

deciphering the genetic pathways by which *Pae* and other bacterial pathogens have evolved to attack trees. Early results suggest multiple evolutionary shifts onto woody hosts, requiring the acquisition of specific genes. More information on our *Pae* research can be found at:

[www.forestry.gov.uk/fr/pae](http://www.forestry.gov.uk/fr/pae)

## **Monitoring caterpillar risk to Scots pine**

Caterpillars of the pine-tree lappet moth, *Dendrolimus pini*, are major defoliators of Scots pine in Europe.

Scientists at Forest Research confirmed that the moths were breeding near Inverness in 2009. Since this discovery, timber movements have been restricted, and our work has focused on determining population size, extent, origin and likelihood of outbreak now and in the future.

Monitoring, partly carried out in collaboration with Butterfly conservation Scotland, shows that *D. pini* is currently rare and very restricted in its distribution in Scotland, although climate modelling suggests



*Lappet moth image courtesy of John Knowler*



an increasing risk of outbreak in the future. DNA work has revealed that the moths are most likely to have come from Southern Europe and are unlikely to have colonised Scotland naturally. In 2010, there was a slight increase in moth dispersal and the extent of the breeding area, but no captures outside the 'movement control area'. This year's findings will be analysed to assess the need for eradication or control. For more information visit [www.forestry.gov.uk/fr/pinetreelappet](http://www.forestry.gov.uk/fr/pinetreelappet)

### Modelling the forest carbon cycle

Growing concern about climate change has led to an expansion of our research on carbon and greenhouse gas balances. UK trees, woodlands and forests are major carbon stocks, and increasing forest areas would contribute to reducing net UK emissions of greenhouse gases. A large research programme is linking detailed measurements of carbon stocks and greenhouse-gas exchanges in forests with models at various scales from stand to country.

At stand scale, Forest Research is assessing how carbon stocks change,

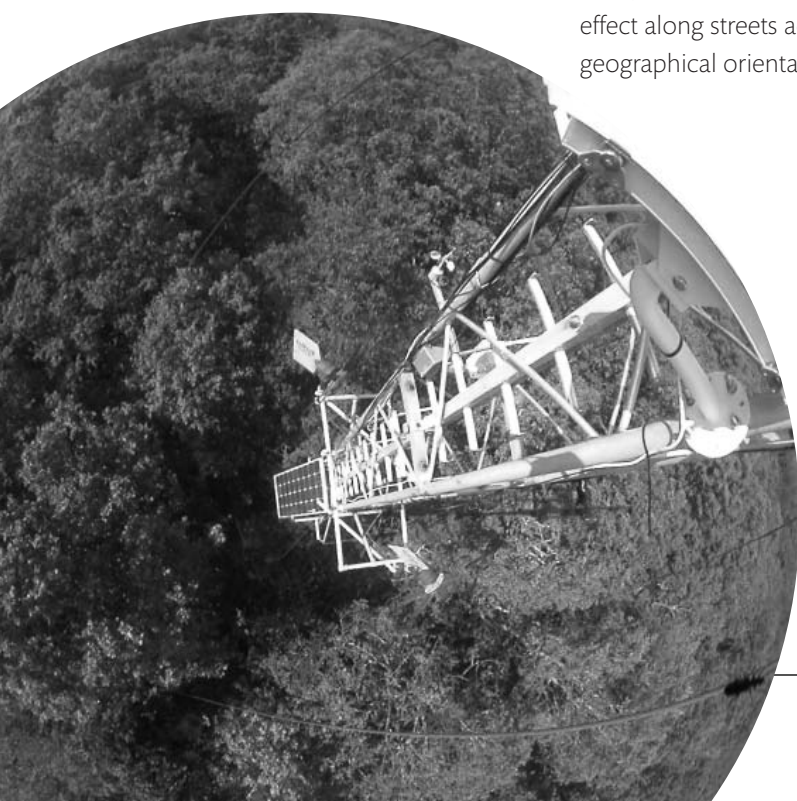
in relation to environment and management, in an 80-year-old stand of oaks (aerial photo, bottom). Eleven years of almost continuous measurements of the net uptake of carbon dioxide help to quantify daily, seasonal and annual carbon cycling.

At country scale, computer models have been used with details of forest areas, types and stand ages to predict future carbon uptake by Welsh forests. For more information visit [www.forestry.gov.uk/fr/ccmitigation](http://www.forestry.gov.uk/fr/ccmitigation)

### The cooling effect of urban trees

Another area of increasing interest is the possible impact of climate change on urban trees and greenspaces and how green areas may in turn ameliorate the effects of climate change. As a consequence, we are working with a number of partners to look at measuring the cooling effects of greenspaces on local temperatures and have just completed a pilot project in and around Kensington Gardens, London. Our initial results have shown a cooling effect that was more apparent on warmer days but less so on cooler ones, with a difference in the cooling effect along streets according to their geographical orientation.

We plan to look at these effects in combination with local meteorological data, and to repeat the pilot study from Spring 2011, monitoring temperatures over a longer period. We will use data from these studies in developing a model of the local cooling effects of urban greenspaces. The model in turn will contribute to an investigation of health implications for local vulnerable populations. For more details, see [www.forestry.gov.uk/fr/urbanclimate](http://www.forestry.gov.uk/fr/urbanclimate)



**We will use data from these studies in developing a model of the local cooling effects of urban greenspaces.**

# Centre for Forest Resources and Management



**Our research investigates and provides guidance on sustainable forest management. As well as measuring today's forest resources, we forecast what is likely to be available in the future.**

In particular, we undertake research to recommend cost-effective and environmentally sustainable ways to manage forests to provide a whole range of ecosystem services from timber to biodiversity and recreation. Key issues in the past year have been management for carbon and responses to disease threats. Here are four examples of our current work.

University of Surrey, we are investigating improved methods for clearing infected plants and alternative herbicides and bio-herbicides for preventing regrowth. We are also researching accelerated decomposition, charcoal production, and novel anti-microbial compounds for reducing re-infection from cut material. For more information see [www.forestry.gov.uk/fr/rhododendron](http://www.forestry.gov.uk/fr/rhododendron)

## **Fighting *Phytophthora***

If left unchecked, the highly damaging disease organisms *Phytophthora ramorum* and *Phytophthora kernoviae* could kill large numbers of trees in Britain. Rhododendrons and larch growing in woodland can help to spread the disease, as once infected they produce large quantities of spores. For this reason, the Forestry Commission, Defra and the Scottish and Welsh Governments, alongside affected landowners, have been destroying infected plants.

Defra has contracted Forest Research to develop improved methods for controlling *Rhododendron ponticum* and to minimise re-infection after clearance. Working with the Centre for Agricultural Bioscience International (CABI) and the

## **Surveying for the Native Woodland Survey of Scotland**

This year, our field workers have surveyed over 69,000 hectares of woodland for Forestry Commission Scotland (FCS) as part of the Native

**The results will be of use to landowners making management decisions and policy-makers developing regional and national policy.**

Woodland Survey of Scotland. This unique survey covers all Scotland's native, near native and ancient woodland sites down to half a hectare.

Skilled field staff capture data on woodland location, type, structure and





condition. The team works all year round – this year's severe winter weather was a challenge but did not stop the surveying, although some rescheduling was necessary and work focused on the western mainland areas and islands until the snow melted.

The survey is due to finish in 2013, when all of the data on Scotland's native woodlands will be available online. The results will be of use to landowners making management decisions and policy-makers developing regional and national policy. More information is available at [www.forestry.gov.uk/nwss](http://www.forestry.gov.uk/nwss)

### **Predicting timber properties before felling**

To be competitive in a global market, it is important to direct timber to the most appropriate and cost-effective end market. At the same time, forests are growing in a changing climate, which affects tree growth and the properties of wood. How can we improve assessment of the timber quality of our forests, now and in future? Working closely with the forestry and wood processing sector and collaborating with colleagues at Edinburgh Napier University and the University of Glasgow, we have been testing field methods: visual assessment, laser scanning and orthogonal photography for measuring the form of standing trees, and acoustic tools for measuring wood stiffness (a good indication of quality). We are also developing computer simulations to predict tree growth and important wood properties of key species. So far, we have developed models for Sitka spruce and Scots pine, to estimate the impact of silviculture, tree breeding and a changing climate. We are currently extending this work to Douglas fir and larch. For more information visit [www.forestry.gov.uk/fr/timberproperties](http://www.forestry.gov.uk/fr/timberproperties)

### **Increasing tree species diversity for the future**

British forests are dominated by just a few tree species (notably Sitka spruce, Scots pine, oak and beech) and considering a wider range is a prudent strategy to adapt our forests and woodlands to projected climate change. This will also help if a favoured species should prove vulnerable to a pest or disease – such as red band needle blight, which has damaged both Corsican and lodgepole pine.

We have created a new set of web pages carrying summary information on 60 species that could be grown for timber in British forests (see [www.forestry.gov.uk/fr/treespecies](http://www.forestry.gov.uk/fr/treespecies)). We are re-examining our existing

species trials, arboreta and forest gardens, such as Kilmun (pictured below), which has over 160 species in separate plots.

**We have created a new set of web pages carrying summary information on 60 species.**

We have also collaborated with colleagues from other European countries in the Interreg project REINFFORCE ([www.forestry.gov.uk/fr/reinfforce](http://www.forestry.gov.uk/fr/reinfforce)) to agree a list of species for experimental planting on sites throughout Western Europe. These are now growing in nurseries for planting from Spring 2012 onwards.



# Centre for Human and Ecological Sciences



**We focus on the links between people and forests, investigating the role of trees, woodlands and forests in society and within integrated sustainable landscapes.**

Our researchers contribute diverse skills from the social and ecological sciences and are committed to inter-disciplinary working. We work with colleagues on aspects of ecosystem services, society and biodiversity, and also work collaboratively on a range of joint initiatives both locally and globally. Here, we highlight four examples of current projects.

## **National Ecosystem Assessment**

The National Ecosystem Assessment (NEA), published on 2 June 2011, is the first analysis of the UK's natural environment in terms of the benefits it provides to society and our continuing economic prosperity, building on the pioneering global Millennium Ecosystem Assessment. The project has produced an independent and peer-reviewed assessment of the state and value of the UK's natural environment and ecosystem services, identifying what has driven change observed in the natural environment and the services it has provided over the last 60 years, and what may drive change in the future. It includes an investigation into the monetary and non-monetary value to the economy, society and individuals

from various ecosystem services, including how some of these may change in future.

Forest Research coordinated the woodlands element of the NEA, with input from the Macaulay Land Use Research Institute, the University of Bangor and Natural England; our researchers also contributed to the process of economic and non-economic valuation of ecosystems. The NEA provides clear evidence of the value of woodlands in delivering multiple benefits and how the forest sector can and does support multiple

**Forests can play a major role in restoring degraded lands and providing multiple benefits for human societies.**

services through sustainable forest management. More information is available at <http://uknea.unep-wcmc.org/>

## **Helping to restore forests worldwide**

In many countries, degraded environments are increasingly seen as landscapes of opportunity. The Global Partnership on Forest Landscape Restoration (GPFLR) is a collaborative





project uniting governments, organisations, communities and individuals in a network to share examples of successful restoration. Forests can play a major role in restoring degraded lands and providing multiple benefits for human societies.

Forest Research is contributing to the GPFLR by working with our counterparts, Forest Research India, supported by Defra and the Department for International Development (DFID). The aim is to develop a better understanding of the link between forest restoration and ecosystem services, including their contribution to climate change mitigation, biodiversity and human well-being. Initial activities include a review of recent restoration projects in India and the UK, assessing successes and the reasons for them. This has involved exchange visits between forestry professionals in Scotland and the Indian states of Madhya Pradesh, Orissa and Uttarakhand. For more information, see [www.ideastransformlandscapes.org](http://www.ideastransformlandscapes.org)

### Organising knowledge for forest professionals

A challenge for many land managers is to access and understand the complex information necessary to make informed decisions while both the natural and policy environments are changing. The extent of recent and likely changes means that the past is no longer an adequate basis on which to form views for the future. In response, our researchers have developed innovative decision support systems (DSS) to help with policy, planning and management of forests and land use. While many DSS are now scientifically excellent, some are not widely used by forest managers. To find out why, Forest Research has been undertaking social research

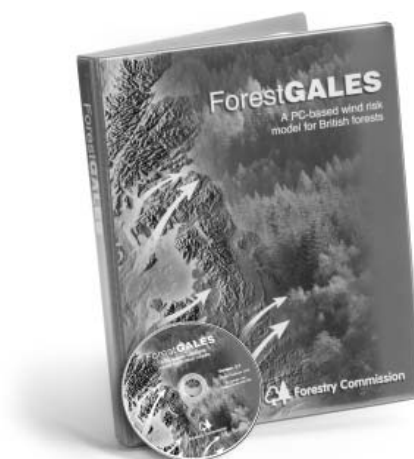
to identify what it is that constrains the uptake of DSS, most recently concentrating on the private sector, including Confederation of Forest Industries (Confor) members.

Our findings indicate that scientists, and those who commission the development of DSS, need to focus more on engaging with stakeholders and not just the technical challenges of DSS development. This places greater emphasis on the decision making contexts, ongoing dialogue between developers and users to build trust and credibility, and clarifying how the codified knowledge can best support decisions by different users. For more information, visit [www.forestry.gov.uk/fr/dssuptake](http://www.forestry.gov.uk/fr/dssuptake) and for examples of DSS visit [www.forestry.gov.uk/fr/planningtools](http://www.forestry.gov.uk/fr/planningtools)

### Woodland Grazing Toolbox

There is growing interest in woodland grazing as a way of obtaining income from the multiple use of land while contributing to the protection of biodiversity. Woodlands can provide shelter for livestock, and the grazing process can benefit woodland structure and a wide range of plants and animals. However, the benefits depend on appropriate choice of the type and density of domestic animals. This choice should reflect the site quality, presence of wild herbivores, and the owner's objectives for the site.

The Woodland Grazing Toolbox is our web-based collection of the information necessary to underpin



a woodland grazing management plan and was developed in collaboration with Scottish Natural Heritage, Scottish Agricultural College and many land managers. It provides detailed guidance on how to assess the initial condition of the woodland and how to monitor changes over time. The Toolbox is already in use in developing woodland grazing within the Scottish Rural Development Programme. For more information, go to [www.forestry.gov.uk/woodlandgrazingtoolbox](http://www.forestry.gov.uk/woodlandgrazingtoolbox)



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# Annual Report for the year ended 31 March 2011

## 1. Basis of accounts

These accounts are prepared in accordance with a direction given by HM Treasury in pursuance of section 7 of the Government Resources and Accounts Act 2000.

## Management commentary

## 2. Status

Forest Research became an Executive Agency of the Forestry Commission on 1 April 1997. It undertakes the major part of the Commission's research and development programmes as well as providing survey, monitoring and scientific services.

Forest Research is part of the Forestry Commission, which is a cross border Government Department responsible for forestry throughout Great Britain. The relationship between Forest Research, the Forestry Commissioners and Forestry Ministers is described in the Framework Document, revised and published in September 2003.

Under the Framework Document, Forest Research is funded from the sale of its services to both the Forestry Commission and external customers. Any annual surplus or deficit is counted in the Forestry Commission's net funding requirement.

With effect from 1 April 2008, the Forestry Commission's Estimate is incorporated as a separate Request for Resource (RfR) within the Defra Estimate. The Forestry Commission Estimate comprises sub-heads A and B with the net funding of Forest Research, as a Great Britain entity, included in sub-head B.

## 3. Strategy

The strategic aims and objectives of Forest Research have been set to assist the Forestry Commission to achieve its objective to take the lead in development and promotion of sustainable forest management and to support its achievement nationally.

These are discussed in detail in Forest Research's corporate plan, which is available on the Forestry Commission website and the Forest Research website ([www.forestry.gov.uk](http://www.forestry.gov.uk) and [www.forestry.gov.uk/forestresearch](http://www.forestry.gov.uk/forestresearch), respectively).

## 4. Relationships with stakeholders

Forest Research has very strong relationships with both its public and private sector stakeholders and is committed to ensuring that our science is available and understandable by all those who need and use it. As an applied research institute, Forest Research maintains effective contact with stakeholders through direct work for, or dialogue and project partnership with, individuals, companies, universities, trade associations and professional bodies. In particular Forest Research's three Research Liaison Officers, in England, Scotland and Wales have been extremely active over the past year in providing and supporting a series of targeted seminars, workshops and continuing professional development (CPD) events. These included three major research conferences, a workshop at the Royal Welsh Show, public outreach events, such as those in partnership with the Royal Botanic Gardens Edinburgh, and many forest health information days across the UK.

Our quarterly newsletter, *FR News*, is well received by external stakeholders and typifies our outward facing approach to our work and communications. To supplement our activities we continue to publish in peer-reviewed journals and to produce our new Forest Research-branded, peer-reviewed e-monograph publication series, which provides in-depth analysis of specific topics and issues, keeping stakeholders more closely up-to-date with developments than is possible using conventional peer-reviewed science journals.



## 5. Aims and objectives

The aim of Forest Research is to support and enhance forestry and its role in sustainable development, by providing high-quality research and development in a well-run organisation, as set out in the Framework Document. The objectives of Forest Research are listed on page 8 in the main body of the Annual Report and Accounts.

## Current and future development and performance

### 6. Operating review

The need for scientific evidence to support the development and delivery of country-specific forestry policies continues to increase and ranges from advice on the carbon balances in respect of windfarm developments, to airborne Light Detection and Ranging (LIDAR) analysis of forest stand variability. This year has seen a further increase in the incidence and public awareness of pests and pathogens affecting forests and urban trees. This has meant that the demand for our pathological and entomological expertise has continued to remain extremely high and our staff have done exceptionally well to provide the research advice and operational guidance needed by both public and private sector growers and managers.

This link to policy and operational needs continues to be maintained by the Programme Advisory Groups (PAGs) and associated Research Management Strategy Board, the systems by which the Forestry Commission collectively specifies its research needs. Indeed this system is continuing to develop and undergo some refinement in order to consolidate and reduce the transactional costs involved.

Forest Research has successfully passed its Stage 2 assessment and has received its ISO 14001: 2004 certification for both its Alice Holt and NRS sites. We have also implemented an electronic expense management system across the Agency in line with its Corporate Plan Objectives. Forest Research's first spin-out company, C-Cure Solutions Ltd, was formed during 2009–10 in conjunction with the University of Surrey and has now secured its first tranche of inward investment and appointed its first employees. As part of its strategy to improve the commercial exploitation of its intellectual property, Forest Research has finalised all the legal agreements governing the creation of its second spin-out company called 'Timber Sonics® Ltd' and entered an agreement with Cabinet UK Ltd to sell a variety of postcard, poster and canvass images derived from seed X-ray photographs.

### 7. Financial review

Forest Research produced a net operating deficit of £590,000 on its Statement of Consolidated Net Expenditure, compared to a surplus of £20,000 in 2009–10. The deficit resulted from the inclusion of two provisions, one for Early Severance Costs and the other for a potential repayment to the European Commission; without these a surplus of £277,000 would have been generated. A comparison of income and expenditure with the previous year's results shows that:

- staff costs decreased by £118,000 (1.2%), resulting from a 4.3% net decrease in staff offset by the annual pay award effective from October 2010.
- other management costs increased by £948,000 (35.1%), mainly as a result of provisions for voluntary redundancies (six staff left under the scheme), provision for a potential repayment to the European Commission in respect of amounts previously claimed; increased one-off building maintenance costs, and costs relating to a compensation claim; these were offset by lower travel and subsistence and utilities costs, the latter partly as a result of the installation of photovoltaic panels in 2009–10.
- materials and services costs increased by £537,000 (20.1%), resulting from increased Central Service charges (cost of computer equipment now covered by these charges), the purchase of more plants from Forestry Commission nurseries, employment of contractors, purchases of materials and supplies, and more commissioned research to meet contractual commitments.
- income from external customers increased by £668,000 (31.1%), largely as a result of increased activity on European Union contracts and higher Public Sector Research Exploitation (PSRE) income.

After adjusting the total deficit for items not involving the movement of cash and for capital expenditure, bank account movements and income, the net cash inflow for the year was £151,000 (2009–10: £442,000), which was paid to the Forestry Commission.

Additions to fixed assets in the year were £278,000 (2009–10: £580,000), on essential scientific and other equipment.

## **8. Financial objective – Key Performance Indicators (KPIs)**

Forest Research's primary financial objective set out in the Framework Document is to recover the full economic costs of its operations from the sale of services to customers. In 2010–11 the recovery rate was 96.5% compared with 100.1% in 2009–10.

Performance against other operational, scientific and financial KPIs is reported in the main body of the Annual Report and Accounts. Forest Research achieved £5.6m of income from non-FC GB customers against the KPI target of £5.3m.

## **9. Events after 31 March 2011**

There were no significant post-balance sheet events to record (see note 27).

## **10. The future**

As part of its Corporate Plan objectives for 2011–12 Forest Research will:

- implement SR10, which will involve more detailed review of staffing and services to be provided with a decreasing budget;
- produce a refreshed Disease Diagnostics Advisory Service;
- launch a new tree health surveillance system;
- host a visiting group comprising scientists of international repute to independently assess our research programmes and make recommendations on future research priorities;
- continue to develop science and software to provide growth and yield models to underpin the National Forest Inventory and reporting under the Kyoto Protocol.

Forest Research will also continue to participate and play its part in the Forestry Commission's corporate programmes, in particular Business Sustainability, Investors in People, and Equality and Diversity.

We also intend to continue to place further emphasis on staff development during 2011–12, in particular through our participation in the Forestry Commission's Management Development Programme and through an in-house programme of events for our science leaders and managers in subjects such as managing change.

## **11. Supplier payment policy**

In October 2008, Government organisations committed to improving the cash flow position of their suppliers by settling their accounts within 10 days wherever possible. The Forestry Commission and Forest Research recognise their roles in supporting local, rural economies and have a proven record of meeting their contractual payment terms. Forest Research also works closely with its local suppliers to ensure prompt payment of debt. Management recognised that the general economic climate could potentially have a detrimental effect on small and medium enterprises and considered whether further action could be taken to improve cash flows. However, as Forest Research has a flexible approach to payment terms in contracts and agreed terms that suit the supplier, no special measures were required. It was generally believed that suppliers who faced hardship would discuss the matter with contract managers and agreed solutions developed. While the above would not apply directly to larger companies, Forest Research believed that special measures would not be required because of existing levels of prompt payment.

Forest Research observes the principles of the Late Payment of Commercial Debts (Interest) Act 1998. 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. An analysis for 2010–11 indicates that 99.5% of payments to suppliers, including those made using the Government Procurement Card, were paid within the due date. Arrangements for handling complaints on payment performance are notified to suppliers on orders. No interest was paid under the Late Payment of Commercial Debts (Interest) Act 1998.

## 12. Employment policies

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

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

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

The Forestry Commission and Forest Research will monitor the success of their policies by:

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

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

## 13. Sickness absence

The Forestry Commission has one common absence management policy which covers Forest Research and provides a consistent framework approach to management. The policy is underpinned by an externally provided occupational health service and an internal employee support programme which is available 24 hours a day. The average number of working days lost to sickness absence in Forest Research in 2010–11 was 6.7 per employee (2009–10 6.0), compared with the average of 6.0 (2009–10 6.6) for the Forestry Commission.

#### 14. Management

The Department for Environment, Food and Rural Affairs Ministers who had responsibility for the Forestry Commission, including Forest Research, during the year were:

Rt. Hon. Hilary Benn MP	<i>Secretary of State (until May 2010)</i>
Caroline Spelman MP	<i>Secretary of State (from May 2010)</i>
Huw Irranca-Davies MP	<i>Parliamentary Under-Secretary of State (Natural and Marine Environment, Wildlife and Rural Affairs) (until May 2010)</i>
Jim Paice MP	<i>Minister of State for Agriculture and Food (from May 2010)</i>

Members of the Executive Board of Forest Research during the year were:

James Pendlebury *	<i>Chief Executive</i>
Peter Freer-Smith *	<i>Chief Scientist</i>
Helen McKay	<i>Head of Centre for Forest Resources and Management</i>
Andy Moffat *	<i>Head of Centre for Forestry and Climate Change</i>
Chris Quine	<i>Head of Centre for Human and Ecological Sciences</i>
Hugh Williams	<i>Head of Operations</i>
Wilma Harper	<i>Head of Corporate and Forestry Support (until October 2010)</i>

The Chief Executive is appointed following public advertising of the post. The term of the appointment, and provision for its termination, are governed by the Civil Service Commissioners' Recruitment Code.

Further details on remuneration are set out in the Remuneration Report (page 23).

\* These Board Members have related party interests which are disclosed in note 27.

#### 15. Pensions

Information on pensions is contained in the Remuneration Report and accounting policy note 1.7.

#### 16. Personal data related incidents

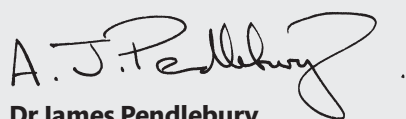
There were no protected personal data related incidents reported for Forest Research in 2010–11 or previous financial years. Forest Research will continue to monitor and assess its information risks in order to identify and address any weaknesses and ensure continued improvement of its systems. Further information on the handling of information risk is contained in the Statement on Internal Control, page 18.

#### 17. Auditors

These accounts are prepared in accordance with a direction given by the Treasury in pursuance of Section 7 of the Government Resources and Accounts Act 2000. They are audited by the Comptroller and Auditor General. The fee for statutory audit services in respect of these accounts was £31,000 (2009–10: £37,000). No further assurance or other non-audit services were provided.

#### 18. Disclosure of audit information to the auditors

So far as I am aware, there is no relevant audit information of which the Forest Research auditors are unaware. I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the Forest Research auditors are aware of that information.



**Dr James Pendlebury**

Chief Executive and Accounting Officer  
29 June 2011



## Remuneration Report

### Remuneration policy

Remuneration of board members who hold senior staff group posts is determined by the Forestry Commission's Senior Pay Committee in accordance with guidelines prescribed by the Cabinet Office. Details of membership of the Pay Committee are provided in the Remuneration Report of Forestry Commission Great Britain/England. Other board members' remuneration is determined by the standard processes set out in the Forestry Commission's pay and grading system.

### Employment contracts

The Chief Executive is appointed following public advertising of the post. The term of the appointment, and provision for its termination, are governed by the Civil Service Commissioners' Recruitment Code. Dr James Pendlebury was appointed as Chief Executive with effect from 16 June 2008.

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.

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

The performance of senior staff is monitored and reviewed through the appropriate Performance Management System (PMS) of the Forestry Commission. No element of remuneration is specifically subject to performance conditions, although pay progression can be affected and bonuses, if awarded, are based on performance.

Further information about the work of the Civil Service Commissioners can be found at

<http://civilservicecommission.independent.gov.uk>

### Salary and pension entitlements

The salary and pension entitlements of the members of the Forest Research Executive Board were as follows.

Name	2010-11			2009-10		
	Salary £000	Bonus £000	Benefits in kind to the nearest £100	Salary £000	Bonus £000	Benefits in kind to the nearest £100
James Pendlebury	70-75	-	3,200	70-75	5	1,500
Peter Freer-Smith	70-75	4	6,900	70-75	3	3,900
Helen McKay	60-65	-	-	55-60	-	-
Andy Moffat	65-70	-	-	60-65	-	-
Chris Quine	65-70	-	-	60-65	-	-
Hugh Williams	50-55	-	-	50-55	-	-

The salary and pension entitlements of Wilma Harper, an Executive Board member until October 2010, are borne by the Forestry Commission as she is Head of Corporate Forestry and Support, Forestry Commission. Her salary for 2010–11 was £70,000–£75,000 (2009–10: £70,000–£75,000).

### Salary

'Salary' includes basic salary, overtime and any allowances subject to UK taxation.

### 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. They are in respect of the Car Provision for Employees Scheme.

### Remuneration of non-executives

The non-executive members of the Audit and Risk Committee received the following remuneration for their services during the year ended 31 March 2011.

Name	£000
Victoria M. Edwards	1
David A. Evans	1

### Pension benefits 2010–11

Name	Accrued pension at age 60 at 31/3/11 and related lump sum (LS) £000	Real increase in pension and related lump sum (LS) £000	CETV at 31 March 2011 £000	CETV at 31 March 2010* £000	Real increase (decrease) in CETV £000
James Pendlebury	5–10 plus 25–30 LS	0–2.5 plus 0–2.5 LS	152	130	10
Peter Freer-Smith	25–30 plus 75–80 LS	0–2.5 plus 0–2.5 LS	504	466	2
Helen McKay	20–25 plus 70–75 LS	0–2.5 plus 5–7.5 LS	534	449	41
Andy Moffat	25–30 plus 75–80 LS	0–2.5 plus 0–2.5 LS	554	503	12
Chris Quine	20–25 plus 70–75 LS	0–2.5 plus 0–2.5 LS	418	377	10
Hugh Williams	10–15 plus 10–15 LS	0–2.5 plus 0–2.5 LS	137	113	8

\*The figure may be different from the closing balance in last year's accounts. This is due to the Cash Equivalent Transfer Value (CETV) factors being updated to comply with the Occupational Pension Scheme (Transfer Values) (Amendment) Regulations 2008.

### 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 their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. In all cases members may opt to 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.

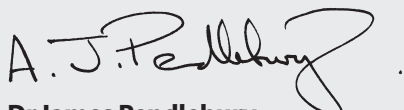
Further details about the Principal Civil Service Pension Scheme can be found at the website [www.civilservice.gov.uk/my-civil-service/pensions/index.aspx](http://www.civilservice.gov.uk/my-civil-service/pensions/index.aspx)

### Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional 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.

### **Real increase in CETV**

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



**Dr James Pendlebury**

Chief Executive and Accounting Officer

29 June 2011

## **Statement of Accounting Officer's Responsibilities**

Under Section 7 of the Government Resources and Accounts Act 2000 the Treasury has directed the Forestry Commission to prepare for each financial year a statement of accounts for Forest Research 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 Forest Research state of affairs at the year-end and of its income and expenditure, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts the Forestry Commission is required to comply with the requirements of the *Government Financial Reporting Manual* 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 the going concern basis.

The Director General of the Forestry Commission, as Accounting Officer for the Forestry Commission, has designated the Chief Executive of Forest Research as the Accounting Officer for Forest Research. His responsibilities as Forest Research 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 Forest Research's assets), are set out in *Managing Public Money* produced by HM Treasury.



## Statement on Internal Control

### 1. Scope of responsibility

As Forest Research Accounting Officer and Chief Executive, I have responsibility for maintaining a sound system of internal control that supports the achievement of Forest Research 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*.

Forest Research is an executive agency of the Forestry Commission. Forest Research's Framework Document sets out my responsibilities as Accounting Officer. I am accountable to Parliament through the Accounting Officer for the Forestry Commission.

As Forest Research Chief Executive, I am a member of the Forestry Commission's Executive Board and am responsible, normally through the Director General, to the Forestry Commissioners for the management of Forest Research. I have a right of direct access to the Forestry Commissioners, and to the relevant Minister, and a right to meet them at least once a year.

I am responsible for the day-to-day management of Forest Research, including the production of Forest Research's accounts and financial procedures and for Forest Research's performance and operation, in pursuit of the agreed objectives and targets.

### 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 Research'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 Forest Research for the year ended 31 March 2011 and up to the date of approval of the Annual Report and Accounts, and accords with Treasury guidance.

### 3. Capacity to handle risk

The Forestry Commission's risk management policy statement sets out why risk management is important, the procedures in place to manage risk, and the roles and responsibilities individuals have to ensure risks are managed effectively. The policy applies to Forest Research and is available to all staff via the intranet.

Forest Research has formal ownership of its risk policy and associated management, although there will continue to be sharing of best practice and developments in risk management across the Forestry Commission.

Forest Research's risk policy sets the risk appetite for the business, and is subject to on-going management review.

### 4. The risk and control framework

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 Research to respond to a variety of operational, financial and commercial risks. It includes regular reporting to the Forest Research Executive Board, the Forestry Commission Executive Board and, where necessary, to the Board of Commissioners.

Forest Research has an Audit and Risk Committee (ARC) to support the Accounting Officer and Agency Executive Board in their responsibilities for the effective management of risk, control and governance. The ARC operates in accordance with the principles contained in HM Treasury's *Audit Committee Handbook*.

The ARC met three times during the financial year, in June 2010 and January and March 2011. In all cases they considered a range of reports from management, and from internal and external audit.

## **5. Review of effectiveness of internal control**

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the executive managers within Forest Research; the work of the internal auditors; and comments made by the external auditors in their management letter and other reports. Plans to address weaknesses and ensure continuous improvement of the system are in place. Requiring particular attention during 2011–12 are:

- Managing the consequences of the SR10 reductions to budgets including reduced external income across the period 2011–12 to 2014–15;
- Managing the business through a period of significant change and downsizing; and
- Testing Forest Research Business Continuity Plans.

During 2010–11 the European Commission (EC) auditors examined claims for Forest Focus Programme phases ‘2005’ and ‘2006’. Forest Research undertook work on these phases over the years 2005 to 2008. Note that this time period (2005–2008) predates both current Forest Research management staff and new financial systems and processes. The EC auditors questioned the eligibility of elements of the Forest Focus claims and indicated a potential over claim by Forest Research of €642,000 (£567,000 at 31 March 2011 exchange rates). Forest Research has responded to the EC providing more evidence with the aim of reducing the potential repayment. To date no settlement has been finalised, therefore a provision has been made for the total potential reclaim in 2010–11 accounts. Forest Research does not anticipate other such claims, closely reviews terms and conditions of funding from individual EU projects and has new financial systems and processes.

The Head of Internal Audit has prepared an annual report and assurance statement to me as Accounting Officer. The report includes an overall assessment of the adequacy and effectiveness of risk management, control and governance within Forest Research. The overall opinion is that internal control within Forest Research provides substantial assurance that material risks to the achievement of objectives are adequately managed. However, the Head of Internal Audit has highlighted that there is continuing action taking place on business continuity and disaster recovery planning for Forestry Commission Shared Services used by Forest Research, which has led to a limited opinion in respect of these items at the corporate level.

Internal Audit will continue to monitor management progress on this and the other issues listed below. The ARC will also receive regular updates on progress.

## **6. Organisational change**

Forest Research is facing testing challenges ahead in terms of reduced funding and the consequences for our organisational structure, staffing levels and activities. Associated with this is the need to fund staff exits and to maintain business continuity.

Forest Research is represented on the SR10 Programme Board for the Forestry Commission, which was set up to plan and implement the changes. A bid has been made for access to the Defra Modernisation Fund to meet the costs of staff exits; this is essential if we are to achieve our SR10 savings.

## **7. ICT infrastructure**

Forest Research uses the Forestry Commission’s ICT infrastructure. The infrastructure has, for many years grown in an unstructured manner with a series of lowest-cost one-off solutions to individual problems. Consequently, Forest Research, like the rest of the Forestry Commission, is now largely dependent on an ICT infrastructure that is ageing, excessively complex and difficult to manage and maintain. This situation represents a risk to our business operations.

In response, the Forestry Commission has developed a strategy for the development of the ICT infrastructure that includes a full disaster recovery capability. The strategy requires significant investment in both equipment and staff over a period when resources are constrained, so a staged implementation approach has been developed. Whilst the positive action taken to date has improved the ability to recover from a business system failure, the absence of a full off-site disaster recovery facility until 2013-14 remains a risk.

**8. Business continuity management**

Forest Research has business continuity plans that have been tested during recent bad weather; however they are more 'disaster recovery' than 'business continuity' plans. Work will be undertaken to develop business continuity plans during 2011-12.

Forest Research is reliant on Shared Services, based in Silvan House in Edinburgh, for many of its Human Resources, Information Services and Finance requirements. Shared Services have agreed a structured approach to the improvement of business continuity management for those services.

**9. Information risk management**

Forest Research's approach to information assurance is set by the Forestry Commission, as it manages shared systems and services. The Forestry Commission's approach continues to take account of the fact that we do not handle as much sensitive information as most other departments and our information holdings are relatively small.

As Senior Information Risk Owner, Forest Research's Head of Operations attends quarterly meetings of the Information Security Management Forum (ISMF), chaired by the Director of Finance Great Britain, which coordinates and controls the implementation of information security across the Forestry Commission. The work of the ISMF is supported on a day-to-day basis by the Departmental Security Officer and the IT Security Officer.

The Head of Operations provides a direct link on information assurance matters between the ISMF and the Forest Research Executive Board. The ARC has also received updates on information assurance during the year.

All Forest Research staff successfully completed the National School for Government (NSG) online training package Level 1, Protecting Information. A further round of refresher training will be completed in 2011 and thereafter on an 18-month cycle, as agreed with the Cabinet Office.

A policy on protecting information from loss or disclosure outside the Forestry Commission has been published. Information Asset Owners (IAOs) are in place for those corporate systems holding business critical information, the loss or compromise of which would cause disruption to business operations. All laptops are now encrypted and memory sticks used to store or transfer personal or other sensitive information must be pre-encrypted. There have been no reportable incidents of personal information data loss during the year.

**10. Significant internal control problems**

There were no significant problems to report.



**Dr James Pendlebury**

Chief Executive and Agency Accounting Officer  
29 June 2011

## **Forest Research Agency**

### **The Certificate and Report of the Comptroller and Auditor General to the House of Commons**

I certify that I have audited the financial statements of the Forest Research Agency for the year ended 31 March 2011 under the Government Resources and Accounts Act 2000. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity, 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**

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Agency; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

#### **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.

#### **Opinion on the financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of the Agency's affairs as at 31 March 2011, and of the net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.



**Opinion on other matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Annual Report for the financial year for which the financial statements are prepared, is consistent with the financial statements.

**Matters on which I report by exception**

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

**Report**

I have no observations to make on these financial statements.

**Amyas C E Morse**

Comptroller and Auditor General  
5 July 2011  
National Audit Office  
157–197 Buckingham Palace Road  
Victoria  
London SW1W 9SS

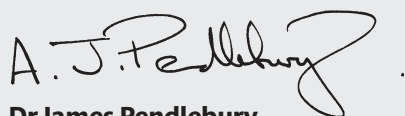
## Statement of Comprehensive Net Expenditure for the year ended 31 March 2011

	Notes	2010-11 £000	2009-10 Restated £000
<b>Income</b>			
Income from research, development and survey services			
Forestry Commission customers	3	<b>12,985</b>	12,879
Non-Forestry Commission customers			
European Union	4	<b>709</b>	420
Other	4	<b>2,107</b>	1,728
<b>Total income</b>		<b>15,801</b>	15,027
<b>Expenditure</b>			
Staff costs	5	<b>9,521</b>	9,639
Other management costs	6	<b>3,650</b>	2,702
Materials and services	7	<b>3,203</b>	2,666
<b>Total expenditure</b>		<b>16,374</b>	15,007
Share of results of associate		<b>(17)</b>	
<b>Net operating (cost) / surplus</b>		<b>(590)</b>	20
<b>Total comprehensive (expenditure) / income for the year</b>		<b>(590)</b>	20
<b>Total comprehensive (expenditure) / income for the year transferred to General Fund</b>		<b>(590)</b>	20

The notes on pages 37 to 63 form part of these accounts.

## Statement of Financial Position as at 31 March 2011

		<b>31 March</b>	31 March
		<b>2011</b>	2010
	<b>Notes</b>	<b>£000</b>	£000
<b>Non-current assets</b>			
Property, Plant and Equipment	8	<b>10,543</b>	13,499
Intangible assets	9	<b>66</b>	121
Financial assets	10	<b>14</b>	25
Trade and other receivables	11	<b>33</b>	51
		<b>10,656</b>	13,696
<b>Current assets</b>			
Inventories	12	<b>3</b>	3
Trade and other receivables	11	<b>1,136</b>	905
Cash and cash equivalents	13	<b>3</b>	22
		<b>1,142</b>	930
<b>Total assets</b>		<b>11,798</b>	14,626
<b>Current liabilities</b>			
Provisions	15	<b>(769)</b>	(164)
Trade and other payables	14	<b>(1,497)</b>	(1,711)
		<b>(2,266)</b>	(1,875)
<b>Non-current assets plus net current assets</b>		<b>9,532</b>	12,751
<b>Non-current liabilities</b>			
Provisions	15	<b>(470)</b>	(431)
		<b>9,062</b>	12,320
<b>Taxpayers' Equity</b>			
General Fund	16	<b>3,177</b>	3,914
Revaluation Reserve	17	<b>5,761</b>	8,277
Government Grant Reserve	18	<b>124</b>	129
		<b>9,062</b>	12,320



Dr James Pendlebury

Chief Executive and Agency Accounting Officer  
29 June 2011

The notes on pages 37 to 63 form part of these accounts.

## Statement of Cash Flows for the year ended 31 March 2011

	Notes	2010-11 £000	2009-10 Restated £000
<b>Net cash inflow / (outflow) from operating activities</b>			
Net deficit / (surplus) for the year		<b>(590)</b>	20
Adjustments for non-cash transactions			
Depreciation	6	<b>714</b>	727
Amortisation	6	<b>47</b>	60
Share of loss of associate	10	<b>17</b>	-
Timing between accrual and cash VAT		<b>3</b>	(3)
Non-cash inter-country transfers		<b>1</b>	(63)
Loss on disposal of property, plant and equipment	6	<b>7</b>	27
Release of government grant reserve		<b>(5)</b>	-
Movements in provisions	15	<b>808</b>	68
Decrease/(increase) in trade and other receivables	11	<b>(213)</b>	401
(Decrease)/increase in trade and other payables	14	<b>(215)</b>	20
Movements in receivables relating to items not passing through the statement of comprehensive expenditure	10	-	(25)
Use of provisions	15	<b>(164)</b>	(771)
<b>Net cash inflow from operating activities</b>		<b>410</b>	461
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	8	<b>(278)</b>	(559)
Purchase of intangible assets	9	-	(21)
Government grants towards capital expenditure	8	-	129
<b>Net cash outflow from investing activities</b>		<b>(278)</b>	(451)
<b>Cash flows from financing activities</b>			
Net cash transfer (to)/from Forestry Commission		<b>(151)</b>	(442)
<b>Net financing</b>		<b>(151)</b>	(442)
<b>Net increase/(decrease) in cash and cash equivalents in the period</b>			
		<b>(19)</b>	(432)
<b>Cash and cash equivalents at the beginning of the period</b>			
		<b>22</b>	454
<b>Cash and cash equivalents at the end of the period</b>			
		<b>3</b>	22

The notes on pages 37 to 63 form part of these accounts.



**Statement of Changes in Taxpayers' Equity for the year ended 31 March 2011**

	<b>Notes</b>	<b>General Fund Restated £000</b>	<b>Revaluation Reserve £000</b>	<b>Government Grant Reserve £000</b>	<b>Total Reserves £000</b>
<b>Balance at 31 March 2009</b>		4,395	6,741	-	11,136
<b>Changes in taxpayers' equity for 2009-10</b>					
Net gain/(loss) on revaluation of property, plant and equipment	17	-	1,518	-	1,518
Net gain/(loss) on revaluation of intangible assets	17	-	18	-	18
Non-cash charges: timing between accrual and cash VAT	16	(3)	-	-	(3)
Non-cash charges: inter-country transfers	16	(64)	-	-	(64)
Transfer of property, plant and equipment from/(to) other Forestry Bodies	16	8	-	-	8
Government Grant for capital	-	-	-	129	129
Net surplus for the year	16	20	-	-	20
<b>Total recognised income and expense for 2009-10</b>		(39)	1,536	129	1,626
Cash surplus transferred to Forestry Commission	16	(442)	-	-	(442)
<b>Balance at 31 March 2010</b>		<b>3,914</b>	<b>8,277</b>	<b>129</b>	<b>12,320</b>

*Continued on page 36*

## Statement of Changes in Taxpayers' Equity for the year ended 31 March 2011 (continued)

	Notes	General Fund Restated £000	Revaluation Reserve £000	Government Grant Reserve £000	Total Reserves £000
<b>Balance at 31 March 2010</b>		<b>3,914</b>	<b>8,277</b>	<b>129</b>	<b>12,320</b>
<b>Changes in taxpayers' equity for 2010-11</b>					
Net gain/(loss) on revaluation of property, plant and equipment	17	-	<b>(2,513)</b>	-	<b>(2,513)</b>
Net gain/(loss) on revaluation of intangible assets	17	-	<b>(9)</b>	-	<b>(9)</b>
Net gain/(loss) on investment in C-Cure	17	-	<b>6</b>	-	<b>6</b>
Release of reserves to the statement of consolidated expenditure		-	-	<b>(5)</b>	<b>(5)</b>
Non-cash charges: timing between accrual and cash VAT	16	<b>3</b>	-	-	<b>3</b>
Non-cash charges: inter-country transfers	16	<b>1</b>	-	-	<b>1</b>
Net deficit for the year	16	<b>(590)</b>	-	-	<b>(590)</b>
<b>Total recognised income and expense for 2010-11</b>		<b>(586)</b>	<b>(2,516)</b>	<b>(5)</b>	<b>(3,107)</b>
Cash surplus transferred to Forestry Commission	16	<b>(151)</b>	-	-	<b>(151)</b>
<b>Balance at 31 March 2011</b>		<b>3,177</b>	<b>5,761</b>	<b>124</b>	<b>9,062</b>

The notes on pages 37 to 63 form part of these accounts.

## Notes to the Accounts

### Note 1. Statement of Accounting Policies

These financial statements have been prepared in accordance with the 2010–11 *Government Financial Reporting Manual* (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of Forest Research for the purpose of giving a true and fair view has been selected. The particular policies selected by Forest Research are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

#### 1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment, inventories and available-for-sale financial assets, and derivative financial assets and derivative financial liabilities at fair value through profit or loss.

Forest Research has considered, in accordance with IAS 8, whether there have been any changes to accounting policies (either voluntary or arising from IFRS and/or the FReM) that have an impact on the current or prior period, or may have an effect on future periods. Forest Research has also reviewed any new or amended standards issued by the International Accounting Standards Board (IASB) that are not yet effective, to determine if it needs to make any disclosures in respect of those new IFRS that are or will be applicable. (References to 'new IFRS' includes new interpretations and any new amendments to IFRS and Interpretations). It has been determined that none of the new IFRS are relevant to Forest Research.

#### 1.2 Cost of capital Charge

There has been a change in accounting policy in the FReM for 2010–11. Chapter 11 Income and Expenditure removed the Cost of Capital charge from the accounts which results in lower gross expenditure for Forest Research. The 2009–10 balances have been restated in accordance with IAS 8 and a reconciliation of the restated balances is provided in Note 28.

#### 1.3 Value Added Tax (VAT)

Forest Research is covered under the Forestry Commission's registration for VAT. In order to comply with the government accounting regulations and normal commercial practice, income and expenditure shown in the Statement of Comprehensive Net Expenditure 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 Statement of Financial Position. Irrecoverable VAT is charged to the Statement of Comprehensive Net Expenditure in the year in which it is incurred.

#### 1.4 Segmental reporting

Forest Research's aim is to support and enhance the role of trees, woodlands and forests in sustainable development, by providing high-quality research, development and knowledge transfer. Management has determined that Forest Research operates as one operating segment, with results reviewed by the Chief Executive, as the chief operating decision-maker for Forest Research as a whole.

## 1.5 Revenue recognition

Income comprises the fair value of the consideration received or receivable from forestry and related activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

Forest Research recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to it.

## 1.6 Foreign currency translation

### (a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which Forest Research operates ('the functional currency'). The functional currency and the presentational currency of the financial statements is pounds sterling.

### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Net Expenditure.

## 1.7 Employee benefits

### 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 dependant's benefits. Forest Research accounts for the PCSPS scheme as a defined contribution plan and recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from an employee's 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 Research recognises the contributions payable for the year. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

### Performance pay

As at 31 March 2007 and 2008, Forest Research recognised a liability and an expense for performance-related pay. Non-consolidated, non-pensionable bonuses are paid to staff whose work performance was assessed as being a 'Top Performer' in accordance with the Commission's performance management system. The bonus amount is at a standard amount depending on the employee's grade and is prorated for part-time staff. The bonus system ceased with effect from the year ending on 31 March 2009.

The Forestry Commission's Senior Pay Committee determines performance pay for staff in the Senior Staff Grade. The Committee comprises the Chairman, Director General, Director Scotland, Director England and three other non-executive commissioners. Forest Research's Chief Executive and Chief Scientist are Senior Staff Grades. Remaining Forest Research Board members receive annual salaries paid in accordance with the standard Forestry Commission Staff Pay Agreement negotiated through collective bargaining and the recognised Trade Unions. Their performance is monitored and reviewed through the Performance Monitoring System (PMS) of the Forestry Commission. Increases in salary and performance bonus, if awarded, are based on their manager's assessment of their performance.

### Short-term employee benefits

Liabilities and expenses are recognised for holiday entitlements earned to 31 March but not yet taken.

## 1.8 Property, plant and equipment

Where Forest Research is the principal beneficial user of assets of the Forestry Commission estate, they are treated as a non-current asset of Forest Research although legal ownership is vested in the Forestry Ministers. Staff payroll costs and expenditure on materials and consumables related to systems development software, for general use within Forest Research, are recognised as tangible non-current assets. There was no relevant in-house development activity in the year 2010–11.

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

### Non-forest land

Non-forest land is shown at fair value. Professionally qualified staff employed by the Forestry Commission undertake a full revaluation of non-forest land at five yearly intervals (1 April). 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 Standards for determining fair value. The work of internal staff is reviewed by Bidwells, Chartered Surveyors.

Unequipped agricultural land indices provided by the District Valuer are used to restate values between full valuations. A full valuation took place on 1 April 2008.

Revaluation gains and losses are recognised in the Statement of Comprehensive Net Expenditure in the year of revaluation.

### Dwellings and other buildings

Dwellings and other buildings are shown at fair value less accumulated depreciation.

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 non-forest land (1 April). 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 Standards for determining fair value. Suitably qualified external valuers review the work of internal professional valuers. A full valuation took place on 1 April 2008 and Bidwells, Chartered Surveyors, reviewed this.

In the intervening years between professional valuations, indices provided by the District Valuer are used to restate values. Indexation was applied as at 31 March 2010 and 2011.

### Subsequent expenditure

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Forest Research and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the Statement of Comprehensive Net Expenditure during the financial period in which they are incurred.

### Plant and machinery

Forestry vehicles, machinery and equipment are shown at fair value less accumulated depreciation. Plant and machinery values are restated to current value each year using indices provided by the Office for National Statistics.

### Information technology hardware

Information technology (IT) hardware is shown at fair value less accumulated depreciation. IT values are restated to current value each year using indices provided by the Office for National Statistics.



### **Revaluation reserve**

Increases in the carrying amount arising on revaluation of property, plant, equipment and intangible assets are credited to the revaluation reserve in taxpayers' equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve directly in equity; all other decreases are charged to the Statement of Comprehensive Net Expenditure. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the Statement of Comprehensive Net Expenditure and depreciation based on the asset's original cost is transferred from the revaluation reserve to the general fund.

### **1.9 Depreciation**

Depreciation is provided on all tangible non-current assets (except land) 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:

Freehold buildings	- over 1 to 80 years
Scientific equipment	- over 5 to 20 years
Information technology – hardware	- over 5 years
Other machinery and equipment	- over 5 to 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within the Statement of Comprehensive Net Expenditure.

When revalued assets are sold, the amounts included in the revaluation reserve are transferred to the general fund.

### **1.10 Intangible assets**

Intangible assets are valued initially at cost and subsequently at fair value using the revaluation model.

Where an active market does not exist, income generating assets are valued at the lower of depreciated replacement cost and value in use. Non-income generating assets are carried at depreciated replacement cost. These valuation methods are considered to be a proxy for fair value.

#### **Computer software**

Acquired computer software licences are initially capitalised on the basis of the costs incurred to acquire and bring to use the specific software and subsequently revalued to depreciated replacement cost. Acquired computer software licences are amortised over their estimated useful lives of 5 to 15 years.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by Forest Research are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are subsequently revalued to depreciated replacement cost and amortised over their estimated useful lives of five to seven years.

### **1.11 Impairment of non-financial assets**

Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an asset is not held for the purpose of generating cash flows, value in use is assumed to equal the cost of replacing the service potential provided by the asset, unless there has been a reduction in service potential. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffer impairment are reviewed for possible reversal of the impairment at each reporting date.

### **1.12 Investments in associates**

Associates are entities over which Forest Research has significant influence.

Forest Research accounts for investments in associates under IAS 28 using the equity method of accounting, recording the investment initially at cost.

### **1.13 Financial assets**

#### **Classification**

Forest Research classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

#### **(a) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss comprise derivatives. Assets in this category are classified as current assets. Forest Research does not trade in derivatives and does not apply hedge accounting.

#### **(b) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. Loans and receivables comprise trade and other receivables and cash and cash equivalents in the Statement of Financial Position.

## Recognition and measurement

Financial assets are recognised when Forest Research becomes party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the rights to receive cash flows from the asset have expired or have been transferred and Forest Research has transferred substantially all risks and rewards of ownership.

### (a) Financial assets at fair value through profit or loss

Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement.

Financial assets carried at fair value through profit or loss are subsequently measured at fair value. Gains or losses arising from changes in the fair value are presented in the Statement of Comprehensive Net Expenditure.

### (b) Loans and receivables

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that Forest Research will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the loan and receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Statement of Comprehensive Net Expenditure. When a loan or receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited in the Statement of Comprehensive Net Expenditure.

### (c) Available-for-sale financial assets

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), Forest Research establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Forest Research assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the Statement of Comprehensive Net Expenditure. Impairment losses recognised in the Statement of Comprehensive Net Expenditure on equity instruments are not reversed through the income statement.

## 1.14 Financial liabilities

### Classification

Forest Research classifies its financial liabilities in the following categories: at fair value through profit or loss, and other financial liabilities. The classification depends on the purpose for which the financial liabilities were issued. Management determines the classification of its financial liabilities at initial recognition.

#### (a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise derivatives. Liabilities in this category are classified as current liabilities. Forest Research does not trade in derivatives and does not apply hedge accounting.

#### (b) Other financial liabilities

Other financial liabilities are included in current liabilities, except for maturities greater than 12 months after the reporting date. These are classified as non-current liabilities. Forest Research's other financial liabilities comprise trade and other payables in the Statement of Financial Position.

### Recognition and measurement

Financial liabilities are recognised when Forest Research becomes party to the contractual provisions of the financial instrument.

A financial liability is removed from the Statement of Financial Position when it is extinguished, that is when the obligation is discharged, cancelled or expired.

#### (a) Financial liabilities at fair value through profit or loss

Financial liabilities carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement.

Financial liabilities carried at fair value through profit or loss are subsequently measured at fair value. Gains or losses arising from changes in the fair value are presented in the Statement of Comprehensive Net Expenditure.

#### (b) Other financial liabilities

Other financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

## 1.15 Inventories

Consumable materials and supplies are stated at the lower of current cost and net realisable value. Net realisable value is based on estimated selling prices, less further costs expected to be incurred to completion and disposal.

## 1.16 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, cash balances held by the Office of the Paymaster General and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position.

### 1.17 Provisions

Forest Research provides for present legal and constructive obligations which are of uncertain timing or amount at the reporting 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 cash flows are discounted using the real rate set by HM Treasury. The increase in the provision due to passage of time is recognised in the Statement of Comprehensive Net Expenditure.

### 1.18 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 Statement of Comprehensive Net Expenditure. Where the grant contributes only part of the cost of the 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.

### 1.19 Contingent liabilities

Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS 37 are stated at discounted amounts.

## Note 2. Critical Accounting Estimates and Judgements

The preparation of financial statements requires Forest Research to make estimates, assumptions and judgements. These are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Estimates, assumptions and judgements that are deemed to have a significant risk of causing a material adjustment to the carrying amounts of Forest Research's assets and liabilities are as follows:

#### Intangible assets

*Per IAS 38 Intangible Assets:* an intangible asset arising from development shall be recognised if all of the following can be demonstrated by the entity:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- Its intention to complete the intangible asset and use or sell it.
- Its ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset itself, or if it is to be used internally, the usefulness of the intangible asset.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- Its ability to measure the expenditure attributable to the intangible asset during its development.

To date it has been deemed that the development activities undertaken by Forest Research have not met these conditions and therefore no intangible assets relating to development have been recognised. This will continue to be reviewed on an on-going basis.



**Note 3. Income from the Forestry Commission**

Forest Research undertakes the major 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 is agreed for each project based on full cost recovery. These charges amounted to £9.2 million. In addition to the annual research programme, Forest Research provides other research and survey services for Forestry Commission (GB, England, Scotland and Wales) on a full cost recovery basis.

Income from Forestry Commission customers consisted of:

	<b>2010-11</b>	2009-10
	<b>£000</b>	Restated £000
Research, development and other services to:		
Corporate Forestry Support	9,316	9,739
Inventory, Forecasting and Operational Support	865	1,091
England	1,441	1,024
Scotland	1,184	883
Wales	179	142
	<b>12,985</b>	12,879

**Note 4. Foreign Exchange Gains and Losses**

Other income includes gains of £4,000 (2009-10 £4,000 loss) on foreign exchange transactions.

**Note 5. Staff Costs and Numbers****5.1 Employee costs during the year amounted to:**

	<b>Permanent staff £000</b>	<b>Other staff £000</b>	<b>2010-11 Total £000</b>	2009-10 £000
Wages and Salaries	<b>6,829</b>	<b>783</b>	<b>7,612</b>	7,631
Social Security Costs	<b>522</b>	<b>61</b>	<b>583</b>	580
Employer's Superannuation Costs	<b>1,228</b>	<b>93</b>	<b>1,321</b>	1,407
Agency Staff Costs	<b>-</b>	<b>5</b>	<b>5</b>	21
	<b>8,579</b>	<b>942</b>	<b>9,521</b>	9,639
Average number of employees (full-time equivalents)			<b>2010-11</b>	2009-10
Permanent staff			<b>211</b>	207
Others			<b>34</b>	49
Total staff			<b>245</b>	256

Staff were covered by the Principal Civil Service Pension Scheme (PCSPS) which is an unfunded multi-employer defined benefit pension 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. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2010–11, employer’s contributions of £1,228,017 were payable to the PCSPS (2009–10: £1,407,461) at one of four rates in the range 17.1% to 25.5% (2009–10: 17.1% to 25.5%) of pensionable pay, based on salary bands. The scheme actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates reflect benefits accruing during 2010–11 to be paid to the member when they retire 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. No Agency staff have yet taken this option.

## 5.2 Benefits in kind are provided under the following schemes:

- (i) Advances of Salary for House Purchase
- (ii) Advances of Salary for purchase of Season Tickets and Bicycles
- (iii) Car Provision for Employees Scheme.

Each scheme is subject to conditions and financial limits.

The Advances of Salary for House Purchase scheme had loans with an outstanding balance of £2,500 or more to two individual members of staff at 31 March 2011 and three individual members of staff at 31 March 2010. The total outstanding value of all loans was £35,300 (2009–10: £57,531). Such loans are unsecured, interest free and typically repayable over 10 years, with an optional two-year deferral period.

## 5.3 Early departure costs

During 2010–11 six staff left under the restructuring programme announced in November 2010. A provision of £284,000 was made for the future costs at present value of the early severance on compulsory terms. Funding of the cash costs due in 2011–12 of £164,000 will be covered by the Forestry Commission Great Britain. (See Note 15.)

### Exit packages: comparative data shown for previous year

Exit package cost band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10
<b>Less than £10,000</b>	–	nil	2	nil	2	nil
<b>£10,000 - £25,000</b>	–	nil	–	nil	–	nil
<b>£25,000 - £50,000</b>	–	nil	1	nil	1	nil
<b>£50,000 - £100,000</b>	–	nil	2	nil	2	nil
<b>£100,000 - £150,000</b>	–	nil	1	nil	1	nil
<b>£150,000 - £200,000</b>	–	nil	–	nil	–	nil
<b>Total number of exit packages</b>	–	nil	6	nil	6	nil
<b>Total resource cost £</b>	<b>£0</b>	<b>nil</b>	<b>£299,688</b>	<b>nil</b>	<b>£299,688</b>	<b>nil</b>

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where the agency has agreed early retirements, the additional costs are met by the agency or Forestry Commission and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

## Note 6. Other Management Costs

Other management costs are stated after charging:

	Notes	2010-11 £000	2009-10 £000
Travel and subsistence		516	574
Building maintenance		655	503
Utilities*		259	318
Training		216	218
Other expenditure		282	67
Auditors' remuneration		31	37
Computer supplies		74	73
Staff transfer expenses		40	30
<b>Non-cash costs:</b>			
Provisions – early departure costs:			
Provided in year	15	284	67
Unwinding of discount	15	(43)	1
Provisions – EU reclaim		567	-
Depreciation of property, plant and equipment	8	714	727
Amortisation of intangible assets	9	47	60
Loss on disposal of property, plant and equipment	8	8	27
Loss on disposal of intangible assets	9	-	-
<b>Total</b>		<b>3,650</b>	<b>2,702</b>

\* The photovoltaic panels at Alice Holt generated 26,991 kWh of electricity, which has contributed to lower costs in 2010-11.

Included within other management costs are charges from the Forestry Commission and Forest Enterprise amounting in total to £174,000 (2009-10: £173,000).

## Note 7. Materials and Services

Materials and services are stated after charging:

	<b>2010-11</b>	2009-10
	<b>£000</b>	£000
Materials and supplies ~	<b>893</b>	776
Central services provided by Forestry Commission *	<b>844</b>	643
Vehicle lease charges from Forestry Commission *	<b>382</b>	370
Contractors	<b>671</b>	508
Commissioned research	<b>187</b>	124
Publications	<b>-</b>	10
Protective clothing	<b>12</b>	17
Miscellaneous expenditure	<b>214</b>	218
	<b>3,203</b>	2,666

~ The level of materials and supplies expenditure is partially determined by the nature of the research work that Forest Research undertakes; higher expenditure indicates increased purchases for the contracts.

\* Charges are made to Forest Research from the Forestry Commission as appropriate, for assistance with field experiments, hire of vehicles, machinery and equipment and for personnel, business management, financial and other support services at Silvan House, Edinburgh. With effect from 2010-11 these costs incorporate fees for replacement of IT equipment which Forest Research previously purchased itself. The total charge from Forestry Commission was £1,226,000 (2009-10: £1,031,000).

**Note 8. Tangible Fixed Assets**

	<b>Freehold Land</b>	<b>Buildings</b>	<b>Scientific Equipment</b>	<b>IT Equipment</b>	<b>Other Machinery and Equipment</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Valuation</b>						
<b>At 1 April 2010</b>	2,038	12,203	2,151	709	852	17,953
Additions	-	5	197	-	76	278
Transfers	-	-	(2)	(1)	3	-
Disposals *	-	-	(443)	(385)	(64)	(892)
Revaluation to current prices	(387)	609	11	(25)	40	248
<b>At 31 March 2011</b>	<b>1,651</b>	<b>12,817</b>	<b>1,914</b>	<b>298</b>	<b>907</b>	<b>17,587</b>
<b>Depreciation:</b>						
<b>At 1 April 2010</b>	-	2,396	1,156	557	345	4,454
Provided in year	-	383	191	71	69	714
Transfers	-	-	(2)	(1)	2	(1)
Disposals *	-	-	(435)	(385)	(64)	(884)
Revaluation to current prices	-	2,758	4	(14)	13	2,761
<b>At 31 March 2011</b>	<b>-</b>	<b>5,537</b>	<b>914</b>	<b>228</b>	<b>365</b>	<b>7,044</b>
<b>Net book value:</b>						
At 31 March 2011	<b>1,651</b>	<b>7,280</b>	<b>1,000</b>	<b>70</b>	<b>542</b>	<b>10,543</b>
At 31 March 2010	2,038	9,807	995	152	507	13,499

Fixed assets were revalued as at 31 March 2011 in accordance with accounting policies. The valuation includes the principal research stations at Alice Holt Lodge near Farnham in Surrey and the Northern Research Station, Roslin near Edinburgh, with net book values (excluding land) of £3.9 million and £3.0 million, respectively, at 31 March 2011.

\* During 2010-11 an asset cleansing exercise was undertaken that resulted in assets with a Net Book Value of Nil (valuation £884,000 less depreciation £884,000) being removed from the asset register.

Depreciation expenses of £714,000 (2009-10: £727,000) have been charged to other management costs in the Statement of Comprehensive Net Expenditure.



## Note 9. Intangible Fixed Assets

	<b>2010-11</b>	2009-10
	<b>£000</b>	£000
<b>Valuation</b>		
Balance at 1 April	<b>364</b>	312
Additions	-	21
Disposals *	<b>(134)</b>	-
Transfers	-	-
Revaluation	<b>(17)</b>	31
<b>As at 31 March</b>	<b>213</b>	364
<b>Amortisation</b>		
Opening balance	<b>243</b>	170
Depreciation in year	<b>47</b>	60
Disposals *	<b>(134)</b>	-
Transfers	-	-
Revaluation	<b>(9)</b>	13
<b>As at 31 March</b>	<b>147</b>	243
<b>Net book value</b>	<b>66</b>	121

Intangible fixed assets relate wholly to purchased software.

During 2010-11 an asset cleansing exercise was undertaken which resulted in assets with a Net Book Value of Nil (valuation £134,000 less amortisation £134,000) being removed from the asset register.

Amortisation of £47,000 (2009-10: £60,000) has been charged to other management costs in the Statement of Comprehensive Net Expenditure.

## Note 10. Investments

The investment in C-Cure Ltd at 31 March is as follows:

	<b>2010-11</b>	2009-10
	<b>£000</b>	£000
<b>Valuation</b>		
Balance at 1 April	<b>25</b>	-
Additions at cost	-	25
Share of loss	<b>(17)</b>	-
Revaluation	<b>6</b>	-
<b>As at 31 March</b>	<b>14</b>	25

The operating results for C-Cure for the financial year:

	<b>2010-11</b>	2009-10
	<b>£000</b>	£000
Operating Costs / Operating Loss	(50)	-
Forest Research share	(17)	-

C-Cure Solutions Ltd is a spin-out company launched with the University of Surrey during 2009-10, in the area of land remediation. Until March 2011, Forest Research and the University of Surrey each owned 33.4% of the company and the inventors owned the remaining 33.2%. Genomia Management Ltd invested £100,000 for 107 shares in the company in March 2011. The shareholdings changed at this point, Forest Research now owns 30.93%, the university of Surrey 30.92%, the inventors 28.12% and Genomia 10.03%. C-Cure Solutions Ltd has its registered office at 25 Wakehurst Place, Rustington, West Sussex, BN18 3NG.

James Pendlebury represents Forest Research as a Director of the Company, for which he receives no personal payments.

In the year ended 31 March 2011, the first year of operation, C-Cure Ltd had no turnover and an expenditure of £50,000. Forest Research's 33.4% share of the operating loss is therefore £17,000.

## Note 11. Receivables

### 11a. Analysis by type

	<b>2010-11</b>	2009-10
	<b>£000</b>	£000
<b>Current</b>		
EU Trade Receivables	<b>99</b>	40
Other Trade Receivables	<b>418</b>	215
Total Trade Receivables	<b>517</b>	255
VAT	<b>1</b>	-
House purchase loans to employees	<b>3</b>	7
Prepayments and accrued income	<b>615</b>	643
Total Current Receivables	<b>1,136</b>	905
<b>Non-current</b>		
House purchase loans	<b>32</b>	51
	<b>1,168</b>	956

The carrying amounts of trade and other receivables are a reasonable approximation of their fair value.

All non-current receivables are due within 12 years from 31 March 2011.

As of 31 March 2011, £366,000 (2009-10: £230,000) were fully performing and not overdue or impaired and provided for.

As of 31 March 2011, trade receivables of £142,000 (2009–10: £168,000) were overdue but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	<b>2010-11</b>	2009-10
	<b>£000</b>	£000
Less than one month	<b>17</b>	94
One to two months	<b>2</b>	4
Two to three months	<b>2</b>	32
More than three months	<b>121</b>	38
	<b>142</b>	168

As of 31 March 2011, trade receivables of £nil (2009–10: £nil) were impaired or provided for.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. Forest Research does not hold any collateral as security.

The carrying amounts of trade and other payables are denominated in the following currencies:

	<b>2010-11</b>	2009-10
	<b>£000</b>	£000
<b>Current</b>		
UK Pound	<b>705</b>	756
Euro	<b>415</b>	136
US Dollar	<b>16</b>	13
	<b>1,136</b>	905
<b>Non-current</b>		
UK Pound	<b>32</b>	51
	<b>1,168</b>	956

**11b. Intra-Government balances**

	<b>2010-11</b>	2009-10
	<b>£000</b>	£000
<b>Current</b>		
Balances with other central government bodies	<b>114</b>	111
Balances with local authorities	-	60
Intra-Government balances	<b>114</b>	171
Balances with bodies external to government	<b>1,022</b>	734
	<b>1,136</b>	905
<b>Non-current</b>		
Balances with bodies external to government	<b>32</b>	51
	<b>1,168</b>	956

**Note 12. Inventories**

	<b>2010-11</b>	2009-10
	<b>£000</b>	£000
Inventories	<b>3</b>	3
	<b>3</b>	3

**Note 13. Cash and Cash Equivalents**

The following balances at 31 March are held at commercial banks and as cash in hand:

	<b>2010-11</b>	2009-10
	<b>£000</b>	£000
<b>Opening balance at 1 April</b>	<b>22</b>	454
Net change in balances	<b>(19)</b>	(432)
<b>Balance at 31 March</b>	<b>3</b>	22

Forest Research had neither bank overdraft nor short-term investments as at 31 March for either of the two years.

As part of its normal activities Forest Research maintains Sterling and Euro bank accounts primarily used for the receipt of income from non-Forestry Commission customers. These accounts are cleared to the Commission's main account on a regular basis. Sums held in these accounts on behalf of partners in European Commission projects are treated as third-party assets and not included in the balances shown.

## Note 14. Trade and Other Payables

	<b>2010-11</b>	2009-10
	<b>£000</b>	£000
<b>Current</b>		
Payments received on account	<b>533</b>	842
Trade payables	<b>393</b>	143
Taxation and social security costs	<b>34</b>	41
Accrued expenses and deferred income	<b>537</b>	685
	<b>1,497</b>	1,711

The carrying amounts of trade and other payables are a reasonable approximation of their fair value.

All payables are to bodies external to central or local government, with the exception of £1,000 for other central government bodies as at 31 March 2011 (2009-10: £1,000 payable to public corporations and trading funds). Funds held on behalf of partners in European Commission projects are treated as third-party assets and not recorded on the face of the accounts (see note 26). At 31 March 2011 the amount held in Forest Research bank accounts on behalf of partners was £48,824.24 (31 March 2010: £301,048.02).

The carrying amounts of trade and other payables are denominated in the following currencies:

	<b>2010-11</b>	2009-10
	<b>£000</b>	£000
<b>Current</b>		
UK Pound	<b>1,464</b>	1,535
Euro	<b>23</b>	165
US Dollar	<b>10</b>	11
	<b>1,497</b>	1,711



**Note 15. Provisions for Liabilities and Charges**

	2010-11		2009-10
	Other provisions	Early departure costs	
	£000	£000	£000
Balance brought forward at 1 April	-	595	1,298
Provided in year	567	284	67
Utilised in year	-	(164)	(771)
Unwinding of discount	-	(43)	1
<b>Balance carried forward at 31 March</b>	<b>567</b>	<b>672</b>	595

A full provision was made in 2010-11 relating to the potential reclaim of monies from the EU for a research programme undertaken during 2005 to 2008.

Analysis of expected timing of discounted cash flows:

	Other provisions	Early departure costs
	£000	£000
In the remainder of the Spending Review period to 31 March 2011	0	0
Between 1 April 2011 and 31 March 2015	567	557
Between 1 April 2015 and 31 March 2019	0	106
Thereafter	0	9
<b>Balance at 31 March 2011</b>	<b>567</b>	<b>672</b>

Forest Research 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 Research provides for this in full when the early retirement programme becomes binding on Forest Research by establishing a provision for the estimated payments. (See Note 5.3.)

## Note 16. General Fund

	<b>2010-11</b>	2009-10
	<b>£000</b>	Restated £000
Balance brought forward	<b>3,914</b>	4,395
Movement in year		
Net (deficit) for year	<b>(590)</b>	20
Transfer of fixed assets to (-)/from other Forestry Bodies	-	8
Cash surplus to (-)/deficit from Forestry Commission	<b>(151)</b>	(442)
Non-cash inter-country transfers	<b>1</b>	(64)
Timing between accrual and cash VAT	<b>3</b>	(3)
<b>Balance carried forward</b>	<b>3,177</b>	3,914

## Note 17. Revaluation Reserve

	<b>2010-11</b>	2009-10
	<b>£000</b>	£000
Balance brought forward	<b>8,277</b>	6,741
Revaluation surplus/(deficit) for the year		
Land and Buildings	<b>(2,536)</b>	1,458
Scientific equipment	<b>7</b>	35
IT	<b>(11)</b>	21
Other machinery and equipment	<b>27</b>	4
Intangible assets	<b>(9)</b>	18
Investment in C-Cure	<b>6</b>	-
	<b>(2,516)</b>	1,536
<b>Balance carried forward</b>	<b>5,761</b>	8,277

**Note 18. Government Grant Reserve**

	<b>2010-11</b>	2009-10
	<b>£000</b>	£000
Balance brought forward	<b>129</b>	-
Transfer to Statement of Comprehensive Net Expenditure (utilised in year)	<b>(5)</b>	
Grant received in year	-	129
<b>Balance carried forward</b>	<b>124</b>	129

**Note 19. Financial Instruments****19.1 Financial Instruments by category**

	<b>2010-11</b>	2009-10
	<b>£000</b>	£000
<b>Loans and receivables</b>		
<b>Assets as per Statement of Financial Position</b>		
Trade and other receivables (excluding prepayments)	<b>553</b>	625
Cash and cash equivalents	<b>3</b>	22
<b>Total</b>	<b>556</b>	647

	<b>2010-11</b>	2009-10
	<b>£000</b>	£000
<b>Other financial liabilities</b>		
<b>Liabilities as per Statement of Financial Position</b>		
Trade and other payables excluding statutory liabilities (excluding payments received on account)	<b>930</b>	828
<b>Total</b>	<b>930</b>	828

**19.2 Exposure to risk**

Forest Research's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due.
- Liquidity risk – the possibility that Forest Research might not have funds available to meet its commitments to make payments.

Because of the largely non-trading nature of its activities and the way in which government departments are financed, Forest Research is not exposed to the degree of financial risk faced by business entities.

**Credit risk**

Credit risk arises from cash and cash equivalents, deposits with banks and other institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

## Liquidity risk

Each financial year, the Forestry Commission makes provision for the use of resources by Forest Research for revenue and capital purposes. Each financial year, the Westminster Parliament makes provision for the use of resources by the Forestry Commission for revenue and capital purposes in the Consolidated Fund Act via the Department for Environment, Food and Rural Affairs (Defra) vote. Resources and accruing resources may be used only for the purposes specified and up to the amounts specified in the Consolidated Fund Act. The Act also specifies an overall cash authorisation to operate for the financial year. Forest Research is not therefore exposed to significant liquidity risks.

The table below analyses the financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	2010-11		2009-10	
	Less than 1 year	More than 1 year	Less than 1 year	More than 1 year
	£000	£000	£000	£000
Trade and other payables excluding statutory liabilities (excluding payments received on account)	930	-	828	-
	930	-	828	-

## Market risk

The Agency has no powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing Forest Research in undertaking its activities. However, under the Regulatory Reform (Forestry) Order 2006, with Treasury approval, Forest Research may form or participate in the forming of a body corporate, invest in a body corporate and provide loans. The Agency may also exploit any intellectual property arising from research.

During 2009-10, Forest Research made an investment of £25,000 in C-Cure Solutions Ltd, a spin-out company jointly launched with the University of Surrey. The investment was recorded at its cash cost. The investment has been revalued to reflect a share of the net assets of the company and a share of the operating loss in 2010-11.

### (i) Cash flow and fair value interest rate risk

Forest Research has no significant interest-bearing assets or liabilities and as such income and expenditure cash flows are substantially independent of changes in market interest rates.

### (ii) Foreign currency risk

Forest Research's only exposures to foreign exchange rates are through a bank account denominated in Euros and through receipt of EU funding for contracts which are denominated in Euros and US Dollars.

EU contract income denominated in Euros and US Dollars forms only 4% of Forest Research's total income. Therefore fluctuations in exchange rates do not have a significant impact on Forest Research's financial position.

**19.3 Capital risk management**

The Agency's objectives when managing its capital structure are to maintain its ability to continue to provide benefits for stakeholders and to maintain an optimal capital structure to safeguard Taxpayers' Equity.

**19.4 Fair value estimation**

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair value.

**Note 20. Capital Commitments**

There were £14,000 contracted capital commitments for scientific equipment ordered but not delivered as at 31 March 2011 (2009-10: £nil).

**Note 21. Commitments Under Operating Leases**

Total future minimum lease payments under operating leases are given in the tables below for each of the following periods.

Obligations under operating leases comprise:

	<b>2010-11</b>	2009-10
	<b>£000</b>	£000
<b>Land:</b>		
Not later than one year	<b>2</b>	2
Later than one year and not later than five years	<b>10</b>	10
Later than five years	-	2
Total	<b>12</b>	14

	<b>2010-11</b>	2009-10
	<b>£000</b>	£000
<b>Buildings:</b>		
Not later than one year	<b>1</b>	1
Later than one year and not later than five years	<b>6</b>	6
Later than five years	-	1
Total	<b>7</b>	8

**Note 22. Other Financial Commitments**

There were no other financial commitments at 31 March 2011 (2009-10: £nil).

**Note 23. Contingent Liabilities Disclosed under IAS 37**

There were two contingent liabilities at 31 March 2011 in respect of actions brought by employees (2009-10: one)

## Note 24. Losses and Special Payments

	2010-11		2009-10	
	Number	£000	Number	£000
Losses total	1	7	-	-
Special payments total	1	153	-	-

Special payments relate to a claim made by an employee against Forest Research. The individual has received an element of the payment but the majority relates to the individual's legal costs and the final amounts have yet to be agreed. The Forestry Commission made a contribution of £55,000 towards these costs.

## Note 25. Related Party Transactions

During the year, Forest Research has had a significant number of material transactions with the Forestry Commission, Forest Enterprise country agencies and with the Department for Environment, Food and Rural Affairs, who are regarded as related parties. In addition, Forest Research has had operational transactions with other Government Departments and other central Government bodies.

### 25a. Purchases of goods and services

	2010-11	2009-10
	£000	£000
The University of Reading	7	10
The University of Southampton	2	8
Total	9	18

The above transactions, for course fees, student stipend, samples and amendments to an existing database, occurred on an arm's length basis. These transactions are disclosed as Andy Moffat holds a visiting professorship at the University of Reading and Peter Freer-Smith holds a visiting professorship at the University of Southampton. There were no outstanding balances at 31 March 2011 (2009-10: £nil).

**25b. Key management compensation**

Key management personnel are deemed to be the members of the Executive Board of Forest Research. The compensation of such individuals whilst serving on the Executive Board (excluding Wilma Harper whose compensation is borne by the Forestry Commission Great Britain/England) was as follows:

	<b>2010-11</b>	2009-10
	<b>£000</b>	£000
Salaries and other short-term employee benefits	<b>398</b>	422
Post-employment benefits	<b>87</b>	83
Total	<b>485</b>	505

At 31 March 2011 there were no amounts owing to key management personnel (2009-10: £nil).

Refer to the Remuneration Report (page 23) for further details of remuneration of Executive Board members.

**25c. Loans to related parties**

	<b>2010-11</b>	2009-10
	<b>£000</b>	£000
<b>Loans to key management personnel</b>		
Balance at 1 April	<b>28</b>	28
Loans repaid during year	<b>(3)</b>	-
Loans advanced during year	-	-
<b>Balance at 31 March</b>	<b>25</b>	28

The above balance relates to one member of key management personnel. House purchase loans to key management personnel are provided on the same terms and conditions as other Forestry Commission staff members. Such advances of salary are unsecured, interest free and typically repayable over 10 years, with an optional two-year deferral period.

£nil provision has been made at 31 March 2011 (2009-10: £nil) in relation to the loans made to key management personnel.

**25d. Transactions with C-Cure Solutions Ltd**

	<b>2010-11</b>	2009-10
	<b>£000</b>	£000
C-Cure Solutions Ltd	-	25

The above transaction for investment in shares in C-Cure Solutions Ltd is disclosed as under the Agreement to form the company, James Pendlebury was appointed as the Forest Research Director of the company. See note 10 for more details.



	<b>2010-11</b>	2009-10
	<b>£000</b>	£000
<b>Loans to other related parties</b>		
Balance at 1 April	<b>6</b>	-
Loans advanced during year	-	6
Loans repaid during year	<b>(6)</b>	-
<b>Balance at 31 March</b>	<b>-</b>	<b>6</b>

The loan in 2009-10 related to a payment made by Forest Research on behalf of C-Cure Solutions Ltd for materials before the company had received funding from Forest Research and Surrey University. The balance was repaid during the first quarter of 2010-11.

## Note 26. Third-Party Assets

As a co-ordinator for a number of projects partially funded by the European Commission in Euros, Forest Research receives funds on behalf of partners for onward transmission once work programmes have been approved. These third-party assets are not recognised in the accounts.

	<b>2009-10</b>	<b>Gross inflows</b>	<b>Gross outflows</b>	<b>2010-11</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Monetary third-party assets – bank balances	301	49	(301)	<b>49</b>

## Note 27. Events After 31 March 2011

These financial statements were authorised for issue on 5 July 2011 by Forest Research Accounting Officer.

**Note 28. Reconciliation of Prior Year Restatement**

From 2010–11, Forest Research is no longer subject to a notional Cost of Capital charge. This is one of the changes in accounting policy required by the 2010–11 FReM. 2009–10 balances have been restated in accordance with IAS 8. A reconciliation of the restated balances is provided below.

	<b>Per 2009–10 Published Accounts £000</b>	<b>Adjustment £000</b>	<b>Restated Balance £000</b>
<b>Statement of Consolidated Net Expenditure</b>			
Net surplus / (deficit) for the year	(391)	411	20
<b>Statement of Cash Flows</b>			
Net surplus / (deficit) for the year	(391)	411	20
Notional Cost of Capital	411	(411)	0
Net cash inflow from operating activities	461	0	461
<b>Statement of Changes in Taxpayers' Equity and General Fund</b>			
Net surplus / (deficit) for the year	(391)	411	20
Notional Cost of Capital	411	(411)	0
General Fund closing balance at 31 March 2010	3,914	0	3,914







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**Plant Quality Testing** [www.forestry.gov.uk/fr/pqt](http://www.forestry.gov.uk/fr/pqt)  
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