
Forest Enterprise England

Annual Report and Accounts 2015-16

(For the year ended 31 March 2016)

Presented to the House of Commons pursuant to Section 7(3) of the Government Resources
and Accounts Act 2000

Ordered by the House of Commons to be printed on 14 July 2016

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Print ISBN 9781474129015

Web ISBN 9781474129022

ID 17021609 06/16

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office

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Performance Report

Overview

Foreword by Sir Harry Studholme, Chair

Our nation's forests are an integral part of our culture and heritage. They provide beautiful and restorative spaces for people to enjoy, and rich and diverse habitats for plants and animals. They also supply us with a vital sustainable resource – timber. The planting, growing and processing of this timber makes a huge contribution to the economy, green growth, and rural employment.

In the last year Forest Enterprise England has continued to excel at managing our forests for people, economy and nature. Our work wholeheartedly supports the Department for Environment, Food and Rural Affairs (Defra) strategy, Creating a Great Place For Living, as we strive for a cleaner, healthier environment, a thriving rural economy and a nation better protected against flood and plant diseases.

By investing in our key sites we are providing enhanced infrastructure and recreational opportunities which modernise and improve the experience for those who visit us.

We have worked hard to seek new opportunities to grow our business. From renewable energy to venison, the potential of our forests to provide for the nation is boundless. But we haven't worked alone. This year we have focused on increasing the number of third party businesses operating on our estate with great success.

We couldn't achieve any of this without healthy forests. Our trees are the lifeblood which makes everything else possible. This year we have further boosted resilience against climate change and pests and diseases by increasing the number of broadleaf and minor species, reducing our dependence on fewer, more vulnerable species.

We are continuing to improve the condition of our 68,000 hectares of Sites of Special Scientific Interest (SSSI) and carefully manage our estate to protect and enhance Planted Ancient Woodland Sites and open habitat. This in turn provides refuges for important wildlife species.

This year, for the first time, we are capturing the true value of our forests through our Corporate Natural Capital Account. As well as our financial assets and market activity we can show the value we are adding to society and nature using this pioneering methodology.

As Forest Enterprise evolves to meet the challenges of the future I am proud to share its achievements from 2015-16. None of this would have been achieved without the continued commitment and passion of our staff and volunteers who work tirelessly to manage our forests for people, nature and economy every day of the year.

Executive Summary by Simon Hodgson, Chief Executive

Over the last year we have worked hard to secure and grow the economic, social and natural capital value of the Public Forest Estate.

Throughout 2015-16 we have looked for opportunities to improve our visitor offer. We have successfully appointed a contractor to carry out improvements at one of our main visitor centres – Alice Holt – which will begin this year. We have also completed the new treetop walkway at Westonbirt Arboretum and made great progress in improving car management systems across our sites. These will make it easier for visitors to park and pay and will increase our revenue by over £3m by 2025.

Our 6000 volunteers are an extremely valuable resource. This year we have developed guidance on how we manage our volunteers so we can increase consistency and professionalism in this area. We want to build on our success to further integrate volunteers into everything we do.

Our forests support over 70 business partners, providing high-quality services to customers and visitors. We have increased the number this year with a new café at Jeskyns Farm and a new expanded café at Bedgebury. Go Ape have also grown their offer on the estate attracting thousands of new visitors. We continue to work closely with Forest Holidays to scope future sites for development and support them in producing high-quality planning applications in 2016.

We have had a good year for timber sales and despatched the full Sales Plan volume (1,375,000 cubic metres overbark standing) despite challenging weather conditions through the winter. Despite a marked fall-off in log prices at the start of the year, especially in northern England, we achieved £36,747,000 of income – almost 4% above budget - an excellent outcome for the year as a whole. By making improvements to our infrastructure such as roads and bridges, we have increased the volume of timber that can be accessed for harvesting. This has also had knock-on benefits for recreational activities.

We are increasing the diversity of species in our forests. Sitka spruce, as a proportion of area on the estate, has reduced from 31.8 % to 29.7% since 2000 whilst the broadleaf component has increased from 24.9% to 31.8% over the same period.

We are also managing our forests with an increased variety of approaches with an overall reduction in clearfell management. 95.8% of SSSIs on our estate remain in recovering or favourable condition and we continue to manage our woodlands to increase the native component of ancient woodland sites over time.

In the Forest of Dean a landmark project – the Foresters' Forest Heritage Lottery Fund Landscape Partnership programme – is now underway. The partnership agreement has been signed by 24 organisations who have been working together to refine project plans and carry out pilot activities. The project aims to sustain and celebrate the unique features of this historic working landscape and the 50 projects will encompass its built, natural and cultural heritage.

Alongside all this great work on the ground we have also made important changes to the way we manage our business. One of the most important of these developments has been the transfer of finance, human resources and communications functions into the Forest Enterprise national office from Forestry Commission England. By creating our own national team we are in a better position to focus on developing our business based on our unique requirements, while continuing to work closely with all parts of the Forestry Commission.

Our achievements in 2015-16 highlight the variety of work we do. In the year ahead we will focus on expanding our business by growing our activity, our commercial value, our natural capital and our customers. With sustainability at our heart we will balance the needs of all our customers and continue to deliver against the triple bottom line.

Purpose and Activities of the Organisation

Who we are

About us

Forest Enterprise England is the organisation responsible for managing the English Public Forest Estate. We aim to maintain our position as an international leader in delivering and demonstrating sustainable, integrated land management. Increasingly we work with others, nationally and locally, in looking after the estate for the good of everyone – today and for the future. We think long term and are open to innovation and change, achieving internationally recognised standards for our land and business management. In our work we embrace both a public service and business ethos and aim to maintain and enhance the overall financial viability of the estate. Our task is to realise the potential of each of the public's forests for sustainable business opportunities, wildlife and nature conservation, and the enjoyment and well-being of local people and visitors. The heart of our organisation is our staff – some 892 committed, responsive, talented and professional people - on whom all of our success depends.

The Public Forest Estate

The Public Forest Estate (PFE) is the largest single resource of woodlands and forests in England. Its size and distribution mean that it is able to provide a unique range of benefits to a great many people across the country. Spread from Northumberland to Cornwall, Shropshire to Norfolk, some 1,800 separate woodland and forest areas make up the Public Forest Estate in England. Over half of England's softwood production arises from the Public Forest Estate. This softwood production supports hundreds of small contracting businesses and several large sawmills that rely on a guaranteed supply of timber to attract capital investment. The broadleaved production from the estate is also now growing in importance with an ever increasing number of contractors and enterprises making use of the material and rekindling the contribution of native woodland to economic activity. The 70 million day visits per year support over 70 substantial business partners on the estate delivering most of our Forest Centre services, bike hire and other outdoor activities. And alongside all this economic and recreational activity, some 45% of the estate contributes to England's most precious National Park landscapes and Areas of Outstanding Natural Beauty. Additionally, 68,000 hectares are designated Sites of Special Scientific Interest in recognition of their value for nature, virtually all of which is in sound or recovering ecological condition and accessible to the public.

Our Purpose

To secure and grow the economic, social and natural capital value of the Public Forest Estate for the people of England.

Our Mission

For the estate to work with others to keep the Public Forest Estate as a special place for wildlife, for people to enjoy and for businesses to thrive- and achieve this by adopting a strategy that integrates all the three drivers of sustainable land management: People, Economy and Nature

Defra Strategy

The Defra Strategy sets out a shared vision and set of strategic objectives for the whole of Defra for the period up to 2020. It is intended to provide staff across the whole group of Defra organisations (including non-ministerial departments, executive agencies, non-departmental and other public bodies) with a clear, shared framework. Actions to achieve the strategic objectives are described in more detail in Defra's Single Departmental Plan.

The strategy provides a clear unifying framework for how we will design and deliver our goals, track delivery and measure success across the whole of Defra. At the heart of the strategy is a shared vision for the Defra group: creating a great place for living.

The Defra goals are focused on four impact objectives, which explain our ambitious, long term aims, and the positive differences we will make to the UK by 2020. Defra has one delivery objective, which describes the high levels of service and value for money for the taxpayer which we will strive for.

The strategy sets out two organisational objectives outlining how we organise ourselves to deliver, and what Defra will be like: a Defra that will act together, be simpler, avoid duplication, maximise impact, and embrace digital and data.

Cutting across the strategy are four themes that are critical to achieving Defra objectives and will deliver important outcomes in their own right: better use of data; increasing productivity; better regulation; and working internationally.

Delivery of our objectives in 2015-16

Forests that Deliver for People

Aim: "To extend and expand opportunities for communities to become involved with the public forests and woodlands, and take part in activities that improve quality of life, health and learning."

| People Key Actions (Corporate Plan) | Commentary |
|---|--|
| Publish information about how we work with volunteers within the public forests | <p>Achieved</p> <p>During 2015 we have completed a project to develop new guidance on managing volunteers who contribute to the management of the PFE. This guidance includes the whole volunteer journey from recruitment through induction and training to ongoing management. This has been based on existing best practice from the Forestry Commission and other countryside organisations. It has brought a new consistency and professionalism to the volunteer offer on the PFE. As part of this project we have also made it easier for people to get involved in volunteering through the "Get Involved" pages of the Forestry Commission web site.</p> |
| Improve the visitor experience, by continuing to invest in car parking technology | <p>Achieved</p> <p>We have been working on a business proposal to install improved car management systems into 13 car parks across 4 Forest Districts. These systems will have barriers where appropriate and will be supported by Automatic Number Plate Recognition (ANPR) technology. They will enable the business to achieve much higher and consistent honesty rates and will also allow us to be much more innovative in the way we manage our car park charges. This in turn will allow us to improve the visitor experience by managing the number of cars which enter our recreation sites. The initial study suggested that we may be able to increase the income from these car parks by 2025 by collecting it in a fairer way. An England wide tender for the supply of car park management systems has been let and will become live in the second quarter of 2016.</p> |

| People Key Actions (Corporate Plan) | Commentary |
|---|--|
| Take forward the redevelopment of café and cycle hire facilities and renew associated business opportunities at Alice Holt Forest Park and the Delamere Forest Centre | <p>Part Achieved</p> <p>Work on the new café at Alice Holt is due to start in the first quarter of 2016 following a great deal of work to design, specify and construct the tender for the construction work. The Cycle hire facilities will be phased alongside the café redevelopment.</p> <p>The original planning application for the redevelopment of the recreation facilities at Delamere was not successful. Therefore we have taken the opportunity to redesign the site and a new application will be submitted mid-2016.</p> |
| Continue the redevelopment of Westonbirt Arboretum, through completion of a Treetop Walkway, to enhance the visitor experience at this important site | <p>Achieved</p> <p>The construction of the treetop walkway is under way and the completed structure opened to visitors in April 2016. This will greatly enhance the visitor experience at Westonbirt.</p> |

Economy: Forests that Deliver for Economic Growth

Aim: "to make a significant contribution to economic activity, rural employment, and green growth across England, using the assets and advantages of the forests and woodlands".

| Economy: Key Actions (Corporate Plan) | Commentary |
|--|---|
| Ensure continued good access to sustainable timber, by investing in maintenance and upgrade of key haulage roads within the public forests and woodlands | <p>Achieved</p> <p>As part of an ongoing programme to sustain all engineered infrastructure on the Public Forest Estate, specific investment in forest access has substantially increased over a 5 year period with 2015-16 outturn forecast approximately 150% greater than 2011-12 figures. During that time, provision for generic road maintenance such as reprofiling, drainage and vegetation management has been significantly improved and importantly specific emphasis has been placed on the reconstruction of ageing, existing network with an additional £1m over the 2011-12 baseline being directly attributed to pre-emptive resurfacing and replacement of road bridges in advance of major harvesting programmes. In 2015-16 this equates to some 50km upgraded to appropriate specification for current timber haulage vehicles. In addition a relatively small programme of new road construction amounting to 6-7km annually has been delivered and is likely to continue over the coming years. Although investment in roads is primarily intended to service the timber operations, tangible benefits have also been achieved for recreation activities on the estate such as walking, cycling, motor sports, and horse riding as a result of the programme. Development of car parks, trails and associated infrastructure in order to enhance the extent and quality of public access also continues, with similar maintenance regimes and associated investment committed to ensure that fitness for purpose is sustained into the future.</p> |
| Establish new business opportunities and increase the number of third party businesses operating on public forest land | <p>Part Achieved</p> <p>We have worked with a range of third party businesses to expand the scope and number of activities offered on public forest land. A new café business has opened at Jeskyns Farm in Thames Chase and an expanded café with new business tenant has come on-stream at Bedgebury in Kent. Our work with Adventure Forests (e.g. Go Ape) resulted in continued investment in new courses within England. A Tree Top Junior course was installed at Beechenhurst in the Forest of Dean attracting approximately 4000 visitors and the first Zip Trek course at Grizedale in the Lake District saw over 6000 people trekking through the treetops. Business performance on the traditional Tree Top Adventure Courses was strong leading Go Ape to build in additional course capacity at busy sites to accommodate additional customers at peak times. This model will be further expanded in 2016.</p> <p>Further information on the number of third party businesses operating on the estate can be found in our Corporate Plan Performance Reports.</p> |

| Economy: Key Actions (Corporate Plan) | Commentary |
|---|---|
| Complete a feasibility study for wind energy in Kielder | <p>Achieved</p> <p>The feasibility having been proven, we worked with RWE (the wind farm company) in the early part of the year to finalise legal agreements for the Kielder wind farm. However RWE suspended work following a Government announcement in June that the Renewables Obligation subsidy would end a year earlier than planned and widespread speculation that no Contracts for Difference would be offered to onshore wind schemes.</p> <p>A significant investment has already been made by RWE in the development of this project and wind monitoring masts are in place gathering data on wind speeds. In recognition of this and because we do not anticipate any interest from other developers, we have offered RWE a five year exclusivity deal. We wait to hear from their board.</p> |
| Bring to market fresh wild venison produced through sustainable forest management activities that also benefit nature and the wider landscape in which the public forest land is situated | <p>Achieved</p> <p>Managing deer and feral boar to the highest safety and welfare standards continues to be an increasingly important operational element, ensuring this valuable component of our woodland ecosystems is not having an adverse effect on either timber production or biodiversity. Some 61,500 kilograms of venison and 4,000 kilograms of boar have been supplied into the food chain as a result. The district wildlife teams work hard to meet their cull targets under increasingly difficult conditions. To ensure the highest standards of venison carcasses are produced and supplied to our customers, one new main district larder has been built and three outlying modular larders have been installed across three forest districts. Overall this target has been met effectively, ensuring that the Sites of Special Scientific Interest (SSSIs) on the Public Forest Estate have remained in the current high level categories.</p> |
| Work in partnership with Forest Holidays, to develop plans for two new cabin sites | <p>Part Achieved and Ongoing</p> <p>This year has been spent making sure that Forest Holidays is fully integrated into the Forest Enterprise England business in the same way as our many other business partners. As part of this work we have made improvements to the site selection process to make it more robust and transparent. This will be applied to all new potential sites.</p> <p>In addition we have been working closely with Forest Holidays to apply the lessons that were learnt from the failed planning applications at Delamere and Fineshade. Applying these lessons will result in high quality planning applications being submitted during 2016.</p> |

| Economy: Key Actions (Corporate Plan) | Commentary |
|--|--|
| <p>Through activity directed by long term forest plans, continue work to diversify woodland structure and range of tree species present on public forest land, to aid forest resilience, and protect future supplies of timber and biomass</p> | <p>Ongoing</p> <p>Forest resilience has been at the forefront of thinking in the development of forest plans over the last year, not least in response to climate change and the increasing threats from pests and diseases. The diversity of species has continued to increase alongside the areas managed as continuous cover forestry (CCF) on par with long term trends. Sitka spruce, as a proportion of area on the estate, has reduced from 31.8 % to 29.7% since 2000 whilst the broadleaf component has increased from 24.9% to 31.8% over the same period. The number of minor species and their abundance has also increased markedly with 18 new species requested of nurseries since 2005 comprising 5.5% of the total conifers planted this year alone. This includes species such as Omorika spruce and European silver fir. These changes build on the long-term trend towards a more diverse estate in terms of number of species and their proportion by area. By contrast, Sitka spruce and Corsican pine combined represented 61% of the estate in 2000 but today only equate to 55%. The fall in Corsican pine although forced by the threat of Dothistroma has also provided an opportunity for underplanting to enhance the successful establishment of more sensitive forest species (such as Cryptomeria, Western red cedar and European silver fir) that would struggle to survive on open clearfell sites. One formal replicated long-term experiment has been established in Sherwood, set up in partnership with Forest Research, and planted with 19 species. Establishment success and growth are being monitored and in time mensuration data will be available. Another trial site is in progress in Yorkshire and plans are in place to add additional sites to the programme in future years.</p> <p>The increasing diversity of species is supported by an increase in the diversity of management approaches and associated structural diversity. As a proportion of the estate clearfell management has reduced from 51.6% to 46.0% whilst alternatives to clearfell (including Continuous Cover Forestry methods) have increased from 26.6% to 30.1% since April 2015. Progress towards even greater species and structural diversity is expected over the coming years whilst continuing to maintain timber output as part of the balance of social, environmental and economic objectives of forest plans.</p> |

Nature: Forests that Deliver for Nature and the Environment

Aim: "To increase the environmental contribution made by the forests and woodlands to the range of ecosystem services delivered, and to protect and enhance its overall biodiversity and heritage value, at both the landscape and local level."

| Nature Key Actions (From Strategic Plan. CP n/a) | Commentary |
|--|---|
| Lead the implementation with partners, of the Heritage Lottery Fund award for the Forest of Dean, aiming to sustain and celebrate the unique features of this historic working landscape | <p>Achieved</p> <p>The partnership agreement has now been signed by 25 organisations and the volunteers have generated £98,000 worth of volunteer time.</p> <p>The Foresters' Forest Heritage Lottery Fund (HLF) Landscape Partnership programme is designed to raise awareness and participation in the unique heritage of the Forest of Dean, increasing understanding of an area which has been shaped by its geology, cradling its mining heritage with a stronghold for nature in communities who value their cultural heritage. The management team has been established with a staff of 2.5 who are working with partner organisations to develop the Stage 2 application to HLF, due in Nov 2016. A partnership agreement detailing how the partners will work together has been signed by 24 organisations. The 50 projects which will be delivered by these organisations encompass built, natural and cultural heritage. In the past year, the partners have been revising their project plans and conducting pilot stage activities. In particular, there are two conservation grazing sites in the Forest now, trialling the use of Exmoor ponies and cattle in fenced enclosures to facilitate the growth of grass that will enable more sheep to return to the core Forest areas.</p> <p>The Foresters' Forest has adopted the Forest of Dean brand identity and created promotional materials, a new website (forestersforest.uk) and a Facebook page ('Foresters Forest Landscape Partnership'). The monetary component of the matched funding contribution for the development stage has been achieved and 250 volunteers have been recruited so far. In particular 34 volunteers are conducting archaeological survey work to start the process of validating the 1700 LIDAR (Light Detection And Ranging) data points in the Forest.</p> |
| Increase, year on year, the area in 'favourable' condition of our 68,000 hectares of Sites of Special Scientific Interest (SSSI) | <p>Ongoing</p> <p>We have continued to maintain a high performance in the management of SSSI under our stewardship, increasing the total area in favourable condition this year. Overall over 99% of SSSI under our stewardship remain in recovering or favourable condition.</p> |

| Nature Key Actions (From Strategic Plan. CP n/a) | Commentary |
|---|--|
| Through forest operations, increase the extent of restored Planted Ancient Woodland Sites and open habitat components of the public forests and woodlands to improve the condition, extent and connectivity of conservation-priority woodland and non-woodland habitats and associated populations of conservation-priority species | <p>Ongoing</p> <p>Through ongoing programmes of tree thinning and felling we continue to influence the diversity of tree species within forest stands which over time is leading to an increase in the native component of ancient woodland sites. A study undertaken in 2014 showed that some 80% of the composition of PAWS across the Public Forest Estate in England will be comprised of native trees by c 2050, but that the extent of complete restoration to native woodland will vary greatly across and between sites. The New Forest contains the largest extent of semi-natural habitats within the Public Forest Estate in England and we have commenced a review of the forest plan for this nationally significant location, one aim of which is to deliver improved condition, extent and connectivity of priority woodland and non-woodland habitats. In year, some 431 hectares of woodland has been felled under forest plans with the intention of the land becoming open habitat. Negotiations are also ongoing with Natural England (NE) towards new joint arrangements for the management of the Wyre Forest National Nature Reserve. The developing arrangements are the culmination of the 3-year "Grow with Wyre" HLF project which has seen FE, NE and other partners agreeing a shared future vision for this important area.</p> |
| Continue to conserve and improve the condition of the extensive range of archaeological assets across the public forests and woodlands by taking action to reduce the number of sites recorded on the Heritage at Risk (HAR) register | <p>Achieved</p> <p>Considerable progress has been made this year on consolidation of stone built structures that have been HAR for some time. Repairs and associated monitoring at Mildenhall Warren Lodge (East Forest District) have been completed. Pre-repair survey work at Bouldnor Battery (South Forest District) and vegetation removal and photogrammetric survey at Penyard Castle (West Forest District). Other actions across the estate have seen a reduction in the number of assets on the HAR register from 74 in 2012 to 38 in 2015.</p> |

Key Issues and Risks

Forest Enterprise Non-Forestry Development Projects

Forest Enterprise's long term financial plan is in part dependent on releasing the commercial potential from non-forestry developments on the public forest estate. Forest Enterprise has endeavoured to maintain a range of development prospects during a period of major uncertainty, but their further progression will need careful management and consultation.

Tax

Ongoing HMRC tax audits have already resulted in the retrospective payment of tax liabilities and there are further material risks which are noted in our accounts as unquantified contingent liabilities.

Performance Analysis

Forest Enterprise England Key Performance Indicators 2011-16

Forestry Commission England's Corporate Plan 2015-16 set out the current key performance indicators (KPIs) for Forest Enterprise including two headline indicators for which reports are shown below. Detailed analysis on our performance against our KPIs is reported quarterly in our Headline Performance Update and is also published annually in our Corporate Plan Key Performance Indicators Report.

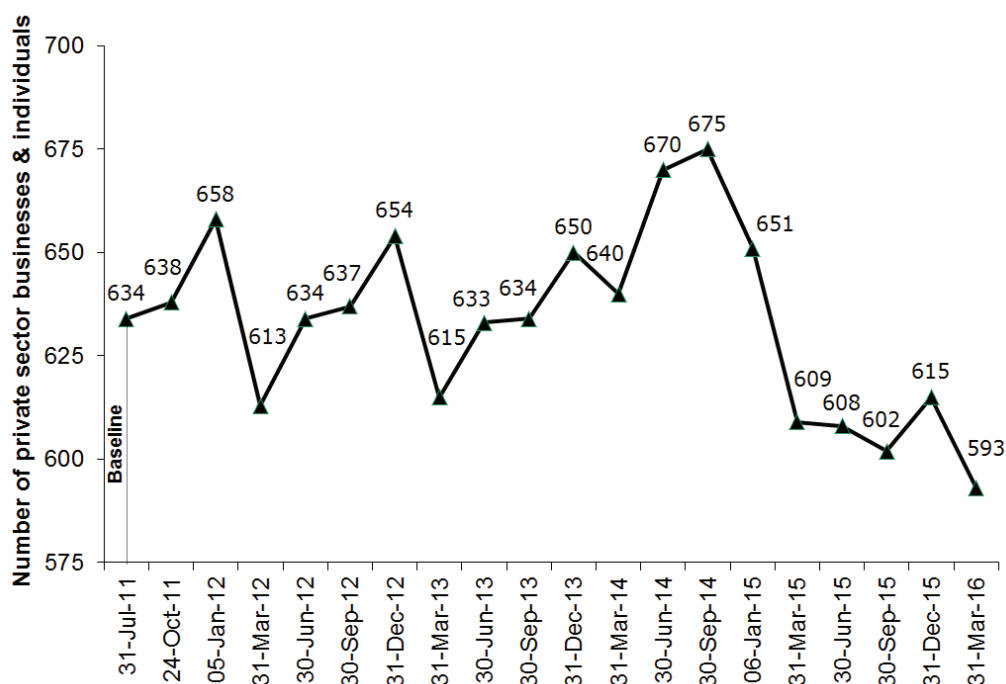
Cost of Managing the Public Forest Estate



Source: Forestry Commission administrative data.

Outturn for 2015-16: **£70.26 per hectare**, against a target of £79.20 per hectare. The outturn figure is £8.4m more than the 2014-15 outturn. Around half of this (£4.1m) was due to staff vacancies, stock adjustments and revised programme timings, which suppressed relatively the 2014-15 costs. Costs in 2015-16 increased due to depreciation, pay award and pensions cost increases, Forestry Commission staff transfers, service charges and increases to operational programmes. Income in 2015-16 is marginally higher than 2014-15. The net position shows good performance against the 2015-16 target with Forest Enterprise England coming in below the cost target by around £2m.

Number of Private Sector Businesses Operating on the Public Forest Estate



Source: Forestry Commission administrative data.

Position at 31 March 2016: **593 private businesses and individuals**. The indicator has seen some of its seasonal readjustment and further consolidation in the category of licences and permissions i.e. temporary businesses, but not to the same level as in previous years between December and March. The main franchise businesses continue to expand their offer across multiple sites, with Adventure Forest in particular opening new Go Ape activities on the Public Forest Estate during 2015.

Sustainability Report

Introduction

Forest Enterprise England carries out sustainability reporting in line with the Greening Government Commitments and HM Treasury’s Financial Reporting Manual requirements. The environmental impacts of the organisation’s forest management support activities are managed through our Environmental Management System (EMS) which is designed to deliver our environmental policy, with performance improvement targets for reducing fossil fuel-based energy and reducing waste and our use of water. Our EMS meets the requirements of the internationally recognised standard for EMS, BS EN ISO 14001 2004. The EMS is independently assessed for certification by accredited 14001 assessors.

Sustainable forest management is achieved through conformance to the United Kingdom Forestry Standard (UKFS) and is independently certified under the United Kingdom Woodland Assurance Standard (UKWAS) under the Forestry Stewardship Council’s (FSC) internationally recognised criteria for sustainable forest management by accredited UKWAS certification assessors. Hence all activity of the organisation’s sustainable business is transparently measured and managed.

Summary of Performance

| Performance Measurement | | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---------------------------------|-------------------|-------------------|-------------------|-------------------|
| Business Travel | Total miles | 5,357,523 | 5,878,889 | 5,839,706 | 6,105,016 |
| | tonnes CO ₂ e↑ | 1,543 | 1,620 | 1,566 | 1,560 |
| | Expenditure (£) | £2,693,094 | £2,933,305 | £2,947,373 | £3,125,734 |
| Electricity, Gas and other heating fuels | Consumption (Kwh) | 5,215,955 | 5,819,423 | 4,103,267 | 5,110,859 |
| | Expenditure (£) | £325,316 | £370,223 | £304,888 | £368,550 |
| | tonnes CO ₂ e↑ | 1,384 | 1,493 | 1,401 | 1,093 |
| | % Renewable | 44 | 48 | 31 | 51 |
| Total Energy (Scopes 1, 2 and 3) Estate and Travel | tonnes CO ₂ e↑ | 2,898 | 3,095 | 3,946 | 2,653 |
| | Expenditure (£) | 3,018,410 | 3,303,598 | 3,493,297 | 3,494,284 |
| F-Gas – CO₂(e) Δ | (Kg) | 21 | 25 | 16 | 21.2 |
| Fugitive emissions F-Gases (GWP) | CO ₂ e↑ (T)(GWP) | 43.8 | 52.2 | 62.7 | 72 |
| Refrigerants Maintenance | Expenditure (£) | £20,000 | £20,000 | £20,000 | £22,000 |
| Sewerage/Waste water | Expenditure (£) | £21,733 | £55,044 | £73,446 | £173,841 |
| Estate and office Waste | Amount (Tonnes/m ³) | 3,119 | 2,401 | 2,152 | 2,566 |
| | Expenditure (£) | £453,933 | £102,266 | £182,920 | £161,103 |
| Estate and Office Water | Quantity (m ³) | 77,686 | 35,896 | 65,771 | 49,407 |
| | Expenditure (£) | £81,608 | £56,943 | £45,960 | £49,339 |

Overview

A number of on-going initiatives on the estate have continued to contribute towards our environmental performance and policy aims during the year ensuring that the EMS adds value to the organisation. These are:

- continuing certification to BS EN ISO 14001-2004 for all of England's built estate;
- mapping the operational guidance relevant to the estate to the standard in the same way that forest management guidance is mapped to the UK forest Standard and UKWAS requirements and the needs of the business;
- planning an energy strategy to meet the on-going energy needs of the business;
- looking at options for reducing water use across the estate and automating data capture;
- more effectively monitoring assets such as septic tanks and soak-aways through the resumption system, to ensure legal compliance and reduce staff time in waste water management;
- improving F-Gas monitoring through better asset management and recording, ensuring legal compliance and the capture of required data for reporting to Defra; and
- investigating switching to CO₂-based refrigerant systems to determine possible savings on on-going replacement and monitoring costs.

Summary of Future Strategy

The Executive Board have approved a set of key performance indicators, which combined with our improving data monitoring capabilities form the basis of our future internal performance monitoring through the EMS elements contained within business plans. In 2011-12, we introduced local business sustainability actions (based around the agreed indicators) as part of our normal business planning processes. From 2012-13 the Executive Board is using the existing baseline data, and agreed indicators to monitor our business sustainability performance and to establish realistic but challenging targets for cost centre managers for 2015-16 and beyond. Central information will be processed to inform local managers of their KPI details to guide local agreement and decision making, prioritising according to business risk and resource allocation. Early next year an energy audit will be carried out to clearly determine where energy is being used. This will form the basis of energy reduction measures and inform future energy generation options. The business case for investment in renewables will be formulated based on short, medium and long-term business need using the current energy requirements of the organisation to see where value in economic, environmental and social terms can be created and maintained.

During 2015-16 our main priorities are:

- processing and improving collected data, providing managers with information to plan business performance improvement;
- providing system support to local managers;
- reviewing and improving the management system so that it adds value to the operational objectives;
- reviewing the effectiveness of our operational guidance booklet that outlines our EMS;
- scoping improvement programmes and record projects for future funding and implementation;
- reviewing energy needs and options for further improvements through renewables across the estate including generation, storage and smart distribution opportunities working with others;
- reviewing fossil fuel types used to see if further alternatives for renewable energy options are feasible in light of projected future energy cost increases;
- reviewing refrigerants use to plan phased replacement gas requirements; and
- exploring the feasibility of transitioning to a low carbon (or electric/fuel cell) vehicle fleet over the next 20 years, as the technology and infrastructure develops and improves.

GHG emissions

Forest Enterprise England's built estate is actively managed to optimise occupancy and minimise CO₂ emissions from fossil fuel energy use. This includes installing (early) wood fuel boiler technologies and other green technology measures to reduce energy use. CO₂ emissions from business travel are managed through ongoing support for use of remote working arrangements, the provision of audio-conferencing facilities to reduce the need to travel for meetings and the procurement of low emission vehicles for which there are also tax incentives. A few electric vehicles are being trialled to determine their possible current use and future potential as the technology and infrastructure advances over the next few years to address range anxiety and better battery life.

A fugitive emission figure from equipment that contains harmful refrigerant gasses (HFCs/CFCs) was included in the report to Defra at their request to provide a 2012 baseline figure (Scope One emissions). Emissions from the maintenance of cold stores, deer larders and fridges as well as the maintenance of air-conditioning units in vehicles and buildings are reported. The phase out of different gases over the next 10 years which started with R22 gas will mean that the gasses used in this equipment will have to be changed as the different types of refrigerant gas are no longer allowed under international agreements. The move to CO₂ refrigerant equipment is being monitored as options to change become available that meet our business needs.

Waste

Significant reductions in operational waste to landfill have already been achieved across most of the estate and all locations have recycling in place. A number of material storage facilities have been modernised over the past two years to meet legal waste storage and segregation requirements. Forest Enterprise England's office waste has a good recycling rate of approximately 62% (53% national average).

Treated (painted/coated) timber is hazardous waste. The number of waste service suppliers appropriately licensed to receive this waste stream has reduced from 4 to 3 since the last report. Some sites still don't have a local waste service supplier able to accept treated timber.

Sewage and waste water is a significant product from our activities at visitor centres and discharge consents are now being monitored and recorded to ensure legal compliance across the estate. Water use (especially the use of potable water for washing equipment) will be reduced where practical as visitor numbers continue to increase. Use of reed bed systems and rain water harvesting is being considered at a number of sites where this option is viable and funding is available. This will significantly reduce the cost of water use and the disposal of waste water. The solid fraction may in time be used as a feedstock to local anaerobic digestion plants on local farms.

Use of resources (water and timber)

The uses of natural resources for Forest Enterprise England activity are being monitored. Water use and sustainable timber procurement are recorded and reported on as required. Our water use baseline was established with Defra in 2012-13. Most paid-for mains water use is being monitored through manually read meters and invoice payments in the FAS database. Supplies from bore holes are included where metered. Local initiatives, such as rainwater harvesting and micro-irrigation at nurseries, are being explored. Nurseries are looking at their long-term water needs in the same way as other similar plant suppliers; ensuring capacity for dealing with possible drought conditions is managed.

All timber used by Forest Enterprise England must be recorded as certified as coming from legal and sustainable sources, including all construction projects and temporary works. Forest Enterprise England is supporting 'Grown in Britain' in their efforts to promote sustainable UK timber. All treated timber used within Forest Enterprise England is specified as non-hazardous treatment processes, however, the current regulations make no allowance for the type of treatment used and this material remains classified as hazardous waste. Forest Enterprise England purchases paper that is in conformance with the criteria for FSC, PEFC or FLEGT or of 100% recycled origin.

Climate change adaptation and mitigation

This year one Forestry Commission England office was affected by flooding, causing some disruption to staff and communications. This past year was the warmest and wettest on record, with the North of England impacted by high rainfall intensity in November and into January. Information on climate change and the issues the organisation is addressing can be found on the relevant web pages.

Biodiversity and the natural environment

99% of SSSI on the Public Forest Estate remains in Favourable or Favourable Recovering condition. This exceeded the initial programme target of 95% and remains ahead of the current policy intent to maintain 95% of all SSSI in target condition.

Sustainable procurement including food

Forest Enterprise England has continued to improve the environmental standards for goods, services and works procured through a variety of policies and tools. This has included increasing understanding of legal and sustainable timber options and sharing case studies of best practice in this area. We continue to specify Government Buying Standards (where applicable) and other environmental measures such as low impact vehicles or tyre pressure control systems for haulage of timber. A review of our procurement of waste management services has been completed and we will be implementing the recommendations as our existing contracts come up for renewal.

In England, food outlets providing a catering service to the general public and leased to third party providers are encouraged to follow sustainable food sourcing principles. Key performance indicators are used to monitor this.

Sustainable construction

There are two new construction projects, one now complete at Bucks Horn Oak and one at Westonbirt which are aiming to be BREEAM compliant. The Westonbirt project is still at the planning stage. Whilst achieving BREEAM compliance is current government policy, achieving even bespoke BREEAM compliance in a rural setting is challenging for us. Other sustainable building schemes are developing in the EU and these schemes may be adopted where the BREEAM standard is not suitable. We will employ sustainable building elements as far as possible in all our refurbishments and new build projects.

Environmental Management System (EMS)

As part of business management, the Forestry Commission operates an integrated EMS which is independently certified to BS EN ISO 14001-2004, the internationally recognised standard for EMS. Our management system has already provided cost savings as well as environmental benefits in terms of improved management procedures, changed behaviours and improved awareness of environmental impacts and legal compliance with regards waste, procurement and emissions. The implementation of the EMS has established baseline data against fossil fuel-derived energy, travel CO₂, water use and waste reduction and includes sustainable procurement requirements as part of the improvement targets following the government buying standards. It should be recognised that the achievement of certification represents a significant effort on the part of staff and the investment in time and effort represents a significant cultural shift and change to the way we work, maintaining strong public support by demonstrating our care of the environment across all our activities. The focus for this year is to make sustainable business 'business as usual' driving further performance improvement in the face of expected rapidly rising energy and fuel costs over the coming years. The most recent round of internal environmental audits confirms that conformance and policy delivery are increasingly embedded in the normal business planning process and not seen as a separate consideration in decision taking.

Governance

Top management recognises the need to manage the estate in a sustainable manner, protecting the environment from adverse impacts of the activities of the organisation. The stewardship of the public forest estate is a significant responsibility and stakeholders expect the management of the land to deliver quality public benefits while protecting and enhancing the natural capital and supporting the economy nationally and increasingly locally.

The environmental policy sets a clear direction for managers to follow in order to discharge this responsibility in a transparent and effective way. Through the management review of the EMS, policy implementation and progress is reviewed by the board in order to take any necessary action to continually improve environmental performance against agreed performance indicators, which are as follows:

- ensure that Government targets for sustainability within the remit of the programme are communicated to stakeholders and that mechanisms are put in place to record and monitor progress against agreed targets;
- top management will review the EMS at planned intervals to ensure its continuing suitability, adequacy, and effectiveness; and
- ensure that the Forestry Commission achieves its commitment to maintaining ISO 14001 certification.

S. Hodgson

30 June 2016

Accounting Officer
Forest Enterprise England
England National Office
620 Bristol Business Park
Coldharbour Lane
Bristol. BS16 1EJ

Forest Enterprise England Annual Accounts 2015-16

Accountability Report

Corporate Governance Report

Directors' Report

Forest Enterprise England is an executive agency of the Forestry Commission.

The Forest Enterprise England Strategy Board, consisting of executive and non-executive members, was established to agree the strategic direction of the Agency, within the policy framework set by Ministers and the National Committee for England, under the overall direction of the England Executive Board. The Chief Executive and executive team manage the day-to-day operations and performance of the Agency.

The Chair of Forestry Commission England is Sir Harry Studholme and the Chief Executive of Forest Enterprise England is Simon Hodgson.

Forest Enterprise England is managed by the Forest Enterprise Strategy Board.

The composition of the Board is as follows:

- Simon Hodgson (Chair) Chief Executive, Forest Enterprise England;
- Jo Ridgway - Head of Human Resources, Forest Enterprise England;
- Paddy Harrop - Head of Marketing, Forest Enterprise England;
- David Hodson - Head of Finance and Business Support, Forest Enterprise England;
- PK Khaira-Creswell - Head of Corporate Affairs and Governance, Forest Enterprise England;
- Michael Seddon - Director of Operations, Forest Enterprise England;
- Mark Street - Head of Estates, Forest Enterprise England;
- Miranda Winram - Head of Strategy and Insight, Forest Enterprise England;
- Keith Oates - Non-executive board member; and
- Mark Pountain - Non-executive board member.

Significant interests held by Board members

Details of company directorships and other significant interests held by Board members are included within the register of interests maintained by the Forestry Commission and published on our website www.forestry.gov.uk. Related party transactions are separately disclosed within note 18.

Personal data related incidents

There were no protected personal data related incidents reported for Forest Enterprise England in 2015-16 or previous financial years. Forest Enterprise England 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 Governance Statement.

Supplier Payment Policy

Forest Enterprise England complies with the Government's Better Payment Practice Code. Unless otherwise stated in the contract or by special arrangement with individual suppliers, we aim to pay within 10 days from the receipt of goods and services or the presentation of a valid invoice, whichever is the later. A sample analysis for 2015-16 indicates that 97.6% (2014-15: 97.9%) of invoices were paid within the due date. Arrangements for handling complaints on payment performance are notified to suppliers on contracts.

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

Auditors

These accounts are audited by the Comptroller and Auditor General. The audit fee was £96,000 (2014-15: £98,000). No fees were charged for other services (2014-15: nil).

Statement of Accounting Officer's Responsibilities

Director, Forestry Commission England as the additional Accounting Officer for Forestry Commission England has designated the Chief Executive as the Accounting Officer for Forest Enterprise England. The Agency's framework document sets out the responsibilities of the Agency Accounting Officer.

I am accountable to Parliament through the Additional Accounting Officer for the Forestry Commission and I am responsible to the National Committee for England for the management of the Agency. I have a right of direct access to the Forestry Commissioners and to the relevant Minister.

As Accounting Officer for Forest Enterprise England, I have responsibility for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively in accordance with Managing Public Money.

In discharging this overall responsibility, I am responsible for putting in place appropriate arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes ensuring a sound system of control is maintained through the year and that arrangements are in place for the management of risk.

I am responsible for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable. I confirm that the annual report and accounts as a whole is fair, balanced and understandable.

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

Governance Statement

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the Agency is directed, controlled and led. It enables the Agency to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective outcomes.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk and 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 the Agency'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 governance framework has been in place at the Agency for the year ended 31 March 2016 and up to the date of approval of the annual report and accounts, and accords with HM Treasury and Forestry Commission guidance.

The Governance Framework

The Forestry Act 1967 (as amended) and the Forestry Act 1979 set out the principal legislative framework within which the Forestry Commission operates. The Forestry Commissioners are established by statute and derive their

powers primarily from the Forestry Acts but also from other legislation such as the Environmental Impact Assessment (Forestry) (England and Wales) Regulations 1999. Under the Plant Health Act 1967, the Commissioners are the competent authority for the protection of forest trees and timber from attack by pests and diseases.

The Forestry Commission is a non-Ministerial Government Department and has a Royal Charter, dated 25 March 1920. It is headed by a Board of Commissioners.

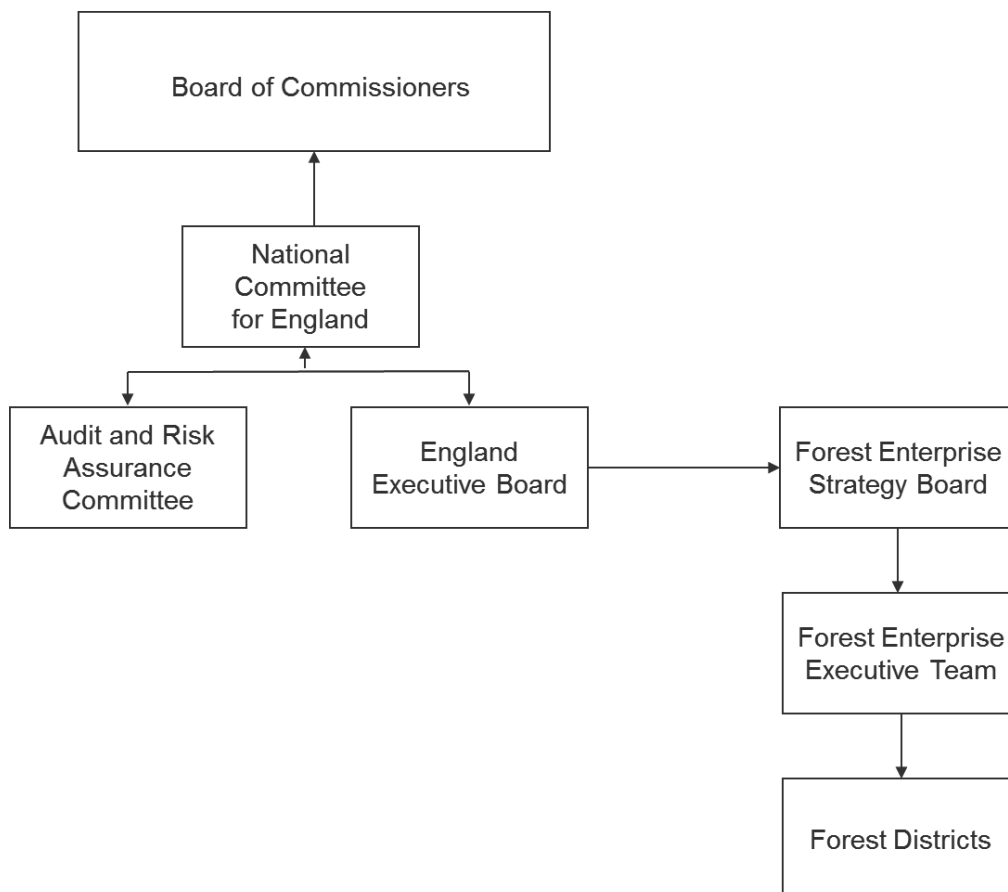
Forestry is devolved and Commissioners are accountable separately to the Secretary of State for Environment, Food and Rural Affairs and Scottish Ministers. From April 2013, the duties and functions in the Forestry Acts are exercised in Wales by the Welsh Government and Natural Resources Wales. Defra are responsible for forestry policy in England.

Under section 2(3) of the Forestry Act 1967, the Commissioners have delegated their responsibilities to the National Committees in each country. National Committees are comprised of non-executive and executive members and they oversee the work of each country, making decisions about country forestry strategies and policies.

Governance Arrangements

The Forest Enterprise England Strategy Board has links through shared membership of other Forestry Commission governance committees. The Chief Executive Forest Enterprise is a member of the England National Committee and Executive Board, and attends the Audit and Risk Committee. The non-executive directors are members of the England National Committee and the Audit and Risk Committee. This ensures a breadth of knowledge and understanding of the organisation and forestry issues which enhances the effectiveness of all the committees.

An overlap in the membership of the Boards enhances cohesion. The governance structure is outlined below and shows the interactions between the groups.



During the year the Forest Enterprise England Strategy Board discussed a wide range of issues, including:

- Health and Safety;
- Governance and management arrangements;
- Strategic Plans;
- Organisational transitions;
- Management information;
- Staff surveys; and
- Business investment programmes.

At each meeting, the Board also discussed the Chair's Report, and Finance and Risk Management reports. They also reviewed reports on Forestry and Land Management, Recreation and Estates.

Further information on the Forest Enterprise Strategy Board including membership and attendance, are available on our website, www.forestry.gov.uk.

Audit and Risk Assurance Committee

The Audit and Risk Assurance Committee (ARAC) has been established by the National Committee for England to support it in its responsibilities for the effective management of risk, control and governance. The Agency maintains its own risk register which is overseen by the ARAC.

Through its work the ARAC provides independent assurance to the Board of Commissioners and the National Committee on those key activities which support the achievement of the Agency's objectives. Assurance is also provided through the review of the annual accounts and the findings from work carried out by Internal and External Audit. The ARAC operates in accordance with the principles contained in the Treasury's Audit and Risk Assurance Committee Handbook.

The Committee met four times during the year and discussed a wide range of issues related to Forest Enterprise including:

- Risk management;
- Annual Report and Accounts 2014-15;
- External and Internal Audit strategy and reports;
- Information Security;
- Governance Statement;
- Review of committee's structure and effectiveness;
- Tax compliance and audits;
- Timber security;
- Information Services; and
- Payroll.

Further information on the England Audit and Risk Assurance Committee, including membership and attendance, is available on our website, www.forestry.gov.uk.

Review of Effectiveness

As Accounting Officer I have responsibility for conducting, at least annually, a review of the effectiveness of the governance framework. My review is informed by the work of Internal Audit and the executive managers across the Forestry Commission who have responsibility for the development and maintenance of the governance and control framework, and comments made by the external auditors in their management letter and other reports.

I receive Annual Assurance Statements from the executive managers across the Forestry Commission and have been advised on the implications of the result of my review of effectiveness by the various Boards and the ARAC.

The Head of Internal Audit has prepared a suite of annual reports and assurance statements to me as Agency Accounting Officer. The reports include an overall assessment of the adequacy and effectiveness of risk management, control and governance within Forest Enterprise England.

The overall opinion is that internal control within Forest Enterprise England continues to provide moderate assurance. Some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control. Plans to address weaknesses and ensure continuous improvement of the system are in place.

The Agency has continued to apply the principles of the Treasury's Code of Good Practice for Corporate Governance in the context of its own circumstances as an Agency of the Forestry Commission, which encourages the adoption of practices set out, where relevant and practical.

The Audit and Risk Assurance Committee review its effectiveness in line with best practice as set out in HM Treasury's Audit Committee Handbook.

Work to date has not identified any control weaknesses and has supported findings from management accounting inspections and the work of internal and external auditors.

Corporate Governance Code

Forest Enterprise England fully complies with the Corporate Governance Code.

Risk Management

The Forest Enterprise England Strategy Board ensures the risk management policy is implemented and that they strategically review key risks. Each risk that is identified in the risk register has a corresponding Senior Risk Owner who is a management board level officer with the authority to take action. The England Executive Board and the National Committee for England receives regular updates on key risks.

The Risk Management Policy is fully committed to effective risk management, adopting best practice in the identification, evaluation and control of risks, in order to:

- integrate and embed risk management into the culture of the Agency;
- eliminate or reduce risks to an acceptable level;
- anticipate and respond to changing social, environmental and legislative requirements;
- prevent injury and damage and reduce the cost of risk;
- raise awareness of the need for risk management; and
- ensure that business continuity plans are in place and are effective.

The Agency has identified the following principal areas of risk in achieving its aims and objectives:

Economic – this relates to those financial events which would affect management of the public and private forest estate and its impact on the wider economy. This includes opportunities or possible adverse effects relating from timber markets and exchange rates.

Reputational – this relates to exposure to events which might undermine the level of confidence, held by organisations and the general public, in Government Ministers and the Forestry Commission Great Britain/Central Services and Forest Enterprise England and the consequences on effective delivery and relationships that might result from a loss of confidence.

Environmental – this relates to the exposure of the forest estate to climatic and ecological events. This includes implications for the targets of maintaining and enhancing the biodiversity, cultural value and landscape character of

the estate, making a positive contribution to the environment, effective protection of the environment and prudent use of natural resources.

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

By adopting its Risk Management Policy, the Agency recognises Risk Management as a key function in helping to ensure it achieves its aims and objectives.

Information Risk Management

We continue to make steady progress to identify and address information risks. Our approach continues to take account of the fact that our information holdings, including personal data are relatively small, but increasing.

The Forestry Commission Information Security Management Forum has agreed that Privacy Impact Assessments will be required for all projects that involve the handling of personal information.

Three levels of 'Responsible for Information' training are now online. Training is undertaken by all staff where required at the appropriate level for their role.

Significant progress has been made in the designation of local Information Asset Owners, identifying and recording local information assets, including personal information and improving the procedures for reporting losses. This work is not yet complete but the ongoing work is helping develop a better understanding of the value of the information we hold and an improved information security culture across the organisation.

No lapses of data security were reported during 2015-16.

Significant Risks

Forest Enterprise Non-Forestry Development Projects

Forest Enterprise's long term financial plan is in part dependent on releasing the commercial potential from non-forestry developments on the public forest estate. This includes a range of opportunities including renewable energy, mineral extraction, camping and cabins, and built commercial development. In order for these opportunities to come to fruition, the Agency will need to have the assurance that they will be acceptable to Government, and to be able to sustain the confidence of the Forestry Commission, business partners and stakeholders. Forest Enterprise has endeavoured to maintain a range of development prospects during a period of major uncertainty, but their further progression will need careful management and consultation.

Tax

HMRC tax audits on the Forestry Commission, including Forest Enterprise England, highlighted areas of non-compliance which, as well as leading to the retrospective payment of tax liabilities and potential penalties, required substantive improvements to Forestry Commission policies, procedures and systems. A formal cross-Forestry Commission working group has been set up to work at pace to ensure full compliance and external advisors have been employed to further help with complete compliance.

Modelling and Quality Assurance

A sensible and proportionate approach to quality assurance has been adopted across the Agency in terms of business critical models and the associated risks are being managed properly.

Whistleblowing

Forestry Enterprise England is committed to ensuring a high standard of conduct in all that it does and has a duty to identify and remedy any area of malpractice. This is achieved through encouraging a culture of openness, where employees feel confident to raise concerns about potential wrongdoing. This positive approach to whistleblowing is aligned to our organisation's values. For example, communication (we are open, honest and objective with each other and our stakeholders).

Director Central Services of Forestry Commission has overall responsibility for whistleblowing policy and practice and works with the Chief Executive to ensure its effectiveness. Mechanisms have been established through our policy whereby all cases are managed centrally by the Head of Internal Audit. All cases are investigated thoroughly ensuring that any lessons learnt and recommendations are embedded into how we operate as an organisation. The policy is reviewed regularly and was last updated in May 2015 to take account of the changes made by Civil Service Employee Policy (CSEP) to reflect the Public Accounts Committee (PAC) recommendations.

Remuneration and Staff Report

Employment contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

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

Remuneration Policy

The Chief Executive was appointed on a full-time permanent basis through a fair and open external recruitment exercise under the terms of the Civil Service Commissioners Recruitment Code. The Chief Executive's salary and the Operational Director's salary are determined by the Forestry Commission's Senior Pay Committee which comprises the Chairman, Director Scotland, Director England, Director Central Services and one other non-executive Commissioner.

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

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

Remaining Executive Board members receive annual salaries paid in accordance with the standard Forestry Commission Staff Pay Agreement negotiated through collective bargaining with the recognised Trade Unions. Their performance is monitored and reviewed through the Performance Management System (PMS) of the Forestry Commission.

Remuneration (salary, benefits in kind and pensions) – subject to audit

The following sections provide details of the remuneration and pension interests of the members of the Forest Enterprise England Management Board.

| Single total figure of remuneration | | | | | | | | | | |
|---|--------------------|--------------------|----------------|---------|------------------------------------|---------|------------------|----------|---------|---------|
| | Salary | | Bonus payments | | Benefits in kind (to nearest £100) | | Pension Benefits | | Total | |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| | 2015-16 | 2014-15 | 2015-16 | 2014-15 | 2015-16 | 2014-15 | 2015-16 | 2014-15* | 2015-16 | 2014-15 |
| Simon Hodgson Chief Executive | 80-85 | 80-85 | - | 5-10 | 1,700 | - | (1) | 23 | 80-85 | 115-120 |
| Mike Seddon Director of Operations | 70-75 | 40-45 ¹ | - | - | - | - | 54 | 33 | 125-130 | 75-80 |
| Paddy Harrop Head of Marketing | 65-70 | 55-60 | - | - | - | - | 48 | 12 | 110-115 | 70-75 |
| Mark Street Head of Estates | 60-65 | 65-70 ² | - | - | 2,000 | 1,800 | 33 | 78 | 95-100 | 145-150 |
| David Hodson Head of Finance & Business Support | 60-65 | 60-65 | - | - | - | - | 24 | 23 | 85-90 | 80-85 |
| Miranda Winram Head of Strategy and Insight | 55-60 | 50-55 | - | - | - | - | 40 | 20 | 95-100 | 75-80 |
| Jo Ridgway Head of Human Resources | 15-20 ⁶ | - | - | - | - | - | 6 | - | 20-25 | - |
| Jonathan Spencer Head of Planning & Environment | - | 30-35 ³ | - | - | - | - | - | 8 | - | 35-40 |
| Kevin Stannard Deputy Surveyor & Forest Management Director | - | 65-70 | - | - | - | - | - | 10 | - | 75-80 |
| David Williamson Head of Recreation & Public Affairs | - | 60-65 | - | - | - | - | - | 9 | - | 70-75 |
| Mark Thornycroft Head of Estates | - | 5-10 ⁴ | - | - | - | - | - | (2) | - | 0-5 |
| John Tewson Head of Forestry & Land Management | - | 50-55 ⁵ | - | - | - | - | - | 9 | - | 60-65 |
| Alan Corson Marketing Officer | - | 50-55 | - | - | - | - | - | (49) | - | 5-10 |

1. Figure quoted is for the period 1 September 2014 to 31 March 2015. The full year equivalent is 70-75.
2. Figure quoted is for the period 1 May 2014 to 31 March 2015. The full year equivalent is 70-75.
3. Figure quoted is for the period 1 April 2014 to 2 December 2014. The full year equivalent is 45-50.
4. Figure quoted is for the period 1 April 2014 to 30 April 2014. The full year equivalent is 65-70.
5. Figure quoted is for the period 1 April 2014 to 2 December 2014. The full year equivalent is 70-75.
6. Figure quoted is for the period 4 January 2016 to 31 April 2016. The full year equivalent is 65-70.

* Prior year pension benefits figures may have changed due to recalculations by the pension provider. The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) less (the contributions made by the individual). The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.

The salary and pension entitlements of PK Khaira-Creswell, Head of Corporate Affairs and Governance, are borne and disclosed in the Forestry Commission England/Central Services Annual Report and Accounts 2015-16.

Salary

'Salary' includes gross salary; overtime; recruitment and retention allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on payments made by Forest Enterprise England and thus recorded in these accounts.

Benefits in kind

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

Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year prior to that in which they become payable to the individual. The bonuses reported in 2015-16 relate to performance in 2014-15 and the comparative bonuses reported for 2014-15 relate to performance in 2013-14.

Fair pay disclosure – subject to audit

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest-paid director of Forest Enterprise England in the financial year 2015-16 was £80,000-85,000 (2014-15: £90,000 - £95,000). This was 3.29 times (2014-15: 3.78) the median remuneration of the workforce, which was £25,059 (2014-15: £24,405).

In 2015-16, no (2014-15: nil) employees received remuneration in excess of the highest-paid director. Remuneration ranged from £17,000 to £84,000 (2014-15: £16,000 to £92,000).

Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

Pension benefits – subject to audit

| | Accrued pension at pension age at 31 March 2016 and related lump sum £000 | Real Increase/(Decrease) in pension and related lump sum at pension age £000 | CETV at 31 March 2016 £000 | CETV at 31 March 2015* £000 | Real Increase/(Decrease) in CETV £000 | Employer contribution to partnership pension account to nearest £100 |
|----------------|--|---|-------------------------------|--------------------------------|--|--|
| Simon Hodgson | 20-25 plus 70-75 LS | 0-2.5 plus 0-2.5 LS | 635 | 602 | (1) | - |
| Mike Seddon | 20-25 plus 70-75 LS | 2.5-5 plus 2.5-5 LS | 427 | 356 | 31 | - |
| Paddy Harrop | 15-20 plus 55-60 LS | 0-2.5 plus 2.5-5 LS | 335 | 276 | 28 | - |
| Mark Street | 10-15 plus 40-45 LS | 0-2.5 plus 0-2.5 LS | 244 | 204 | 16 | - |
| David Hodson | 5-10 plus 0-5 LS | 0-2.5 plus 0-2.5 LS | 98 | 74 | 11 | - |
| Miranda Winram | 15-20 plus 0-5 LS | 2.5-5 plus 0-2.5 LS | 167 | 125 | 5 | - |
| Jo Ridgway | 0-5 plus 0-5 LS | 0-2.5 plus 0-2.5 LS | 4 | - | 3 | - |

*The factors used to calculate CETV were reviewed by the scheme actuary in 2015, so the table of factors used to calculate the CETV in 2015 are not the same as those used to calculate CETV in 2016.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or **alpha**, which

provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined **alpha**. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: 3 providing benefits on a final salary basis (**classic**, **premium** or **classic plus**) with a normal pension age of 60; and one providing benefits on a whole career basis (**nuvos**) with a normal pension age of 65.

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**, **nuvos** and **alpha** are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into **alpha** sometime between 1 June 2015 and 1 February 2022. All members who switch to **alpha** have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave **alpha**. (The pension figures quoted for officials show pension earned in PCSPS or **alpha** – as appropriate. Where the member has benefits in both the PCSPS and **alpha** the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are salary-related and range between 3% and 8.05% of pensionable earnings for members of **classic** (and members of **alpha** who were members of **classic** immediately before joining **alpha**) and between 4.6% and 8.05% for members of **premium**, **classic plus**, **nuvos** and all other members of **alpha**. 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 initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in **alpha** build up in a similar way to **nuvos**, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a 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% up to 30 September 2015 and 8% and 14.75% from 1 October 2015 (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of 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 up to 30 September 2015 and 0.5% of pensionable salary from 1 October 2015 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**, 65 for members of **nuvos**, and the higher of 65 or State Pension Age for members of **alpha**. (The pension figures quoted for board members show pension earned in PCSPS or **alpha** – as appropriate. Where the official has benefits in both the PCSPS and **alpha** the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensionscheme.org.uk

Cash Equivalent Transfer Values

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

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Staff Report

Number of Senior Civil Servants by Band

| Band | Number of Senior Civil Servants |
|------|---------------------------------|
| 1A | 1 |
| 1 | 1 |

Average number of persons employed

The average number of whole-time equivalent persons employed during the year was as follows:

| | 2015-16 | | 2014-15 | |
|-------------------|-------------------------------|------------|------------|------------|
| | Permanently employed staff | Others | Total | Total |
| | Number | Number | Number | Number |
| Directly employed | 743 | 95 | 838 | 799 |
| Other | - | 54 | 54 | 52 |
| Total | 743 | 149 | 892 | 851 |

Staff costs – subject to audit

| | | | 2015-16 | 2014-15 |
|------------------------|----------------------------|--------------|---------------|---------------|
| | Permanently employed staff | Others | Total | Total |
| | £000 | £000 | £000 | £000 |
| Salaries | 22,757 | - | 22,757 | 21,534 |
| Social security costs | 1,575 | - | 1,575 | 1,510 |
| Other pension costs | 4,550 | - | 4,550 | 3,799 |
| Agency/temporary staff | - | 1,074 | 1,074 | 1,067 |
| | 28,882 | 1,074 | 29,956 | 27,910 |

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS) – known as “**alpha**” are unfunded multi-employer defined benefit schemes 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 2012. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2015-16, employers’ contributions of £4,417,000 were payable to the PCSPS (2014-15: £3,570,000) at one of four rates in the range 20.0% to 24.5% (2014-15: 16.7% to 24.3%) of pensionable earnings, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2015-16 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a **partnership** pension account, a stakeholder pension with an employer contribution. Employers’ contributions of £60,000 (2014-15: £61,000) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable earnings up to 30 September 2015 and from 8% to 14.75% of pensionable earnings from 1 October 2015 (2014-15: 3% to 12.5%). Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £2,300, 0.8% of pensionable pay up to 30 September 2015 and 0.5% of pensionable pay from 1 October 2015 (2014-15: £4,100, 0.8%), were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

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

3 persons (2014-15: 1 person) retired early on ill health grounds; the total additional accrued pension liabilities in the year amounted to £6,000 (2014-15: £200).

Staff composition

| | | | 2015-16 | 2014-15 |
|--------------|-------------------------------------|----------------------------|------------|------------|
| | Directors and senior civil servants | Permanently employed staff | Total | Total |
| | Number | Number | Number | Number |
| Male | 2 | 518 | 621 | 608 |
| Female | - | 223 | 271 | 243 |
| Total | 2 | 741 | 892 | 851 |

Sickness absence data

| Year | Working days lost per staff year | |
|---------|----------------------------------|---------------------------|
| | Forestry Commission | Forest Enterprise England |
| 2015-16 | 10.5 | 7.4 |
| 2014-15 | 6.9 | 6.1 |
| 2013-14 | 5.6 | 5.8 |

Our vision is that everyone working with the Forestry Commission remains safe and well and our woodlands are safe and enjoyable places to visit. We remain committed to the Forest Industry Safety Accord and have representatives on the Steering Group and the eight Working Groups; include Managing Safety, Electricity, Haulage and Forest Training. We have continued to deliver safety training to industry managers and main contractors on behalf of the Forestry Industry Safety Accord (FISA) as well as launching new safety training for our own managers and staff.

Accidents

The following figures set out the incidence of reportable accidents (those causing incapacity for more than 7 days) in 2015-16 and the preceding years.

| Year | RIDDOR Accidents per 100 Employees | |
|-----------------------|------------------------------------|---------------------------|
| | Forestry Commission | Forest Enterprise England |
| 2015-16 | 0.39 | 0.44 |
| 2014-15 (restated) | 0.63 | 0.80 |
| 2013-14 | 0.44 | 0.46 |

We will continue to monitor our Health and Safety performance and strive to make our Woodlands and Workplaces safer places.

Lyme disease

The numbers of Lyme disease cases has remained steady over the past 5 years. However, we continue to look for ways to improve our control measures to reduce the risk to our staff.

Staff Policies

Forest Enterprise England continues to work towards further improving the diversity of its workforce, focusing on encouraging applications from ethnic and disabled communities. To support all applicants, reasonable adjustments are considered and put in place.

Our Equality and Diversity Strategy is to recruit, deploy and engage people in order to make our workforce more representative of the population. A key objective has been to increase the number of job applicants with a disability. The Diversity team has been monitoring and analysing the number of applicants who declare a disability. This year the Forestry Commission reported 4% of disabled applicants, of which 13% were interviewed and 3% offered the job (compared to 4% of non-disabled applicants).

Within our Equality and Diversity Objectives 2016-20 we intend to improve our understanding of those engaging in volunteer work on the public forest estate and whether this reflects local community diversity.

'People Matters – Disability and Reasonable Adjustments' Guidance book provides information and guidance to managers on disability and how to identify and implement reasonable adjustments. Forest Enterprise England will

attempt to make the recommended reasonable adjustments. Where reasonable adjustments cannot be implemented managers are able to justify decisions with facts. To date, the Forestry Commission has been unable to make an adjustment in one case only.

Forest Enterprise England is proud to have delivered high quality, in-house equality and diversity training. We have different levels of training events, tailored to suit the needs of staff and depending upon their level of exposure to customers and/or their involvement in policy making. The training includes all aspects of equality, relating to the organisations business. On-line training modules together with face-to-face training on the Equality Analysis process are delivered. Sessions on this important area start at the induction stage with all new starters receiving input on this area. Further, the organisation benefits from best in class resources provided through Civil Service Learning.

The organisation is wholly committed to creating an organisation that celebrates equality and diversity and works hard to support all.

Trainees

Forest Enterprise England continued its Trainee Forester recruitment programme, with three new appointments in South, West and Yorkshire forest districts, bringing the total number of Trainee Foresters in the organisation to five. Over the two years of the training programme the recruits will gain a wide range of experience in all aspects of forest management on the public forest estate. During their training they will assist the district teams with key programmes and projects, learning in both a formal training environment and through working under the supervision of a range of experienced Forest Enterprise England staff. Forestry Commission learning and development staff are working closely with each district to develop and deliver a training programme that will be tailored to the needs of the individual and the district.

This trainee forester programme compliments the graduate development scheme maintained within Forest Enterprise England, which takes one graduate per year. In addition the organisation has continued to bring apprentices into the business and it is expected that this programme will continue to provide well trained staff both for Forest Enterprise England and potentially the wider forestry sector.

Expenditure on consultancy

During the year Forest Enterprise England incurred £50,000 costs for change business case consultancy services. In 2014-15, costs incurred totalled £4,000.

Costs incurred on agency and temporary staff during the year total £1,074,000 (2014-15: £1,067,000).

Reporting of Civil Service and other compensation schemes – exit packages – subject to audit

Nil staff members left under Voluntary Exit or Voluntary Redundancy terms in the year to 31 March 2016 (2014-15: nil). Therefore compensation payments totalled £nil (2014-15: £nil).

1 staff member left under Compulsory Redundancy terms in the year to 31 March 2016 (2014-15: nil). They received compensation payments totalling £8,851 (2014-15: £nil).

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 Forest Enterprise England has agreed early retirements, the additional costs are met by Forest Enterprise England 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.

Accountability and Audit Report

Losses and Special Payments

| | 2015-16 | | 2014-15 | |
|------------------------|---------|------|---------|------|
| | Number | £000 | Number | £000 |
| Losses total | 34 | 62 | 24 | 73 |
| Special Payments total | 200 | 236 | 203 | 344 |
| | 234 | 298 | 227 | 417 |

Remote Contingent Liabilities

In addition to contingent liabilities reported within the meaning of IAS 37, Forest Enterprise England also reports liabilities for which the likelihood of a transfer of economic benefit in settlement is too remote to meet the definition of contingent liability. There are currently no remote contingent liabilities.

Long-Term Trends

Operating performance

IAS 41 requires that changes in fair value, less costs to sell, of biological assets during a period are reported in net profit or loss. The operating performance should be considered in the context of the impact of these valuation movements (non-distributable gains or losses) on timber holdings and felling. Removing the impact of IAS 41, the basis of calculating the operating surplus is adjusted as follows:

| | 2015-16 | 2014-15 | 2013-14 | 2012-13 | 2011-12 |
|--|---------------|--------------|---------------|---------------|---------------|
| | £m | £m | £m | £m | £m |
| Operating surplus/(deficit) | (24.4) | (5.3) | (8.6) | (60.5) | 28.1 |
| <i>Add back impact of valuations:</i> | | | | | |
| Loss/(gain) on biological assets | (13.4) | (24.2) | (25.9) | 28.0 | (67.0) |
| Value of felled timber | 20.0 | 20.1 | 19.7 | 18.2 | 19.7 |
| Deficit excluding valuation movements | (17.8) | (9.4) | (14.8) | (14.3) | (19.2) |
| Funding | 20.5 | 8.8 | 19.9 | 26.1 | 14.6 |
| Surplus/(deficit) after funding | 2.7 | (0.6) | 5.1 | 11.8 | (4.6) |

The 'deficit excluding valuation movement' is used by the Forestry Commission in the net cost per hectare target measure, a key performance indicator for the Public Forest Estate.

Net cost performance for 2015-16 was:

| | Actual | Target | Variance |
|--------------------------------|----------|----------|---------------------------------------|
| Net cost before funding | (£17.8m) | (£20.1m) | £2.3m Favourable below target. |

The key performance indicator reflects the spending review target for Forest Enterprise England and is the sum of externally generated income less total cost.

As well as the cost incurred in generating income from sources such as timber, recreational activities and minerals, total cost includes the cost of provision to and on behalf of the public. Examples of this are managing and maintaining access, open habitats, ancient woodlands, community woodlands, learning, volunteering and community engagement.

As reported in 2014-15, to accommodate the costs of services provided from Forestry Commission England to Forest Enterprise England the target net cost was raised from £17.8m in 2014-15 to £20.1m in 2015-16.

Relative to the previous year our external income was similar at £67.1m (£66.7m 2014-15) while total cost was higher at £84.9m (£76.1m 2014-15). Income less total costs gives a net cost of £17.8m (£9.4m 2014-15).

In respect of the material movements in total cost between the years:

| | £ m | |
|--|--------|---------------------------------------|
| Stock, programme slippage and vacancies | 4.1 | 2014-15 cost benefit of one-off items |
| Increase in depreciation charges | 1.0 | Due to increased capital expenditure |
| Civil Engineering | 0.9 | Timber access (see page 7) |
| Forestry Commission service charges to Forestry Enterprise England | 0.8 | Mainly related to IT services |
| Increase pension costs | 0.7 | New employer contribution rates |
| Forest Live programme | 0.6 | Offset by increase in income |
| Staff transfers and new posts | 0.5 | |
| Pay award | 0.3 | |

In 2016-17 the target net cost target will be adjusted to take account of changes from the spending review. A further increase in the net cost target is anticipated, reflecting cost charges for services provided by Forestry Commission England to Forest Enterprise England. Transition costs associated with changing the delivery of back office functions across the Forestry Commission will increase Forest Enterprise England cost in 2016-17 through to 2018-19. These costs are unfunded by the Forestry Commission from its allocation to Forest Enterprise England, as these planned costs will be met from planned internal cash balances. Costs are then expected to reduce and 'normalise' by 2019-20.

The principal financial risk and uncertainty facing Forest Enterprise England is the long term market price and demand for forestry products.

Capital

During the course of the year the Management Board approved a capital expenditure programme of £12.3m and the Statement of Cash Flows shows that £7.8m was spent during 2015-16 (£5m 2014-15).

Major capital schemes approved were: the second phase of recreation facility developments at the Alice Holt site; the second phase of development at Westonbirt Arboretum; relocation and new infrastructure and facilities for the Nursery at Delamere; and the purchase of vehicles including timber harvesting machines. Any outstanding capital commitments as at 31 March 2016 are reported within note 13.

Scheme delays at Delamere Nursery and Alice Holt have mean that the main works for those schemes will not take place until 2016-17.

We are grateful to the Friends of Westonbirt Arboretum for their continued support in enabling the joint development project at the Arboretum. Funding has been derived from a variety of sources to enable this exciting development to take place.

S. Hodgson
Accounting Officer
Forest Enterprise England
England National Office
620 Bristol Business Park
Coldharbour Lane
Bristol
BS16 1EJ

30 June 2016

Independent Auditor's Report to the House of Commons

I certify that I have audited the financial statements of Forest Enterprise England for the year ended 31 March 2016. The financial statements comprise: the Statements of Comprehensive Income, Financial Position, Cash Flows, 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 and Staff Report and Parliamentary Accountability Report that is described in those reports 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 Chief Executive as 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 and express an opinion on the financial statements. 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 Forest Enterprise England's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Forest Enterprise England; 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of Forest Enterprise England's affairs as at 31 March 2016 and of the operating deficit for the year then ended; and
- the financial statements have been properly prepared in accordance with the directions issued by the Forestry Commission.

Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and Parliamentary Accountability Report to be audited have been properly prepared in accordance with HM Treasury guidance and directions made by the Forestry Commission; and
- the information given in the Performance Report and Accountability 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 returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration and Staff Report and Parliamentary Accountability Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General

6 July 2016

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

Financial Statements

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2016

| | | 2015-16 | 2014-15 |
|--|------|-----------------|-----------------|
| | Note | £000 | £000 |
| Income | 5 | 67,094 | 66,736 |
| Staff costs | 3 | (29,956) | (27,910) |
| Other costs | 4 | (54,996) | (48,206) |
| Value of felled timber | 6/10 | (19,996) | (20,089) |
| Operating (deficit) before gain on revaluation of biological assets | | (37,854) | (29,469) |
| Gain on revaluation of biological assets | 10 | 13,418 | 24,132 |
| Operating (deficit) after gain on revaluation of biological assets | | (24,436) | (5,337) |
| Funding received from Forestry Commission England/Central Services | | 20,519 | 8,800 |
| Interest on Forest Holiday investment | | 195 | 178 |
| Impairment on property, plant and equipment | | (127) | (397) |
| (Loss)/surplus on sale of properties | | (50) | 4 |
| (Deficit)/surplus for the year | | (3,899) | 3,248 |
| Other comprehensive income | | | |
| Net gain on revaluation of property, plant and equipment | 6 | 64,751 | 86,237 |
| Net gain on revaluation of available for sale financial assets | 7 | 2,035 | 140 |
| Net gain/(loss) on revaluation of partnership lease receivables | 8 | 1,239 | (1) |
| Total other comprehensive income for the year | | 68,025 | 87,377 |
| Total comprehensive income | | 64,126 | 89,624 |

There have been no acquisitions during the year.

All income and expenditure are derived from continuing operations.

The notes on pages 43 to 66 form part of these accounts

STATEMENT OF FINANCIAL POSITION

as at 31 March 2016

| | | 31 March 2016 | 31 March 2015 |
|---|-------------|----------------------|----------------------|
| | | £000 | £000 |
| Non-current assets | Note | | |
| Property, plant and equipment | 6 | 1,507,131 | 1,452,496 |
| Financial assets | 9 | 11,605 | 9,570 |
| Biological assets | 10 | 157,702 | 152,663 |
| Trade and other receivables | 8 | 7,151 | 5,730 |
| Total non-current assets | | 1,683,589 | 1,620,459 |
| Current assets | | | |
| Non-current assets held for sale | | 1,057 | 1,057 |
| Inventories | | 1,609 | 1,577 |
| Trade and other receivables | 8 | 14,086 | 13,248 |
| Cash and cash equivalents | 11 | 20,120 | 20,984 |
| Total current assets | | 36,872 | 36,866 |
| Total assets | | 1,720,461 | 1,657,325 |
| Current liabilities | | | |
| Trade and other payables | 12 | (12,429) | (14,095) |
| Provisions | | (712) | (1,091) |
| Total current liabilities | | (13,141) | (15,186) |
| Non-current assets plus net current assets | | 1,707,320 | 1,642,139 |
| Non-current liabilities | | | |
| Trade and other payables | 12 | (17,674) | (16,442) |
| Provisions | | (89) | (147) |
| Total non-current liabilities | | (17,763) | (16,589) |
| Assets less liabilities | | 1,689,557 | 1,625,550 |
| Taxpayers' equity | | | |
| General fund | | 348,490 | 350,578 |
| Revaluation reserve | | 1,341,067 | 1,274,972 |
| Total taxpayers' equity | | 1,689,557 | 1,625,550 |

S. Hodgson
Accounting Officer

30 June 2016

The notes on pages 43 to 66 form part of these accounts

STATEMENT OF CASH FLOWS

for the year ended 31 March 2016

| | | 2015-16 | 2014-15 |
|--|-------|-----------------------|-----------------------|
| | Notes | <u>£000</u> | <u>£000</u> |
| Cash flows from operating activities | | | |
| Net (deficit)/surplus for the year | | (3,899) | 3,248 |
| Adjustments for non-cash transactions: | | | |
| Loss/(profit) on disposal of property | | 26 | (74) |
| Depreciation | 6 | 5,944 | 4,970 |
| Property, plant and equipment written off | 6 | 12 | - |
| (Gain) on revaluation of biological assets | 10 | (13,418) | (24,132) |
| Value of fellings | 6/10 | 19,996 | 20,089 |
| Decrease/(increase) in plant and seed (biological assets) | 10 | 187 | (2,738) |
| (Increase) in inventories | | (32) | (500) |
| (Increase) in trade and other receivables | 8 | (2,260) | (1,027) |
| (Decrease)/increase in trade and other payables | 12 | (18) | 6 |
| Movements in provisions | | 437 | 1,371 |
| Use of provisions | | (874) | (599) |
| Non-cash inter-country transfers | | (119) | 2 |
| Impairment of property, plant and equipment and write off of revaluation reserve | | 127 | 405 |
| Finance lease additions | | (61) | (649) |
| Profit/(loss) on revaluation of partnership lease receivables | | 1,239 | (1) |
| Deferred income released | | (416) | (637) |
| Net cash (outflow)/inflow from operating activities | | <u>6,871</u> | <u>(266)</u> |
| Cash flows from investing activities | | | |
| Proceeds of disposal of properties | | 110 | 279 |
| Purchase of property, plant and equipment | 6 | <u>(7,845)</u> | <u>(5,028)</u> |
| Net cash (inflow) from investing activities | | <u>(7,735)</u> | <u>(4,749)</u> |
| Net (decrease)/increase in cash and cash equivalents in the period | | <u>(864)</u> | <u>(5,015)</u> |
| Cash and cash equivalents at the beginning of the period | | <u>20,984</u> | <u>25,999</u> |
| Cash and cash equivalents at the end of the period | | <u>20,120</u> | <u>20,984</u> |

The notes on pages 43 to 66 form part of these accounts

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

for the year ended 31 March 2016

| | General Fund | Revaluation Reserve | Total |
|---|-----------------|------------------------|------------------|
| | £000 | £000 | £000 |
| Balance at 1 April 2014 | 346,496 | 1,189,419 | 1,535,915 |
| Changes in taxpayers' equity for 2014-15 | | | |
| Net gain on revaluation of property, plant and equipment | - | 86,377 | 86,377 |
| Realised element of revaluation reserve | 2 | - | 2 |
| Realised element of government grant reserve | 835 | (835) | - |
| Transfer of property, plant and equipment from/to other forestry bodies | (2) | 2 | - |
| Release of reserves to the statement of comprehensive income | - | 9 | 9 |
| Net surplus for the year | 3,247 | - | 3,247 |
| Total recognised income and expense for 2014-15 | 4,082 | 85,553 | 89,635 |
| Balance at 31 March 2015 | 350,578 | 1,274,972 | 1,625,550 |
| Balance at 1 April 2015 | 350,578 | 1,274,972 | 1,625,550 |
| Changes in taxpayers' equity for 2015-16 | | | |
| Net gain on revaluation of property, plant and equipment | - | 66,786 | 66,786 |
| Realised element of revaluation reserve | 691 | (691) | - |
| Net gain/(loss) on revaluation of partnership lease receivables | 1,239 | - | 1,239 |
| Non-cash charges - intercountry transfers | (119) | - | (119) |
| Net deficit for the year | (3,899) | - | (3,899) |
| Total recognised income and expense for 2015-16 | (2,088) | 66,095 | 64,007 |
| Balance at 31 March 2016 | 348,490 | 1,341,067 | 1,689,557 |

The notes on pages 43 to 66 form part of these accounts

Notes to the Accounts

NOTE 1 STATEMENT OF ACCOUNTING POLICIES

These financial statements have been prepared on a going concern basis and in accordance with the accounts direction issued by Forestry Commission England/Central Services. The accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Forest Enterprise England accounting policies have been selected based on a judgement of the most appropriate treatment to the particular circumstances of the entity to ensure a true and fair view. The particular policies selected by Forest Enterprise England 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.

1.2 Funding

Forest Enterprise England receives funding from Forestry Commission England/Central Services. Funding is equal to the agreed annual subsidy limit and is accounted for through the Statement of Comprehensive Income.

1.3 Public corporation dividend

Forest Enterprise England pays a dividend to Forestry Commission England/Central Services, reflecting the expected rate of return on funding provided. This is disclosed in the Statement of Comprehensive Income. The dividend rate has been agreed with HM Treasury and is set at zero per cent whilst Forest Enterprise England is loss-making. If Forest Enterprise England makes a surplus before revaluation gains on biological assets, HM Treasury's real rate of 3.5 per cent will apply.

1.4 Employee benefits

Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). PCSPS is an unfunded, defined benefit, contributory, public service occupational pension scheme. Forest Enterprise England 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 the 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 Enterprise England 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

The Forestry Commission's Senior Pay Committee determines performance pay for staff in the Senior Staff Grade. The Committee comprises the Chairman, Director Scotland, Director England, Director Central Services and one other non-executive commissioner. Remaining 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 Management System (PMS) of the Forestry Commission. Increases in salary, 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.

1.5 Contingent liabilities

Forest Enterprise England discloses contingent liabilities in accordance with IAS 37. Where applicable, it also discloses, for parliamentary reporting and accountability purposes, certain statutory and non-statutory contingent liabilities where the likelihood of economic benefits is remote, but which have been reported to Parliament in accordance with the requirements of HM Treasury's Managing Public Money.

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

1.6 Property, plant and equipment

Legal ownership of all land and buildings is vested in the Secretary of State together with the legal ownership of the timber and other tangible fixed assets. Where Forest Enterprise England is the principal beneficial user of assets owned by the Secretary of State or Forestry Commissioners these are treated as Property, Plant and Equipment assets of the agency. Property, plant and equipment are revalued annually as at 31 March.

See also 'Land and Buildings Leased to Customers' at 1.8 below, and 'Leases' at 1.14 below.

Forest Estate

The Forest Estate comprises freehold afforested land (including land improvements) and the value of trees that have not been apportioned to Biological Assets under IAS 41 (Agriculture). Valuation of the Forest Estate is complex and relies on judgements and estimation techniques. Details of these are set out in Note 2 Critical Accounting Estimates and Judgements.

Forest Estate land

Forest Estate land is shown at fair value and excludes the value attributable to any trees growing on that land. External professional valuers undertake a full external professional valuation of the Forest Estate Land at five-yearly intervals. Following a public procurement exercise in 2012, Smiths Gore, Chartered Surveyors were appointed as the Forestry Commission's valuers as from the full valuation as at 31 March 2013. Smiths Gore was acquired by Savills in 2015. In accordance with Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Standards (the 'Red Book'), the Forest Estate land is valued at fair value using market value for existing use. In the intervening years between professional valuations, custom indices are used to restate land values. The indices are provided by Savills who are contracted to undertake the work until 2017.

Trees not apportioned to biological assets

Trees falling out with the definition of biological assets are shown at fair value. External professional valuers undertake a full external professional valuation at five yearly intervals. As detailed above, the valuation is carried out by Savills, Chartered Surveyors, in accordance with RICS Appraisal and Valuation Standards (the 'Red Book') under the Existing Use or Fair Value models as appropriate for obtaining a fair value. In the intervening years between professional valuations, custom indices are used to restate tree values. The indices are provided by Savills who are contracted to undertake the work until 2017.

Other land

Non-Forest Land is shown at fair value. Professionally qualified staff members employed by Forest Enterprise England undertake a full revaluation of non-forest land at five yearly intervals coinciding with that for the Forest Estate (31 March 2013). 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 Chartered Surveyors is reviewed by Savills. A full valuation took place on 31 March 2013.

Other Land has been categorised into its component parts and during intervening years between the five yearly full valuations, the most appropriate indices are applied to the relevant components to reflect their fair value as detailed below.

- Open land - Custom indices provided by Savills, Chartered Surveyors
- Agricultural land - Farmland Market Index provided by the RICS Rural Land Survey
- Telecom masts - Indices provided by Strutt and Parker, Chartered Surveyors
- Wayleaves - Index provided by the Energy Networks Association
- Quarries and mineral workings - Internal Chartered Surveyors undertook full valuations based on the capitalisation of the future cash inflows taking into account the reserve levels in the individual quarries.
- Car parks, trails and picnic areas - Indices provided by the Office for National Statistics (ONS) using the relevant Producer Price Index.
- Community Woodlands - Internal Chartered Surveyors assessed the components of the woodlands and determined that the woodlands consist of three key components which are listed below together with the associated valuation methodology
 - (i) Land - internal Chartered Surveyors determined that the land is agricultural in nature, and therefore, the Farmland Market Index provided by the RICS Rural Land Survey is the most appropriate valuation method.
 - (ii) Landscaping and planting - custom indices provided by Savills, Chartered Surveyors
 - (iii) Infrastructure - consists mainly of paths and determined by internal Chartered Surveyors that ONS indices applied to car parks, trails and picnic areas above is the most appropriate valuation method.

Dwellings and other buildings

Dwellings and other buildings are shown at fair value less accumulated depreciation. The threshold for capitalisation of buildings is £10,000.

Professionally qualified staff employed by Forest Enterprise England undertake a full revaluation of dwellings and other buildings at five yearly intervals coinciding with that for the Forest Estate and Other Land (31 March 2013). 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 31 March 2013 and Savills, Chartered Surveyors, reviewed this.

During intervening years between the five yearly full valuations, indices provided by Savills are used to reflect the fair value of Dwellings and other buildings. The indices provided are Forest District specific and are based on Savill's knowledge of the market to support properties valued at market value. Additional indices are provided for DRC valued properties based on the Building Cost Information Service (BCIS) All-in Tender Price Index.

Expenditure on infrastructure

To maximise the environmental, social and economic benefits of the Forest Estate, Other Land, Biological Asset Timber and Other Timber, Forest Enterprise England improves and develops access and services by adding to the infrastructure on its sites. Infrastructure includes new roads, bridges, culverts etc. Costs in respect of infrastructure works are expensed as they occur. Forest Enterprise England takes the view that the professional valuations of its land and timber properly recognise the contribution that infrastructure items make to land values. It also considers that the annual revaluation by indexation reflects improvements made through new infrastructure.

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 Enterprise England 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 Income during the financial period in which they are incurred.

Non-current assets held for sale

Non-current assets are reviewed regularly to ensure that they continue to contribute positively to policy and business objectives. Assets that no longer provide the required level of contribution are considered for disposal by senior management. Decisions to sell such assets, including surplus properties, take into account a number of factors including the social and environmental effects as well as marketability. Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale within twelve months of the reporting date is considered to be highly probable. Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

Vehicles, machinery and equipment

Vehicles, machinery and equipment are shown at fair value less accumulated depreciation. Assets are revalued every five years by professionally qualified staff employed by Forest Enterprise England. In the intervening years between professional valuations, values are restated using indices provided by the Office for National Statistics. The normal threshold for capitalisation of plant and machinery is £3,000.

Office, machinery and equipment

Office, machinery and equipment is shown at fair value less subsequent depreciation. Values are restated to current value each year using indices provided by the Office for National Statistics. The normal threshold for capitalisation of assets is £2,000.

Assets under construction

Assets under construction are carried at the costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Assets under construction are transferred to the appropriate property, plant and equipment category when completed and ready for use.

Revaluation reserve

Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to the revaluation reserve. 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 Income. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the Statement of Comprehensive Income and depreciation based on the asset's original cost is transferred from the revaluation reserve to the general fund.

1.7 Depreciation

Land (forest estate and non-forest land), together with the value of trees not apportioned to Biological assets, are not depreciated.

Assets under construction are not depreciated until the asset under construction is capable of operating in the manner intended by management.

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

| | |
|--------------------------------------|--|
| Lease premium | unexpired term of the lease |
| Freehold buildings | over 1 to 60 years |
| Buildings held under a finance lease | lesser of unexpired term of lease and 60 years |
| Plant and machinery | over 3 to 16 years |
| Plant and machinery held under a | lesser of unexpired term of lease and 16 years |

finance lease

Information technology over 4 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 Income.

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

1.8 Land and buildings leased to customers

Assets leased to external parties under an operating lease are capitalised under the appropriate accounting policy. Operating lease income is accounted for on a straight line basis with any rental increases recognised during the period to which they relate.

1.9 Government grants receivable

Capital grants from the government are recognised at their fair value and treated in accordance with IAS 20. Amounts are credited to deferred income and released to the Statement of Comprehensive Income to equal the depreciation charge over the life of the asset.

Where the grant contributes to only part of the cost of the asset, only that proportion is released from deferred income.

Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

1.10 Subsidiaries, associates and joint ventures

Where an investment is in another entity it is accounted for following the requirements of IAS 39 (see note 1.21).

The investments in Forest Holidays Holdings Ltd and Camping in the Forest (CiTF) LLP are accounted for under the requirements of IAS 39 and are treated as financial assets. Further details of the investments are included within the Financial Commentary section. The investments and associated balances are included in the following areas of the financial statements:

| | |
|-------------------|---|
| Investment | - Investments within note 9 |
| Partnership loan | - Trade and other receivables within note 8 |
| Partnership lease | - Trade and other receivables within note 8 |

1.11 Biological assets

Trees growing on Forest Estate Land are apportioned to Biological Assets or the Forest Estate. Apportionment is determined by a strategic assessment that identifies the primary Ministerial objective that the land is held to meet. Trees growing on areas that are primarily held in support of the Government's objective of making a positive contribution to the economy (generate income) are apportioned to Biological Assets under IAS 41 (Agriculture). The remaining trees are apportioned to the Forest Estate and are out with the scope of IAS 41.

Biological assets are measured at fair value less estimated point-of-sale costs, except where fair value cannot be measured reliably. External professional valuers undertake a full external professional valuation at five yearly intervals. As detailed above, the valuation is carried out by Savills, Chartered Surveyors in accordance with RICS Appraisal and Valuation Standards (the 'Red Book') under the Existing Use or Fair Value models as appropriate for obtaining a fair value. In the intervening years between professional valuations, custom indices are used to restate land values. The indices are provided by Savills who are contracted to undertake the work until 2017.

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

Holdings of plants and seed are accounted for as biological assets under IAS 41. They 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.

1.12 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.

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

1.14 Leases

Where substantially all the risk and rewards of ownership of a leased asset (a Finance Lease) are borne by Forest Enterprise England, the right to use the asset is initially recorded as a tangible fixed asset. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments. A corresponding debt is recorded to the lessor represented by the minimum lease payments over the unexpired term of the lease. Where it is not possible to determine the interest rate implicit in the lease, discounting is on the basis of HM Treasury's rate of 3.5 per cent.

Assets held under Finance Leases are depreciated over the shorter of the useful life of the asset and the term of the lease. The value of each underlying asset is revalued annually as though ownership of the asset was vested in Forest Enterprise England. The policies and procedures for carrying out revaluations are those set out in 1.6 above.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other payables. The interest element of the finance cost is charged to the Statement of Comprehensive Income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Costs (net of any incentives received from the lessor) in respect of operating leases (any lease other than a Finance Lease) are charged on a straight-line basis over the lease term.

1.15 Grants payable

Grants payable to individuals and bodies by Forest Enterprise England in accordance with its statutory powers and duties are accounted for as they are approved for payment.

1.16 Provisions

Forest Enterprise England 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 Income.

1.17 Value Added Tax (VAT)

Forest Enterprise England is not separately registered for VAT and is included within the overall VAT registration for Forestry Commission England/Central Services. In order to comply with the government accounting regulations and normal commercial practice, income and expenditure shown in the Statement of Comprehensive Income is net of VAT. These accounts report any VAT due to or from HM Revenue and Customs at the year-end as a receivable or payable in the Statement of Financial Position. Irrecoverable VAT is charged to the Statement of Comprehensive Income in the year in which it is incurred.

1.18 Segmental Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker responsible for allocating resources and assessing performance of the operating segments has been identified as the Forest Enterprise England Management Board.

1.19 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 Enterprise England operates ('the functional currency'). The functional currency and the presentational currency of the financial statements is GB 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 banking transactions or valuation where items are remeasured. 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 Income.

1.20 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.

1.21 Financial assets

Classification

Forest Enterprise England classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. 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 Enterprise 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.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Available for sale financial assets comprise investments.

Recognition and measurement

Financial assets are recognised when Forest Enterprise England 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 Enterprise England 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 Statement of Comprehensive Income.

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 Income.

(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 Enterprise England 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 Income. 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 Income.

(c) Available-for-sale financial assets

Available-for-sale financial assets are initially recognised and subsequently carried at fair value. Changes in the fair value of financial assets classified as available for sale are recognised in equity. When financial assets classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the Statement of Comprehensive Income. Dividends on available-for-sale equity instruments are recognised in

the Statement of Comprehensive Income when Forest Enterprise England's right to receive payments is established.

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 Enterprise England 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 Enterprise England 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 Income. Impairment losses recognised in the Statement of Comprehensive Income on equity instruments are not reversed through the Statement of Comprehensive Income.

1.22 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, cash balances held by the Government Banking Service and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are transferred to Forestry Commission England/Central Services and shown in its accounts within borrowings in current liabilities on the Statement of Financial Position.

1.23 Financial liabilities

Classification

Forest Enterprise England 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 Enterprise England 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 Enterprise England's other financial liabilities comprise trade and other payables in the Statement of Financial Position.

Recognition and measurement

Financial liabilities are recognised when Forest Enterprise England 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 Statement of Comprehensive Income.

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 Income.

(b) Other financial liabilities

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

1.24 Effective in these financial statements

All International Financial Reporting Standards, Interpretations and Amendments effective at 31 March 2016 have been adopted in these statements.

1.25 Effective for future financial years

At the date of authorisation of these financial statements, the following standards relevant to Forest Enterprise England were issued but not yet effective:

IAS 1 Presentation of Financial Statements (Other Comprehensive Income);
IAS 19 Post-Employment Benefits (Pensions);
IAS 27 Separate Financial Statements;
IFRS 9 Financial Instruments, Classification and Measurement;
IFRS 10 Consolidated Financial Statements;
IFRS 11 Joint Arrangements;
IFRS 12 Disclosure of Interests in Other Entities; and
IFRS 16 Leases

These standards have not been adopted by Forest Enterprise England ahead of their implementation date. The future impact of IFRS 10, 11 and 12 is not considered to be significant. Forest Enterprise England is reviewing the likely impact of the adoption of IFRS 9.

NOTE 2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires Forest Enterprise England to make estimates.

Critical accounting judgements and key sources of estimation uncertainty

In the application of Forest Enterprise England's accounting policies, judgements, estimates and assumptions need to be made about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the accounting policies

The following are the critical judgements and estimates that have been made in the process of applying Forest Enterprise England's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Classification of the Forest Estate and biological assets

Forest Enterprise England retains and manages its woodlands and forests to meet agreed Ministerial objectives, primarily for Social, Environmental and Economic reasons (set out in “A Strategy for England’s Trees, Woods and Forests”).

Social and Environmental areas generate a significant proportion of the agency’s annual timber income. However, the planned felling of this timber (and resulting sales income) is to maintain and enhance the areas’ contribution to Social and Environmental objectives. Where land is classed as a specific Social and Environmental category such as ‘Special Protection Area’, ‘Area of Outstanding Natural Beauty’ or as a ‘National Park’ it is deemed appropriate that such woodland fall out with the scope of IAS 41.

Woodland retained and managed to meet economic objectives will primarily generate benefit to Forest Enterprise England from timber sales. Consequently, these areas are regarded as within the scope of IAS 41. The agency’s electronic land management records for each forest district were analysed to identify all afforested or woodland areas subject to a social or environmental designation. Trees growing on these areas were deemed to fall out with the scope of IAS 41. The balance of each forest district’s afforested or woodland areas were deemed to fall within the Standard. Management considers that the administrative costs of accounting and valuing each individual area of land are prohibitive. It considers that reliable accounting and valuation estimates can be obtained by expressing the land areas in percentage terms. For example, if a district comprised 100 ha and 70 ha was designated for Social and Environmental purposes then reasonable information can be derived from estimating that 70 per cent (70 ha/100 ha) of the district’s trees were out with IAS 41. The remaining 30 per cent of trees would fall within IAS 41.

Land designations are not subject to frequent change. Management therefore considers that a detailed review of the designations will take place periodically. Accounts from 2014-15 are based on the analysis of the agency’s land records as at 31 March 2013. The next formal review will take place during 2018-19 following the full professional valuation of the Forest Estate as at 31 March 2018.

Management recognises that land use and designations may change over time. It shall therefore carry out an annual review to consider whether changes such as major sales or acquisitions of land may materially affect the analysis and its accounting and valuation estimates. Where material changes have occurred, the analysis shall be updated for that year. Retrospective adjustments shall not be made prior to the current year.

Valuation of the Forest Estate and biological assets

There is a high degree of estimation uncertainty inherent in the valuation of the Forest Estate and biological assets. The external valuers considered that reasonably accurate valuations of biological assets could only be obtained by extensive analysis of crops. This would be costly and time consuming.

IAS 41 allows market value to be based on the combined land plus biological assets where an active market exists for the combined asset. A professional valuation of the forest estate took place on 31 March 2013. As the valuation basis (Existing Use Value) would be the same as Fair Value, it is reasonable to assume that this can form the basis of the IFRS valuation, provided that forest and woodland could be componentised between land, biological assets out with IAS 41, and biological assets under IAS 41.

It was determined that the estimate of the biological assets’ worth could be obtained by deducting a land valuation from the value of the whole in order to estimate the timber value. As part of the professional valuation, an average land value per hectare for the forest estate was determined in each forest district. This was applied to the total estate to give a land valuation which was deducted from the total woodland values to derive a value for trees in each forest district.

Once the timber value was ascertained the Forest Estate was componentised into land and biological assets falling within the scope of IAS 41 and those falling out with its scope. Land and biological assets falling out with the scope of IAS 41 have been treated in accordance with IAS 16 and remain classed as Forest Estate, with the impact that the large majority of Land and Timber still fall within this classification.

On initial recognition and at the end of each reporting period, a biological asset must be measured at fair value less estimated point-of-sale costs. Fair value is linked to the market valuation determined by proceeds from the sales of woodlands as a whole and it has been determined that associated costs would be those relating to marketing and sales expenses. Analysis of sales and marketing costs in prior years show these to vary annually. Management has calculated the cost of sales percentage figure by using the actual sales cost data attributed to woodland sales over the three years to 30 November in the year of disposal. For 2015-16 woodland disposals, the cost of sales percentage was calculated as 4.5 per cent of the Fair Value. Management considers that the incorporation of any ad hoc actual disposal costs in the cost of sales percentage, post November 2012, would distort the true cost of sales figure for the period when Forest Enterprise England was acquiring and disposing of woodlands.

The agency shall monitor and review costs of sales annually and update its estimated point-of-sale costs where material.

Other land

Other Land primarily includes specialist land holdings for which there are no or limited external markets. Management considers that Forest Enterprise England's internal professionally qualified staff members are best placed to value this land. To ensure compliance with RICS valuation standards, external professional valuers review the work of the internal valuers for consistency and appropriateness. Where appropriate, management ensures that external professional valuations are obtained where active markets operate.

In order to achieve greater independence to the Other Land valuation process during intervening years between formal professional valuations, management reviewed the components of Other Land and obtained external professional input into the valuations of the key components of Other Land. The Other Land valuation now includes valuations that are based on indices provided by external Chartered Surveyors. These indices are reviewed by internal Chartered Surveyors to ensure that they are reasonable and consistent with internal valuation knowledge. Accounting Policy note 1.6 details the key components of Other Land together with the source of the valuation.

Dwellings and other buildings

Other buildings primarily includes specialist buildings held for operational activities and for which there are no active external markets. Management considers that Forest Enterprise England's internal professionally qualified staff members are best placed to value these buildings. To ensure compliance with RICS valuation standards, external professional valuers review the work of the internal valuers for consistency and appropriateness. Where appropriate, management ensures that external professional valuations of dwellings and other buildings are obtained where active markets operate.

In order to achieve greater independence to the other buildings valuation process during intervening years between formal professional valuations, management reviewed the components of other buildings and obtained external professional input into the valuation process. The other buildings valuation now includes valuations that are based on indices provided by external Chartered Surveyors. These indices are reviewed by internal Chartered Surveyors to ensure that they are reasonable and consistent with internal valuation knowledge. Accounting Policy note 1.6 details the components of other buildings together with the source of the valuation.

NOTE 3 STAFF COSTS

| | 2015-16 | 2014-15 |
|-----------------------|----------------------|----------------------|
| | Total | Total |
| | <u>£000</u> | <u>£000</u> |
| Salaries | 22,757 | 21,534 |
| Social security costs | 1,575 | 1,510 |
| Other pension costs | 4,550 | 3,799 |
| Other | <u>1,074</u> | <u>1,067</u> |
| | <u>29,956</u> | <u>27,910</u> |

The staff costs shown above are analysed in further detail in the Remuneration and Staff Report.

NOTE 4 OTHER COSTS

| | 2015-16 | 2014-15 |
|---|----------------------|----------------------|
| | <u>£000</u> | <u>£000</u> |
| Staff transfers | 252 | 198 |
| Computer costs | 131 | 70 |
| Travel and subsistence | 840 | 707 |
| Accommodation | 903 | 727 |
| Communication | 173 | 136 |
| Training | 174 | 147 |
| Losses and compensation | 66 | 158 |
| Legal expenses | 291 | 404 |
| Auditors' remuneration - audit work | 96 | 98 |
| Shared central services | 5,476 | 4,824 |
| Sustainable forest management | 22,176 | 19,323 |
| Forest estate | 2,261 | 1,661 |
| Recreation and public affairs | 13,636 | 12,390 |
| | <u>46,475</u> | <u>40,843</u> |
| Rentals under operating leases: | | |
| Hire of plant and equipment | 1,676 | 823 |
| Operating lease rentals: | | |
| Land and buildings | 364 | 70 |
| Plant and machinery | 98 | 129 |
| | <u>2,138</u> | <u>1,022</u> |
| Non-cash costs: | | |
| Depreciation of property, plant and equipment | 5,944 | 4,970 |
| Provisions – | | |
| Provided in year | 593 | 1,415 |
| Provisions not required written back | (157) | (44) |
| Unwinding of discount | 3 | - |
| | <u>6,383</u> | <u>6,341</u> |
| Total | <u>54,996</u> | <u>48,206</u> |

An HMRC audit of Forest Enterprise England's treatment of VAT and Income Tax is underway. Provisions for HMRC liabilities have been raised during the year to address areas of non-compliance. All liabilities identified by HMRC were subsequently settled by 31 March 2016. The HMRC audit is continuing and an unquantifiable contingent liability is disclosed within note 17 to recognise the possibility of future non-compliance liabilities arising from the audit.

NOTE 5 INCOME

| | 2015-16 | 2014-15 |
|-------------------------------|----------------------|----------------------|
| | <u>£000</u> | <u>£000</u> |
| Sale of goods | | |
| Timber | 36,747 | 37,276 |
| Retail and other goods | 5,083 | 5,083 |
| | <u>41,830</u> | <u>42,359</u> |
| Services rendered | | |
| Sustainable forest management | 2,242 | 2,859 |
| Forest estate | 4,140 | 4,072 |
| Recreation and public affairs | 18,038 | 16,388 |
| | <u>24,420</u> | <u>23,319</u> |
| Royalties | | |
| Mineral income | 844 | 1,058 |
| | <u>844</u> | <u>1,058</u> |
| Total income | <u>67,094</u> | <u>66,736</u> |

NOTE 6 PROPERTY, PLANT AND EQUIPMENT

| | Forest Estate | Other Land | CITF and Forest Holidays Land | Dwellings and Other Buildings | VME | OME | AUC | Total |
|-------------------------|-------------------------|-----------------------|--------------------------------------|--------------------------------------|----------------------|-------------------|---------------------|-------------------------|
| | <u>£000</u> | <u>£000</u> | <u>£000</u> | <u>£000</u> | <u>£000</u> | <u>£000</u> | <u>£000</u> | <u>£000</u> |
| Valuation : | | | | | | | | |
| At 31 March 2015 | 1,138,259 | 215,915 | 5,021 | 99,901 | 14,279 | 45 | 2,093 | 1,475,513 |
| Additions | 117 | 26 | - | 15 | 3,526 | 162 | 4,061 | 7,907 |
| Transfers | - | - | - | 3,383 | - | 201 | (3,584) | - |
| Disposals | - | - | - | (112) | (3,627) | - | - | (3,739) |
| Fellings | (11,804) | - | - | - | - | - | - | (11,804) |
| Write-off | - | - | - | - | - | - | (12) | (12) |
| Revaluation | 52,775 | 6,622 | 2,736 | 2,905 | 31 | 6 | - | 65,075 |
| Impairment | - | - | - | (127) | - | - | - | (127) |
| At 31 March 2016 | <u>1,179,347</u> | <u>222,563</u> | <u>7,757</u> | <u>105,965</u> | <u>14,209</u> | <u>414</u> | <u>2,558</u> | <u>1,532,813</u> |
| Depreciation : | | | | | | | | |
| At 31 March 2015 | - | - | - | 15,233 | 7,765 | 19 | - | 23,017 |
| Provided during year | - | - | - | 3,047 | 2,860 | 37 | - | 5,944 |
| Disposals | - | - | - | (70) | (3,533) | - | - | (3,603) |
| Revaluation | - | - | - | 238 | 86 | - | - | 324 |
| At 31 March 2016 | <u>-</u> | <u>-</u> | <u>-</u> | <u>18,448</u> | <u>7,178</u> | <u>56</u> | <u>-</u> | <u>25,682</u> |
| Net Book Value : | | | | | | | | |
| At 31 March 2016 | <u>1,179,347</u> | <u>222,563</u> | <u>7,757</u> | <u>87,517</u> | <u>7,031</u> | <u>358</u> | <u>2,558</u> | <u>1,507,131</u> |
| At 31 March 2015 | <u>1,138,259</u> | <u>215,915</u> | <u>5,021</u> | <u>84,668</u> | <u>6,514</u> | <u>26</u> | <u>2,093</u> | <u>1,452,496</u> |
| Owned | 1,124,478 | 222,563 | 7,757 | 87,517 | 4,759 | 358 | 2,558 | 1,449,990 |
| Finance Leased | 54,869 | - | - | - | 2,272 | - | - | 57,141 |
| Total | <u>1,179,347</u> | <u>222,563</u> | <u>7,757</u> | <u>87,517</u> | <u>7,031</u> | <u>358</u> | <u>2,558</u> | <u>1,507,131</u> |

| | Forest Estate | Other Land | CITF and Forest Holidays Land | Dwellings and Other Buildings | VME | OME | AUC | Total |
|-----------------------|------------------|----------------|----------------------------------|----------------------------------|---------------|-----------|--------------|------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Valuation : | | | | | | | | |
| At 31 March 2014 | 1,079,192 | 207,805 | 5,021 | 89,402 | 16,612 | 72 | 2,482 | 1,400,586 |
| Additions | - | 625 | - | 274 | 1,788 | - | 2,990 | 5,677 |
| Transfers | - | - | - | 3,379 | - | - | (3,379) | - |
| Transfer to NCAHFS | (992) | (32) | - | - | - | - | - | (1,024) |
| Disposals | - | - | - | (219) | (4,499) | (27) | - | (4,745) |
| Fellings | (11,690) | - | - | - | - | - | - | (11,690) |
| Revaluation | 71,749 | 7,517 | - | 7,462 | 378 | - | - | 87,106 |
| Impairment | - | - | - | (397) | - | - | - | (397) |
| At 31 March 2015 | 1,138,259 | 215,915 | 5,021 | 99,901 | 14,279 | 45 | 2,093 | 1,475,513 |
| Depreciation : | | | | | | | | |
| At 31 March 2014 | - | - | - | 11,734 | 9,949 | 37 | - | 21,720 |
| Provided during year | - | - | - | 2,904 | 2,057 | 9 | - | 4,970 |
| Disposals | - | - | - | (162) | (4,353) | (27) | - | (4,542) |
| Revaluation | - | - | - | 757 | 112 | - | - | 869 |
| At 31 March 2015 | - | - | - | 15,233 | 7,765 | 19 | - | 23,017 |
| Net Book Value : | | | | | | | | |
| At 31 March 2015 | 1,138,259 | 215,915 | 5,021 | 84,668 | 6,514 | 26 | 2,093 | 1,452,496 |
| At 31 March 2014 | 1,079,192 | 207,805 | 5,021 | 77,668 | 6,663 | 35 | 2,482 | 1,378,866 |
| Owned | 1,081,043 | 215,915 | 5,021 | 84,668 | 3,417 | 26 | 2,093 | 1,392,183 |
| Finance Leased | 57,216 | - | - | - | 3,097 | - | - | 60,313 |
| Total | 1,138,259 | 215,915 | 5,021 | 84,668 | 6,514 | 26 | 2,093 | 1,452,496 |

Smiths Gore, Chartered Surveyors carried out a professional valuation of the Forest Estate and Biological Assets as at 31 March 2013. The next professional valuation is due on 31 March 2018. In the intervening years, the assets are revalued using specialist forestry indices developed and provided by Savills.

Other Land, Dwellings and Other Buildings were valued as at 31 March 2013 by professionally qualified staff employed by Forest Enterprise England and approved by Mr Mark Thornycroft, FRICS who was Head of Estates. The results of this valuation were also subject to professional review by Savills. The next professional valuation is due on 31 March 2018. In the intervening years, the assets are revalued using the indices detailed in note 1.6.

Vehicles, machinery and equipment (VME) are valued at five-year intervals. A professional valuation took place on 31 March 2016. Professionally qualified staff employed by the Forestry Commission undertook the valuation which was approved by Jeffrey Livingston, CEng., Project Officer. In the intervening years, revaluations are on the basis of indices provided by the Office of National Statistics or internal professional staff as appropriate.

Office machinery and equipment (OME) was restated to a current value of £358,000 at 31 March 2016 using an index provided by the ONS.

Depreciation expense of £5,944,000 (2014-15: £4,970,000) has been charged in the Statement of Comprehensive Income.

Transfers to Non-Current Assets Held for Sale (NCAHFS) relate to surplus properties that have been subsequently disposed following appropriate approval.

NOTE 7 FINANCIAL INSTRUMENTS**7(a) Investments in non-public sector bodies (available for sale financial assets)**

| | 2015-16 | 2014-15 |
|---------------------------------|----------------------|---------------------|
| | <u>£000</u> | <u>£000</u> |
| Balance at 1 April | 9,570 | 9,430 |
| Net gain transfer to equity | 2,035 | 140 |
| Balance at 31 March 2016 | <u>11,605</u> | <u>9,570</u> |

Available for sale financial assets comprises Forest Enterprise England's partnership share of Forest Holidays Holdings Ltd and Camping in the Forest LLP, unlisted investments denominated in GB pounds sterling.

7(b) Financial instruments by category

| | 31 March 2016 | | | 31 March 2015 | | |
|---|----------------------------------|---------------------------|----------------------|----------------------------------|-------------------------------|----------------------|
| | Loans and receivables | Available for Sale | Total | Loans and receivables | Available for Sale | Total |
| | <u>£000</u> | <u>£000</u> | <u>£000</u> | <u>£000</u> | <u>£000</u> | <u>£000</u> |
| Assets as per SFP | | | | | | |
| Available-for-sale financial assets | - | 11,605 | 11,605 | - | 9,570 | 9,570 |
| Trade and other receivables (excluding prepayments) | 19,635 | - | 19,635 | 16,954 | - | 16,954 |
| Cash and cash equivalents | 20,120 | - | 20,120 | 20,984 | - | 20,984 |
| Total | <u>39,755</u> | <u>11,605</u> | <u>51,360</u> | <u>37,938</u> | <u>9,570</u> | <u>47,508</u> |

| | 31 March 2016 | | | 31 March 2015 | | |
|--|--|--|----------------------|--|--|----------------------|
| | Liabilities at fair value through the profit and loss | Other financial liabilities | Total | Liabilities at fair value through the profit and loss | Other financial liabilities | Total |
| | <u>£000</u> | <u>£000</u> | <u>£000</u> | <u>£000</u> | <u>£000</u> | <u>£000</u> |
| Liabilities as per the SFP | | | | | | |
| Finance lease liabilities | - | 3,293 | 3,293 | - | 4,034 | 4,034 |
| Trade and other payables excluding statutory liabilities | - | 24,949 | 24,949 | - | 24,571 | 24,571 |
| Total | <u>-</u> | <u>28,242</u> | <u>28,242</u> | <u>-</u> | <u>28,605</u> | <u>28,605</u> |

7(c) Exposure to risk

Due to the way in which Forest Enterprise England is financed, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. The majority of financial instruments relate to contracts to buy non-financial items in line with Forest Enterprise England's expected purchase and usage requirements and is therefore exposed to little credit, liquidity or market risk.

NOTE 8 TRADE RECEIVABLES, FINANCIAL AND OTHER ASSETS

| | 31 March 2016 | 31 March 2015 |
|--|----------------------|----------------------|
| | £000 | £000 |
| Current | | |
| Trade receivables | 9,556 | 9,687 |
| less provision for impairment of trade receivables | (29) | (29) |
| Trade receivables - net | 9,527 | 9,658 |
| Other receivables | 438 | 7 |
| House purchase loans to employees | 15 | 13 |
| Partnership lease | 369 | 367 |
| Prepayments and accrued income | 3,737 | 3,203 |
| | 14,086 | 13,248 |
| Non-current | | |
| Partnership loan | 2,050 | 1,855 |
| Partnership lease | 5,049 | 3,812 |
| House purchase loans to employees | 44 | 59 |
| Prepayments and accrued income | 8 | 4 |
| | 7,151 | 5,730 |
| Total receivables | 21,237 | 18,978 |

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

As at 31 March 2016, trade receivables of £2,320,000 (2014-15 restated: £1,696,000; 2014-15 as stated: £8,758,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The prior year comparison is restated due to an improved method of analysing the aged receivables.

The Advances of Salary for House Purchase scheme had loans with an outstanding balance of £2,500 or more to 6 members of staff at 31 March 2016 (2014-15: 7 members of staff). The total outstanding value of all loans was £58,000 (2014-15: £72,000). Such loans are unsecured, interest free and typically repayable over 10 years, with an optional 2 year deferral period.

NOTE 9 FINANCIAL ASSETS

| | CITF and Forest Holidays Investment | |
|-------------------------------|--|----------------|
| | 2015-16 | 2014-15 |
| | £000 | £000 |
| At 1 April | 9,570 | 9,430 |
| Revaluation to current prices | 2,035 | 140 |
| At 31 March 2016 | 11,605 | 9,570 |

The investments represent Forest Enterprise England's equity share in Forest Holidays Group Limited and in the limited liability partnership between the Forestry Commissioners and the Camping and Caravanning Club which forms Camping in the Forest LLP.

The fair value of Forest Enterprise England's investments in CITF LLP and Forest Holidays Holdings Ltd were £1,955,000 and £9,650,000 respectively at 31 March 2016. The fair values were determined by Bilfinger GVA, specialist leisure consultants and chartered surveyors.

NOTE 10 BIOLOGICAL ASSETS

Non-current biological assets comprise of plant and seed and timber.

Timber growing on Forest Estate Land is categorised as Biological Asset Timber or Other Timber depending on the strategic objective the land is held to meet. Other trees are classed as Other Timber and are out-with the scope of IAS 41.

The approximate area of the land on Forest Estate where the timber growing is within the scope of IAS 41 is as follows:

| Forest District | Area Ha |
|-------------------------|---------------|
| North | 34,207 |
| Yorkshire | 578 |
| Central | 2,726 |
| East | 1,972 |
| West | 5,262 |
| South | 2,334 |
| At 31 March 2016 | 47,079 |

The carrying value of total biological assets was £157,702,000 at 31 March 2016 (2014-15: £152,663,000) comprising:

- Plant and seed £4,655,000 (2014-15: £4,842,000); and
- Timber £153,047,000 (2014-15: £147,821,000).

| | 2015-16 £000 | 2014-15 £000 |
|--|-----------------|-----------------|
| Balance at 1 April | 152,663 | 134,225 |
| Fellings | (8,192) | (8,399) |
| Movement on plant and seed | (187) | 2,738 |
| Transferred to NCAHFS | - | (33) |
| Gains and losses arising from changes in fair values | 13,418 | 24,132 |
| Balance at 31 March | 157,702 | 152,663 |

Savills Chartered Surveyors revalued the forest estate including biological assets. The next full revaluation is due as at 31 March 2018. Apportionment of biological assets was carried out by Forest Enterprise England staff using the judgements and estimates outlined at Note 2.

The fair value of biological assets is driven by the open market value of woodlands and forests. These values are determined by a number of factors all of which are subject to considerable volatility. Forest Enterprise England has little control over these factors and consequently cannot materially affect the amounts recognised in the Statement of Comprehensive Net Income as gains or losses on revaluation of biological assets. To mitigate this, Forest Enterprise England maintains regular dialogue with its valuers to gauge market movements during the year.

NOTE 11 CASH AND CASH EQUIVALENTS

| | 2015-16 | 2014-15 |
|----------------------------|----------------|----------------|
| | £000 | £000 |
| Balance at 1 April | 20,984 | 25,999 |
| Net change in balances | (864) | (5,015) |
| Balance at 31 March | 20,120 | 20,984 |

The following balances were held at:

| | 31 March 2016 | 31 March 2015 |
|---|----------------------|----------------------|
| | £000 | £000 |
| Government Banking Service | 20,099 | 20,962 |
| Cash at commercial banks and cash in hand | 21 | 22 |
| Total | 20,120 | 20,984 |

NOTE 12 TRADE PAYABLES AND OTHER CURRENT LIABILITIES

| | 31 March 2016 | 31 March 2015 |
|------------------------------------|----------------------|----------------------|
| | £000 | £000 |
| Current | | |
| Trade payables | 2,726 | 4,762 |
| Other payables | 123 | 15 |
| Taxation and social security costs | 261 | 230 |
| VAT | 93 | 31 |
| Accruals | 2,241 | 1,819 |
| Deferred income | 6,334 | 6,375 |
| Current part of finance leases | 630 | 840 |
| Payments received on account | 21 | 23 |
| | 12,429 | 14,095 |
| Non-current | | |
| Deferred income | 14,957 | 13,214 |
| Payments received on account | 54 | 34 |
| Finance leases | 2,663 | 3,194 |
| | 17,674 | 16,442 |
| Total payables | 30,103 | 30,537 |

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

NOTE 13 CAPITAL COMMITMENTS

Amounts contracted for but not provided in the accounts amounted to £25,000 and relate to commitments to purchase plant and machinery (31 March 2015: £2,158,000, which also related to the Westonbirt Project).

| | <u>31 March 2016</u> | <u>31 March 2015</u> |
|-----------------------------|----------------------|----------------------|
| | £000 | £000 |
| Property, plant & equipment | 25 | 2,158 |

NOTE 14 COMMITMENTS UNDER LEASES**14(a) Operating leases**

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

| | <u>31 March 2016</u> | <u>31 March 2015</u> |
|---|----------------------|----------------------|
| | £000 | £000 |
| Land | | |
| Not later than one year | 5 | 2 |
| Later than one year and not later than five years | 14 | 7 |
| More than five years | 122 | 124 |
| Total | 141 | 133 |
| Buildings | | |
| Not later than one year | 359 | 68 |
| Later than one year and not later than five years | 1,338 | 158 |
| More than five years | 3,864 | 280 |
| Total | 5,561 | 506 |
| Plant and machinery | | |
| Not later than one year | 98 | 129 |
| Later than one year and not later than five years | 53 | 75 |
| More than five years | - | - |
| Total | 151 | 204 |

14(b) Finance leases

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

| | 31 March 2016 | 31 March 2015 |
|---|----------------------|----------------------|
| | £000 | £000 |
| Land | | |
| Not later than one year | 148 | 148 |
| Later than one year and not later than five years | 540 | 541 |
| More than five years | 3,340 | 3,347 |
| | 4,028 | 4,036 |
| Less: interest element | (1,947) | (1,954) |
| Present value of obligations | 2,081 | 2,082 |
| Plant and machinery | | |
| Not later than one year | 586 | 821 |
| Later than one year and not later than five years | 679 | 1,234 |
| More than five years | - | - |
| | 1,265 | 2,055 |
| Less: interest element | (55) | (104) |
| Present value of obligations | 1,210 | 1,951 |

NOTE 15 OTHER FINANCIAL COMMITMENTS

Forest Enterprise England has entered into non-cancellable contracts for artist fees and stage rental for the 'Forest Concert Tour 2016' at various venues throughout England. The payments to which the agency is committed are analysed by the period during which the commitment expires are as follows:

| | 31 March 2016 | 31 March 2015 |
|-------------------------|----------------------|----------------------|
| | £000 | £000 |
| Not later than one year | 3,159 | 3,332 |
| | 3,159 | 3,332 |

NOTE 16 LEASE RECEIVABLES

16(a) Operating leases

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

| | 31 March 2016 | 31 March 2015 |
|---|----------------------|----------------------|
| | £000 | £000 |
| Not later than one year | 4,680 | 3,980 |
| Later than one year and not later than five years | 14,371 | 12,959 |
| More than five years | 79,625 | 80,478 |
| | 98,676 | 97,417 |

Forest Enterprise England leases land and buildings under agreements that terminate between April 2016 and May 2175.

16(b) Finance leases

Total future minimum lease receivables under the Forest Holidays partnership buildings lease are given in the table below for each of the following periods:

| | 31 March 2016 | 31 March 2015 |
|---|----------------------|----------------------|
| | £000 | £000 |
| Not later than one year | 369 | 367 |
| Later than one year and not later than five years | 1,477 | 1,466 |
| More than five years | 25,477 | 25,658 |
| | 27,323 | 27,491 |
| Less: interest element | (21,906) | (23,312) |
| Present value of receivables | 5,417 | 4,179 |

NOTE 17 CONTINGENT LIABILITIES DISCLOSED UNDER IAS 37

In 2001 Forest Enterprise England acquired 51 hectares of land at Sefton Meadows from Sefton Council. On 27 August 2009 Forest Enterprise England was served a notice by the Environment Agency that the site had been classified as a contaminated Special Site under Part 2A of the EPA 1990. This is as a result of the industrial development and other operational practices undertaken on the land prior to its acquisition by Forest Enterprise England.

Forest Enterprise England is working actively and positively with the Environment Agency and Forest Research, and other associated local land owners, to identify a sustainable woodland based solution to address the water quality issues affecting the land.

This has been classified as a contingent liability in line with IAS 37 due to the uncertainty regarding Forest Enterprise England's legal liability and due to the absence of a sufficiently reliable estimate of the amount of the possible obligation.

An HMRC audit of Forest Enterprise England's treatment of VAT and Income Tax is underway. Provisions for HMRC liabilities have been raised during the year to address areas of non-compliance. These liabilities are included within note 4 and were subsequently settled by 31 March 2016.

The HMRC audit is continuing into 2016-17 and in accordance with IAS 37, an unquantifiable contingent liability is disclosed to recognise the possibility of future non-compliance liabilities arising from the audit.

NOTE 18 RELATED-PARTY TRANSACTIONS

Forestry Commission England/Central Services is regarded as a related party. During the year, Forest Enterprise England received annual subsidy funding of £20,519,000 from Forestry Commission England/Central Services.

In addition, Forestry Commission England/Central Services has had various material transactions with other government departments and other central government bodies. The main entities within government with which the Forestry Commission has had dealings are HM Treasury, Government Banking Service, HM Revenue and Customs, the Department for the Environment, Food and Rural Affairs, and the Department for Communities and Local Government.

The following additional transactions were carried out with related parties:

| | Services rendered to related party | Purchases from related party | Amounts owed (to) by related party |
|-----------------------------|---|---|---|
| 2015-16 | £000 | £000 | £000 |
| Entities Sponsored by Defra | 21 | 41 | - |
| Forest Holidays / CITF | 1,036 | 752 | 213 |
| Grown in Britain | - | 13 | - |
| | 1,057 | 806 | 213 |
| | Services rendered to related party | Purchases from related party | Amounts owed (to) by related party |
| 2014-15 | £000 | £000 | £000 |
| Entities Sponsored by Defra | 48 | 34 | - |
| Forest Holidays | 1,022 | 50 | 40 |
| BSW Timber PLC | 3,116 | - | 710 |
| | 4,186 | 84 | 750 |

All balances are unsecured and were incurred on an arm's length basis.

Transactions to support Grown in Britain to deliver and develop the partnership with public forests are disclosed because Simon Hodgson, Chief Executive of Forest Enterprise England, is Director of Grown in Britain. Additional transactions for a forest service grant and a contribution to strategic marketing and communications between Grown in Britain and Forestry Commission England / Central Services totalling £23,240.00 also occurred during the year.

Harry Studholme, a non-executive director of the Forestry Commission, received woodland improvement grants from Forestry Commission England / Central Services which are disclosed in Forestry Commission England / Central Services Annual Report and Accounts 2015-16.

George McRobbie, a non-executive director of Forestry Commission England/Central Services, is a Director of Tilhill Forestry. Tilhill Forestry had transactions with Forest Enterprise England which are disclosed in the Annual Report and Accounts 2015-16 of Forestry Commission England/Central Services.

The transactions in 2014-15 for timber sales with BSW Timber PLC are disclosed because Hamish Macleod, a non-executive Forestry Commissioner in 2014-15, was Joint Managing Director of Howie Forest Products Ltd, a subsidiary of BSW Timber PLC.

NOTE 19 EVENTS AFTER 31 MARCH 2016

In accordance with the requirements of IAS 10, events after 31 March 2016 are considered up to the date on which the accounts are authorised for issue. The authorised for issue date is the date of the Comptroller and Auditor General's audit certificate.

On 23rd June the UK voted to leave the European Union (EU). Forest Enterprise England has some interaction with the EU, and with non-UK EU trading entities. The Government has two years under the Article 50 process to seek to negotiate the terms of the UK's exit, with the possibility of extending this time frame with the agreement of the other 27 Member States.

The decision to leave the EU has no impact on the figures disclosed in these accounts, and the long-term implications for Forest Enterprise England are not yet known. Forest Enterprise England's current exposure to and participation in the non-UK EU timber market is limited.

ISBN 978-1-4741-2901-5



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