

# **Forest Enterprise England**

## **Annual Report and Accounts 2017-18**

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 21 June 2018



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ISBN 978-1-5286-0308-9

CCS0418409262 06/18

Printed on paper containing 75% recycled fibre content minimum

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

## Forest Enterprise England

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**Forest Enterprise England** manages the Public Forest Estate in England, providing environmental, social and economic benefits. It is an executive agency sponsored by Forestry Commission England.

### Honours

The following Forest Enterprise England nominees were successful in the Queen's Honour List:

- Jonathan Spencer, MBE. Head of Planning and Environment. For services to Woodlands, Nature Conservation and the Environment.
- Jim Lyon, MBE. Former Forest Management Director. For services to Forestry and to Conservation in the East of England.
- Graham Wilson, BEM. Former New Forest Keeper. For services to Forestry.

# Performance report

## Overview

The performance report overview provides the Chief Executive of Forest Enterprise England's views on performance over the year; the purpose and activities of Forest Enterprise England; the main issues and risks that could affect delivery of objectives; and a performance summary.

### Foreword by Simon Hodgson, Chief Executive

Forest Enterprise England has had a good year when once again our visitor numbers have increased to a new record level. Timber prices have continued to rise which has contributed to a record year for income.

Visitor numbers have been high for a variety of reasons, not least the excellent Gruffalo Spotter app campaign which was shortlisted for a children's BAFTA award. This campaign helped encourage record numbers of visitors to come to the forest and also to engage with us on social media.

It is thanks to our continued work to build a strong online presence that we managed to reach over 900,000 people through social media in 2017 and continue to evolve our online offering with the launch of a new website planned in 2018.

Timber sales have been very positive, especially in light of a prolonged period of bad weather over the winter months. Forest Enterprise England's work to achieve all volume targets for the year has again demonstrated that with imports being more expensive, the demand for domestically sourced timber remains as high as ever.

Our management of our Sites of Special Scientific Interest (SSSIs) has improved once again in 2017-18 whereby we have increased our favourable or favourable recovering designation to 98.5% across our 67,796 hectares of SSSI across the Public Forest Estate. Ongoing condition re-assessment by Natural England so far

continues to give us confidence that the 50% target by 2022 will be met.

Taking forward our refreshed approach to woodland creation, we have begun the process of buying land in the National Forest which will work towards our target of 1,200 hectares of new woodland to be created by 2020.

Continued investment across the Public Forest Estate on a variety of projects serves to further improve our infrastructure and enhance the experience for the thousands of visitors who come to the forests each year. The new nursery facility and glasshouse at Lobslack will help to grow a larger variety of tree species and increase our forest resilience in the face of a changing climate.

Our business partnerships have seen a further improvement in 2017-18 with an 18.5% increase in private businesses operating across the Public Forest Estate. In addition to this, through the successful grant of planning permission we will be able to build a new visitor centre and Forest Holidays site at Delamere Forest which will again contribute to business growth, encourage the public to visit the forests and boost the local economy.

Volunteering remains a core part of Forest Enterprise England's offer that has gone from strength to strength over the last few years. In 2017-18 we achieved almost double our initial target of 100,000 hours of quality volunteering as nearly 20,000 volunteers helped us record 182,142 hours of volunteering across the estate.

It has also been a year of change for Forest Enterprise England as we have worked to transfer our central services to our national office in Bristol. This has been a significant undertaking both for staff in Forest Enterprise England and our colleagues in Central Services. The result of this has so far proven very successful and has enabled us to welcome many new staff to the organisation who all work to provide for people, nature and the economy.

Finally Forestry Commission England received approval to proceed with the Future Forestry Commission project. This will enable Forestry Commission England, including Forest Enterprise England, to embark upon a new journey and develop the organisation. In 2018 we look forward to advancing our offer and building upon the excellent work carried out in 2017.

## **Purpose and activities of the organisation**

### **Who we are**

#### **About us**

Forest Enterprise England is the organisation responsible for managing the England's 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 forests within the Public Forest Estate 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; committed, responsive, talented and professional people, on whom all of our success depends.

## **The Public Forest Estate**

The Public Forest Estate is the largest single resource of woodlands and forests in England. The size and distribution of the estate 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. Around half of England's softwood production arises from the estate. This softwood production supports hundreds of small 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 enterprises making use of the material and rekindling the contribution of native woodland to economic activity.

The 226 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.

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**

Forest Enterprise England's Strategic Framework, completed in 2017, sets out a clear and positive future direction for the organisation around which all our activities

are focused. The core driver for the framework is to connect everyone with the Public Forest Estate by creating and caring for forests for people to enjoy, wildlife to flourish and business to grow. The four business drivers which enable this are: inspiring our people; evolving our offer; engaging our customers; and increasing our commercial value.

Our work aims to deliver four outcomes:

#### *Superb forests*

Diverse, resilient and productive forests will be ensured through our forest design and management processes, with positive natural capital outcomes driven by informed decision making. We will provide quality visitor experiences and work to enhance our natural and cultural heritage.

#### *Well-served customers*

In order to cultivate a lifelong relationship with woods and forests we will help create an understanding of what forestry means in the 21<sup>st</sup> century. We will build upon our established relationships with business partners and engage effectively with new and existing customers.

#### *High quality investment and sustainable finances*

As we seek opportunities to grow we will make the most of our existing business partnerships and look to foster new ones. Our reinvestment strategy will be informed by robust market insight and we will strive to improve our net financial position from all commercial sources.

#### *Capable volunteers and professional staff*

We will work to build leadership capability and confidence in all staff and volunteers and invest in a defined career pathway approach to staff development. We will also increase the number and value of volunteering opportunities in our forests.

## Financing

Forest Enterprise England operates a mixed business model, deriving income from trading activities and from government funding via Forestry Commission England. The majority of Forest Enterprise England's income is from the sale of timber, leisure and tourism services and maximising the broader commercial potential of the land it manages through rental and mineral income, licences and permissions. It also receives income from a range of public, private and charitable sources through partnerships to support specific developments or programmes.

The costs of non-market activities such as biodiversity conservation and managing public access is met through Forestry Commission England's financial settlement from Defra and managed through a Payment for Ecosystem Services agreement between Forest Enterprise England and Forestry Commission England. Together with funding to pay for allocated Forestry Commission overhead costs in 2017-18 this amounted to £19.5 million.

## Performance analysis

### Delivery of our objectives in 2017-18

#### Forests that deliver for people

**Aim:** To extend and expand opportunities for communities to become involved with the Public Forest Estate, and take part in activities that improve quality of life, health and learning.

Outcomes relate to the specific targets funded through the public expenditure system.

**Outcome 1:** Long-term sustainability for forests, forestry and the environment derived from an increase in the level of understanding of the importance of trees and forests and how they are managed by Forest Enterprise England for people, wildlife and timber.



We will have a well-used, relevant curriculum-linked learning offer for all levels of educational groups across the country, and learning will be a part of everyone's visit to a forest.

**Delivered:** More than 100,000 children and young people used our learning offer. Half of these were with one of our 90 learning providers. More than 95% of evaluation questionnaires indicated that learners had understood our messages.

Our learning offer for other visitors has continued to grow, while conveying our messages in innovative ways, including behind the scenes tours at Westonbirt, cone-handling sessions at Bedgebury, and Dalby's Discovery Zone.

**Outcome 2:** The 4,027 hectares of community woodland is managed to provide accessible green space around towns and cities across England.

**Delivered:** We continue to manage these areas with a focus on providing benefits for the communities closest to these woodlands. During the year we have recruited a project officer to boost our capacity, and continued discussions with partners regarding new opportunities in the Greater Manchester area. This work is complementary to the Northern Forest initiative identified in the 25 Year Environment Plan.

**Outcome 3:** Enable around 100,000 hours of high quality volunteering.

**Delivered:** Volunteering has continually been a success story for Forest Enterprise England and 2017-18 has been no exception. Across England we have recorded 182,142 hours of quality volunteering undertaken by some 19,087 volunteers.

**Outcome 4:** Engage with around 350,000 people through our permissions system for events and activities, allowing all members of society the opportunity to enjoy outdoor space for recreation.

**Delivered:** We have issued 4,091 permissions over the past year, which has led to at least 335,485 people engaging in events and activities across England. Permissions have included Park Run, military training, scientific wildlife surveys, horse riding endurance events and motor rallying.

**Outcome 5:** Help create the conditions for strong rural business growth across the hundreds of private businesses operating on the estate.

**Delivered:** March 2018 numbers are an 18.5% increase from March 2017. Notable increases in businesses operating in the Public Forest Estate include five brand new radio mast sites for the new Government Emergency Services Network run by EE. We have also secured planning consent for a new visitor centre and Forest Holidays site at Delamere Forest which will provide new business opportunities in future years for local suppliers.

**Outcome 6:** The extensive and diverse range of heritage assets on the estate are cared for, so that the 954 designated heritage assets are conserved with fewer than 10% on the risk register simultaneously, as assessed by Historic England. Significant undesignated heritage assets and listed structures in the Public Forest Estate are also conserved. In addition to their conservation, the enjoyment and understanding of these assets is facilitated.

**Delivered:** Currently Scheduled Monuments are the only category of heritage assets on the estate that are recorded as at risk. High risk assets have reduced from 9.5% in 2011 to 4%.

Research has been undertaken on various heritage assets by university, community and special interest groups.

Volunteer groups are active in monitoring the condition of assets in some locations and carrying out some site management work.

## Other outcomes delivered for people

As well as ensuring the essential conservation of our natural landscape, Forest Enterprise England works to preserve our national heritage assets so that everyone can continue to visit and enjoy them for generations to come. In 2017 Forest Enterprise England, alongside the Diocese of Salisbury and Milton Abbey School, with special funding from the Heritage Lottery Fund and Viridor Credits, has received approval for a project to restore Milton Abbey in Dorset. The project, named 'The Great Stare' after the grass staircase that links the Abbey with the chapel, will work to reconnect the Abbey to the rest of the Capability Brown designed landscape that surrounds it.

Through preservation projects like this, Forest Enterprise England is able to restore many of the nation's cultural sites and allow more of the public to be able to visit and engage with the rich heritage assets that exist all over the country in ways that were not previously possible.

## Forests that deliver for nature and the environment

**Aim:** 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.

**Outcome 7:** The 67,921 hectares of designated habitats (Sites of Special Scientific Interest (SSSIs)), Special Protection Areas (SPAs) and Special Areas of Conservation (SACs), are managed so that 95% are maintained as being in favourable or recovering condition and 50% are in favourable condition by 2020.

**Delivered:** Of the 67,796 hectares of SSSI under Forest Enterprise England stewardship, 98.5% remains in favourable or favourable recovering condition. At the last assessment in January 2017 37% was recorded as in favourable condition and this percentage continues to increase with work

supported by the Payment for Ecosystems Services contract. Ongoing work and condition reassessment by Natural England support a confident expectation of meeting and exceeding the target of 50%, by area, of SSSI in favourable condition by 2020.

**Outcome 8:** The 39,337 hectares of Plantations on Ancient Woodland sites (PAWs) that are not designated as SSSIs are steadily restored so that 2,900 hectares have been restored to native woodland by 2020.

**Delivered:** We continue to pursue our policy of restoration across the 39,337 hectares of PAWs on the Forest Enterprise England estate via the commercial harvesting of planted components at economic maturity and through carefully planned thinning programmes and where required, enhancement planting with native trees.

**Outcome 9:** The 7,432 hectares of Ancient Semi Natural Woodland (ASNW) that are not designated SSSI are managed and there is a steady improvement in their condition so that at least 45% are in favourable condition by 2020.

**Delivered:** As with other priority habitats we are transitioning to use the condition assessment model for non-designated priority habitats. This allows us to report accurately on progress on the condition of ASNW. Over the past year we have collated information on the condition of all ASNW sites (alongside all other areas of propriety habitat). A detailed report is now available detailing condition as of April 2017. At present only 13.4% of the total area of priority habitat is in favourable condition. Meeting the 2020 target will be very challenging.

**Outcome 10:** 1,200 hectares of additional new native woodland will be created by 2020.

**Delivered:** During the year we have refreshed our strategic approach to the creation of all kinds of new woodland. We are in the process of buying land in the National Forest which will contribute to meeting this target, as well as contributing

to delivery targets contained in the 25-Year Plan for the Environment.

**Outcome 11:** The 22,348 hectares of open habitat not designated SSSI are managed so that their condition is steadily improved and 3,800 hectares of additional open habitat is created by 2020.

**Delivered:** We are transitioning to using the condition assessment model for non-designated priority habitats to report on progress on the condition of open habitats not designated as SSSI.

Initial findings covering a large proportion of the total area, but not as yet complete coverage, suggest we may well be challenged by this target. Continued effort will have to be placed on this element of the target.

**Outcome 12:** The suite of partnership species conservation projects is maintained at the same or similar levels as in 2015-16.

**Delivered:** A wide range of species conservation projects is underway, notably directed at rarer butterflies and some larger mammals such as water voles, beavers and pine martens.

### **Other outcomes delivered for nature**

England's national forests have long provided a wealth of diverse habitats and ecosystems where animals can flourish. At Forest Enterprise England we are continually looking for ways in which we can improve upon these habitats and where possible, with the help of well researched scientific evidence, look to reintroduce species once native to the country into our woodlands.

In 2017-18 work was begun to trial the limited reintroduction of the Eurasian Beaver (*Castor fiber*) into the wild at Greathough Brook in the Forest of Dean. It is believed that beavers were once widespread throughout the English countryside but were hunted to extinction for fur, meat and body oils in the 16<sup>th</sup> Century. Although this trial will only release a relatively small number of Eurasian

Beavers into an enclosed area of the woodland, the benefits from such an exercise are numerous both to the surrounding ecosystem and to those who live nearby.

The Eurasian beaver will not just transform the local habitat; a significant part of the study and reintroduction trial will be concerned with measuring the beneficial impact the beaver has on local flood defences. This, combined with the obvious appeal to local communities of being able to observe these rare mammals in their natural environment, demonstrates the benefits to people and nature that Forest Enterprise England provides for the nation.

## **Economy: forests that deliver for economic growth**

### **Marketing**

During 2017-18, the marketing team has delivered a number of successful campaigns focused on our strategic objective to connect more people with the Public Forest Estate. Our flagship campaign, the Gruffalo Spotter app, was shortlisted for a children's BAFTA award in the interactive category, and a digital award by the Outdoors Industry Association. The campaign has helped engage our visitors with over two million social media reach, and driven a 22% increase in visitor numbers at participating sites, equating to 1.6 million visits.

Our autumn campaign has again established the Forestry Commission as the lead expert on trees during this competitive media period and also reached over 900,000 people through social media.

Our 'Fully Santa Approved' Christmas campaign was followed by the new year launch of our next Julia Donaldson marketing partnership 'The Highway Rat' at 22 locations.

Other campaigns this year have included our Tree Explorer trail at 20 locations and support for Active Forests, Forest Art Works and Forest Live.

## Timber sales and marketing

Forest Enterprise England's timber harvesting and marketing function achieved all of its volume targets in 2017-18 despite a prolonged period of adverse winter weather. Customers had a busy year with high demand, partly due to exchange rates driving a preference for home-grown timber. This led to higher than usual prices for material on offer, some at record levels, resulting in the best year for timber income ever. Costs were held at or below previous levels giving a high net income level.

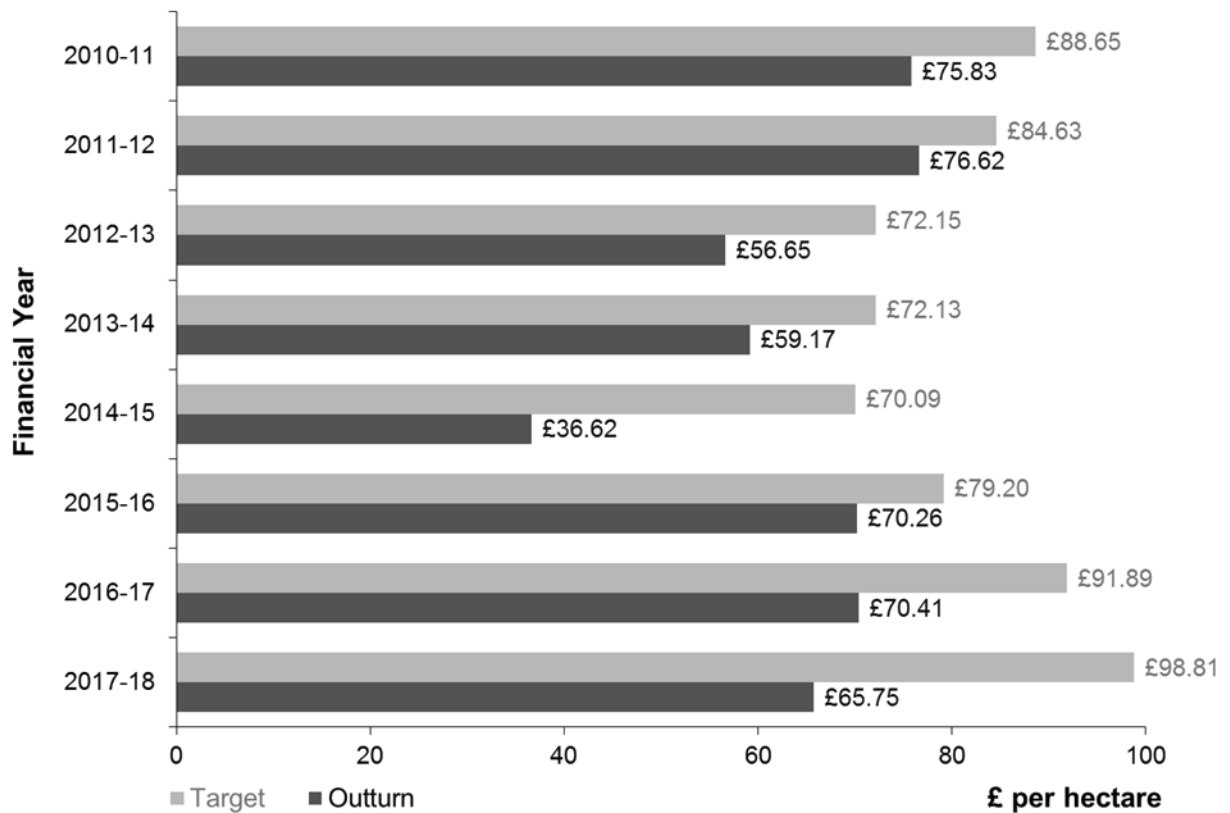
## Capital investment

The annual capital investment programme made an investment of £11.5 million in 2017-18. To improve underlying infrastructure and enhance visitor experience, investments were made in a number of recreation sites including Sherwood, Alice Holt, High Lodge, Haldon, Wendover and Bedgebury. These investments include automated number plate recognition systems, café and kiosk developments and sewage and connectivity improvements. The biggest project completed during the year was the new nursery facility and glasshouse at Lobslack. This investment allows Forest Enterprise England to grow a wider range of conifer species which are required to make our forests more resilient in the face of a changing climate. To meet current property standards, capital was also invested in investments to two of our residential properties and in refreshing and improving our fleet of vehicles, including timber harvesting machines.

## Key performance indicators 2017-18

The current key performance indicators (KPIs) for Forest Enterprise include the two headline indicators set out in Forestry Commission England's Corporate Plan 2017-18, for which reports are shown below. Reports on these headline indicators are published quarterly in our Headline Performance Updates, and reports on our other indicators are published annually in our Corporate Plan Performance Indicators Report.

**KPI 1: cost of managing the Public Forest Estate**



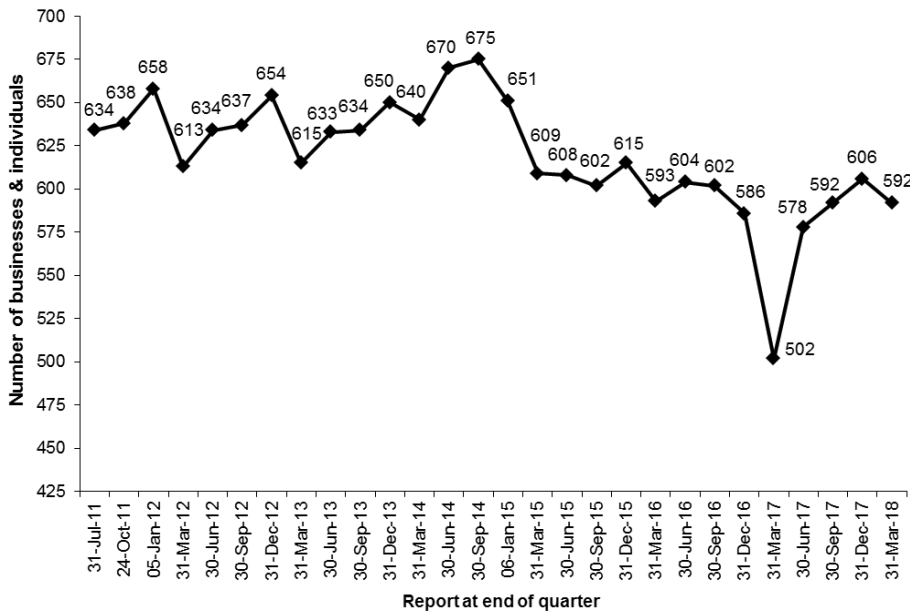
The outturn for 2017-18 is £65.75 per hectare, which is below the target of £98.81 per hectare.

because of devolution. This expenditure is funded from Forest Enterprise England reserves.

The target for 2017-18 is greater than previous years due to Forest Enterprise England’s planned expenditure on the transfer of shared services from Edinburgh

See page 12 for a detailed explanation as to why outturn costs are lower than target.

**KPI 2: number of private sector businesses operating in the Public Forest Estate**



At 31 March 2018 there were 592 businesses and individuals operating in the Public Forest Estate. This end of year total shows an 18% increase from the March 2017 figure and this has remained stable during 2017-18. Notable increases in businesses operating in the Public Forest Estate include five brand new radio mast sites for the new Government Emergency Services Network run by EE Limited.

The indicator figure for 31 March 2017 recorded an anomalous one-off reduction not consistent with the previous data pattern. Further investigation identified that the overall number of businesses active in the Public Forest Estate has recovered significantly since March 2017. The main increases have been in the area of seasonal activity and educational businesses.

There has been continued strong growth in the core commercial partners including securing planning consent for a new Forest Holidays site at Delamere Forest and a new campsite at Sherwood for Camping in the Forest. In addition we identified over 50 education providers, including Forest Schools, who are using the Public Forest Estate following a successful drive by the Education Teams to promote learning in

the Public Forest Estate. These businesses are not currently included in the indicator due to the nature of their contracts.

This indicator has helped us understand one key element of our aims to support the economy and employment market in the many rural and urban communities in which the Public Forest Estate is closely embedded. However, there is an element of uncertainty with this indicator as there can be variability in the timing of renewal of licences and permissions for business activity on the Estate.

## Issues and risks

### Non-forestry development projects

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

### Business continuity and cyber security

There continues to be a risk to business continuity from the further devolution of central corporate services and the establishment of new arrangements. There are also business continuity risks arising from the increased level of national and international cyber-attacks. These risks are being addressed by keeping our systems up to date and applying software patches promptly, and the disaster recovery portfolio of work is progressing well.

## EU exit

On 29 March 2017, the UK Government submitted its notification to leave the EU in accordance with Article 50. The triggering of Article 50 started a two-year negotiation process between the UK and the EU. Forest Enterprise England is working with Forestry Commission England/Central Services and Defra to prepare for any subsequent changes in legislation, regulation and funding arrangements subject to the outcome of the negotiations.

## Data protection

The General Data Protection Regulation (GDPR) is directly applicable and automatically became part of UK law in May 2018. The Data Protection Bill was introduced on 13 September. The Bill is intended to create a new data protection framework fit for the digital age, which incorporates the provisions of the EU's GDPR into domestic law. This places a number of new obligations on Forest Enterprise England, over and above the current Data Protection Act. Failure to comply can result in legal action by the Information Commissioner with substantial fines and reputational damage.

## Operating performance

### Long-term trends

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:

**Long-term trends**

	2017-18	2016-17	2015-16
	£m	£m	£m
Operating surplus/(deficit)	113.0	(16.0)	(24.4)
Add back impact of valuations:			
(Gain) on biological assets	(155.4)	(23.8)	(13.4)
Value of felled timber	25.7	21.9	20.0
Operating deficit excluding valuation movements	(16.7)	(17.9)	(17.8)
Funding	19.5	28.0	20.5
Interest and gains on sale of properties	0.5	-	-
Surplus after funding	3.3	10.1	2.7

The 'deficit excluding valuation movement' is used by the Forestry Commission in the net cost per hectare target measure, a key performance indicator for Forest Enterprise England. Net cost performance for 2017-18 was:

	Actual	Target	Variance
Net cost before funding	(£16.7m)	(£25.0m)	£8.3m 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 2016-17, to accommodate the costs of services provided from Forestry Commission England to Forest Enterprise England the target net cost was raised from £23.3 million in 2016-17 to £25.0 million in 2017-18.

Relative to the previous year our external income was higher at £76.3 million (2016-17: £73.8 million) while total cost was, as planned, also higher at £93.0 million (2016-17: £91.6 million).

Income less total costs gives a net cost of £16.7 million (2016-17: £17.9 million).

The difference between the actual net cost and plan delivery is £8.3 million favourable.

The improvement against the plan was driven by strong sales in timber and recreation, however due to poor weather in the last quarter costs were lower than expected. The resources for the planned works will be carried forward, as the programmes still need to be delivered in the first quarter of 2018-19.

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

Our long-term business planning indicates a reduction in the current level of timber production volume in the future. This is due to no new commercial forests being planted in the last 40 years and an increased focus on delivering environmental and social benefits through the Public Forest Estate. FEE business plans seek to mitigate the financial consequences of the reduction in timber volume through developing our recreation offer, and releasing the commercial potential of other non-forestry developments.



## Sustainability

### Introduction

Forest Enterprise England carries out sustainability reporting in line with the Greening Government Commitments and HM Treasury's Financial Reporting Manual requirements.

### Summary of performance

#### Climate Change Adaptation

Forest Enterprise England has a Climate Change Action Plan, which was updated in 2016-17.

The risks to be addressed cover the breadth of activities undertaken in the Public Forest Estate, from those affecting forest resilience, to our role in sequestering carbon and the opportunities to reduce emissions in the functioning of the business.

Carbon sequestration associated with the Public Forest Estate is included in our annual corporate Natural Capital Account.

#### Rural Proofing

Forest Enterprise England's activities take place predominantly in rural, or semi-rural environments, but the organisation does not formulate government policy. There is therefore no specific internal governance, decision making or assurance process on rural proofing.

We seek to ensure that the impact of our activities balance social, economic and environmental needs. Our commitment to sustainable forest management, as certified under United Kingdom Woodland Assurance Standard (UKWAS), requires us to demonstrate how the results of engagement with local communities and social impacts have been incorporated into management planning and operations. UKWAS also requires that woodlands be integrated into local economies and that communities within or adjacent to the woodlands have equitable opportunities for

employment and to provide supplies and services.

### Sustainable Development

Forest Enterprise England contributes significantly to the United Nations Sustainability Development Goal 15 (part of the UN 2030 Agenda) which aims to sustainably manage forests, combat desertification, halt and reverse land degradation and halt biodiversity loss.

Sustainable forest management is achieved through conformance to the United Kingdom Forestry Standard and is independently certified under by accredited UKWAS certification assessors under the Forestry Stewardship Council's (FSC) internationally recognised criteria for sustainable forest management.

Since 2015-16 we have delivered an annual Natural Capital Account (NCA) to help us to measure whether the value of the natural capital (the Public Forest Estate) in our care is increasing or decreasing. This method of accounting for our natural environment is in its infancy, but allows us to measure, identify and if necessary address, changes in the elements of natural capital that fall within the account at present. At 31 March 2017 the total value of our net natural capital assets was reported as £22,476 million. Our NCA goes to the Strategy Board for approval and is published on our website.

The environmental impacts of our forest management 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.

Principal on-going initiatives are:

- continuing certification to BS EN ISO 14001-2004 for all of England's built estate
- updating the operational guidance relevant to the estate to the new International Policy and Practice standard
- board agreement of a draft energy and infrastructure strategy to meet the on-going energy and smart infrastructure needs of the business. Three energy audits have been carried out in three districts to determine user profiles and risks and opportunities for improvement
- looking at options for reducing water use across the estate and automating data capture
- improving F-Gas monitoring through better asset management and recording, ensuring legal compliance and the capture of required data for reporting
- investigating switching to CO2-based refrigerant systems to determine possible savings on on-going replacement and monitoring costs
- installing advanced metering systems on more sites to further reduce staff time in collecting data
- appointing Carbon Smart to provide energy and waste reporting services
- trialling electric vehicles within the operation fleet
- approving £800,000 for an in-principle capital investment in a 100kw hydro-electric scheme in Whinlatter Forest

Performance measure		2014-15	2015-16	2016-17	2017-18
Business travel	Total miles	5,839,706	6,105,016	6,209,178	7,448,867
	tonnes CO <sub>2</sub> e↑	1,566	1,560	1,477	1,749
	Expenditure (£000)	2,947	3,126	2,925	3,358
Electricity, gas and other heating fuels	Consumption (KwH)	4,103,267	5,110,859	9,754,575	4,270,939
	Expenditure (£000)	305	369	469	353
	tonnes CO <sub>2</sub> e↑	1,401	1,093	1,582	1,658
	% Renewable	31	51	60	21
Total energy (Scopes 1, 2 and 3) estate and travel	tonnes CO <sub>2</sub> e↑	3,946	2,653	3,059	1,751
	Expenditure (£000)	3,493	3,494	3,394	3,712
F-Gas – CO <sub>2</sub> (e) Δ	(Kg)	16	21.2	26	10.75
Fugitive emissions F-Gases (GWP)	CO <sub>2</sub> e↑ (T)(GWP)	62.7	72	80	42
Refrigerants maintenance	Expenditure (£000)	20	22	20	20
Sewerage/waste water	Expenditure (£000)	73	174	99	395
Estate and office waste	Amount (Tonnes/m <sup>3</sup> )	2,152	2,566	1,819	2,326
	Expenditure (£000)	183	161	158	353
Estate and office water	Quantity (m <sup>3</sup> )	65,771	49,407	171,141	74,974
	Expenditure (£000)	46	49	77	84

## Future sustainability and environmental management strategy

The Executive Board has 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. The Executive Board uses the existing baseline data and agreed indicators to monitor our business sustainability performance and to establish realistic but challenging targets for cost centre managers. Central information will be processed to inform local managers of their KPI performance to guide local agreement and decision making, prioritising according to business risk and resource allocation. In 2017-18 an energy audit was carried out to clearly determine where energy is being used and identify risks to business continuity. The results will form the basis of energy reduction measures and inform future energy generation options. A business case for investment in renewables will be formulated based on short, medium and long-term business needs using the current energy requirements of the organisation to see where value in economic, environmental and social terms can be created and maintained.

During 2017-18 our main priorities have been:

- preparing for the transition of all energy contracts from Forestry Commission Shared Services to England
- appointing Carbon Smart to provide a new energy and waste reporting service
- 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 recording projects for future funding

and implementation, for example we are looking at conversion to LED lighting

- 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 used in cold stores and deer larders along with air-conditioning to plan phased replacement F-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

## Greenhouse gas emissions

Forest Enterprise England's built estate is actively managed to optimise occupancy and minimise CO<sub>2</sub> emissions from fossil fuel energy use. This includes installing wood fuel boiler technologies and other green technology measures to reduce fossil fuel energy use.

CO<sub>2</sub> emissions from business travel are managed through ongoing support for flexible 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. Plug-in points are being investigated.

A fugitive emission figure from equipment that contains harmful refrigerant gases (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 ten years which started with R22 gas will mean that the gases 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 CO<sub>2</sub> refrigerant equipment is being monitored as options to change become available that meet our business needs. R404 gas is the next gas with restrictions on on-going use at certain thresholds. Forest Enterprise England uses this gas in many appliances and an assessment will be made to determine actions over the coming year.

## 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 three years to meet legal waste storage and segregation requirements. Further investment approvals made during 2017-18 to improve operational facilities at three sites totalling £750,000.

Forest Enterprise England's office waste has a good recycling rate of approximately 62%.

Fly-tipping continues to be a challenge and significant dumping occurred in 2017-18, totalling 306 tonnes.

Treated (painted/coated) timber is hazardous waste. The number of waste service suppliers appropriately licensed to receive this waste stream has reduced from three to two since the last report. Some sites still don't have a local waste service supplier able to accept treated timber. Most Forest Enterprise England timber is categorised as non-hazardous due to the treatments we specify for our timber products. Operational guidance on this subject has been updated.

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. A number of systems have struggled to remain in compliance as visitor numbers have increased over the last two to three years. A new reed bed system is now operational at Dalby visitor centre and capital investment approved to connect Alice Holt visitor centre to mains drainage.

## 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. 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 with non-hazardous treatment substances and processes, with the aim of reducing the cost of disposal of this waste stream at end of life, subject to future changes of current regulations.

## Sustainable procurement including food

Forest Enterprise England has worked to ensure that sustainable solutions are part of the goods, services and works we purchase.

We have focused on our timber policy and specifications. Only timber and timber

products originating either from independently verified legal and sustainable sources (such as Grown in Britain, PEFC/FSC certified timber or woodland products) or from a licensed Forest Law Enforcement Governance and Trade partner can be used. We have also encouraged the use of sweet chestnut in fencing operations as an alternative to treated softwood materials.

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

### **Sustainable construction**

We employ sustainable building elements as far as possible in all our refurbishments and new build projects.

### **Environmental management system**

Forest Enterprise England operates an integrated environmental management system (EMS) which is independently certified to BS EN ISO 14001-2004, the internationally recognised standard for EMS. Our EMS 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 to waste, procurement and emissions.

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 confirmed 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**

Forest Enterprise England provides a business sustainability support service to Forestry Commission England/Central Services.

Senior management have agreed to not apply to retain ISO 14001 certification to the 2015 standard until Forestry Commission England has completed the shared service transition, fully adopted its new energy and infrastructure strategy, completed the update of the EMS to reflect the new policy and practice format and updated the intranet site in 2018. We will continue to undertake assurance reviews of the EMS via internal audit during this period.

Simon Hodgson  
11 June 2018  
Accounting Officer

# Parliamentary accountability report

## Corporate governance report

The corporate governance report describes Forest Enterprise England's governance structures and how they support achievement of our objectives. It comprises the directors' report, the statement of Accounting Officer's responsibilities and the governance statement. This meets accountability requirements to Parliament as set out in Chapter 5 of Part 15 of the Companies Act 2006 and Schedule 7 of SI 2008 No 410 and amended by HM Treasury's Financial Reporting Manual.

## Directors' report

Forest Enterprise England is an executive agency of the Forestry Commission. The Chair of Forestry Commission England is Sir Harry Studholme and the Chief Executive and Agency Accounting Officer of Forest Enterprise England is Simon Hodgson.

Forest Enterprise England is managed by the Forest Enterprise England Strategy Board, which consists of executive and non-executive members. The Strategy Board was established to agree the strategic direction of Forest Enterprise England, 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 Forest Enterprise England.

Membership of the Strategy Board is:

- the Chief Executive, as chair
- supported by his heads of service
- three non-executive members

Further details regarding Strategy Board membership throughout the year can be found in the Remuneration Report.

## 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 the Forestry Commission website ([www.forestry.gov.uk](http://www.forestry.gov.uk)). Related party transactions are separately disclosed within note 18.

## Personal data related incidents

There was one staff-related protected personal data related incident reported for Forest Enterprise England in 2017-18. We will continue to monitor and assess our information risks to identify and address any weaknesses and ensure continued improvement of our 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 ten days from the receipt of goods and services or the presentation of a valid invoice, whichever is the later. In 2017-18 98.2% (2016-17: 98.1%) of invoices were paid within the due date. Arrangements for handling complaints on payment performance are notified to suppliers on contract.

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 £98,000 plus VAT (2016-17: £91,000 plus VAT). No fees were charged for other services (2016-17: 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 Agency Accounting Officer for Forest Enterprise England. Forest Enterprise England's framework document sets out the responsibilities of the Agency Accounting Officer.

Simon Hodgson is accountable to Parliament through the Additional Accounting Officer for Forestry Commission England and is responsible to the National Committee for England for the management of Forest Enterprise England. He has a right of direct access to the Forestry Commissioners and to the relevant minister.

The Agency Accounting Officer for Forest Enterprise England has 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.

Discharging this overall responsibility, requires putting in place appropriate arrangements for the governance of its affairs and 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.

The Agency Accounting Officer is responsible for and confirms that the annual report and accounts as a whole is fair, balanced and understandable.

So far as he is aware, there is no relevant audit information of which our external auditors are unaware, and has taken all the necessary steps required to be made aware of any relevant audit information and to establish that our external auditors are aware of that information.

## Governance statement

### Introduction and scope of responsibility

Simon Hodgson was appointed by the Additional Accounting Officer for Forestry Commission England/Central Services as Agency Accounting Officer for Forest Enterprise England. The Agency Accounting Officer's financial responsibilities mirror those of the Additional Accounting Officer. He has 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.

This Statement covers Forest Enterprise England and fully complies with the Corporate Governance Code where relevant and applicable to Forest Enterprise England.

### The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which Forest Enterprise England is directed, controlled and led. It enables Forest Enterprise England 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 Forest Enterprise England's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Forest Enterprise England for the year ended 31 March 2018 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 have been exercised in Wales by the Welsh government and Natural Resources Wales. Defra are responsible for forestry policy in England.

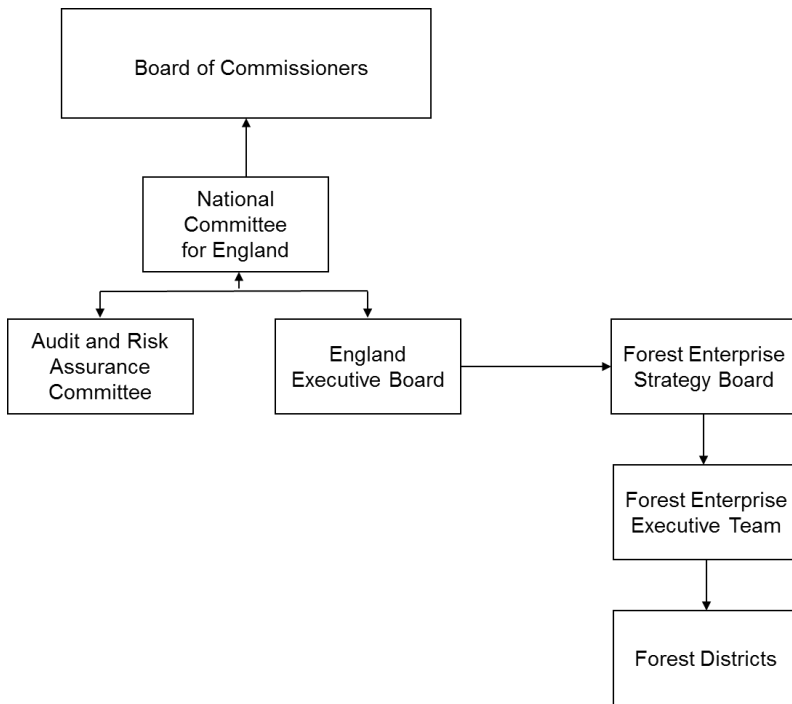
Under section 2(3) of the Forestry Act 1967, the Commissioners have delegated their responsibilities to the National Committees in each country. National Committees are comprised of non-executive and executive members and they oversee the work of each country, making decisions about country forestry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

### **Governance arrangements**

Forest Enterprise England's Strategy Board has links through shared membership of other Forestry Commission governance committees. The Chief Executive Forest Enterprise England 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
- business investment programmes
- business performance reports

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 England Strategy Board, including membership and attendance, is available on our website, [www.forestry.gov.uk](http://www.forestry.gov.uk).

**Audit and Risk Assurance Committee**

The England Plus 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. Forest Enterprise England 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 activities which support the achievement of Forest Enterprise England’s objectives. Assurance is also provided through 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 England including:

- risk management
- Annual Report and Accounts 2016-17
- 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
- payroll

Further information on the England Audit and Risk Assurance Committee, including membership and attendance, is available on our website, [www.forestry.gov.uk](http://www.forestry.gov.uk).

## Performance

Forestry Commission internal audit have previously reviewed the National Committee for England and accompanying Management Board structure in England and have given full assurance on the set-up and functioning of these main elements of the corporate governance framework.

The England Plus ARAC has been assessed as being in line with requirements for public sector bodies as per HM Treasury guidance.

Internal audit carried out a review of the effectiveness of the Board of Commissioners and the National Committee in 2015. The Forestry Commission's Executive and Management Boards were reviewed in 2016.

## Review of effectiveness

The Agency Accounting Officer has responsibility for conducting, at least annually, a review of the effectiveness of the governance framework. The review is informed by the work of internal audit and the executive managers across Forest Enterprise England 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.

Annual Assurance Statements are provided by the executive managers across Forest Enterprise England and have been advised on the implications of the result of the review of effectiveness by the various boards and the ARAC.

The Government Internal Audit Agency Head of Internal Audit for Forest Enterprise England has prepared an annual report and

assurance statement which includes 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.

Forest Enterprise England has continued to apply the principles of HM 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 ARAC reviews its own 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 financial control visits and the work of internal and external auditors.

## Whistleblowing

Forest 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 by encouraging a culture of openness, where employees feel confident to raise concerns about potential wrongdoing.

A whistleblowing awareness campaign was carried out, in line with Defra's approach. The organisation has a dedicated whistleblowing officer, who has dealt with two cases in 2017-18.

## Risk management

The Forest Enterprise England Strategy Board ensures the risk management policy is implemented and that they strategically review risks. Each risk 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 receive regular updates on important risks.

Under the Risk Management Policy we are fully committed to effective risk management, adopting best practice in the identification, evaluation and control of risks, to:

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

### **Significant governance and risk issues**

Please see the main issues and risks to delivery set out in the Overview section of the Performance Report.

Forest Enterprise England 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 to 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 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, Forest Enterprise England recognises risk management as an important function in helping to ensure it achieves its aims and objectives.

Other governance and risk issues are as follows:

- Non-forestry development projects

Forest Enterprise England's long-term financial plan is in part dependent on releasing the commercial potential from non-forestry developments in the Public Forest Estate. This includes a range of opportunities including renewable energy, mineral extraction, camping and cabins, and built commercial development. For these opportunities to come to fruition, Forest Enterprise England 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 England 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.

- Information and communication technology (ICT) infrastructure

All major business applications operated by Central Services on behalf of the countries have been successfully migrated to the modernised ICT infrastructure resulting in significantly reduced business risk from ICT failure. Disaster recovery facilities are now operational and, subject to testing, we have the capacity to restore major corporate systems within five working days. Whilst some risk to the business still remains as work continues, the overall risk position has substantially improved. The risk to business continuity from the introduction of new cloud computing corporate service IT systems within Forestry Commission England from April 2018 has been recognised and the disaster recovery arrangements for those systems will be the subject to formal internal audit review during 2018-19.

- Information risk management

We continue to make steady progress in identifying and addressing 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.

- Tax

The HMRC VAT and income tax audits are now formally closed with all liabilities settled, and approval given to the application of the Forestry Commission combined method. Increased resourcing to ensure tax compliance going forward is in place and relevant policies, procedures and systems updated to accord with the agreed method. The significant risks associated with the HMRC compliance audits have been addressed, although ensuring future tax compliance remains a risk for all Forestry Commission entities.

### **Wider circumstances and future challenges**

The main challenges for Forest Enterprise England during 2018-19 and beyond are:

- supporting the transition to the future Forestry Commission operating model in April 2019 following completion of the devolution process
- continue maintaining a range of development prospects designed to release the commercial potential from non-forestry developments in the Public Forest Estate, in support of our long-term financial plan
- continue developing plans and resourcing to achieve success in a post-EU exit environment
- continue developing an appropriate response to the increasing threat of cyber security attacks
- establishing new corporate service provision, whilst maintaining business continuity
- implementing a data protection environment and culture which is compliant with the General Data Protection Regulation

## Remuneration and staff report – subject to audit

The remuneration and staff report sets out Forest Enterprise England’s remuneration policy for directors, reports on how that policy has been implemented and sets out the amounts awarded to directors. It also provides details on remuneration and staff that Parliament and others see as important to accountability, as set out in Chapter 6 of the Companies Act 2006 and SI 2013 No. 1981 and amended by HM Treasury’s Financial Reporting Manual.

### Remuneration 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.

Executive members of the Forest Enterprise England Strategy Board hold appointments that are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commission can be found at [www.civilservicecommission.org.uk](http://www.civilservicecommission.org.uk).

Non-executives are generally appointed as Office Holders for a fixed term of three years with a maximum notice period of one month. Contracts are renewable for further fixed terms if both parties agree. In the event of early termination, for whatever reason, there is no provision for compensation.

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

	Date of current contract	Unexpired term (months*)
Sir Harry Studholme	10/02/2017	22
Julia Grant	01/11/2016	19
Mark Pountain	08/11/2017	10

\*months remaining from 31 March 2018.

### 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 England, Director Central Services and the Chair of the National Committee for Scotland.

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](http://www.ome.uk.com)
- reporting Officers’ recommendations on the relative performance of each of their senior staff, whether a bonus

should be paid, and if so, whether low or high. The Senior Pay Committee 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 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 Strategy Board.

		Single total figure of remuneration				
		Salary	Bonus payments	Benefits in kind (to nearest £100)	Pension Benefits	Total
		£000	£000	£	£000	£000
<b>Simon Hodgson</b>	<b>2017-18</b>	80-85	-	4,500	12	100-105
Chief Executive	2016-17	80-85	5-10	4,000	17	110-115
<b>Mike Seddon</b>	<b>2017-18</b>	70-75	5-10	-	19	100-105
Director of Operations	2016-17	70-75	-	-	29	100-105
<b>David Hodson</b>	<b>2017-18</b>	60-65	-	-	25	85-90
Head of Finance & Business Support	2016-17	60-65	-	-	24	85-90
<b>Jo Ridgway</b>	<b>2017-18</b>	60-65 <sup>1</sup>	-	-	24	85-90
Head of Human Resources	2016-17	65-70	-	-	26	90-95
<b>Mark Street</b>	<b>2017-18</b>	60-65	-	4,000	18	80-85
Head of Estates	2016-17	60-65	-	3,400	23	85-90
<b>Paddy Harrop</b>	<b>2017-18</b>	60-65	-	-	16	75-80
Head of Marketing	2016-17	65-70	-	-	23	85-90
<b>PK Khaira-Creswell</b>	<b>2017-18</b>	45-50	-	-	22	70-75
Head of Corporate Affairs	2016-17	45-50	-	-	20	65-70
<b>Miranda Winram</b>	<b>2017-18</b>	50-55	-	-	39	90-95
Head of Strategy and Insight	2016-17	25-30 <sup>2</sup>	-	-	20	45-50
<b>Rachael Edwards</b>	<b>2017-18</b>	0-5 <sup>3</sup>	-	-	1	0-5
Acting Head of Strategy and Insight	2016-17	45-50 <sup>4</sup>	-	-	46	90-95

1. Working time reduced to four days per week from 13 November 2017.
2. Figure quoted is for the full year. A period of maternity leave ended 28 February 2017. The full-year equivalent is 50-55.
3. Figure quoted is for two days per week for the period 1 April 2017 to 30 April 2017 during handover after covering a period of maternity leave.
4. Figure quoted is for the period 6 April 2016 to 31 March 2017 while covering a period of maternity leave. The full year equivalent is 45-50.

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.

## 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.

## Pension benefits

(subject to audit)

	Accrued pension at pension age at 31 March 2018 and related lump sum	Real increase/ (decrease) in pension and related lump sum at pension age	CETV at 31 March 2018	CETV at 31 March 2017	Real increase/ (decrease) in CETV	Employer contribution to partnership pension account
	£000	£000	£000	£000	£000	to nearest £100
Simon Hodgson	30-35 plus a lump sum of 80-85	0-2.5 plus a lump sum of 0-2.5	702	665	13	-
Mike Seddon	25-30 plus a lump sum of 70-75	0-2.5 plus a lump sum of 0	502	464	5	-
David Hodson	10-15	0-2.5	141	118	14	-
Jo Ridgway	0-5	0-2.5	41	23	13	-
Mark Street	15-20 plus a lump sum of 40-45	0-2.5 plus a lump sum of 0	292	267	6	-
Paddy Harrop	20-25 plus a lump sum of 55-60	0-2.5 plus a lump sum of 0	390	361	4	-
PK Khaira-Creswell	10-15 plus a lump sum of 20-25	0-2.5 plus a lump sum of 0-2.5	142	124	8	-
Miranda Winram	20-25	2.5-5	219	184	9	-
Rachael Edwards	5-10	0-2.5	91	91	-	-

## 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: three 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 ten years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between ten 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 members 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 4.6% and 8.05% for members of **classic**, **premium**, **classic plus**, **nuvos** and **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 8% and 14.75% (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 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

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

### Remuneration of non-executives

(subject to audit)

The non-executive members of the Forest Enterprise England Strategy Board received the following remuneration for their services during the period ended 31 March 2018. As these individuals are members of the National Committee for England this is also borne and disclosed in the Annual Report and Accounts of Forestry Commission England/Central Services.

	2017-18		2016-17	
	Fees £000	Expenses £000	Fees £000	Expenses £000
Sir Harry Studholme <sup>1</sup>	40	4	27	5
Julia Grant <sup>2</sup>	12	1	5	1
Mark Pountain	5	1	5	1

1. Sir Harry Studholme's agreed working days increased with effect from 10 February 2017
2. Julia Grant joined the Forestry Commission on 1 November 2016

### 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 2017-18 was £85,000-£90,000 (2016-17: £90,000-£95,000). This was 3.41 times (2016-17: 3.63) the median remuneration of the workforce, which was £25,632 (2016-17: £25,460).

In 2017-18, no (2016-17: nil) employees received remuneration in excess of the highest-paid director. Remuneration ranged from £17,000 to £85,000 (2016-17: £17,000 to £91,000).

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.

## Staff report

### Average number of persons employed

(subject to audit)

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

	Permanently employed staff	Others	2017-18 Total	2016-17 Total
	Number	Number	Number	Number
Directly employed	839	78	917	878
Other	-	66	66	60
<b>Total</b>	<b>839</b>	<b>144</b>	<b>983</b>	<b>938</b>

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

	Directors and senior civil servants	Permanently employed staff	Others	2017-18 Total	2016-17 Total
	Number	Number	Number	Number	Number
Male	2	549	74	625	616
Female	-	288	70	358	322
<b>Total</b>	<b>2</b>	<b>837</b>	<b>144</b>	<b>983</b>	<b>938</b>

Of the two senior civil servants, one is employed at Band 1A, and one at Band 1.

**Staff costs**

(subject to audit)

	Permanently employed staff	Others	2017-18 Total	2016-17 Total
	£000	£000	£000	£000
Salaries	25,829	-	25,829	24,212
Social security costs	2,471	-	2,471	2,347
Other pension costs	5,171	-	5,171	4,623
Agency/temporary staff	-	1,609	1,609	1,566
<b>Total</b>	<b>33,471</b>	<b>1,609</b>	<b>35,080</b>	<b>32,748</b>

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 Forest Enterprise England is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the PCSPS as at 31 March 2012. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation.

For 2017-18, employers' contributions of £5,109,000 were payable to the PCSPS (2016-17: £4,778,000) at one of four rates in the range 20.0% to 24.5% 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 2017-18 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 £66,000 (2016-17: £66,000) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and ranged from 8% to 14.75% of pensionable earnings (2016-17: 8% to 14.75%).

Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £2,400, 0.5% of pensionable pay (2016-17: £2,200 0.5%), 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.

**Ill-health retirement**

One person (2016-17: two) retired early on ill health grounds; the total additional accrued pension liabilities in the year amounted to £300 (2016-17: £11,200).

## Sickness absence data

Year	Working days lost per staff year	
	Forestry Commission	Forest Enterprise England
2017-18	10.5	9.3
2016-17	10.1	11.1
2015-16	10.5	7.4

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, including 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 as well as launching new safety training for our own managers and staff.

## Accidents

The following figures set out the reportable incidence in accordance with 'Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013' in 2017-18 and the preceding years.

RIDDOR accidents per 100 employees	
Year	Number
2017-18	0.10
2016-17	0.85
2015-16	0.44

During the year there were 18 incidents involving members of the public that were incorrectly reported as RIDDOR incidents. None were followed up by the regulatory authority.

We continue to monitor our health and safety performance and strive to make our woodlands and workplaces safer places.

## Staff policies

### Leadership development programme

Forest Enterprise England has further developed our bespoke leadership behavioural model and development programme. It is a way of leading and behaving that should achieve improved staff engagement, a happy workforce, fewer absences, and improved safety outcomes, alongside delivering the corporate plan. We are seeing positive change from those engaging with the new leadership behaviours. Managers and staff are testing out and reporting favourably upon the development resources available to them. During 2018, the leadership behaviours will become a feature in staff objectives.

### Training

The following training and workshops were rolled out in 2017-18:

- 1,568 training days covering a wide range of technical topics were delivered by a combination of in-house and external trainers
- leadership framework workshops, provided by Cambridge Strategy Centre to 92 managers
- absence management and recruitment workshops, delivered by HR business partners to district teams
- employment law updates provided by Eversheds (Forest Enterprise England's legal advisors)
- mental health first aid workshops, delivered by MIND to 129 members of staff

All workshops were positively received and more are planned in 2018, including the leadership framework workshops for the next tier of managers.

### Diversity, inclusion and wellbeing

Forest Enterprise England continues to strive towards building a diverse and inclusive environment for all staff and visitors. An equality monitoring report is produced annually.

Wellbeing and mental health are a strong area of focus and there are now 65 trained mental health first aiders. A new occupational health and employee assistance programme provider has been appointed and there has been increased awareness of the ways to minimise the stigma around mental health issues.

### **New personnel and payroll system**

As part of the transfer of corporate services from Central Services to England, a new HR system has been purchased. Under current arrangements, HR data is entered and stored on two separate, un-interfaced, systems. In addition, the ability to provide meaningful management reports is limited.

The iTrent Employee and Manager Self Service and Manager Self Service applications and Payroll and Expenses application address these issues and replace existing systems from 1 April 2018. The Learning and Development module will be launched in October 2018.

### **Employee consultation and trade union relationship**

Forest Enterprise England continues to have a strong relationship with the Forestry Commission trade unions. To encourage employee consultation and communication, a staff council meeting is held each year for the whole Forestry Commission. Regional staff council meetings are held three times a year and a Bristol staff council meeting is held twice a year. Key issues discussed include the devolution of work from Central Services to England, tenant rents and health and safety issues.

### **Workforce planning, job evaluation and apprentices**

Workforce plans have been produced for each district. These plans include identification of individuals who are a flight risk, succession planning, and identification of difficult to fill roles.

HR staff in England are trained to carry out job evaluations, previously done by staff in Central Services.

Two apprentices are undertaking level 3 supervisory management (one more to be recruited) and one level 5 senior leadership apprenticeship has been advertised.

### **Expenditure on consultancy**

During the year Forest Enterprise England incurred £134,000 costs on consultancy; £8,000 for tax advice, £6,000 for procurement advice and £120,000 for ICT transition from central services to England (2016-17: £173,000 for tax advice and other consultancy services).

### **Expenditure on agency and temporary staff**

Costs incurred on agency and temporary staff during the year total £1,609,000 (2016-17: £1,566,000).

### **Reporting of civil service and other compensation schemes – exit packages**

(subject to audit)

No staff members left under voluntary exit or voluntary redundancy terms in the year to 31 March 2018 (2016-17: nil). Therefore compensation payments totalled £nil (2016-17: £nil).

No staff members left under compulsory redundancy terms in the year to 31 March 2018 (2016-17: nil). Therefore compensation payments totalled £nil (2016-17: £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 figures above.

## Other accountability matters

### Losses and special payments

(subject to audit)

		2017-18		2016-17
	Number	£000	Number	£000
Losses	40	122	53	242
Special payments	182	350	189	331
Total	222	472	242	573

Larger claims include an employers' liability deafness claim of £39,000, a public liability mountain bike claim for £41,000 and a public liability subsidence claim for £34,000.

### Remote contingent liabilities

(subject to audit)

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.

Simon Hodgson  
11 June 2018  
Accounting Officer  
Forest Enterprise England

## Independent auditor's report to the House of Commons

### Opinion on financial statements

I certify that I have audited the financial statements of Forest Enterprise England for the year ended 31 March 2018 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Income, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

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 2018 and of the surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

### Opinion on regularity

In my opinion, in all material respects the income and expenditure 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.

### Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are

further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of Forest Enterprise England in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Responsibilities of the Accounting Officer for the financial statements

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.

### Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and

maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Forest Enterprise England's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Forest Enterprise England's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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.

### **Other information**

The Chief Executive as Accounting Officer is responsible for the other information. The other information comprises information included in the Performance Report and Parliamentary Accountability Report, other than the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

### **Opinion on other matters**

In my opinion:

- the parts of the Parliamentary Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;



- in the light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report and Parliamentary Accountability Report; 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 and have been prepared in accordance with the applicable legal requirements.

### **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 parts of the 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** 14 June 2018

**Comptroller and Auditor General**  
National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London SW1W 9SP



## Financial statements

### Statement of comprehensive income

for the year ended 31 March 2018

		<b>2017-18</b>	<b>2016-17</b>
	Note	£000	£000
Income	3	77,365	73,757
Staff costs	4	(35,080)	(32,748)
Other costs	4	(58,498)	(58,886)
Value of felled timber	5/6	(25,701)	(21,882)
Impairment on property, plant and equipment	5	(450)	(69)
<b>Operating (deficit) before gain on revaluation of biological assets</b>		<b>(42,364)</b>	<b>(39,828)</b>
Gain on revaluation of biological assets	6	155,356	23,792
<b>Operating surplus/(deficit) after gain on revaluation of biological assets</b>		<b>112,992</b>	<b>(16,036)</b>
Funding received from Forestry Commission England/Central Services		19,468	28,037
Interest on Forest Holiday investment		156	213
Gain/(loss) on sale of properties		325	(171)
<b>Surplus for the year</b>		<b>132,941</b>	<b>12,043</b>
<b>Other comprehensive income</b>			
Net gain on revaluation of property, plant and equipment	5	515,172	58,514
Net gain on revaluation of available for sale financial assets	7	1,468	2,920
Net gain on revaluation of partnership lease receivables	9	2,516	469
<b>Total other comprehensive income for the year</b>		<b>519,156</b>	<b>61,903</b>
<b>Total comprehensive income</b>		<b>652,097</b>	<b>73,946</b>

The notes on pages 43 to 70 form part of these accounts.

## Statement of financial position

as at 31 March 2018

		<b>31 March 2018</b>	<b>31 March 2017</b>
	Note	£000	£000
<b>Non-current assets</b>			
Property, plant and equipment	5	2,057,959	1,553,208
Biological assets	6	317,508	171,926
Financial assets	8	15,993	14,525
Trade and other receivables	9	8,040	7,808
<b>Total non-current assets</b>		<b>2,399,500</b>	<b>1,747,467</b>
<b>Current assets</b>			
Non-current assets held for sale		1,057	2,982
Inventories		2,262	2,176
Trade and other receivables	9	15,578	15,662
Cash and cash equivalents	10	24,251	24,921
<b>Total current assets</b>		<b>43,148</b>	<b>45,741</b>
<b>Total assets</b>		<b>2,442,648</b>	<b>1,793,208</b>
<b>Current liabilities</b>			
Trade and other payables	11	(9,330)	(11,908)
Provisions	12	(211)	(139)
<b>Total current liabilities</b>		<b>(9,541)</b>	<b>(12,047)</b>
<b>Total assets less current liabilities</b>		<b>2,433,107</b>	<b>1,781,161</b>
<b>Non-current liabilities</b>			
Trade and other payables	11	(17,470)	(17,592)
Provisions	12	(37)	(66)
<b>Total non-current liabilities</b>		<b>(17,507)</b>	<b>(17,658)</b>
<b>Total assets less total liabilities</b>		<b>2,415,600</b>	<b>1,763,503</b>
<b>Taxpayers' equity</b>			
General fund		497,721	361,466
Revaluation reserve		1,917,879	1,402,037
<b>Total taxpayers' equity</b>		<b>2,415,600</b>	<b>1,763,503</b>

Simon Hodgson  
11 June 2018  
Accounting Officer  
Forest Enterprise England

The notes on pages 43 to 70 form part of these accounts.

## Statement of cash flows

for the year ended 31 March 2018

		<b>2017-18</b>	<b>2016-17</b>
	Note	£000	£000
<b>Cash flows from operating activities</b>			
Net surplus for the year		132,941	12,043
Adjustments for non-cash transactions:			
(Profit)/loss on disposal of property, plant and equipment		(276)	161
Depreciation	5	5,232	5,084
Property, plant and equipment written off	5	-	223
(Gain) on revaluation of biological assets	6	(155,356)	(23,792)
Value of fellings	5/6	25,701	21,882
Decrease in plant and seed (biological assets)	6	139	588
(Increase) in inventories		(86)	(567)
Decrease/(increase) in trade and other receivables	9	(1,028)	(2,233)
(Decrease)/increase in trade and other payables	11	(2,228)	86
Movements in provisions	12	212	1,894
Use of provisions	12	(169)	(2,490)
Impairment of property, plant and equipment and write-off of revaluation reserve	5	450	69
Finance lease additions		(64)	(86)
Profit on revaluation of partnership lease receivables	9	2,516	469
Deferred income released	11	(472)	(689)
<b>Net cash inflow from operating activities</b>		<b>7,512</b>	<b>12,642</b>
<b>Cash flows from investing activities</b>			
Proceeds from disposal of non-financial assets		2,383	108
Interest on investments		880	-
Purchase of non-financial assets		(11,445)	(7,949)
<b>Net cash (inflow) from investing activities</b>		<b>(8,182)</b>	<b>(7,841)</b>
<b>Net (decrease)/increase in cash and cash equivalents in the period</b>		<b>(670)</b>	<b>4,801</b>
<b>Cash and cash equivalents at the beginning of the period</b>	10	<b>24,921</b>	<b>20,120</b>
<b>Cash and cash equivalents at the end of the period</b>	10	<b>24,251</b>	<b>24,921</b>

The notes on pages 43 to 70 form part of these accounts.

## Statement of changes in taxpayers' equity

for the year ended 31 March 2018

	Note	General Fund £000	Revaluation Reserve £000	Total £000
<b>Balance at 1 April 2016</b>		<b>348,490</b>	<b>1,341,067</b>	<b>1,689,557</b>
<b>Changes in taxpayers' equity for 2016-17</b>				
Net gain on revaluation of property, plant and equipment	5	-	61,434	61,434
Realised element of revaluation reserve		464	(464)	-
Net gain on revaluation of partnership lease receivables	9	469	-	469
Net surplus for the year		12,043	-	12,043
<b>Total recognised income and expense for 2016-17</b>		<b>12,976</b>	<b>60,970</b>	<b>73,946</b>
<b>Balance at 31 March 2017</b>		<b>361,466</b>	<b>1,402,037</b>	<b>1,763,503</b>
<b>Balance at 1 April 2017</b>		<b>361,466</b>	<b>1,402,037</b>	<b>1,763,503</b>
<b>Changes in taxpayers' equity for 2017-18</b>				
Net gain on revaluation of property, plant and equipment	5	-	516,640	516,640
Realised element of revaluation reserve		798	(798)	-
Net gain on revaluation of partnership lease receivables	9	2,516	-	2,516
Net surplus for the year		132,941	-	132,941
<b>Total recognised income and expense for 2017-18</b>		<b>136,255</b>	<b>515,842</b>	<b>652,097</b>
<b>Balance at 31 March 2018</b>		<b>497,721</b>	<b>1,917,879</b>	<b>2,415,600</b>

The notes on pages 43 to 70 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 England, Director Central Services and the Chair of the National Committee for Scotland. 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*

IAS 19, Employee Benefits, requires us to recognise a liability when an employee has provided service in exchange for benefits to be paid in the future. This includes holiday accrued during the financial year, but not taken by the 31 March. The holiday pay accrual is calculated based on a sample of employees.

### **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 2017, Savills, Chartered Surveyors were appointed as the Forestry Commission's valuers as from the full valuation as at 31 March 2018. 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.

#### *Trees not apportioned to biological assets*

Trees falling outwith 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.



*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 2018). 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 2018.

Other land has been categorised into its component parts as follows:

- Open land - valued by qualified internal surveyors
- Agricultural land – valued by qualified internal surveyors
- Telecom masts – valued by Strutt and Parker, Chartered Surveyors
- Wayleaves – valued by qualified internal surveyors
- Quarries and mineral workings – valued by Wardell Armstrong, Chartered Surveyors
- Car parks, trails and picnic areas - valued by qualified internal surveyors
- Community woodlands - internal chartered surveyors assessed the components of the woodlands and determined that the woodlands consist of three main components which are listed below together
  - Land
  - Landscaping and planting
  - Infrastructure

*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 2018). 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 2018 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	lesser of unexpired term of lease and 16

under a finance lease  
Information technology

years  
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 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 Group Limited 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 Partnership loan	Investments within note 8
Partnership lease	Trade and other receivables within note 9
	Trade and other receivables within note 9

### 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 outwith 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, with the last full valuation carried out as at 31 March 2018. As detailed above, the valuation was 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.

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 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 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. 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. In applying IFRS 8, management has determined that Forest Enterprise England operates as one operating segment.

### 1.19 Foreign currency translation

#### *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.

#### *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.

#### *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.

*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.

*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.

*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.

*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.

*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.

#### *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.

#### *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.

#### *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.

### *Other financial liabilities*

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

statements will be required following the introduction of these standards. IFRS 16 is expected to have some impact in financial reporting terms. This impact will be assessed when further guidance is forthcoming from HM Treasury.

### **1.24 Effective in these financial statements**

All International Financial Reporting Standards (IFRS), interpretations and amendments effective at 31 March 2017 have been adopted in these statements.

### **1.25 Effective for future financial years**

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, requires disclosures in respect of new IFRSs, amendments and interpretations that are, or will be applicable after the reporting period. There are a number of IFRSs, amendments and interpretations that have been issued by the International Accounting Standards Board that are effective for future reporting periods. Those with relevance to Forest Enterprise England are outlined below. None have been adopted early.

- IFRS 15 – Revenue from Contracts with Customers. This is effective from 1 January 2018. This standard replaces all existing IFRS guidance on revenue recognition.
- IFRS 9 – Financial Instruments. This is effective from 1 January 2018. This standard brings together all three phases of the financial instruments project: Classification and Measurement; Impairment and Hedge Accounting.
- IFRS 16 – Leases. This standard is effective from 1 January 2019. It will supersede all existing IFRS on leases. It is likely to result in a uniform accounting treatment for all leases, with the distinction between operating and finance leases removed.

Forest Enterprise England will apply the standards at their formal effective dates. For IFRS 9 and IFRS 15 it is not anticipated that material adjustments to the financial



## **Note 2: Critical accounting estimates and judgements**

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

### **Critical accounting judgements and 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 outwith 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 outwith 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 hectares and 70 hectares was designated for Social and Environmental purposes then reasonable information can be derived from estimating that 70 per cent of the district's trees were outwith 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 2018. 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 outwith 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 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 outwith its scope. Land and biological assets falling outwith 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 2017-18 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.

Forest Enterprise England 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.

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 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 components of other land and together with the source of the valuation.

*Dwellings and other buildings*

Other buildings primarily include 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.

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: Income**

	<b>2017-18</b>	<b>2016-17</b>
	£000	£000
<b>Sale of goods</b>		
Timber	43,350	38,948
Retail and other goods	3,119	4,435
	<b>46,469</b>	<b>43,383</b>
<b>Services rendered</b>		
Sustainable forest management	3,769	3,763
Forest estate	3,966	4,652
Recreation and public affairs	21,393	21,323
	<b>29,128</b>	<b>29,738</b>
<b>Royalties</b>		
Mineral income	717	636
	<b>717</b>	<b>636</b>
<b>Administrative income and recharges</b>	<b>1,051</b>	<b>-</b>
<b>Total income</b>	<b>77,365</b>	<b>73,757</b>

**Note 4: Staff and other costs**

	<b>2017-18</b>	<b>2016-17</b>
	£000	£000
<b>Staff costs: <sup>1</sup></b>		
Wages and salaries	25,829	24,212
Social security costs	2,471	2,347
Other pension costs	5,171	4,623
Agency and temporary staff	1,609	1,566
	<b>35,080</b>	<b>32,748</b>
<b>Other costs:</b>		
Staff transfers	242	363
Computer costs	1,401	162
Travel and subsistence	1,163	1,032
Accommodation	1,363	1,314
Communication	239	209
Training	362	246
Losses and compensation	254	336
Legal expenses	617	413
Auditors' remuneration - audit work	101	91
Shared central services	5,537	6,653
Sustainable forest management	23,865	24,398
Forest estate	1,952	1,965
Recreation and public affairs	13,844	13,057
	<b>50,940</b>	<b>50,239</b>
<b>Rentals under operating leases:</b>		
Hire of plant and equipment	1,660	1,212
Operating lease rentals:		
Land and buildings	377	375
Plant and machinery	77	82
	<b>2,114</b>	<b>1,669</b>
<b>Non-cash costs:</b>		
Depreciation of property, plant and equipment	5,232	5,084
Provisions –		
Provided in year	251	1,961
Provisions not required written back	(38)	(81)
Unwinding of discount	(1)	14
	<b>5,444</b>	<b>6,978</b>
<b>Total</b>	<b>93,578</b>	<b>91,634</b>

1. Further analysis of staff costs is available in the Staff Report on page 31.

**Note 5: Property, plant and equipment**

	<b>Forest Estate</b>	<b>Other Land</b>	<b>CITF and Forest Holidays Land</b>	<b>Dwellings and Other Buildings</b>	<b>VME</b>	<b>OME</b>	<b>AUC</b>	<b>Total</b>
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Valuation</b>								
At 31 March 2017	1,226,357	217,169	9,188	109,323	15,621	541	4,622	1,582,821
Additions	4,142	87	-	524	1,781	86	4,889	11,509
Transfers	-	-	-	6,424	-	270	(6,694)	-
Transfer to NCAHFS	-	-	-	-	-	-	-	-
Disposals	-	-	-	(479)	(1,195)	(51)	-	(1,725)
Fellings	(16,066)	-	-	-	-	-	-	(16,066)
Write-off	-	-	-	-	-	-	-	-
Revaluation	445,616	45,711	4,109	8,590	180	16	-	504,222
Impairment	-	-	-	(443)	(7)	-	-	(450)
<b>At 31 March 2018</b>	<b>1,660,049</b>	<b>262,967</b>	<b>13,297</b>	<b>123,939</b>	<b>16,380</b>	<b>862</b>	<b>2,817</b>	<b>2,080,311</b>
<b>Depreciation</b>								
At 31 March 2017	-	-	-	21,619	7,893	101	-	29,613
Provided during year	-	-	-	3,326	1,821	85	-	5,232
Disposals	-	-	-	(375)	(1,157)	(11)	-	(1,543)
Revaluation	-	-	-	(10,994)	42	2	-	(10,950)
<b>At 31 March 2018</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,576</b>	<b>8,599</b>	<b>177</b>	<b>-</b>	<b>22,352</b>
<b>Net Book Value</b>								
<b>At 31 March 2018</b>	<b>1,660,049</b>	<b>262,967</b>	<b>13,297</b>	<b>110,363</b>	<b>7,781</b>	<b>685</b>	<b>2,817</b>	<b>2,057,959</b>
At 31 March 2017	1,226,357	217,169	9,188	87,704	7,728	440	4,622	1,553,208
Owned	1,620,045	262,967	13,297	110,363	6,955	685	2,817	2,017,129
Finance Leased	40,004	-	-	-	826	-	-	40,830
<b>Total</b>	<b>1,660,049</b>	<b>262,967</b>	<b>13,297</b>	<b>110,363</b>	<b>7,781</b>	<b>685</b>	<b>2,817</b>	<b>2,057,959</b>

	<b>Forest Estate</b>	<b>Other Land</b>	<b>CITF and Forest Holidays Land</b>	<b>Dwellings and Other Buildings</b>	<b>VME</b>	<b>OME</b>	<b>AUC</b>	<b>Total</b>
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Valuation</b>								
At 31 March 2016	1,179,347	222,563	7,757	105,965	14,209	414	2,558	1,532,813
Additions	690	-	-	-	2,229	23	5,093	8,035
Transfers	-	-	-	2,635	91	80	(2,806)	-
Transfer to NCAHFS	(1,322)	(549)	-	-	-	-	-	(1,871)
Disposals	-	-	-	(221)	(1,226)	(6)	-	(1,453)
Fellings	(12,956)	-	-	-	-	-	-	(12,956)
Write-off	-	-	-	-	-	-	(223)	(223)
Revaluation	60,598	(4,845)	1,431	1,013	318	30	-	58,545
Impairment	-	-	-	(69)	-	-	-	(69)
<b>At 31 March 2017</b>	<b>1,226,357</b>	<b>217,169</b>	<b>9,188</b>	<b>109,323</b>	<b>15,621</b>	<b>541</b>	<b>4,622</b>	<b>1,582,821</b>
<b>Depreciation</b>								
At 31 March 2016	-	-	-	18,448	7,178	56	-	25,682
Provided during year	-	-	-	3,316	1,720	48	-	5,084
Disposals	-	-	-	(44)	(1,134)	(6)	-	(1,184)
Revaluation	-	-	-	(101)	129	3	-	31
<b>At 31 March 2017</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21,619</b>	<b>7,893</b>	<b>101</b>	<b>-</b>	<b>29,613</b>
<b>Net Book Value</b>								
<b>At 31 March 2017</b>	<b>1,226,357</b>	<b>217,169</b>	<b>9,188</b>	<b>87,704</b>	<b>7,728</b>	<b>440</b>	<b>4,622</b>	<b>1,553,208</b>
At 31 March 2016	1,179,347	222,563	7,757	87,517	7,031	358	2,558	1,507,131
Owned	1,171,488	217,169	9,188	87,704	6,258	440	4,622	1,496,869
Finance Leased	54,869	-	-	-	1,470	-	-	56,339
<b>Total</b>	<b>1,226,357</b>	<b>217,169</b>	<b>9,188</b>	<b>87,704</b>	<b>7,728</b>	<b>440</b>	<b>4,622</b>	<b>1,553,208</b>

Savills, Chartered Surveyors, carried out a professional valuation of the Forest Estate as at 31 March 2018. The next professional valuation is due on 31 March 2023. In the intervening years, the assets are revalued using specialist forestry indices developed and provided by Savills.

The full valuation as at 31 March 2018 has led to a significant increase in the value of the Public Forest Estate, as disclosed in these accounts. The UK forestry land market posted another year of strong performance in 2017-18. Underpinning the forestry land market, domestic timber prices have continued to climb, supported by a weaker sterling and the

increasing demand for wood in biomass and construction. This increase in timber prices is reflected in the year on year increase in our timber income, as disclosed in Note 3 of these accounts.

Average forestry land values are diverse and factors such as location, access, tree species, average age and timber volume/quality all have an influence on the price paid which varies across the regions. However, the most significant driver of forestry land values is timber prices. Should timber prices weaken in the future, we would expect to see a reduction in the fair value of the Public Forest Estate.

Other Land, Dwellings, and Other Buildings were valued as at 31 March 2018 by professionally qualified staff employed by Forest Enterprise England. The results of this valuation were also subject to professional review by Savills. The next professional valuation is due on 31 March 2023. In the intervening years, the assets are revalued using the indices detailed in note 1.6.

Vehicles, machinery and equipment (VME) is valued at five-year intervals. A professional valuation took place on 31 March 2016. Professionally qualified staff employed by Forest Enterprise England undertook the valuation. In the intervening years, revaluations are on the basis of indices provided by the Office for National Statistics or internal professional staff, as appropriate.

Office machinery and equipment (OME) was restated to current value at 31 March 2018 using an index provided by the Office for National Statistics.

Assets under construction (AUC) are not depreciated until completed.

**Note 6: Biological assets**

Movements on biological assets during the year were as follows:

	<b>2017-18</b>	<b>2016-17</b>
	£000	£000
Balance at 1 April	171,926	157,702
Fellings	(9,635)	(8,926)
Movement on plant and seed	(139)	(588)
Transferred to NCAHFS	-	(54)
Gains and losses arising from changes in fair values	155,356	23,792
<b>Balance at 31 March</b>	<b>317,508</b>	<b>171,926</b>

The carrying value of biological assets at 31 March, analysed between plant and seed, and timber, was as follows:

	<b>31 March 2018</b>	<b>31 March 2017</b>
	£000	£000
Plant and seed	3,928	4,067
Timber	313,580	167,859
<b>Total biological assets</b>	<b>317,508</b>	<b>171,926</b>

Timber growing on the Public Forest Estate is categorised as biological assets, or as other timber, depending on the strategic objective the land is held to meet. Other timber is outwith the scope of IAS 41, and not included in the disclosures above.

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

<b>Forest District</b>	<b>31 March 2018</b>	<b>31 March 2017</b>
	<b>Area ha</b>	<b>Area ha</b>
North	33,883	33,951
Yorkshire	580	579
Central	2,717	2,721
East	1,979	1,975
West	5,275	5,250
South	2,290	2,317
<b>Total hectares</b>	<b>46,724</b>	<b>46,793</b>

Savills Chartered Surveyors carried out a full valuation of the Public Forest Estate, including biological assets, at 31 March 2018. The next full valuation is due for 31 March 2023. Apportionment of biological assets was carried out by Forest Enterprise England staff using the judgements and estimates outlined in 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 conversation with its valuers to gauge market movements during the course of the year.



**Note 7: Financial instruments****Financial instruments by category**

	31 March 2018			31 March 2017		
	Loans and receivables	Available for Sale	Total	Loans and receivables	Available for Sale	Total
	£000	£000	£000	£000	£000	£000
<b>Assets as per the SFP</b>						
Available-for-sale financial assets	-	15,993	15,993	-	14,525	14,525
Trade and other receivables (excluding prepayments)	22,191	-	22,191	22,265	-	22,265
Cash and cash equivalents	24,251	-	24,251	24,921	-	24,921
<b>Total</b>	<b>46,442</b>	<b>15,993</b>	<b>62,435</b>	<b>47,186</b>	<b>14,525</b>	<b>61,711</b>

	31 March 2018			31 March 2017		
	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
	£000	£000	£000	£000	£000	£000
<b>Liabilities as per the SFP</b>						
Finance lease liabilities	-	2,746	2,746	-	3,197	3,197
Trade and other payables excluding statutory liabilities	-	22,323	22,323	-	25,177	25,177
<b>Total</b>	<b>-</b>	<b>25,069</b>	<b>25,069</b>	<b>-</b>	<b>28,374</b>	<b>28,374</b>

**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.

**Investments in non-public sector bodies (available for sale financial assets)**

	2017-18	2016-17
	£000	£000
Balance at 1 April	14,525	11,605
Net gain transfer to equity	1,468	2,920
<b>Balance at 31 March</b>	<b>15,993</b>	<b>14,525</b>

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

In December 2017 a £110 million refinancing of the Forest Holidays business was completed. This included the repayment of all Forestry Commission loan notes invested in 2012 and the restructuring of the Forestry Commission's equity interest in the company leaving it with a 13.4% (2016-17 17.6%) economic interest in the larger company. The new majority investor is Phoenix Equity Partners. Lloyds Development Capital, the outgoing investor has retained a stake. The refinancing will provide access for capital funding of up to £60 million to develop up to six new cabin sites across England, Scotland and Wales.

The fair value of our investments in Forest Holidays Group Limited and Camping the Forest LLP were determined by Bilfinger GVA, specialist leisure consultants and chartered surveyors. The fair values are dependent on the prevailing conditions of the UK economy, especially the leisure industry: changes in tourism habits, particularly changes in the 'staycation' market, could positively or negatively impact on future valuations. The fair values are also affected by the current performance and future business plans of each organisation.

Changes in the fair value of investments are disclosed within Other Comprehensive Income in the Statement of Comprehensive Income.

Forest Enterprise England's investments in Forest Holidays Group Limited and Camping in the Forest LLP date back to 2006. The 2017 refinancing follows a restructuring and refinancing in 2012. Although the investments are disclosed as available-for-sale financial assets, the Forestry Commissioners have no current plans to dispose of or otherwise change the investment in either Forest Holidays Group Limited or Camping in the Forest LLP.

### Note 8: Financial assets

	<b>CITF and Forest Holidays Investment 2017-18</b>	<b>CITF and Forest Holidays Investment 2016-17</b>
	£000	£000
At 1 April	14,525	11,605
Revaluation to current prices	1,468	2,920
<b>At 31 March 2018</b>	<b>15,993</b>	<b>14,525</b>

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

The fair values of Forest Enterprise England's investments in Forest Holidays Group Limited and Camping in the Forest LLP were as follows:

	<b>31 March 2018</b>	<b>31 March 2017</b>
	£000	£000
Forest Holidays Group Limited	12,800	12,250
Camping in the Forest LLP	3,193	2,275
<b>Total</b>	<b>15,993</b>	<b>14,525</b>

Fair values were determined by Bilfinger GVA, specialist leisure consultants and chartered surveyors.

**Note 9: Trade receivables, financial and other assets**

	<b>31 March 2018</b>	<b>31 March 2017</b>
	£000	£000
<b>Amounts expected to be received within one year</b>		
Trade receivables	7,342	9,122
less provision for impairment of trade receivables	(80)	(33)
Trade receivables - net	7,262	9,089
Other receivables	942	1,812
House purchase and temporary loans to employees	19	22
Partnership lease	394	381
Prepayments and accrued income	6,961	4,358
	<b>15,578</b>	<b>15,662</b>
<b>Amounts expected to be received after more than one year</b>		
Partnership loan	-	2,264
Partnership lease	8,009	5,506
House purchase and temporary loans to employees	27	35
Prepayments and accrued income	4	3
	<b>8,040</b>	<b>7,808</b>
<b>Total receivables</b>	<b>23,618</b>	<b>23,470</b>

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

As at 31 March 2018, trade receivables of £1,856,000 (2016-17: £1,295,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default.

**Note 10: Cash and cash equivalents**

	<b>2017-18</b>	<b>2016-17</b>
	£000	£000
Balance at 1 April	24,921	20,120
Net change in balances	(670)	4,801
<b>Balance at 31 March</b>	<b>24,251</b>	<b>24,921</b>
	<b>31 March 2018</b>	<b>31 March 2017</b>
	£000	£000
Government Banking Service	24,219	24,900
Cash at commercial banks and cash in hand	32	21
<b>Total</b>	<b>24,251</b>	<b>24,921</b>

**Note 11: Trade payables and other liabilities**

	<b>31 March 2018</b>	<b>31 March 2017</b>
	£000	£000
<b>Amounts expected to be paid within one year</b>		
Trade payables	142	2,418
Other payables	53	32
Taxation and social security costs	155	140
VAT	219	627
Accruals	2,463	2,179
Deferred income	5,446	5,922
Current part of finance leases	317	563
Payments received on account	535	27
	<b>9,330</b>	<b>11,908</b>
<b>Amounts expected to be paid after more than one year</b>		
Deferred income	14,989	14,901
Payments received on account	52	57
Finance leases	2,429	2,634
	<b>17,470</b>	<b>17,592</b>
<b>Total payables</b>	<b>26,800</b>	<b>29,500</b>

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

**Note 12: Provisions for liabilities and charges**

	<b>Early departure costs</b>	<b>Legal claims</b>	<b>Other provisions</b>	<b>Total</b>
	£000	£000	£000	£000
<b>At 31 March 2016</b>	<b>117</b>	<b>118</b>	<b>566</b>	<b>801</b>
Provided in the year	2	135	1,824	1,961
Provisions not required written back	-	(58)	(23)	(81)
Provisions utilised in the year	(38)	(103)	(2,349)	(2,490)
Unwinding of discount	14	-	-	14
<b>At 31 March 2017</b>	<b>95</b>	<b>92</b>	<b>18</b>	<b>205</b>
Provided in the year	2	219	30	251
Provisions not required written back	-	(38)	-	(38)
Provisions utilised in the year	(30)	(123)	(16)	(169)
Unwinding of discount	(1)	-	-	(1)
<b>At 31 March 2018</b>	<b>66</b>	<b>150</b>	<b>32</b>	<b>248</b>

Analysis of expected timing of discounted flows:

	<b>Early departure costs</b>	<b>Legal claims</b>	<b>Other provisions</b>	<b>Total</b>
	£000	£000	£000	£000
Not later than one year	29	150	32	211
Later than one year and not later than five years	37	-	-	37
<b>At 31 March 2018</b>	<b>66</b>	<b>150</b>	<b>32</b>	<b>248</b>

**Early departure costs**

Forest Enterprise England meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. Forest Enterprise England provides for this in full when the early retirement programme becomes binding on Forest Enterprise England by establishing a provision for the estimated payments, and discounting the provision at the HM Treasury stipulated rate of 0.10%.

**Note 13: Capital commitments**

Amounts contracted for but not provided for in the accounts were as follows:

	<b>31 March 2018</b>	<b>31 March 2017</b>
	£000	£000
Property, plant & equipment	4,629	499

This relates to commitments for the Wendover visitor centre, High Lodge fibre optic project, Warren Cottage refurbishment, Delamere glasshouse containers and vehicle purchases.

**Note 14: Commitments under leases****Operating lease commitments**

Total future minimum lease commitments under operating leases are as follows:

	<b>31 March 2018</b>	<b>31 March 2017</b>
	£000	£000
<b>Land</b>		
Not later than one year	2	6
Later than one year and not later than five years	8	8
More than five years	77	84
<b>Total</b>	<b>87</b>	<b>98</b>
<b>Buildings</b>		
Not later than one year	375	369
Later than one year and not later than five years	1,390	1,403
More than five years	3,007	3,495
<b>Total</b>	<b>4,772</b>	<b>5,267</b>
<b>Plant and machinery</b>		
Not later than one year	77	82
Later than one year and not later than five years	37	67
More than five years	-	-
<b>Total</b>	<b>114</b>	<b>149</b>

**Finance lease commitments**

Total future minimum lease commitments under finance leases are as follows:

	<b>31 March 2018</b>	<b>31 March 2017</b>
	£000	£000
<b>Land</b>		
Not later than one year	168	174
Later than one year and not later than five years	613	635
More than five years	3,852	3,932
	<b>4,633</b>	<b>4,741</b>
Less: interest element	(2,204)	(2,283)
<b>Present value of obligations</b>	<b>2,429</b>	<b>2,458</b>
<b>Plant and machinery</b>		
Not later than one year	237	485
Later than one year and not later than five years	85	271
	<b>322</b>	<b>756</b>
Less: interest element	(6)	(16)
<b>Present value of obligations</b>	<b>316</b>	<b>740</b>

**Note 15: Other financial commitments**

Forest Enterprise England has entered into non-cancellable contracts for artists' fees and stage rental for the 'Forest Concert Tour 2018'. We have also entered into non-cancellable contracts for our new finance system and other IT systems for which payment will be due over the coming five years. The payments to which the agency is committed are analysed by the period during which the commitment expires as follows.

	<b>31 March 2018</b>	<b>31 March 2017</b>
	£000	£000
Not later than one year	5,887	3,505
Later than one year and not later than five years	786	-
<b>Total</b>	<b>6,673</b>	<b>3,505</b>

**Note 16: Lease receivables****Operating lease receivables**

Total future minimum lease receivables under non-cancellable operating leases are as follows:

	<b>31 March 2018</b>	<b>31 March 2017</b>
	£000	£000
<b>Land and buildings</b>		
Not later than one year	5,293	5,130
Later than one year and not later than five years	13,652	13,922
More than five years	76,485	77,188
	<b>95,430</b>	<b>96,240</b>

Forest Enterprise England leases land and buildings under agreements that terminate between April 2017 and May 2175.

**Finance lease receivables**

Total future minimum lease receivables under the Forest Holidays buildings lease are as follows:

	<b>31 March 2018</b>	<b>31 March 2017</b>
	£000	£000
<b>Buildings</b>		
Not later than one year	394	380
Later than one year and not later than five years	1,576	1,521
More than five years	25,609	25,864
	<b>27,579</b>	<b>27,765</b>
Less: interest element	(19,177)	(21,879)
<b>Present value of receivables</b>	<b>8,402</b>	<b>5,886</b>

**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 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, towards a formal Statement of Remediation.

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.



**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 £19,468,000 (2016-17: £28,037,000) from Forestry Commission England/Central Services.

Forest Enterprise England has had material transactions with various government departments and other central government bodies, including HM Treasury, the 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 activities were carried out with related parties:

<b>2017-18</b>	<b>Ground rent received</b>	<b>Income for other services</b>	<b>Purchases from related party</b>	<b>Amounts owed (to) by related party</b>
	£000	£000	£000	£000
Entities sponsored by Defra	-	72	90	39
Forest Holidays	669	254	22	9
Camping in the Forest	356	-	-	-
Grown in Britain	-	-	2	-
Forest Industry Safety Accord	-	-	5	-
	<b>1,025</b>	<b>326</b>	<b>119</b>	<b>48</b>

<b>2016-17</b>	<b>Ground rent received</b>	<b>Income for other services</b>	<b>Purchases from related party</b>	<b>Amounts owed (to) by related party</b>
	£000	£000	£000	£000
Entities sponsored by Defra	-	27	99	25
Forest Holidays	584	203	595	17
Camping in the Forest	346	87	250	-
Grown in Britain	-	-	4	-
Forest Industry Safety Accord	-	-	11	-
	<b>930</b>	<b>317</b>	<b>959</b>	<b>42</b>

All balances were unsecured and all transactions were carried out at arms' length.

Forest Holidays and Camping in the Forest are considered to be related parties for the purpose of these accounts. Simon Hodgson, in his capacity as Chief Executive of Forest Enterprise England, is a director of Camping in the Forest.

Transactions to support Grown in Britain to deliver and develop the partnership of public forests are disclosed as Simon Hodgson, Chief Executive of Forest Enterprise England, is a director of Grown in Britain. Additional transactions for hosting and updating the hardwood price curve and a grant towards home grown wood research occurred in 2017-18 between Grown in Britain and Forestry Commission England/Central Services totalling £14,800.

George McRobbie, a non-executive director of Forestry Commission England/Central Services, is a director of Tilhill Forestry. Tilhill Forestry has transactions with Forest Enterprise England which are disclosed in the Forestry Commission England/Central Services Annual Report and Accounts 2017-18. George McRobbie is also a steering group member of Grown in Britain.

Sir Harry Studholme, the non-executive Chair of the Forestry Commission, received woodland improvement grants from Forestry Commission England/Central Services, which are disclosed in the Forestry Commission England/Central Services Annual Report and Accounts 2017-18.

**Note 19: Events after 31 March 2018**

In accordance with the requirements of IAS 10, events after 31 March 2018 are considered up to the date on which the accounts are authorised for issue by the Accounting Officer. The authorised date for issue is the date of the Comptroller and Auditor General's audit certificate.

There were no reportable events after the end of the reporting period.



CCS0418409262

978-1-5286-0308-9