Annex A

GRAVETYE ACCOUNTING PAPER

Reference:

A. WILLIAM ROBINSON GRAVETYE CHARITY filing history
B. WRGC 2023-24 accounts.pdf
C. BDO Accounting Advice on the Gravetye Charity (attached)
D. NAO advice provided dated 16 April 2025
E. The Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2024
F. DAO 03 24 2024 25 (19 February).docx)
G. Government Financial Reporting Manual: 2024-25 - GOV.UK
H. Public sector classification guide and forward work plan - Office for National Statistics

1. Purpose

As a result of internal review by the Forestry Commission (FC), the William Robinson Gravetye Charity is not referred in its annual report and accounts despite the charity articles highlighting FC control over the entity (Articles and Memorandum in first filing at Reference A). This paper outlines this issue and provides a recommendation on the accounting for this entity going forward.

2. Background

William Robinson bequeathed the freehold of his estate, the Gravetye Estate in West Sussex, in trust, to the nation. His intention, according to the terms of his will was that the estate 'be held and utilised for the purposes of State Forestry under the control of Trustees or Managers….'.

In 1936, an independent Charity, the William Robinson Charity (registered Charity 256766) was set up to take ownership of the property, and Forestry Commissioners were appointed trustees.

The estate, which amounts to 258 hectares (the Charity is valued at c£10m as at FY23/24 accounts – see Reference B), was managed as part of the Forestry Commissions estate with the manor house and gardens, which was requisitioned for use by Canadian troops in WWII, falling in disrepair. In 1958 the manor house became a hotel and the house and gardens were subject to a long lease from 1965, with a number of changes since. The hotel and restaurant have been rejuvenated since 2010, with significant redevelopment in 2018. More details of the manor (hotel and restaurant) and the gardens can be found here: Gravetye Manor | 4-Star Luxury Countryside Hotel in Sussex

Forestry Commission

3. Forestry Commission Role

The surrounding land and woodland continued to be managed by the Forestry Commission as an integrated part of the estate and received little separate attention. However, in around 2000 it was recognised that the estate should have been operating separately to the public forest estate, with Commissioners themselves as Trustees of the Charity taking a direct role in the activities of the Charity. From 2000 the Commissioners took this direct role, managing the Charity and the estate through a sub-committee.

These arrangements were not considered sustainable or fit for purpose and there were further changes in 2009/2010 with the creation of a new Charity, the William Robinson Gravetye Charity (registered Charity 1136242). This new Charity incorporates the former Charity, and it is also a registered company limited by guarantee (no. 06876284). See Charity website here: Places to visit in Sussex | William Robinson Gravetye Charity

4. Current Responsibilities

The primary role of the Forestry Commission as the **sole member of the Charity**, **is the appointment (and removal) of the trustees for the Charity**. This is covered in paragraphs 4 to 9 of the Articles of Association. There is a requirement of between three and twelve trustees to the charity.

5. BDO Report

Following work to review the ability for Forestry England (FE) to create a charity of its own to support possible revenue streams, the ability for control and ownership was raised. This led the FC Finance Director to review Gravetye, and commission an independent review of its status by BDO (see Reference C attached).

The BDO review of the governing document of Gravetye, and other documents filed at Companies House, identified that the FC is the sole member of Gravetye, and that FC (as the sole member) has the right to appoint or remove the Trustees of Gravetye. FC, as the sole member, has wide ranging powers (should they wish to exercise it) including the ability to alter the composition of the Board. As a result, FC has the power to control the Board of Gravetye, and consequently Gravetye could be considered a subsidiary of FC and consolidated in accordance with IFRS 10[1] and the FReM[2].

The BDO report also provided alternative ways in which this control could be changed however as the 24/25 financial year had ended these point are moot for the purposes of the FC's 24/25 accounts, however these options (such as changing the articles, could be an option for the 25/26 accounts). The only outstanding points referred to the potential for exemptions and a Charity's Statement of Recognised Practice (SORP) being outside of

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[1] International Financial Reporting Standards 10 (Consolidated Financial Statements)
[2] Government Financial Reporting Manual

normal government practice. This was clarified by the NAO in Reference D. Charities can be consolidated into Departmental accounts as evidenced here for Museum of the Home in the DCMS ARA (see page 22). An exemption would not be provided, rather than there is the potential (as long as the argument is made) for not consolidating upon review of the designation order process.

Whilst the activities of the charity more closely align to FE it is not considered to be possible to consolidate in the Public Corporation accounts. This is due to the fact that the FC is highlighted in the articles as the controlling body, and where the charity has been discussed during the 24/25 financial year, this has been at the FC Commissioner's board (and is not sub-delegated to the FE CEO). Changes to articles and control within FC with reference to the charity would have to take place in FY25/26 to affect the accounting of the charity.

6. Designation Orders and Clear Line of Sight (CLOS)

Clear Line of Sight (CLOS) and the related government Designation Orders are designed to allow government bodies to be clear on what should be incorporated in their financial accounts. CLOS is designed to ensure that the financial information presented to Parliament for approval (estimates) and the accounts published after the financial year align with the departmental budgets. If clarity on what should be included in the FC accounts here with regard to Gravetye this could assist in whether to consolidate these accounts.

Whilst the FC is a non-ministerial government department (NMGD), historically it used to receive funding directly from the Treasury. This changed some years ago for administrative purposes and now receives its funding via Defra. Defra is covered here in Reference E at Part 12, with the FC implied as an Arm's Length Body (ALB) as agencies are not included. This is contrary to the Treasury Accounts Direction each year to FC (see Reference F which lists the FC as an Agency at Annex B).

The Government Financial Reporting Manual (FREM) at Reference G details at Chapter 8, Table 2 that:

"Agencies should follow the requirements of IFRS 10 only if the subsidiaries are within the controlling department's consolidation boundary". **This would imply a disclosure only in the FC's accounts for Gravetye and IRFS 12[3] only would apply.**

"ALBs should apply IFRS 10 without adaptation". **This would imply a consolidation of Gravetye into the FC's accounts, but would not form part of the consolidation into the Defra accounts.**

[3] International Financial Reporting Standards 12 (Disclosure of Interests in Other Entities)

7. Forestry Commission: ALB or Agency

As previously described, the FC is a NMGD. In the past this would have warranted a separate designation order at Reference E of its own through its own Departmental boundary ie before being administrated by Defra. In the FREM at Para 4.3.4 the form of designation is described as follows:

"In accordance with the principles set out in Managing Public Money, executive non-departmental and similar public bodies classified to central government by the ONS will

normally be controlled for accountability purposes by only one department and the designation order will require that they are consolidated by the department".

For the purposes of this statement in the FREM it is assumed that 'department' refers to bodies at Reference D at Part 12 ie Defra only (and not the FC). Both ALB and agency are terms used by Defra to describe the FC and neither term fits its status completely as it is a NMGD. Based on guidance the on Public bodies, ALB is the wider term for all sub-entities of Departments – and 'agency' is the sub-term used here:

An executive agency is a clearly designated unit of a central government department. It is administratively distinct, but legally remains a part of it. It focuses on delivering specific outputs within a framework of accountability to ministers.

As the FC is a NMGD it is sometimes referred to as an agency of Defra, as shorthand for its different status being closer to central government. The FC is rightly therefore consolidated into the Defra accounts as it is highlighted in Reference H of the Office of National Statistics (ONS) as being part of central government covered in the FREM (4.3.3):

Except where legislation requires otherwise, departments will account for subsidiary undertakings in accordance with the Group Accounting Standards only if they are designated for consolidation by order of the relevant authority under statutory instrument, which will reflect the ONS's classification of an entity to the central government sector.

The FREM (4.4.7) then goes further on what it considers an ALB to be:

Arm's length bodies refers to non-departmental public bodies, trading funds, and other entities designated to the departmental group, excluding the core department and its agencies.

The FC is neither an NDPB, nor a trading fund, but would be an agency in this context ie an ALB – but also and agency and therefore excluded from the overall ALB term in the FREM.

For completeness at Reference H, the Office of National Statistics (ONS) does not list the Gravetye Charity. As a result Gravetye is not classified by ONS as a public body and is not currently recognised as a designated body. This could be an oversight however and its non-existence in this document should not on its own, be a reason not to consolidate.

8. IFRS 10 Assessment

Due to the level of uncertainty on the above the following is an IFRS 10 assessment of the Gravetye charity. Under IFRS 10, an entity (the parent) must consolidate another entity (the subsidiary) if it controls that entity. Control is defined by three key elements and an additional government consideration:

- Power over the entity (e.g., through voting rights or contractual arrangements).
- Exposure or rights from involvement with the entity.
- Ability to use power to affect the entity.
- Use of the government FREM guidance (see section 7 above)

<u>Power Over the Entity</u>

Does the Forestry Commission have voting rights or the ability to appoint/remove key personnel at Gravetye?
Yes. As discussed in the BDO paper in Reference C, the FC is the sole member of the Charity, is the appointment (and removal) of the trustees for the Charity.

Are there contractual arrangements that give the Forestry Commission decision-making authority?
Somewhat. Decision-making is made through the appointed Trustees. Decision-making is not carried out directly.

Can the Forestry Commission direct relevant activities (those that significantly affect Gravetye's outcomes)?
Not directly. Once the trustee is appointed, the FC has no direct control over day-to-day activities. The FC has the ability to remove trustees by virtue of clause 5 to the Articles. However the Charity Commission guidance emphasises that charities must maintain an arm's length relationship from its member and ensures that the charity exists for public benefit in accordance with FRS 102.

<u>Exposure from Gravetye's activities</u>

Does the Forestry Commission receive financial returns (e.g., dividends, cost savings, other economic benefits) from Gravetye?
No. There are no financial benefits, cost savings, or has no other economic interests. The entity has been working with minimum oversight from the FC. It has been working unfettered from the FC, other than the occasional appointment of a trustee (last one was

August 2022). Clause 5.2 of the Memorandum explicitly prevents any "...part of the income and property of the Charity may be paid or transferred directly or indirectly by way of benefit to the member...".

Is the Forestry Commission exposed to risks (e.g., losses, obligations) from its involvement with Gravetye?
No. There are no risks linked to the FC Re: Gravetye. Under clause 7 of the Memorandum ‘the member is liable to contribute a sum not exceeding £1 in the event of the company being wound up’. If there were assets on winding up the charity, these would likely return to the FC as the assets were to ‘be held and utilised for the purposes of State Forestry under the control of Trustees or Managers’. It should be noted however that this would be subject to the Charity Commission and any winding up scheme would need to be approved and net cash destination approved. This charity is a company limited by guarantee, meaning it is a non-profit organisation with a limited liability, according to Companies House.

<u>Link Between Power and Outcomes</u>

Can the Forestry Commission use its power to influence Gravetye outcomes?
Yes. As discussed this could only be through the removal of trustees through Clause 9 (and 5) of the Articles. It has never done so from known records however. In addition the ability to influence the decision of trustees would also come under scrutiny if not for public benefit from the Charity Commission.

Are there any barriers (legal, contractual, or practical) that prevent the Forestry Commission from exercising control?

Practically this given that this is charity run on goodwill on unpaid appointments, it is highly unlikely that the FC would exercise its control unless in extreme circumstances (such as mismanagement) which have not been tested. As discussed, this can only be achieved with the removal of trustees which is time consuming and would create issues on trust.

The Forestry Commission is a government department that is the sole member of Gravetye. It not publicly listed, nor does it issue financial instruments, and is consolidated into broader government financial statements and is therefore exempt from applying the equity method.

Conclusion

- Having considered these factors, whilst the FREM position is unclear because of the FC’s NMGD status it appears the FC should not consolidate the Gravetye charity because of the following:

a) Gravetye is not classified by the ONS as a government entity and;
b) The IFRS 10 assessment illustrates that the FC has control, it does not use those powers nor has exposure to its activities and;
c) Whilst the FREM is not entirely clear, the FC appears more like an agency than an ALB on the basis it is not a trading fund nor a NDPB and acts and in effect is a central department which is being administered by Defra through to HMT for efficiency and effective reasons and;
d) That Gravetye would not be consolidated into the Defra accounts in any account given the FREM guidance through CLOS, and thus would only be of interest to the FC accounts reader.

Proposed Disclosure

IAS 28 governs the accounting for investments where an entity has significant influence (typically 20%–50% ownership) over another entity, including joint ventures (but not joint operations). IFRS 11 on the other hand governs the accounting for joint operations: where parties have rights to assets and obligations for liabilities. Given that the FC is the sole member of Gravetye, IAS 28 should apply. Gravetye is not a joint operation ie two or more entities jointly operate Gravetye.

Under IAS 28, the equity method is used to account for investments in entities over which the member has significant influence, but not control or joint control. Whilst the FC has significant influence it is exempted from applying the equity method as per paragraph 17 of the standard as follows:

An entity <u>need not apply the equity method</u> to its investment in an associate or joint venture if:

The entity is a parent exempt from preparing consolidated financial statements under the scope exception in IFRS 10, paragraph 4(a); or all the following conditions are met:

- *It is a <u>wholly-owned or partially-owned subsidiary, and all other owners</u> (including those without voting rights) have been informed and <u>do not object</u> to not applying the equity method.*
- *Its <u>debt or equity instruments are not publicly traded</u>.*
- *It is <u>not in the process of filing</u> financial statements with a securities commission or similar body for the purpose of issuing instruments in a public market.*
- *Its <u>ultimate or intermediate parent</u> produces <u>publicly available IFRS-compliant consolidated financial statements</u>*

As a result the Key Disclosure Requirements for IAS 28 are as follows:

- Nature and extent of significant influence.
- Financial information of associates and joint ventures (e.g. total assets, liabilities, revenues, and profit/loss).
- Fair value of investments (if there are published price quotations).
- Unrealised gains/losses from transactions with associates/joint ventures.
- Contingent liabilities related to the investment.

As a result the following note to the FC Annual Report and Accounts is as follows:

Note 17: Investment in the William Robinson Gravetye Charity

The Forestry Commission is the sole member of the William Robinson Gravetye Charity (registered Charity 1136242), incorporated in the UK on 11 April 2009, with no changes in arrangements since this date. Whilst the Forestry Commission is the sole member of the entity, non-consolidation is aligned with the requirements of IFRS 10. The Forestry Commission appoints the trustees, but has no direct control over day-to-day activities. Furthermore, there are no financial benefits, cost savings, or other economic interests or risks arising from the charity pertaining to the Forestry Commission. Whilst the Forestry Commission could exercise its control in extreme circumstances through the removal of trustees, this has not been tested and the charity operates with minimum oversight.

The total net assets for the William Robinson Gravetye Charity for 2023-24 were £10,530,335. The accounts for 2024-25 have not yet been ratified, but are not considered to result in a material difference this valuation. There are no contingent liabilities relating to the Forestry Commission’s interest in the William Robinson Gravetye Charity.