

Forestry Commission Great Britain/England

Resource Accounts 2004-05

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Resource Accounts 2004-05

(For the year ended 31 March 2005)

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Contents

| | Page |
|--|------|
| Annual Report | 1 |
| Statement of Forestry Commissioners' and Accounting Officer's Responsibilities | 13 |
| Statement on Internal Control | 14 |
| Certificate and Report of the Comptroller and Auditor General | 18 |
| The Accounting Schedules: | |
| Schedule 1 – Summary of Resource Outturn | 20 |
| Schedule 2 – Operating Cost Statement | 22 |
| Schedule 3 – Consolidated Balance Sheet | 23 |
| Schedule 4 – Cash Flow Statement | 24 |
| Schedule 5 – Resources by Departmental Aim and Objectives | 25 |
| Notes to the Accounts | 26 |
| Schedule 3 (balance sheet) and related notes for core department only | 44 |
| Accounts Direction given by the Treasury | 51 |

Annual Report

Scope

1. Basis of Accounts

These accounts are prepared in accordance with a direction given by HM Treasury in pursuance of section 5(2) of the Government Resources and Accounts Act 2000.

2. Departmental Accounting Boundary

The Forestry Commission Great Britain/England Resource Accounts incorporate the following entities within the departmental boundary funded by the Westminster Parliament:

- Forestry Commission England.
- Forestry Commission Great Britain.
- Forest Research Agency.

Forest Enterprise England, an executive agency of Forestry Commission England, is a public corporation for national accounting. Accordingly, it is outside the departmental boundary for resource accounting with the net funding reflected in these accounts. Forestry Commission Scotland and Forestry Commission Wales each produce their own Resource Accounts.

From 1 April 2004, the Forestry Commission Main Estimate for Westminster was split into two Requests for Resources (RfRs) to separate the responsibilities of England and Great Britain. The full descriptions of the RfRs are:

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

3. Status

Forestry Commission England came into being on 1 April 2003 as a result of the Forestry Devolution Review, the recommendations of which were agreed by Forestry Ministers in Scotland, England and Wales. It is principally responsible to the Secretary of State for Environment, Food and Rural Affairs for leading the delivery of policy for forests, woodlands and associated businesses, including:

- The delivery of forestry programmes.
- Provision of expert advice and high quality research.

A Concordat came in to force on 25 April 2005 which sets out a Framework for Forestry Commission England and the Department for Environment, Food and Rural Affairs (Defra) to work together to develop and deliver forestry policy. It builds on a previous Pathfinder Concordat which was promulgated following the 2002 Forestry Devolution Review and has been evolved in the light of the Modernising Rural Delivery Review. The Concordat is not legally binding and it does not override the statutory duties or powers of either department. Rather, it is a statement of the principles which will guide relations between the Forestry Commission England and Defra. This will ensure sufficient communication and co-ordination to enable each to discharge their respective responsibilities effectively and efficiently. The Concordat respects the continuing distinction between the statutory functions of the Forestry Commissioners and those conferred on the Secretary of State for Environment, Food and Rural Affairs in respect of forestry matters.

Forestry Commission England remains part of the Forestry Commission. The legislative framework for forestry is principally the Forestry Acts 1967, 1979 and 1981, the Plant Health Act 1967, the Countryside Act (Scotland) 1967 and the Countryside Act 1958. The Government of Wales Act 1998, the Scotland Act 1998, and the subsequent statutory instruments, specified the Forestry Commission as a cross-border public authority. The legislation transferred the Ministers' responsibilities for forestry in Scotland and Wales to the Scottish Ministers and the National Assembly for Wales respectively, transferred ownership of land and property, and made various other changes to devolve forestry to Scotland and Wales.

The Forestry Commission's Great Britain functions cover international forestry policy, cross-cutting issues such as sustainable development, climate change, sustainable forest management, plant health, forest reproductive materials, research, statistics and trade, together with corporate matters in respect of the Forestry Commission's role as a Government Department. England's interests in such matters are safeguarded by Forestry Commission England being represented on the Board of the Forestry Commission and also at the Forestry Ministers' Group where policy on reserved matters is discussed.

The Forestry Commission has no policy responsibility for any non-departmental public body.

4. Responsibilities

Forestry Commission England has three main functions:

- Supporting Ministers and advising on the development and delivery of forestry policy;
- Regulating and supporting, through grant aid, the forestry sector to deliver public benefits in accordance with the Forestry Acts;
- Managing, through Forest Enterprise England, the public forest estate placed at the disposal of Forestry Commissioners.

In the wider context, a number of the Forestry Commission's functions are operated by agreement on a Great Britain basis and funded directly by Westminster. These include:

- European and International Forestry Policy – Working with other departments, a team formulates UK policy in international negotiations, develops the UK's national forest programme and advises on implementation of international and European obligations;
- Plant Health and Forest Reproductive Materials – The Plant Health Unit has the vital task of preventing entry of harmful pests and diseases from overseas. It also controls the marketing of forest seed, cones, cuttings and plants by approving basic material (e.g. stands, seed orchards), certifying reproductive material and inspecting the nursery trade;
- Forest Research – The Agency is a centre of excellence for scientific expertise in forestry. Along with external providers, it looks at issues such as sustainable forest management, climate change, biodiversity, woodland inventory, forest condition and threats to tree health, ways of measuring the social and environmental benefits of woodlands and improving the economic potential of home-grown timber;
- Setting and Monitoring Standards of Sustainable Forest Management – Developing the UK Forestry Standard setting out how the principles of sustainable forest management will be delivered in practice against international agreed criteria. The work includes monitoring the state of the UK forestry sector against UK Indicators of Sustainable Forestry published in 2002 and supporting the UK Woodland Assurance Standard which provides for the independent certification of forest management in the UK.

5. Aim and Objectives

The aims and objectives of Forestry Commission England flow from the England Forestry Strategy and from the wider objectives of Ministers. The Strategy is based on four key programmes which reflect wider policy objectives. The four programmes set out below are not mutually exclusive:

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

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

The Forest Research Agency has its own specific aims and objectives, drawn up in the context of the wider Forestry Commission aims and objectives. They are set out in the Agency’s Framework Document published in September 2003 and available on the Forestry Commission website at www.forestry.gov.uk.

6. Departmental Report

The Departmental Report 2005 for Defra was published in May 2005. Chapter 5 of the report gives an overview of the activities of Forestry Commission Great Britain/England over 2004-05 and looks ahead to what it aims to achieve, including its resource plans for 2005-06 and 2006-07. The latest Corporate Plan for England and Great Britain covers 2005-06 and is available on the Forestry Commission website at www.forestry.gov.uk.

7. Post-Balance Sheet events

There are no post-balance sheet events.

Operating and Financial Review

8. The business, its objectives and strategy

Forestry Commission England

Forestry Commission England is principally responsible to the Secretary of State for Environment, Food and Rural Affairs for leading the delivery of policy for forests, woodlands and associated businesses. The Forestry Commission has a National Committee for England which gives strategic direction to all its activities and which ensures that the Secretary of State’s requirements are met. The aims and objectives of Forestry Commission England flow from the England Forestry Strategy and from the wider objectives of Ministers.

England is one of the least wooded countries in the world and its woodland resource is one of the most intensively used. Of the woodland resource in England, 19% is owned or leased by the Forestry Commission and managed by Forest Enterprise England. A diverse range of other public bodies, charities and private owners owns the remainder. Half of the woodland area is currently the subject of active management plans agreed with Forestry Commission England. The potential of woodlands to contribute towards sustainable development priorities has not yet been fully realised. The four key programmes of the England Forestry Strategy are designed to tackle this challenge. Their effective interaction in accordance with the principles of sustainable forest management will support more woodlands across England, producing a wide range of public benefits. The strategic priorities for sustainable forest management are to:

- Increase awareness of how woodlands can help sustainable development and sustainable communities;
- Support the active management of woodlands to deliver public and private benefits;
- Increase understanding of woodlands contribution towards protecting the wider environment;
- Promote awareness about sustainable forest management principles and the UK Forestry Standard;
- Involve more woodland owners and wood users in implementing the England Forestry Strategy;
- Promote the preparation and implementation of long-term woodland plans;
- Use the public forest estate as an exemplar of sustainable forest management.

Woodlands provide significant income and work opportunities in many rural areas. Over 14,000 people are currently directly engaged in forestry and related wood-processing industries, woodland recreation and wildlife conservation work. Many more jobs are supported in the tourist industry by visitors to woodland attractions. Forestry Commission England’s priorities are to increase the contribution trees, woods and woodland based businesses make to the sustainable development of rural areas by:

- Strengthening the England forest industry’s competitiveness and its sustainable development;

- Encouraging the development of new markets;
- Fostering the use of wood as a source of renewable energy;
- Helping woodland-related businesses through advice and training;
- Helping land owners to utilise farm woodlands and diversify into forestry;
- Using Forest Enterprise England as an exemplar for sustainable rural development.

The Economic Regeneration Programme supports the government's wider policies for the regeneration and sustainable development of urban areas. Forestry Commission England utilises a suite of delivery mechanisms to promote and support the development and delivery of the programme. These include regional forestry frameworks, the England Woodland Grant Scheme, Forest Enterprise England, the Land Restoration Trust, and other partnership working. The aim is to use woodlands to support the Government's sustainable communities by:

- Promoting trees and woodlands as a critical component of green infrastructure planning;
- Increasing the role of trees and woodlands in and around towns and cities;
- Adding value to the work of the Government's regeneration agencies;
- Promoting the value of community forests and continuing to support existing community forests;
- Promoting long-term support and management to secure enduring public benefits.

England's forests and woodlands are a major resource for recreation, tourism and sport. In addition to the public forest estate, about 350,000 hectares of woodland currently provide access as part of plans agreed with Forestry Commission England. The aim is to use woodlands to deliver the Government's access and recreation policies realising the wider benefits from these activities by:

- Increasing access closer to where people live with more convenient access providing opportunities for all;
- Improving the information about access and recreational opportunities;
- Encouraging community participation in the planning, creation and sustainable management of woodlands;
- Promoting the benefits trees and woodlands bring to health and education;
- Advising landowners on recreational opportunities in woodlands;
- Enhancing the contribution made by the public forest estate.

Trees and woodlands play a critical role in the environment. They absorb carbon dioxide, protect natural resources and provide habitats for wildlife. They are also vital components of England's diverse and distinctive landscapes which contain a wealth of heritage and archaeological evidence. Managing existing and creating new woodland can help to protect vulnerable habitats and species, contribute to the finest designated countryside and improve the wider environment. Forestry Commission England aims to ensure that woodlands play a full role in delivering the Government's environmental policies by:

- Protecting the existing woodland resource, particularly ancient or semi-natural woodland;
- Enhancing the ecological 'condition' of woodland and conserving priority species associated with it;
- Improving the contribution of woodland, particularly those rich in wildlife, to people's quality of life;
- Increasing understanding of how woodlands protect the environment and fostering its ability to do so;
- Strengthening the contributions of woodlands to National Parks and Areas of Outstanding Natural Beauty;

- Ensuring that both new and existing woodlands help conserve and improve landscape character;
- Raising awareness and appreciation of woodland cultural heritage and protecting archaeological sites;
- Developing the public forest estate as an exemplar.

The National Office for England is based in Cambridge and is responsible for leading implementation of the Government's Forestry Strategy for England. The National Office is supported by 9 Conservancies (regional offices) which are responsible for carrying out regulatory and grant support functions and connecting the England Forestry Strategy to the distinctive needs of the regions.

Forestry Commission Great Britain

Forestry Commission England is part of the wider Forestry Commission, a Great Britain cross-border department responsible for forestry matters and which has a Board of Commissioners with duties and powers prescribed by statute. The Secretary of State for Environment, Food and Rural Affairs has overall responsibility for UK forestry interests within the European Union and for international negotiations on forestry, including the formulation of UK policy. The Secretary of State consults with Scottish Ministers, the National Assembly for Wales and the Northern Ireland Assembly on UK-wide issues.

The Forestry Commission is leading the Government's efforts to implement the forestry commitments made at the World Summit on Sustainable Development (WSSD). The Government is working with the forestry industry, environmental groups and the devolved administrations in the UK Forest Partnership for Action to promote sustainable development in the forestry sector. The Forestry Commission is supporting the forestry industry in maintaining and monitoring its sectoral sustainability strategy covering the whole wood chain.

The United Nations has established a Forum on Forests with the aim of promoting the implementation of sustainable forest management worldwide. In close consultation with other Government departments, the Forestry Commission ensures that the UK is both a leading proponent and a leading exemplar of sustainable forest management through its contributions to key international events.

The UK has made international commitments to the principles of sustainable forest management which are set out in the UK National Forest programme, published in 2003 and the UK Forestry Standard, first published in 1998 and revised and republished in 2004. The Standard provides a flexible framework for enabling a range of approaches to sustainable forest management which respond to the specific needs of country forestry strategies. It also explains what the commitments mean in practice and provides a mechanism for ensuring they are consistently applied. The Forestry Commission is responsible for monitoring the state of UK forestry against criteria and indicators in the Standard and refining guidance on the regulatory framework.

The UK Woodland Assurance Standard (UKWAS) launched in 1999 and chain of custody certification provide the opportunity for woodland owners to demonstrate to consumers that timber comes from sustainably managed forests. Over 1.6 million hectares of woodland have now been certified against UKWAS in Great Britain including the entire Forestry Commission estate.

The Forestry Commission's Plant Health Service operates throughout Great Britain. With support from Forest Research, it has the vital task of preventing entry of pests and diseases from overseas which could harm woodlands and controlling the spread of any that may become established. The risk of the introduction of pests and diseases increases with the level of trading in a global market.

The Forestry Commission spends 90% of its research budget with its research Agency, Forest Research. The Agency is the UK's only multi-disciplinary research agency dedicated to forestry research and is the principal provider of research and scientific advice. The other 10% is spent with external providers in order to:

- Promote interest in and knowledge of sustainable forest management in the wider research community;
- Engage in partnerships with other funders;
- Secure specialist expertise and competencies not available from Forest Research;
- Remain open to new or alternative ideas and to test the market.

More information on the work of Forest Research is available on the Forestry Commission website at www.forestry.gov.uk.

9. Operating review

Forestry Commission England

The England Rural Development Programme (ERDP) sets out the Government's support for agriculture, forestry and the rural economy over the period 2000-06. Forestry Commission England's support to the forestry sector includes the Woodland Grant Scheme (WGS), which is part of the ERDP. WGS provides incentives for people to create new woodlands and plan, manage and improve existing woodlands. Faced with exceptional demand, Forestry Commission England closed the WGS to new applications with effect from 28 June 2004. The level of applications received, coupled with existing commitments, meant that the limits of funding available in 2004-05 had been reached. At the same time progress on creation and management of woodlands under the ERDP at year five was running ahead of the schedule required to meet the total targets for the seven years of the programme. A new grant scheme, EWGS, was introduced in July 2005.

Forestry Commission England has been working closely with Defra to ensure that the implementation of the 2003 Common Agricultural Policy reforms do not result in effects which may be contrary to the Government's objectives for forestry. In general, woodland will not be covered by the Single Farm Payment, the exceptions being grazed woodland and parkland, but cross compliance rules will have some implications for the management of trees on farms. Woodland creation will still be an eligible use for set aside land. Any woodland established under the England Woodland Grant Scheme or in line with Forestry Environmental Impact Assessment (EIA) Regulations will be exempt from the cross compliance requirement to maintain permanent pasture, as it will be considered an 'environmentally compatible' land use. The Forestry Act and the EIA (Forestry) Regulation 1999 have been included in the list of legislation to be reinforced by cross compliance conditions.

During the year, Regional Forestry Frameworks have been published for a further four regions. These frameworks are regional expressions of the England Forestry Strategy and are prepared through an inclusive, Government led, regional process in which Forestry Commission England plays a significant part. Their form satisfies the needs of the regional agenda, Government bodies and other key stakeholders and each of those already published is different and distinctive.

Non-timber income streams from game management, holiday accommodation and recreational opportunities are becoming increasingly important to woodland owners and the local economy. This was recognised in the 2004 review of the Rural White Paper 2000 which noted that the opportunities woodlands provide for employment, education, health and recreation need to be exploited, along with efforts to diversify the range of economic goods they provide. A recent study has indicated that economic benefits from non-timber woodland businesses and the green infrastructure value of woodland can be between 9 and 19 times greater than those flowing from the traditional timber supply chain. Forestry Commission England supports a wide range of regional and local partnerships which aim to improve markets for wood, help woodland and forestry based business, capitalise on the non-timber values, and provide opportunities to diversify. Examples include: the South West Forest in Devon, Cumbria Woodlands and the Heartwoods Initiative.

Forestry Commission England has continued to work with the Office of the Deputy Prime Minister (ODPM) to ensure its programmes assist in the delivery of the wider social, environmental and economic objectives contained in the Sustainable Communities Plan. This was the first full delivery year for the £23 million Newlands 1 Economic Regeneration Scheme, covering Merseyside, Greater Manchester and North Cheshire, funded by the North West Development Agency (NWD). The scheme is being delivered in partnership with Community Forests, Groundwork and others such as the British Trust for Conservation Volunteers. It will lead to the restoration of 435 hectares of former industrial land by creating community woodlands and form attractive settings to attract and maintain economic investment.

The Countryside and Rights of Way Act 2000 (CROW) made new provisions for dedicating access rights to the countryside; amended the law relating to nature conservation and the protection of wildlife, and made further provision for Areas of Outstanding Natural Beauty. The process of dedicating the Forestry Commission's estate following the introduction of CROW commenced in September 2004. By the year end, 85,000 hectares of the freehold estate had been dedicated for public access and preparation is being made to dedicate the remaining 100,000 hectares by March 2006.

Putting ancient woodland at the heart of forestry policy has required a range of actions. Having secured a two-year secondment from the Woodland Trust, with the support of English Nature, Forestry Commission England has prepared a draft Statement of Policy and accompanying set of draft Management Guidelines for Ancient and Native Woodlands. Forestry Commission England has also worked closely with Defra and ODPM in the preparation of Planning Policy Statement No. 9 and the consultation draft contains a specific section on protection for ancient woodlands and veteran trees. Similarly, working with Defra, options for management of woodland and ancient trees have been included in the new Environmental Stewardship schemes.

Forestry Commission Great Britain

The objective for the department's activities across Great Britain is to take the lead in development and promotion of sustainable forest management and to support its achievement nationally. The United Nations Forum on Forests (UNFF) provides an important focus to promote sustainable forest management globally and to implement existing commitments. The Forestry Commission led the UK delegation at the fourth session in Geneva in May 2004. Resolutions were adopted on social and cultural aspects of forests, forest-related scientific knowledge, monitoring, assessment and reporting and criteria and indicators, finance and transfer of environmentally-sound technologies, and the review of the effectiveness of the international arrangement on forests.

Within the UK, the Forestry Commission continued to work with others to develop a clear negotiating position to take forward within the European Union to UNFF5, and Ministers endorsed the position in early 2005. The global discussions on the future international arrangements on forests included an experts' meeting in September 2004 at the United Nations Headquarters in New York and a further meeting hosted by the Government of Mexico in January 2005. Both meetings helped to develop options and a shared understanding of the key elements required for an effective arrangement on forests and provided an opportunity for the UK to play a lead role in the preparations for UNFF5.

The 17th Commonwealth Forestry Conference took place in Colombo, Sri Lanka from 28 February to 5 March 2005 with the theme 'Forestry's Contribution to Poverty Reduction'. The conference took place at a time of increasing recognition that forestry has a crucial role in sustainable development, and calls were made for a balance between satisfying development needs and ensuring the sustainable use of natural resources. From presentations and subsequent discussions, key issues emerged that formed the basis of the conference resolutions.

Over the year, 1.2 million cubic metres of sawn wood subject to quarantine control were imported and 4,400 inspections were carried out by Plant Health inspectors. During the summer of 2004, the task of identifying and contacting all customers due a refund of charges collected unlawfully was completed. The Plant Health (Export Certification) (Forestry) (Great Britain) Order 2004 came into force on 28 July 2004 and enabled the Forestry Commission to resume charging for this work on a statutory basis.

The research commissioned by the Forestry Commission ranged from development and improvement of working methods to strategic scientific investigations of such issues as climate change and forest hydrology. The research budget also provided for activities undertaken to transfer the results to end-users, including forestry practitioners, policy-makers and other members of the scientific community.

10. Performance in the period

The Corporate Plan for England and Great Britain 2005-06 describes the current activities for Great Britain and England, the strategic direction of our work and the specific actions being taken forward in 2005-06. It also includes the Corporate Plan for Forest Enterprise England, which manages the public forest estate. The Corporate Plan includes performance against the targets set as part of Spending Review 2002. The Forestry Commission Great Britain and England Annual Report details achievements against the planned programmes. The programmes were related to the strategic directions set out in the England Forestry Strategy:

- Forestry for Rural Development Programme;
- Forestry for Economic Regeneration Programme;
- Forestry for Access, Recreation and Tourism Programme; and
- Forestry for the Environment and Conservation Programme.

11. Dynamics of the business*Forestry Commission England*

Recent years has seen the launch of new statements of government policy and a major piece of legislation which set the wider context for forestry policy in England. These developments include:

- The England Rural Development Programme which redirects some support for agriculture and forestry, enabling land managers to adapt to changing markets and adopt sustainable production systems which both enhance the countryside and support the wider rural economy. However, the European Agricultural Fund for Rural Development which is under negotiation will set the framework for support for land management including forestry from 2007 onwards.

- The 2004 Mid Term review of the Common Agricultural Policy has broken the link between production systems and agricultural subsidy. From 1 January 2005, farmers will be able to farm for the market place without affecting the level of subsidy received. This is expected to affect the way in which they manage their land with possible implications for the demand for woodland grants.
- The Countryside and Rights of Way Act which makes new provisions for access to the countryside, amends the law relating to nature conservation and the protection of wildlife, and makes further provision for Areas of Outstanding Natural Beauty.
- The UK Energy White Paper which sets out the Government's approach to Energy Policy and the role of renewable sources of energy.
- The England Biodiversity Strategy which establishes a 'route map' for biodiversity, covering all sectors and stressing the economic importance of biodiversity and its contribution to quality of life in both urban and rural areas.
- "Sustainable Communities: building for the future", which sets out a long-term programme, building on the Urban and Rural White Papers, to create more liveable cities and sustainable communities.
- The Game Plan which establishes targets to get 70% of the population physically active by 2020.

The Rural Strategy 2004, published by Defra set out the Government's rural policy priorities. For the first time, forestry is an explicit thread running through rural policy. Taken together, the England Forestry Strategy and Defra's Sustainable Farming and Food Strategy cover England's main land uses, with key roles in sponsoring the forest industry, protecting natural resources, and shaping the character of the countryside and its capacity to support sustainable development. The main implications for forestry in the Rural Strategy are:

- Transfer of lead responsibility for strategic forestry policy in England to Defra so that forestry is considered as part of an integrated approach to delivering public benefits from land management;
- Transfer of lead responsibility for the delivery of forestry policy in England from Defra to Forestry Commission England. This will help the Government focus its resources to better ensure that the vision of the England Forestry Strategy continues to be implemented effectively;
- The Forestry Commission will become a close working partner of the new agency 'Natural England' once it is formally established. The two organisations will align their delivery functions to provide greater benefits to people and the environment. Forestry Commission England will also work with Natural England to modernise and streamline organisational arrangements for more effective and efficient delivery of rural policy objectives.

Forestry Commission England has been working closely with Defra on the 'Modernising Rural Delivery' Programme to implement the recommendations of the Rural Strategy. The main areas of work have been:

- Legislation – contribution to the draft Natural Environment and Rural Communities Bill which will establish Natural England and enable its functions to be delegated to delivery bodies, including Forestry Commission England;
- Rural Funding – preparation to rationalise the large number of separate rural funding streams to a framework around three major funds. The England Woodland Grant Scheme would be part of one of these funds. Implementation will be completed by January 2007 when new funding arrangements under the new Rural Development Regulation are put in place;
- Natural England – preparation for close collaborative working between Natural England and Forestry Commission England. Areas for closer collaboration being considered include the alignment of delivery functions, seeking integrated approaches to land management, the establishment of "first stop shops", and sharing offices and specialist staff.

Following independent audit against the UK Woodland Assurance Standard, Forestry Commission England has received renewal of its Forest Stewardship Council (FSC) Certification for the public forest estate. The audit report was very positive and gave credit for outstanding achievement in a number of areas, including the National Arboreta that were included in the certification process for the first time.

Forestry Commission Great Britain

The Forestry Commission continues to seek a private partner to modernise its Forest Holidays business through a public private partnership. Forest Holidays operates throughout Great Britain and currently has 3 self-catering log cabin sites and 21 campsites, providing 141 self-catering units and over 5,000 touring pitches.

Two pathogens have been identified which offer a threat to Forestry Commission woodlands. The first, 'Phytophthora ramorum', referred to as 'Sudden Oak Death' in California, was first detected in a Sussex garden centre in 2002. An intensive survey carried out during 2004 did not show any evidence of it in established woodlands which does suggest it is not widespread but the Forestry Commission continues to work with Defra and the Scottish Executive Environment and Rural Affairs Department (SEERAD) to contain and eradicate the disease wherever it is found. During surveys in Cornwall a new and previously unrecorded Phytophthora, to be named 'Phytophthora kernoviae', was discovered. A statutory Management Zone has been designated at the main infected area near Redruth in Cornwall.

12. Investment for the future*Forestry Commission England*

Forestry Commission England has been a national partner, alongside the Countryside Agency, in the development and delivery of the programme of twelve Community Forests since its inception in the late 1980's. The original Government commitment to core fund the pilot programme was for ten years to 2005 but an extra two years' funding was announced in March 2004 to facilitate the evolution of the programme to a more regional focus and support framework from April 2007. In this process, each Community Forest is preparing a 'Succession Planning Framework', as a basis for the allocation and management of transition funding through Forestry Commission England Conservancy-based grant agreements. As part of the transition, lead responsibility in Government for community forestry and the twelve forests was vested in the Forestry Commission. This includes oversight and direction of the transitional arrangements.

Forestry Commission Great Britain

The Forestry Commission is seeking some changes to the Forestry Acts through a Regulatory Reform Order under the Regulatory Reform Act. The changes that are being sought are fairly minor but will in one important area extend the powers of the Commissioners to allow them to enter into Joint Ventures, form companies/trusts and appoint Directors. In addition the opportunity is being sought to allow the commercial exploitation of Forest Research. The consultation process for the Order closed in mid-May and it is hoped that the Order will be completed by the end of 2006.

Work continued on the Grants and Licences Administration Delivered Electronically (GLADE) project that will provide all three countries with a new system to handle all Forestry Commission grant schemes. The aim of GLADE is to allow for the electronic exchange of grants and licence applications and grant claims between applicants and the Forestry Commission. This is expected to yield both financial and non-financial benefits to both applicants and Forestry Commission staff alike. Delivery of the new system during 2005 will coincide with the launch of the new grant schemes in England and Wales. The existing Scottish Forestry Grant Scheme will also move onto the GLADE system in early 2007.

13. Financial review

Forestry Commission Great Britain/England is net funded, with the Westminster Parliament providing the difference between income raised and expenditure incurred. It operates in accordance with full resource accounting principles and receives funds both in the form of cash and in the form of non-cash charges levelled on the capital value tied up in the public forest estate.

Westminster funding for Forestry Commission Great Britain/England was decided as part of the Government's 2002 Spending Review. The planned sources of income and expenditure up to 2005-06 are shown in the Forestry Commission's Corporate Plan for England and Great Britain Activities 2004-05 to 2005-06. Explanations of the variances between the 2004-05 Budget Estimate and Outturn, in both total resource and net cash terms, are shown as part of Schedule 1, Summary of Resource Outturn, of these Accounts.

The prime output from Forestry Commission England is to sustain and expand woodlands and woodland services in accordance with the England Forestry Strategy. Much of this is achieved through the payment of grants under the Woodland Grant Scheme (WGS) where overall grants of £19.9 million were paid out in 2004-05, 52 per cent going to new planting and 48 per cent to support the management of existing woodland.

Forest Enterprise England met or exceeded all but two of its key performance targets. The failure against the target for creating woodland in priority areas was due to the discovery of great crested newts on one of the planting sites. Work on this site has been postponed until the impacts on this important species have been assessed and mitigated. Actual return on capital invested in Forest Holidays was 0.4% short of target. 2004-05 saw both buoyant demand and increasing timber prices following a period of depressed values. The relative strength of the currency, world-wide and European demand trends, availability and cost of shipping, and the health of the UK construction sector have all contributed to the improvement in the market for home-grown timber.

At the Great Britain level, our resources support work that benefits all three countries. The largest component is research and development carried out by Forest Research and by other providers. The remaining expenditure is on protecting Britain's trees from pest and diseases, representing British interests on the international stage, and other Great Britain-wide work including the costs of the Board of Forestry Commissioners, the development of the timber market, and the development and promotion of standards for sustainable forest management.

Management

14. Ministers

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

| | |
|----------------------------|---|
| Rt Hon Margaret Beckett MP | Secretary of State, Department for Environment, Food and Rural Affairs |
| Ben Bradshaw MP | Parliamentary Under-Secretary (Commons), Department for Environment, Food and Rural Affairs |

15. Permanent Head of the Department and Forestry Commissioners

The Great Britain Board of Commissioners gives strategic direction to the Forestry Commission and takes decisions on not-devolved or co-ordinated functions. It has a part time non-executive Chairman and the Director General, as Permanent Head of the Department, acts as Deputy Chairman. Commissioners who served during the year were:

Chairman

Rt. Hon Lord Clark of Windermere

Executive Forestry Commissioners

| | |
|----------------|--|
| Tim Rollinson | Director General and Deputy Chairman * |
| Bob McIntosh | Director, Forestry Commission Scotland * |
| Simon Hewitt | Director, Forestry Commission Wales * |
| Paul Hill-Tout | Director, Forestry Commission England * |

Non-executive Forestry Commissioners

| | |
|---------------------|---|
| Anthony Bosanquet | Commissioner for Wales |
| Gareth Wardell | Commissioner for Wales |
| Dr Victoria Edwards | Commissioner for England |
| Martin Gale | Commissioner for Scotland and the forestry industry |
| Andrew Raven | Commissioner for Scotland |
| Tony Cooper | Commissioner for Human Resources |

National Committee for England

The Committee is appointed under Section 2(3) of the Forestry Act 1967 to, inter alia, undertake any of the functions of the Forestry Commissioners that they may delegate, subject to any restrictions or conditions as they see fit. Non-executive and Senior Staff Group members during the year were:

| | |
|---------------------------------|--|
| Rt Hon Lord Clark of Windermere | Chair and Forestry Commission Chairman |
| Dr Victoria Edwards | Non-executive Commissioner for England |
| Tony Cooper | Non-executive Commissioner for England |
| Judith Webb | Non-executive member |

| | |
|----------------|---|
| Gerald Dawe | Non-executive member |
| Alan Taylor | Defra Observer |
| Paul Hill-Tout | Director, Forestry Commission England and Executive Commissioner |
| Geoff Hatfield | Chief Executive, Forest Enterprise England (until 30 April 2004) |
| Rod Leslie | Acting Chief Executive, Forest Enterprise England (from 1 May 2004) |

Other Forestry Commission Senior Staff Group

The Forestry Commission's Senior Staff Group (SSG) operates by analogy with the Senior Civil Service in the Home Civil Service. Members of the SSG, other than those who served on the Board of Commissioners or National Committees, during the year were:

| | |
|-----------------------|--|
| Jim Anderson | Director Human Resources (until 16 May 2004)* |
| Kim Lardge | Director Human Resources (from 27 September 2004)* |
| Richard Williamson | Acting Director Human Resources (from 17 May 2004 to 26 September 2004)* |
| Professor Jim Lynch | Chief Executive, Forest Research Agency * |
| Wilma Harper | Secretary to Commissioners and Head of Corporate and Forestry Support * |
| David Henderson-Howat | Special Projects, Forestry Commission Scotland |
| Peter Ranken | Head of Recreation and Development, Forestry Commission England |
| Mike Lofthouse | Head of Operations, Forest Enterprise Scotland (until 31 March 2005) |
| Keith Gliddon | Director Finance * |
| Craig Heaney | Head of Engineering Services |
| Peter Freer-Smith | Chief Research Officer, Forest Research Agency |
| Alan Mitchell | Head of Business Services Division |
| Roger Herbert | Head of Country Services |
| Ian Forshaw | Head of Policy and Business Development, Forestry Commission Scotland |

*Member of the Forestry Commission Executive Board

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

16. Appointment of the Permanent Head of the Department and Forestry Commissioners

Non-executive Commissioners are appointed for 3-5 year terms of office by Her Majesty the Queen on advice from Ministers, following the procedures of the Commissioner for Public Appointments, including open advertisement. Executive Commissioners, including the Director General, are appointed by Her Majesty the Queen on the advice of Ministers, for the duration of the tenure of the posts to which they are recruited through normal Civil Service procedures.

17. Remuneration

Ministers' remuneration is set by the Ministerial and Other Salaries Act 1975 (as amended by the Ministerial and Other Salaries Order 1996) and the Ministerial and Other Pensions and Salaries Act 1991.

Salary increases for non-executive Commissioners are determined in accordance with guidelines prescribed by the Cabinet Office. The Forestry Commission's Senior Pay Committee comprises the Chairman, Director General, Director, Scotland, Director, England, and three other non-executive Commissioners. The Chairman and non-executive members determine the Director General's pay. The Chairman, Director General and non-executive Commissioners take decisions in respect of Country Directors. The entire committee takes decisions on remaining senior staff posts in accordance with guidelines prescribed by the Cabinet Office.

Further details on remuneration are set out in Note 2 to these accounts.

Public interest and other

18. Employment Policies

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

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

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

The Forestry Commission will monitor the success of its policies by:

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

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

19. Supplier Payment Policy

Forestry Commission Great Britain/England complies with the Government's Better Payment Practice Code. Unless otherwise stated in the contract, we aim to pay within 30 days from the receipt of goods and services or the presentation of a valid invoice, whichever is the later. A sample analysis for 2004-05 indicates that 97.7% of invoices paid by the Forestry Commission Great Britain/England and 99.9% of invoices paid by Forest Research were paid within the due date. Arrangements for handling complaints on payment performance are notified to suppliers on contracts.

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

20. Auditors

The accounts of Forestry Commission Great Britain/England are audited by the Comptroller and Auditor General under the Government Resources and Accounts Act 2000. The notional cost of the statutory audit is £50,000 (2003-04 £47,000).

T J D Rollinson
Accounting Officer
14 December 2005

Statement of Forestry Commissioners' and Accounting Officer's Responsibilities

1. Under section 5(2) of the Government Resources and Accounts Act 2000, the Forestry Commissioners are required to prepare resource accounts for each financial year, in conformity with a Treasury direction, detailing the resources acquired, held or disposed of during the year and the use of resources by the department during the year.
2. The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the department, the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.
3. HM Treasury has appointed the Permanent Head of Department as Principal Accounting Officer of the department with overall responsibility for ensuring that resources authorised by Parliament and sums to be paid out of the Consolidated Fund, in respect of the Forestry Commission, are used for the purposes intended by Parliament. He must ensure that there is a high standard of financial management, including a sound system of internal control; that financial systems and procedures promote the efficient and economical conduct of business and safeguard financial propriety and regularity; that financial considerations are taken into account in decisions on policy proposals; and risk is considered in relation to assessing value for money.
4. In preparing the accounts the Principal Accounting Officer is required to comply with the *Resource Accounting Manual* prepared by HM Treasury, and in particular to:
 - observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
 - make judgements and estimates on a reasonable basis;
 - state whether applicable accounting standards, as set out in the *Resource Accounting Manual*, have been followed, and disclose and explain any material departures in the accounts;
 - prepare the accounts on the going concern basis.
5. As Principal Accounting Officer, the Director General of the Forestry Commission has designated Director, Forestry Commission England and the Chief Executive of Forest Research as Accounting Officers. The responsibilities of the Director General, as Principal Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the department's assets, are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in *Government Accounting*. Under the terms of the Accounting Officers' Memorandum, the relationship between the department's Principal Accounting Officer and the other Accounting Officers, together with their respective responsibilities, is set out in writing.

Statement on Internal Control

1. Scope of responsibility

Forestry Commission

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

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

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

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

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

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

Forestry Commission England

The National Committee in England is chaired by a non-executive Forestry Commissioner and its members include a further two non-executive Commissioners, the Director England, the acting Agency Chief Executive and an observer from the Department for Environment, Food and Rural Affairs.

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

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

In the absence of a permanent Chief Executive for Forest Enterprise England in 2004-05, Director England has retained the Agency Accounting Officer's responsibilities for the Agency's accounts and financial procedures, and for the proper, effective and efficient use of resources provided to the Agency within the terms of the Framework Document and in pursuit of the agreed Corporate Plan objectives and targets.

Public Accounts Committee

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

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Forestry Commission Great Britain/England policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Forestry Commission Great Britain/England for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3. Capacity to handle risk

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

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

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

The Forestry Commission's Director Finance acts as the departmental Risk Improvement Manager who chairs a Risk Management Group comprising a risk champion from each part of the organisation and an internal audit representative.

4. The risk and control framework

Forestry Commission Great Britain/England is committed to a process of continuous development and improvement: developing systems in response to any relevant reviews and developments in best practice in this area. In particular, in the period covering the year to 31 March 2005 and up to the signing of the accounts Forestry Commission Great Britain/England has:

- Attended risk management workshops involving all relevant parts of the Forestry Commission, including Internal Audit, in June and September 2004. The purpose of the workshops was to share experience of handling risk at country and agency level and to review progress on embedding risk management. It was agreed to restructure the methodology and format of risk registers to more clearly identify inherent and residual risk together with the control framework in place to manage this within an acceptable level.

A working group was set up to take this forward and the revised methodology discussed at the meeting of the Forestry Commission Risk Management Group at the end of July 2005.

- Endorsed a revised Forestry Commission risk policy statement presented to the Forestry Commission Executive Board in February 2005. The Forestry Commission Audit Committee agreed that the revised statement, incorporating changes debated by the Committee, should be tabled at a future meeting of the Board of Commissioners. This took place in September 2005.
- Updated the existing Forestry Commission England, Forest Enterprise England and Forest Research risk registers to reflect newly identified potential risks and appropriate control measures for agreement by board members in April and June 2005.
- Started work on a revised risk register for Great Britain core risks and other generic risks to more clearly identify inherent and residual risk together with the control framework in place to manage this within an acceptable level. The Forestry Commission Risk Management Group discussed the latest version at the end of July 2005.

The size and membership of the Forestry Commission Audit Committee is designed to represent all parts of the Forestry Commission. The Committee met three times during the year, in April, September and December 2004, to consider a range of reports from management, and from internal and external audit. As part of the governance framework, the Board of Commissioners received oral reports from the Committee Chair on business during the year and a more formal annual report on the discharge of its duties in June 2005.

The Audit Committee, in the main, deals with higher level issues concerning control and governance. Country Directors and the Agency Chief Executives are provided with more detailed advice on the work of Internal Audit in particular, and control in general, via their local Internal Control Committee (ICC). The ICC's objectives are to:

- provide a forum for senior management to discuss internal control and audit matters;
- promote understanding of the internal audit role and objectives;
- assist the Head of Internal Audit in defining the scope of audit coverage and assessing priorities.

The ICC in England met twice during the year, in September 2004 and March 2005 to receive reports on audit activity, risk management and feedback on the work of the Audit Committee. The ICC for Forest Research met three times during the year, in April 2004, December 2004 and March 2005.

5. Review of effectiveness

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

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

In line with the Internal Audit Strategy, the opportunity was taken in 2004-05 to reassess the assurance level provided by the work of two areas with their own internal inspection regime. These were health and safety, and accounting inspections. Both received a substantial opinion, though Internal Audit made a number of recommendations on the accounting inspection process which will be actioned during 2005-06.

A review of the structure, interactions and functioning of the Forestry Commission's corporate governance framework was undertaken during 2004-05 by Internal Audit and the Corporate and Forestry Support Division.

It covered the decision-making bodies at both Great Britain level and within countries. During the review, Internal Audit referred to two best practice guides, the draft Code of Good Practice on corporate governance in government departments and the CMPS Toolkit on maximising board effectiveness. The Forestry Commission's Executive Board will now consider the recommendations before proposing changes for approval by the Board of Commissioners. A separate review will be undertaken of the structure, relationship and work of the Audit Committee and ICCs during 2005-06.

Under present arrangements, Forestry Commission Great Britain/England relies on the organisational structure for managing risk with clear responsibilities at every level supported by a Risk Management Group whose role is to assist in the development of good risk management practice throughout the Forestry Commission. During 2005-06, Forestry Commission Great Britain/England will introduce a framework of Certificates of Assurance to further support the signing of the Statement on Internal Control.

6. Significant internal control problems

Woodland Grant Scheme

Following closure of the Woodland Grant Scheme in England to new applications in June 2004, a review of the budgeting and financial controls for the payment of grants was undertaken. Internal Audit reported that the previous level of financial and management control had been insufficient to meet the changing operating environment in England. While there had been much success in meeting programme targets this had not been linked to adequate financial control thereby increasing the risk of a breach of voted expenditure and consequential impact on the Forestry Commission's reputation. Areas for improvement have centred on roles, responsibilities and communication and the introduction of more rigorous management of contracts and funding.

The audit review acknowledged the significant work carried out by management in developing and implementing a strategy to stabilise the financial position and maintain confidence and continuity in the sector. A follow up review took place towards the end of 2004 on progress with the strategy which resulted in no breach of funding at the end of the year 2004-05. Management is aware of the need for good financial forecasting systems as well as those that provide information on achievement of programmes and this has been built into the new IT applications to support the England Woodland Grant Scheme launched in 2005-06.

Bank Reconciliation

The bank accounts held by the Forestry Commission serve all 3 countries including Forestry Commission Great Britain/England. It is vital that the Forestry Commission can reconcile transactions in its accounting ledger with the associated cash transactions recorded in its commercial bank accounts and its account with the Office of the Paymaster General.

During 2004-05, the Finance and Accounting shared service did not complete the necessary periodic reconciliations between the ledger and bank accounts within the scheduled timescale. The main problem arose from system changes made in July 2004 to further automate and improve the processes involved. When the problem was identified, the Forestry Commission employed an additional, external resource to cover the backlog. Internal Audit reviewed the work and confirmed that the reconciliations as at March 2005 were complete, accurate and valid and that the system in use stood up to scrutiny. During the review, Internal Audit identified some areas for improvement to help the audit process which will feed into a wider review of banking arrangements initiated by senior management. The Forestry Commission Finance Director has confirmed that the reconciliations for 2005-06 are up to date.

T J D Rollinson
Accounting Officer
14 December 2005

Forestry Commission Great Britain/England The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements on page 20 to 50 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 26 to 28.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 13, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Accounts. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Annual Report is not consistent with the financial statements, if the Department has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Accounts, and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 14 to 17 reflects the Department's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Department in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Department's circumstances, consistently applied and adequately disclosed.

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

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Forestry Commission Great Britain/England at 31 March 2005 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

16 December 2005

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

SCHEDULE 1

Forestry Commission Great Britain/England

Summary of Resource Outturn 2004-05 (£000s)

| | 2004-05 Estimate | | 2004-05 Outturn | | 2004-05 Net total outturn compared with estimate: saving/ (excess) | 2003-04 Prior year outturn | | |
|-----------------------------|----------------------|----------|--------------------|----------------------|---|-------------------------------------|---------------|---------------|
| | Gross expenditure | A-in-A | NET TOTAL | Gross expenditure | | | A-in-A | NET TOTAL |
| Request for resources 1 | 67,416 | - | 67,416 | 55,574 | - | 55,574 | 11,842 | 77,648 |
| Request for resources 2 | 17,605 | - | 17,605 | 12,891 | - | 12,891 | 4,714 | - |
| Total resources | 85,021 | - | 85,021 | 68,465 | - | 68,465 | 16,556 | 77,648 |
| Net cash requirement | - | - | 62,748 | - | - | 60,328 | 2,420 | 58,907 |

Summary of income payable to the Consolidated Fund

| | Forecast 2004-05 | | Outturn 2004-05 | |
|---|------------------|----------|-----------------|----------|
| | Income | Receipts | Income | Receipts |
| Income from fees not classified as A in A | - | - | - | - |
| Income from the sale of assets not classified as A in A | - | - | - | - |
| | - | - | - | - |

Explanation of the variation between Estimate and outturn (net total resources):

The Forestry Commission Great Britain/England recorded an underspend of £16.6m in total on actual resource expenditure over estimate. £11.8m is attributable to request for resources 1 with the balance of £4.8m on request for resources 2. The underspends are principally due to the reasons below:

Request for resources 1

- (1) Forest Enterprise cost of capital and other provisions for liabilities and charges were below estimate by £11m. The Estimate included £6.0m brought forward from 2003/04 via the end year flexibility arrangements to provide for increases in the value of the forest estate and potential costs arising from public liability cases. The outturn reflects a less than anticipated increase in asset valuations and no requirement to provide for large claims against the organisation.
- (2) The balance of the underspend (£0.8m) reflects the net effect of various measures taken during the year to contain operating and administrative expenditure within estimated levels despite pressure from demands for woodland grant payments.

Request for resources 2

- (3) The estimate included some £1.9m revenue provision to cover the development of e-business systems aimed at improving efficiency and effectiveness of delivery of services to customers. Accounting guidance states that such expenditure should be capitalised. Purchase of fixed assets shows an excess on estimate reflecting this adjustment.
- (4) The balance of the underspend (£2.9m) reflects the net effect of various measures taken during the year to reduce administration and programme costs whilst ensuring efficient services continued to be delivered.

Explanation of the variation between Estimate net cash requirement and outturn net cash requirement:

The Forestry Commission Great Britain/England recorded an under spend of £2.4m on actual cash expenditure over estimate that represents a 4.0% saving on the net cash requirement of £62.7m.

SCHEDULE 1**Forestry Commission Great Britain/England****Summary of Resource Outturn 2004-05 (£000s)****Reconciliation of resources to cash requirement (£000s)**

| | | Estimate | Outturn | Net total outturn compared with estimate: saving/(excess) |
|---|------|---------------|---------------|--|
| Net total resources | Note | 85,021 | 68,465 | 16,556 |
| Capital: | | | | |
| • Purchase of fixed assets | 7/8 | 904 | 2,797 | (1,893) |
| • Investments | | | | |
| Non-operating cost A in A: | | | | |
| • Proceeds of fixed asset disposals | | - | - | - |
| Accruals adjustments: | | | | |
| • Non-cash items | 3 | - | (1,882) | 1,882 |
| • Changes in working capital other than cash | 9 | 4,780 | 2,111 | 2,669 |
| • Changes in creditors falling due after more than one year | | - | - | - |
| • Use of provision | 14 | - | 680 | (680) |
| • Non-cash inter-country transfers | 15 | - | (107) | 107 |
| Other adjustments: | | | | |
| • Adjustment of FE net deficit to financing | 6 | (27,957) | (17,713) | (10,244) |
| • FE depreciation | 6 | - | 2,253 | (2,253) |
| • FE net capital expenditure | 6 | - | 3,724 | (3,724) |
| Net cash requirement (Schedule 4) | | 62,748 | 60,328 | 2,420 |

SCHEDULE 2**Forestry Commission Great Britain/England****Operating Cost Statement**

for the year ended 31 March 2005 (£000s)

| | Note | 2004-05 | 2003-04 |
|-----------------------------------|----------|---------------|---------------|
| Administration Costs | | | |
| Staff costs | 2 | 24,628 | 23,443 |
| Non-staff administration costs | 3 | 22,490 | 20,724 |
| Gross administration costs | | 47,118 | 44,167 |
| Operating income | 4 | (21,908) | (19,074) |
| Net administration costs | | 25,210 | 25,093 |
| Programme costs | | | |
| Request for resources 1: | | | |
| Expenditure | 5 | 55,861 | 61,427 |
| Less income | | | |
| EU receipts | | (4,907) | (5,116) |
| Other income | | (1,619) | (4,564) |
| | 4 | (6,526) | (9,680) |
| | | 49,335 | 51,747 |
| Request for resources 2: | | | |
| Expenditure | 5 | 2,981 | – |
| Less income | | | |
| EU receipts | | (1,133) | – |
| Other income | | (1,951) | – |
| | 4 | (3,084) | – |
| | | (103) | – |
| Net programme costs | | 49,232 | 51,747 |
| Net operating cost | 6 | 74,442 | 76,840 |
| Net resource outturn | 6 | 68,465 | 77,648 |

All income and expenditure are derived from continuing operations.

Statement of Recognised Gains and Losses

for the year ended 31 March 2005 (£000s)

| | Note | 2004-05 | 2003-04 |
|---|------|------------|------------|
| Net gain on revaluation of tangible fixed assets | 16 | 450 | 422 |
| Total recognised gains and losses for the financial year | | 450 | 422 |

The notes on pages 26 to 43 form part of these accounts

SCHEDULE 3**Forestry Commission Great Britain/England****Consolidated Balance Sheet**

as at 31 March 2005 (£000s)

| | Note | 31 March 2005 | 31 March 2004 |
|--|------|-----------------|-----------------|
| Fixed assets | | | |
| Tangible assets | 7 | 15,258 | 13,322 |
| Intangible assets | 8 | <u>1,351</u> | <u>1,023</u> |
| | | 16,609 | 14,345 |
| Debtors falling due after more than one year | 11 | 118 | 164 |
| Current assets | | | |
| Stocks | 10 | 1,523 | 1,563 |
| Debtors | 11 | 6,373 | 6,480 |
| Cash at bank and in hand | 12 | <u>2,420</u> | <u>4,164</u> |
| | | <u>10,316</u> | <u>12,207</u> |
| Creditors (amounts falling due within one year) | 13 | <u>(10,960)</u> | <u>(15,008)</u> |
| Net current assets | | (644) | (2,801) |
| Total assets less current liabilities | | 16,083 | 11,708 |
| Provisions for liabilities and charges | 14 | <u>(1,406)</u> | <u>(1,780)</u> |
| | | (1,406) | (1,780) |
| | | 14,677 | 9,928 |
| Taxpayers' equity: | | | |
| General fund | 15 | 9,254 | 4,955 |
| Revaluation reserve | 16 | <u>5,423</u> | <u>4,973</u> |
| | | 14,677 | 9,928 |

T J D Rollinson
Accounting Officer
14 December 2005

SCHEDULE 4**Forestry Commission Great Britain/England****Cash Flow Statement**

for the Year Ended 31 March 2005 (£000s)

| | Note | 2004-05 | 2003-04 |
|--|-----------|----------------|--------------|
| Net cash outflow from operating activities | | (57,531) | (56,958) |
| Capital expenditure and financial investment | | (2,797) | (1,949) |
| Payments of amount due to Consolidated Fund | | (4,107) | (1,766) |
| Surplus cash surrendered to Consolidated Fund | | (57) | – |
| Financing | | 62,748 | 63,014 |
| Increase/(Decrease) in cash in the period | 12 | (1,744) | 2,341 |

Reconciliation of operating cost to operating cash flows

| | | | |
|--|----|---------------|---------------|
| Net operating cost | | 74,442 | 76,840 |
| Adjustments for non-cash transactions | 3 | (1,882) | (1,929) |
| Non-cash inter-country transfers | | (107) | 446 |
| Forest Enterprise England non-cash adjustments | 6 | (17,713) | (16,741) |
| Adjustments for movements in working capital other than cash | 9 | 2,111 | (2,603) |
| Use of provisions | 14 | 680 | 945 |
| Net cash outflow from operating activities | | 57,531 | 56,958 |

Analysis of capital expenditure and financial investment

| | | | |
|---|---|--------------|--------------|
| Tangible fixed asset additions | 7 | 2,221 | 926 |
| Intangible fixed asset additions | 8 | 576 | 1,023 |
| Proceeds of disposal of fixed assets | | – | – |
| Loans to other bodies | | – | – |
| Repayment of loans to other bodies | | – | – |
| Net cash outflow from investing activities | | 2,797 | 1,949 |

Analysis of financing and reconciliation to the net cash requirement

| | | | |
|---|----|---------------|---------------|
| Financing from Westminster Consolidated Fund (supply) | | 62,748 | 63,014 |
| Payment of amount due to Consolidated Fund | | (4,107) | (1,766) |
| Surplus cash surrendered to Consolidated Fund | | (57) | – |
| (Increase)/decrease in cash | 12 | 1,744 | (2,341) |
| Net cash requirement (Schedule 1) | | 60,328 | 58,907 |

The notes on pages 26 to 43 form part of these accounts

SCHEDULE 5**Forestry Commission Great Britain/England****Resources by Departmental Aim and Objective**
for the year ended 31 March 2005 (£000s)

| | <i>Gross</i> | 2004-05 <i>Income</i> | <i>Net</i> | <i>Gross</i> | 2003-04 <i>Income</i> | <i>Net</i> |
|--|----------------|---------------------------------|---------------|----------------|---------------------------------|---------------|
| England Objectives | | | | | | |
| Increase the contribution of forests and woodlands to local economies and rural development | 37,158 | (2,765) | 34,393 | 41,435 | (3,533) | 37,902 |
| Expand the role of woodlands in supporting the economic regeneration of former industrial land and disadvantaged communities | 3,743 | (1,563) | 2,180 | 2,248 | (521) | 1,727 |
| Promote public access to woods and forests and develop diverse recreational opportunities | 12,507 | (674) | 11,833 | 8,816 | (770) | 8,046 |
| Conserve and improve biodiversity, landscape and cultural heritage of our forests and woodlands | 14,993 | (1,847) | 13,146 | 14,376 | (2,453) | 11,923 |
| England Net Operating Costs | 68,401 | (6,849) | 61,552 | 66,875 | (7,277) | 59,598 |
| Great Britain Objective | | | | | | |
| To take the lead in development and promotion of sustainable forest management and to support its achievement nationally | 37,559 | (24,669) | 12,890 | 38,719 | (21,477) | 17,242 |
| Great Britain Net Operating Costs | 37,559 | (24,669) | 12,890 | 38,719 | (21,477) | 17,242 |
| Great Britain/England Net Operating Costs | 105,960 | (31,518) | 74,442 | 105,594 | (28,754) | 76,840 |

See note 17 for explanation of apportionments across objectives.

Notes to the Resource Accounts

1. Statement of Accounting Policies

The financial statements have been prepared in accordance with the 2004-05 Resource Accounting Manual (RAM) issued by HM Treasury. The accounting policies contained in the RAM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where RAM permits a choice of accounting policy, the accounting policy that has been judged to be most appropriate to the particular circumstances of the department for the purpose of giving a true and fair view has been selected. The department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting Convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business by reference to their current costs.

1.2 Basis of Preparation of Accounts

These accounts reflect the assets, liabilities and results of the core-department Forestry Commission England and Forest Research together with international matters and topics, which though devolved, are agreed to be best delivered for Great Britain as a whole. Forest Enterprise England, an executive agency, is a public corporation for national accounting and as such is outside the boundary for resource accounting purposes. The Forest Enterprise England accounts are published separately in the Forestry Commission annual report and accounts for Great Britain/England with the net funding of Forest Enterprise England reflected in these accounts.

1.3 Tangible Fixed Assets

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

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

Land and buildings

Land and buildings were assessed as at 31 March 2002 in accordance with our policy of revaluing at three-yearly intervals by professionally qualified staff employed by the Forestry Commission following the principles set out in the RICS Red Book. Valuation was on the basis of Open Market Value or Existing Use Value as appropriate under the RICS guidance. From 1 April 2002, land and buildings has been restated to current value annually using appropriate indices provided by the District Valuer.

Land and buildings were scheduled to be re-assessed as at 31 March 2005 in accordance with the three-yearly interval stated in the previous accounting policy. It has been decided, however, to bring the policy in line with UK GAAP and undertake a professional valuation of dwellings and other buildings on a five-yearly basis with a formal review in the third year. The first five-yearly valuation will be undertaken at 31 March 2008 to coincide with the next full revaluation of the Forest Estate.

In 2004-05, professionally qualified staff employed by the Commission carried out a review into the use of the indices provided by the District Valuer. The review concluded that use of the indices provided a reasonable restatement of the current value of land and buildings. The indices were therefore used to restate values as at 31 March 2005 and will be used in each year until the professional valuation at 31 March 2008.

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

Plant and machinery

Forestry vehicles, machinery and equipment are revalued every three years by professionally qualified staff employed by the Forestry Commission. They are restated to current value in the intervening years using valuations provided by internal professionally qualified staff for specialist forestry machinery and indices provided by the Office for National Statistics for all other assets.

The normal threshold for capitalisation of assets is £3,000.

Information technology (IT)

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

Assets under construction

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

1.4 Depreciation

Freehold land is not depreciated.

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

| | |
|---------------------|-----------------|
| Land and buildings | – 1 to 60 years |
| Plant and machinery | – 3 to 16 years |
| IT | – 4 to 20 years |

Impairments of fixed assets are charged to the operating cost statement in the period in which they occur.

1.5 Intangible assets

Purchased software licences with an acquisition value of £5,000 or more is recognised as an intangible fixed asset. Assets are amortised over their expected useful economic life to a maximum of seven years. Management carries out an annual review of software and expected economic lives.

1.6 Stocks and work in progress

Stocks and work in progress are valued as follows:

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

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

1.7 Provision for Bad and Doubtful Debts

Specific provisions for bad and doubtful debts are set aside on the basis of a review of individual debts at the end of the year.

1.8 Research and Development

As one of its Great Britain functions, the department commissions research from its Forest Research agency and through external contracts awarded by a variety of means including open tender. The Forestry Commission's research strategy, which is the subject of consultation with other government departments and external stakeholders, is published on the Forestry Commission website. All research and development expenditure is charged to the operating cost statement in the year.

1.9 Administrative and Programme Expenditure

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

Notes to the Resource Accounts *(continued)***1.10 European Union (EU) Funding**

The Forestry Commission acts as an agent of the EU for third party grants paid from Objective 1 and Woodland Grant Scheme payments made under the national European Agricultural Guarantee and Guidance Fund. The Forestry Commission undertakes to pay planting grants in two instalments whilst grants for the management of existing woodlands are payable annually in arrears during the five-year currency of an approved plan. Grants become payable (and are recognised as a liability in the balance sheet), and contributions from the EU are claimed, once any necessary physical inspection has been undertaken to verify that the scheme conditions have been met. If grants are subsequently recovered because of failure to fulfil the conditions of the Woodland Grant Scheme, the amount of co-financing may be repayable to the EU. EU costs and grants paid are included in programme expenditure and off-setting EU funding/co-financing is included in programme income.

1.11 Cost of Capital Charges

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

1.12 Value Added Tax (VAT)

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

1.13 Insurance

In accordance with normal government accounting practice, the Forestry Commission carries its own insurance risks.

1.14 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is a defined benefit scheme and is unfunded. The Forestry Commission recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS.

Further information on pensions is contained in Note 2 to the accounts.

1.15 Provisions

The Forestry Commission Great Britain/England provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cashflows are discounted using the real rate set by HM Treasury (currently 3.5 per cent).

1.16 Operating Leases

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

2. Staff numbers and related costs

2.1 Staff costs

Staff costs consist of:

| | 2004-05 | | 2003-04 | |
|------------------------------------|--------------|----------------------------|-----------|--------------|
| | £000 | | £000 | |
| Forestry Commission England | | | | |
| | Total | Permanently-employed staff | Others | Total |
| Wages and salaries | 4,582 | 4,582 | – | 4,187 |
| Social security costs | 369 | 369 | – | 329 |
| Other pension costs | 615 | 615 | – | 566 |
| Agency/temporary staff | 87 | – | 87 | 1 |
| Total net costs | 5,653 | 5,566 | 87 | 5,083 |

Further staff were employed on a Great Britain basis, which includes Forest Research, to provide support to Forestry Commission activities in all three countries and to its agencies. The staff costs were:

| | 2004-05 | | 2003-04 | |
|---|---------------|----------------------------|-----------|---------------|
| | £000 | | £000 | |
| Forestry Commission Great Britain | | | | |
| | Total | Permanently-employed staff | Others | Total |
| Wages and salaries | 15,719 | 15,719 | – | 15,112 |
| Social security costs | 1,239 | 1,239 | – | 1,180 |
| Other pension costs | 2,058 | 2,058 | – | 1,994 |
| Agency/temporary staff | 21 | – | 21 | 9 |
| Inward secondments | 40 | – | 40 | 65 |
| Capitalised staff costs | (102) | (102) | – | – |
| Sub total | 18,975 | 18,914 | 61 | 18,360 |
| Less recoveries in respect of outward secondments | (70) | (70) | – | (136) |
| Total net costs | 18,905 | 18,844 | 61 | 18,224 |

The aggregate staff costs for Forestry Commission Great Britain/England were:

| | 2004-05 | | 2003-04 | |
|---|---------------|----------------------------|------------|---------------|
| | £000 | | £000 | |
| Forestry Commission Great Britain/England | | | | |
| | Total | Permanently-employed staff | Others | Total |
| Total costs per schedule 2 | 24,628 | 24,480 | 148 | 23,443 |
| Less recoveries in respect of outward secondments | (70) | (70) | – | (136) |
| Total net costs | 24,558 | 24,410 | 148 | 23,307 |

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Forestry Commission is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2003. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2004-05, employers' contributions of £2,663,000 were payable to the PCSPS (2003-04 £2,551,000) at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. The scheme Actuary reviews employer contributions every four years following a full scheme valuation. From 2005-06, the salary bands will be revised and the rates will be in a range between 16.2% and 24.6%. The contribution rates reflect benefits as they accrue, not the costs as they are actually incurred, and reflect past experience of the scheme.

Notes to the Resource Accounts *(continued)*

Employees can opt to open a **partnership** pension account, a stakeholder pension with an employer contribution. Employers' contributions of £9,220.93 were paid to one or more of a panel of three appointed **stakeholder** pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £539.73, 0.8 per cent of pensionable pay, were payable to the **PCSPS** to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the **partnership** pension providers at the balance sheet date were £nil. Contributions prepaid at that date were £nil.

2.2 Average number of persons employed

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

| Objective | 2004-05 | | | 2003-04 |
|--|------------|----------------------------|----------|------------|
| | Total | Permanently-employed staff | Others | Total |
| England | | | | |
| Increase the contribution of forests and woodlands to local economies and rural development | 95 | 93 | 2 | 99 |
| Expand the role of woodlands in supporting the economic regeneration of former industrial land and disadvantaged communities | 5 | 5 | – | 5 |
| Promote public access to woods and forests and develop diverse recreational opportunities | 34 | 34 | – | 23 |
| Conserve and improve the biodiversity, landscape and cultural heritage of our forests and woodlands | 36 | 36 | – | 35 |
| England Total | 170 | 168 | 2 | 162 |
| Great Britain | | | | |
| To take the lead in development and promotion of sustainable forest management and to support its achievement nationally | 592 | 590 | 2 | 600 |

2.3 Salary and pension entitlements

The salary and pension entitlements of the Forestry Commissioners, members of the National Committee for England and Great Britain senior staff were as follows:

| | 2004-05 | | 2003-04 | |
|---------------------------------|---------|---------------------------|---------|---------------------------|
| | Salary | Benefits in kind | Salary | Benefits in kind |
| | £000 | To the nearest £100 | £000 | To the nearest £100 |
| Rt Hon Lord Clark of Windermere | 45-50 | – | 45-50 | – |
| Tim Rollinson | 105-110 | – | 85-90 | – |
| Paul Hill-Tout | 80-85 | – | 75-80 | – |
| Anthony Bosanquet | 5-10 | – | 5-10 | – |
| Gareth Wardell | 10-15 | – | 10-15 | – |
| Dr Victoria Edwards | 10-12 | – | 5-10 | – |
| Martin Gale | 5-10 | – | 5-10 | – |
| Andrew Raven | 10-15 | – | 10-15 | – |
| Tony Cooper | 5-10 | – | 5-10 | – |
| Kim Lardge | 35-40 | – | – | – |
| Wilma Harper | 55-60 | – | 60-65 | – |
| David Henderson-Howat | 90-95 | – | 65-70 | – |
| Keith Gliddon | 55-60 | – | 55-60 | – |
| Craig Heaney | 65-70 | 800 | 65-70 | 900 |
| Alan Mitchell | 65-70 | – | 60-65 | – |
| Roger Herbert | 65-70 | – | 60-65 | – |
| Jim Anderson | 10-15 | – | 60-65 | – |
| Richard Williamson | 45-50 | – | 45-50 | – |
| Peter Ranken | 65-70 | – | 65-70 | – |
| Judith Webb | 0-5 | – | 0-5 | – |
| Gerald Dawe | 0-5 | – | 0-5 | – |

The salary and pension entitlements of Bob McIntosh, an Executive Forestry Commissioner, are borne and disclosed in the Forestry Commission Scotland Resource Accounts 2004-05 as he is Director, Forestry Commission Scotland.

The salary and pension entitlements of Simon Hewitt, an Executive Forestry Commissioner, are borne and disclosed in the Forestry Commission Wales Resource Accounts 2004-05 as he is Director, Forestry Commission Wales.

The salary and pension entitlements of Geoff Hatfield and Rod Leslie, members of the National Committee for England during the year are borne and disclosed in the Forest Enterprise England Accounts for 2004-05. Geoff Hatfield left the National Committee for England on 30 April 2004. Rod Leslie joined the National Committee for England on 1 May 2004.

The salary and pension entitlements of Peter Freer-Smith and Ian Forshaw, members of the Forestry Commission Senior Staff Group during the year, are borne and disclosed in the Forest Research and Forestry Commission Scotland 2004-05 accounts respectively.

The salary and pension entitlements of the members of the Forest Research Management Board and Forest Enterprise Management Board are shown in each of the agency's annual accounts.

Salary

'Salary' includes gross salary and performance bonuses.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as taxable income. Benefits in kind are given in the form of the private use of a car and house purchase loans. The advances of salary for house purchase scheme had 20 loans with an outstanding balance of £2,500 or more to individual members of staff at 31 March 2005. The total value of these loans was £139,000.

Loans to senior Great Britain staff

Loans are made to senior staff in the form of an advance of salary for house purchase. The loans are made on the same terms as are available to other staff. The amount outstanding at 31 March 2005 amounted to £71,000 (£71,000 at 31 March 2004).

Notes to the Resource Accounts (continued)

Pension

| | Real increase in pension and related lump sum (LS) at age 60 (£k) | Total accrued pension at age 60 at 31 March 2005 and related lump sum (LS) (£k) | CETV at 31 March 2004 (nearest £k) | CETV at 31 March 2005 (nearest £k) | Real increase in CETV after adjustment for inflation and changes in market investment factors (nearest £k) | Employer contribution to partnership pension account including risk benefit cover – to nearest £100 |
|-----------------------|---|---|------------------------------------|------------------------------------|--|---|
| Tim Rollinson | 5.0-7.5 plus LS of 20.0-22.5 | 35-40 plus LS of 110-115 | 445 | 592 | 118 | – |
| Paul Hill-Tout | 0-2.5 plus LS of 2.5-5.0 | 20-25 plus LS of 70-75 | 303 | 338 | 14 | – |
| Jim Anderson | – | 25-30 plus LS of 85-90 | 576 | 540 | –11 | – |
| Richard Williamson | 2.5-5.0 plus LS of 7.5-10.0 | 20-25 plus LS of 60-65 | 281 | 337 | 45 | – |
| Kim Lardge | 0-2.5 | 0-5 | 0 | 10 | 8 | – |
| Wilma Harper | 0-2.5 | 20-25 | 257 | 285 | 9 | – |
| David Henderson-Howat | – | 20-25 plus LS of 60-65 | 326 | 326 | 0 | – |
| Peter Ranken | 0-2.5 plus LS of 0-2.5 | 25-30 plus LS of 85-90 | 466 | 499 | 11 | – |
| Keith Gliddon | 0-2.5 plus LS of 2.5-5.0 | 20-25 plus LS of 65-70 | 346 | 389 | 21 | – |
| Craig Heaney | 0-2.5 plus LS of 2.5-5.0 | 30-35 plus LS of 90-95 | 508 | 548 | 15 | – |
| Alan Mitchell | – | 30-35 plus LS of 95-100 | 560 | 582 | –4 | – |
| Roger Herbert | 0-2.5 plus LS of 0-2.5 | 30-35 plus LS of 95-100 | 530 | 566 | 10 | – |

Pension benefits are provided through the CSP arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The Schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension

product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

Further details about the CSP arrangements can be found at the website www.civilservice-pensions.gov.uk

Columns 3 & 4 of the above table show the member's cash equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period. Column 5 reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

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 CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

3. Non-staff administration costs

| | 2004-05 | 2004-05 | 2003-04 | 2003-04 |
|---|---------|---------------|---------|---------------|
| | £000 | £000 | £000 | £000 |
| Rentals under operating leases: | | | | |
| Hire of plant and machines | 328 | | - | |
| Other operating leases | 2,024 | | 2,020 | |
| | | 2,352 | | 2,020 |
| Research and development expenditure | | 3,312 | | 3,182 |
| Non-cash items: | | | | |
| Cost of capital | 430 | | 347 | |
| Notional audit fees – audit work | 50 | | 47 | |
| Notional audit fees – non-audit work | - | | - | |
| Depreciation | 1,090 | | 870 | |
| Impairment | (1) | | 94 | |
| (Gains)/Losses on disposal of assets | 7 | | - | |
| Provisions | | | | |
| Provided in year | 444 | | 300 | |
| Provisions not required written back | (174) | | - | |
| Unwinding of discount | 36 | | 271 | |
| | | 1,882 | | 1,929 |
| Other expenditure | | | | |
| Cost of shared services | 4,894 | | 4,407 | |
| Computer costs | 2,189 | | 2,252 | |
| Travel and subsistence | 1,220 | | 1,178 | |
| Accommodation | 1,904 | | 2,235 | |
| Telecommunication | 989 | | 893 | |
| Premature retirement costs | 521 | | 396 | |
| Postage | 161 | | 184 | |
| Losses and compensation | 113 | | 184 | |
| Other | 2,953 | | 1,864 | |
| | | 14,944 | | 13,593 |
| Non-staff administration costs | | 22,490 | | 20,724 |

Notes to the Resource Accounts *(continued)*

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

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

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

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

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

4. Income

| | <u>2004-05</u> | <u>2003-04</u> |
|-------------------------------------|----------------------|----------------------|
| | £000 | £000 |
| Shared central service charges | 20,915 | 17,730 |
| Other | 993 | 1,344 |
| Administrative Income | <u>21,908</u> | <u>19,074</u> |
| Planting grant co-financing from EU | 4,907 | 5,116 |
| Other Income | 4,703 | 4,564 |
| Programme income | <u>9,610</u> | <u>9,680</u> |

Administrative income includes income received by shared central services from Scotland, Wales and Forest Enterprise England whereas the income from Forestry Commission England and Forest Research is excluded because these entities are inside the resource account boundary.

5. Programme expenditure

| | <u>2004-05</u> | <u>2003-04</u> |
|--|----------------------|----------------------|
| | £000 | £000 |
| Support for forestry and the rural economy, including grants paid to private woodland owners | 15,093 | 13,490 |
| Grants paid to private woodland owners from EU receipts | 4,907 | 5,116 |
| Other programme costs, including research and publications | 4,363 | 6,184 |
| Sub-total | <u>24,363</u> | <u>24,790</u> |
| Forest Enterprise England funding | 34,479 | 36,637 |
| Programme expenditure | <u>58,842</u> | <u>61,427</u> |

6. Reconciliation of net operating cost to control total and net resource outturn

| | <u>2004-05</u> | <u>2003-04</u> |
|--|----------------------|----------------------|
| | £000 | £000 |
| Net operating cost for the year | 74,442 | 76,840 |
| Less Forest Enterprise England depreciation | (2,253) | (2,116) |
| Add/less Forest Enterprise England net capital | (3,724) | 2,924 |
| Add non-supply income including CFERs | - | - |
| Add net deficit on revaluations | - | - |
| Net resource outturn | <u>68,465</u> | <u>77,648</u> |

Forest Enterprise England incurred a deficit on its income and expenditure account of £34,485,000 (£36,637,000 in 2003-04). It received cash funding of £16,772,000 (£19,896,000 in 2003-04) from the Forestry Commission and the difference is shown under other adjustments in Schedule 1. The difference comprises:

| | <u>2004-05</u> | <u>2003-04</u> |
|---|----------------------|----------------------|
| | £000 | £000 |
| Capital | | |
| Net capital | 3,724 | (2,924) |
| Accruals adjustments | | |
| Cost of capital | 14,690 | 14,056 |
| Non cash items | 627 | 6,327 |
| Changes in working capital, including cash | (625) | (1,185) |
| Changes in provisions | (703) | 467 |
| | 17,713 | 16,741 |
| Remove non supply expenditure | (5,977) | (2,116) |
| Add non supply expenditure | - | 2,924 |
| Adjustment of FE deficit to financing (Schedule 1) | <u>11,736</u> | <u>17,549</u> |

Notes to the Resource Accounts (continued)

7. Tangible fixed assets

| | Land and Buildings | Plant and Machinery | IT Construction | Assets Under | Total |
|-------------------------------|-----------------------|---------------------------|-----------------|-----------------|---------------|
| | £000 | £000 | £000 | £000 | £000 |
| Cost or valuation: | | | | | |
| At 1 April 2004 | 11,024 | 365 | 9,861 | 300 | 21,550 |
| Additions | 95 | – | 636 | 1,490 | 2,221 |
| Transfers | 117 | (22) | (17) | – | 78 |
| Disposals | – | (18) | (85) | – | (103) |
| Revaluation to current prices | 473 | (6) | 15 | – | 482 |
| Reversal of impairment | – | – | 4 | – | 4 |
| At 31 March 2005 | 11,709 | 319 | 10,414 | 1,790 | 24,232 |
| Depreciation: | | | | | |
| At 1 April 2004 | 749 | 340 | 7,139 | – | 8,228 |
| Provided during year | 230 | 4 | 608 | – | 842 |
| Transfers | 4 | (26) | (13) | – | (35) |
| Disposals | – | (16) | (80) | – | (96) |
| Revaluation to current prices | 26 | – | 6 | – | 32 |
| Reversal of impairment | – | – | 3 | – | 3 |
| At 31 March 2005 | 1,009 | 302 | 7,663 | – | 8,974 |
| Net Book Value at: | | | | | |
| 31 March 2005 | 10,700 | 17 | 2,751 | 1,790 | 15,258 |
| 1 April 2004 | 10,275 | 25 | 2,722 | 300 | 13,322 |

Note 1 Accounting Policies sets out the basis on which fixed assets are revalued.

Land and buildings were scheduled to be re-assessed as at 31 March 2005 in accordance with the three-yearly interval stated in the previous accounting policy. It has been decided, however, to bring the policy in line with UK GAAP and undertake a professional valuation of land and buildings on a five-yearly basis with a formal review in the third year. The first five-yearly valuation will be undertaken at 31 March 2008 with annual updates in the intervening years based on indices provided by the District Valuer.

Plant and machinery were subject to a triennial revaluation as at 31 March 2005 by professionally qualified staff employed by the Forestry Commission. The next full revaluation is due as at 31 March 2008 with annual updates in the intervening years based on valuations provided by internal professionally qualified staff for specialist forestry machinery and indices provided by the Office for National Statistics for all other assets.

Information technology assets was restated to current value as at 31 March 2005 using an index provided by the Office for National Statistics.

8. Intangible fixed assets

| | Purchased Software Licences |
|-------------------------------|-----------------------------------|
| | £000 |
| Cost or valuation: | |
| At 1 April 2004 | 1,023 |
| Additions | 576 |
| Disposals | - |
| Revaluation to current prices | - |
| At 31 March 2005 | 1,599 |
| Depreciation: | |
| At 1 April 2004 | - |
| Provided during year | 248 |
| Disposals | - |
| Revaluation to current prices | - |
| At 31 March 2005 | 248 |
| Net Book Value at: | |
| 31 March 2005 | 1,351 |
| 1 April 2004 | 1,023 |

9. Movements in working capital other than cash

| | 2004-05 | 2003-04 |
|---|---------------------|-----------------------|
| | £000 | £000 |
| (Decrease)/increase in Stocks | (40) | 776 |
| (Decrease) /increase in Debtors | (153) | (34) |
| Decrease/(increase) in Creditors: amounts falling due within one year | 4,048 | (5,714) |
| | <u>3,855</u> | <u>(4,972)</u> |
| Adjustment: movement in working capital not related to net operating costs | | |
| Amounts due to Consolidated Fund | (1,687) | 2,341 |
| Historic cash balance paid to Treasury | (57) | - |
| Movement in working capital related to the acquisition of tangible fixed assets | - | 28 |
| Net increase/(decrease) in working capital other than cash | <u>2,111</u> | <u>(2,603)</u> |

10. Stocks and work in progress

| | 2004-05 | 2003-04 |
|------------------------------------|---------------------|---------------------|
| | £000 | £000 |
| Stocks | 1,061 | 1,026 |
| Raw materials and work in progress | 462 | 537 |
| Total | <u>1,523</u> | <u>1,563</u> |

Notes to the Resource Accounts (continued)

11. Debtors

| | 2004-05 | 2003-04 |
|--|--------------|--------------|
| | £000 | £000 |
| Amounts falling due within one year: | | |
| VAT | 2,305 | 1,092 |
| Trade debtors | 3,163 | 3,957 |
| Other debtors | 92 | 649 |
| Prepayments | 813 | 782 |
| | 6,373 | 6,480 |
| Amounts falling due after more than one year: | | |
| Other debtors | 118 | 164 |
| Total | 6,491 | 6,644 |

12. Cash at bank and in hand

| | 2004-05 | 2003-04 |
|--|--------------|--------------|
| | £000 | £000 |
| Balance at 1 April | 4,164 | 1,823 |
| Net change in cash balances | (1,744) | 2,341 |
| Balance at 31 March | 2,420 | 4,164 |
| The following balances at 31 March are held at: | | |
| Balance with Office of Paymaster General | 1,872 | 3,652 |
| Cash at commercial banks and cash in hand | 548 | 512 |
| Balance at 31 March | 2,420 | 4,164 |
| Amounts issued from the consolidated fund for supply but not spent at the year end | 2,420 | 4,107 |
| Historic cash surplus to be paid to Westminster consolidated fund | - | 57 |

13. Creditors

| | 2004-05 | 2003-04 |
|--|---------------|---------------|
| | £000 | £000 |
| Amounts falling due within one year: | | |
| Other taxation and social security | 2,050 | 1,830 |
| Trade creditors | 3,877 | 8,504 |
| Other creditors | 60 | 40 |
| Accruals and deferred income | 2,256 | 229 |
| Payments received on account | 297 | 241 |
| Historic cash surplus to be paid to Westminster consolidated fund | - | 57 |
| Amounts issued from Westminster consolidated fund (supply) but not spent at year end | 2,420 | 4,107 |
| Total | 10,960 | 15,008 |

Forest Enterprise England acts as co-ordinator for the Interreg Project which is funded by the European Union. The purpose of the Interreg Project is to promote recreation and conservation in forestry. The duties of co-ordinators include receiving EU funds on behalf of partners for onward transmission once work programmes have been approved. As third party assets these sums are not recorded on the face of these accounts. At 31 March 2005 the amount held in Forestry Commission bank accounts on behalf of partners was £309,360.07. This has subsequently all been transferred to the partners concerned.

The creditor's disclosure has been changed from previous years by the inclusion of a line for 'accruals and deferred income'. In previous years accruals were included in trade creditors and deferred income was included in other creditors.

14. Provision for liabilities and charges

| | Early departure costs | Legal claims | Total |
|--------------------------------------|--------------------------------------|-------------------------|---------------------|
| | <u>£000</u> | <u>£000</u> | <u>£000</u> |
| Balance at 1 April 2004 | 1,630 | 150 | 1,780 |
| Provided in the year | 444 | – | 444 |
| Provisions not required written back | (24) | (150) | (174) |
| Utilised in the year | (680) | – | (680) |
| Unwinding of discount | 36 | – | 36 |
| Balance at 31 March 2005 | <u>1,406</u> | <u>–</u> | <u>1,406</u> |

14.1 Early departure costs

The department meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The department provides for this in full when the early retirement programme becomes binding on the department by establishing a provision for the estimated payments discounted by the Treasury discount rate of 3.5 per cent in real terms.

15. Reconciliation of net operating cost to changes in general fund

| | 2004-05 | 2003-04 |
|--|---------------------|---------------------|
| | <u>£000</u> | <u>£000</u> |
| Net operating cost for the year (Schedule 2) | (74,442) | (76,840) |
| Parliamentary funding | 62,748 | 63,014 |
| | (11,694) | (13,826) |
| Forest Enterprise England non-cash adjustments (note 6) | 17,713 | 16,741 |
| | 6,019 | 2,915 |
| Notional cost of capital | 430 | 347 |
| Transfer of fixed assets from/to other forestry bodies | 113 | 261 |
| Transferred to general fund (realised element of revaluation reserve) | – | 127 |
| Non-cash inter-country transfers | 107 | (446) |
| Notional audit fees | 50 | 47 |
| Amounts issued from the Consolidated Fund for supply but not spent at year end | (2,420) | (4,107) |
| Net increase/(decrease) in General Fund | <u>4,299</u> | <u>(856)</u> |
| General Fund as at 1 April | <u>4,955</u> | <u>5,811</u> |
| General Fund as at 31 March (Schedule 3) | <u>9,254</u> | <u>4,955</u> |

16. Revaluation Reserve

| | 2004-05 | 2003-04 |
|---|---------------------|---------------------|
| | <u>£000</u> | <u>£000</u> |
| Balance at 1 April | 4,973 | 4,678 |
| Transferred to general fund (realised element of revaluation reserve) | – | (127) |
| Arising on revaluation during the year | 450 | 422 |
| Balance at 31 March | <u>5,423</u> | <u>4,973</u> |

Notes to the Resource Accounts *(continued)***17. Schedule 5**

Expenditure in Schedule 5 comprises the direct costs incurred by Forestry Commission England's national office and payments made for centrally provided services. An analysis was undertaken to determine the costs attributable to each of the objectives for the core department. In a multi-benefit forestry strategy where many activities will contribute to more than one objective, the allocation of costs has been undertaken by senior staff in each area based on an informed judgement of each activity.

18. Capital commitments

There were no contracted capital commitments at 31 March 2005.

19. Commitments under operating leases*Operating leases*

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

| | <u>2004-05</u> | <u>2003-04</u> |
|----------------------------------|---------------------|---------------------|
| | £000 | £000 |
| Building leases expiring within: | | |
| One year | 63 | – |
| Two to five years | – | 59 |
| More than five years | 1,961 | 1,961 |
| Total | <u>2,024</u> | <u>2,020</u> |
| Other leases expiring within: | | |
| One year | 93 | – |
| Two to five years | 235 | – |
| More than five years | – | – |
| | <u>328</u> | <u>–</u> |

20. Other financial commitments

Following approval of a management plan for planting proposals, Forestry Commission England undertakes to pay planting grants in two instalments. At 31 March 2005, Forestry Commission England was committed under signed plans to the payment of future instalments of planting and replanting grants amounting to £12.261 million (£0.305 million in 2003-04). Grants for the management of existing woodlands are payable annually in arrears during the five-year currency of an approved plan, so long as specific objectives and age criteria are met. Commitments to future payments in respect of approved plans amounted to £17.95 million at 31 March 2005 (£16.9 million in 2003-04). Applications for planting and replanting grants, awaiting approval at 31 March 2005, amounted to £0.713 million (£24.5 million in 2003-04).

21. Contingent Liabilities

There were no contingent liabilities as at 31 March 2005 (£nil at 31 March 2004).

22. Losses and special payments

| | <u>Number</u> | <u>£000</u> |
|------------------------|---------------|-------------|
| Losses total | 22 | 44 |
| Special payments total | 23 | 25 |

23. Related party transactions

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

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

In the year to 31 March 2005, Forest Enterprise England entered into material transactions involving Martin Gale, a non-executive Forestry Commissioner. At 31 March 2005, Martin Gale was Chairman of Tilhill Forestry and Vice President, International Forestry, UPM-Kymmene Corporation. UPM-Kymmene is the parent company of Shotton Paper, Caledonian Paper and Tilhill Forestry Ltd. Tilhill Forestry has an interest in BSW Timber plc.

The value of purchases from Forest Enterprise England was:

| | |
|------------------|----------|
| BSW Timber plc | £254,000 |
| Tilhill Forestry | £746,000 |

Amounts owing to Forest Enterprise England at 31 March 2005 was:

| | |
|------------------|----------|
| BSW Timber plc | £35,000 |
| Tilhill Forestry | £184,000 |

Professor Jim Lynch, Chief Executive of Forest Research, is distinguished Professor of Life Sciences at the University of Surrey. The value of payments to the University for services provided in the year to 31 March 2005 was £32,000.

Sam Evans, Head of Biometrics division in Forest Research, holds a visiting professorship at the University of Sheffield, with which £5,000 was spent on research services.

24. Financial Instruments

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

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

Notes to the Resource Accounts *(continued)**Liquidity risk*

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

Interest-rate risk

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

Foreign currency risk

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

Fair Values

There is no difference between book value and fair value for the cash at bank shown in Note 12. Fair value for the provisions shown in Note 14 is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted by the Treasury rate of 3.5% in real terms.

25. Entities within the departmental boundary

The entities within the boundary during 2004-05 were as follows:

- a. Supply-financed agencies
Forest Research Agency, which incurred a net operating cost of £27,000.
- b. Non-executive NDPBs:
None
- c. Other entities:
None

The annual reports and accounts of the Forest Research Agency are published separately.

26. Intra-government balances

| | Debtors: amounts falling due within one year | Debtors: amounts falling due after more than one year | Creditors: amounts falling due within one year | Creditors: amounts falling due after more than one year |
|---|---|--|---|--|
| | £000 | £000 | £000 | £000 |
| Balances with other central government bodies | 2,657 | – | 5,531 | – |
| Balances with local authorities | – | – | – | – |
| Balances with NHS trusts | – | – | – | – |
| Balances with public corporations and trading funds | – | – | – | – |
| Balances with bodies external to government | 3,716 | 118 | 5,429 | – |
| At 31 March 2005 | 6,373 | 118 | 10,960 | – |
| Balances with other central government bodies | 1,180 | – | 6,836 | – |
| Balances with local authorities | – | – | – | – |
| Balances with NHS trusts | – | – | – | – |
| Balances with public corporations and trading funds | – | – | – | – |
| Balances with bodies external to government | 5,300 | 164 | 8,172 | – |
| At 31 March 2004 | 6,480 | 164 | 15,008 | – |

SCHEDULE 3**Forestry Commission Great Britain/England Core department only****Balance Sheet**

as at 31 March 2005 (£000s)

| | Note | 31 March 2005 | 31 March 2004 |
|--|------|-----------------|-----------------|
| Fixed assets | | | |
| Tangible assets | 2 | 4,144 | 2,591 |
| Intangible assets | 3 | 1,301 | 987 |
| | | 5,445 | 3,578 |
| Debtors falling due after more than one year | 5 | 96 | 111 |
| Current Assets | | | |
| Stocks | 4 | 1,061 | 1,027 |
| Debtors | 5 | 4,989 | 5,920 |
| Cash at bank and in hand | 6 | 1,872 | 3,652 |
| | | 7,922 | 10,599 |
| Creditors (amounts falling due within one year) | 7 | (10,351) | (14,293) |
| Net Current Assets | | (2,429) | (3,694) |
| Total assets less current liabilities | | 3,112 | (5) |
| Provisions for liabilities and charges | 8 | (1,328) | (1,630) |
| | | (1,328) | (1,630) |
| | | 1,784 | (1,635) |
| Taxpayers' equity: | | | |
| General fund | 9 | 1,402 | (1,971) |
| Revaluation reserve | 10 | 382 | 336 |
| | | 1,784 | (1,635) |

T J D Rollinson
Accounting Officer
14 December 2005

Notes to the Resource Accounts – Great Britain/England Core-department Balance Sheet 2004-05

1. Statement of Accounting Policies

Where appropriate, the accounting policies outlined above for the consolidated accounts have been adopted for the core-department only accounts.

2. Tangible fixed assets

| | Land and Buildings | Plant and Machinery | IT Construction | Assets Under | Total |
|-------------------------------|-----------------------|---------------------------|-----------------|-----------------|--------------|
| | £000 | £000 | £000 | £000 | £000 |
| Cost or valuation: | | | | | |
| At 1 April 2004 | 1,226 | 365 | 4,343 | 300 | 6,234 |
| Additions | – | – | 356 | 1,490 | 1,846 |
| Transfers | – | (22) | (17) | – | (39) |
| Disposals | – | (18) | (77) | – | (95) |
| Revaluation to current prices | 55 | (6) | – | – | 49 |
| Reversal of impairment | – | – | 4 | – | 4 |
| At 31 March 2005 | 1,281 | 319 | 4,609 | 1,790 | 7,999 |
| Depreciation: | | | | | |
| At 1 April 2004 | 77 | 340 | 3,226 | – | 3,643 |
| Provided during year | 38 | 4 | 291 | – | 333 |
| Transfers | – | (26) | (13) | – | (39) |
| Disposals | – | (16) | (72) | – | (88) |
| Revaluation to current prices | 3 | – | – | – | 3 |
| Reversal of impairment | – | – | 3 | – | 3 |
| At 31 March 2005 | 118 | 302 | 3,435 | – | 3,855 |
| Net Book Value at: | | | | | |
| 31 March 2005 | 1,163 | 17 | 1,174 | 1,790 | 4,144 |
| 1 April 2004 | 1,149 | 25 | 1,117 | 300 | 2,591 |

Note 1 Accounting Policies sets out the basis on which fixed assets are revalued.

Land and buildings were scheduled to be re-assessed as at 31 March 2005 in accordance with the three-yearly interval stated in the previous accounting policy. It has been decided, however, to bring the policy in line with UK GAAP and undertake a professional valuation of land and buildings on a five-yearly basis with a formal review in the third year. The first five-yearly valuation will be undertaken at 31 March 2008 with annual updates in the intervening years based on indices provided by the District Valuer.

Plant and machinery were subject to a triennial revaluation as at 31 March 2005 by professionally qualified staff employed by the Forestry Commission. The next full revaluation is due as at 31 March 2008 with annual updates in the intervening years based on valuations provided by internal professionally qualified staff for specialist forestry machinery and indices provided by the Office for National Statistics for all other assets.

Information technology (IT) was restated to current value as at 31 March 2005 using an index provided by the Office for National Statistics.

Notes to the Resource Accounts (continued)

3. Intangible fixed assets

| | Purchased Software Licences |
|-------------------------------|-----------------------------------|
| | £000 |
| Cost or valuation: | |
| At 1 April 2004 | 987 |
| Additions | 553 |
| Disposals | - |
| Revaluation to current prices | - |
| At 31 March 2005 | 1,540 |
| Depreciation: | |
| At 1 April 2004 | - |
| Provided during year | 239 |
| Disposals | - |
| Revaluation to current prices | - |
| At 31 March 2005 | 239 |
| Net Book Value at: | |
| 31 March 2005 | 1,301 |
| 1 April 2004 | 987 |

4. Stocks and work in progress

| | 2004-05 | 2003-04 |
|-----------------------|---------|---------|
| | £000 | £000 |
| Stocks (publications) | 1,061 | 1,027 |

5. Debtors

| | 2004-05 | 2003-04 |
|--|--------------|--------------|
| | £000 | £000 |
| Amounts falling due within one year: | | |
| VAT | 2,305 | 1,092 |
| Trade debtors | 1,988 | 3,554 |
| Other debtors | 84 | 628 |
| Prepayments | 612 | 646 |
| | 4,989 | 5,920 |
| Amounts falling due after more than one year: | | |
| Other debtors | 96 | 111 |
| Total | 5,085 | 6,031 |

6. Cash at bank and in hand

| | <u>2004-05</u> | <u>2003-04</u> |
|--|---------------------|---------------------|
| | £000 | £000 |
| Balance at 1 April | 3,652 | 1,306 |
| Net change in cash balances: | (1,780) | 2,346 |
| Balance at 31 March | <u>1,872</u> | <u>3,652</u> |
| The following balances at 31 March are held at: | | |
| Balance with Office of Paymaster General | 1,872 | 3,652 |
| Cash at commercial banks and cash in hand | - | - |
| Balance at 31 March | <u>1,872</u> | <u>3,652</u> |
| Amounts issued from the consolidated fund for supply but not spent at the year end | <u>1,872</u> | <u>3,595</u> |
| Historic cash surplus to be paid to Westminster consolidated fund | <u>-</u> | <u>57</u> |

7. Creditors

| | <u>2004-05</u> | <u>2003-04</u> |
|--|----------------------|----------------------|
| | £000 | £000 |
| Amounts falling due within one year: | | |
| Other taxation and social security | 2,050 | 1,830 |
| Trade creditors | 3,566 | 8,063 |
| Other creditors | 59 | 40 |
| Accruals and deferred income | 2,256 | 196 |
| Historic cash surplus to be paid to Westminster consolidated fund | - | 57 |
| Amounts issued from the Consolidated Fund for supply but not spent at year end | 2,420 | 4,107 |
| Total | <u>10,351</u> | <u>14,293</u> |

Forest Enterprise England acts as co-ordinator for the Interreg Project which is funded by the European Union. The purpose of the Interreg Project is to promote recreation and conservation in forestry. The duties of co-ordinators include receiving EU funds on behalf of partners for onward transmission once work programmes have been approved. As third party assets these sums are not recorded on the face of these accounts. At 31 March 2005 the amount held in Forestry Commission bank accounts on behalf of partners was £309,360.07. This has subsequently all been transferred to the partners concerned.

The creditor's disclosure has been changed from previous years by the inclusion of a line for 'accruals and deferred income'. In previous years accruals were included in trade creditors and deferred income was included in other creditors.

8. Provision for liabilities and charges

| | Early departure costs |
|--------------------------------------|------------------------------|
| | £000 |
| Balance at 1 April 2004 | 1,630 |
| Provided in the year | 350 |
| Provisions not required written back | (24) |
| Utilised in the year | (675) |
| Unwinding of discount | 47 |
| Balance at 31 March 2005 | <u>1,328</u> |

The department meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The department provides for this in full when the early retirement programme becomes binding on the department by establishing a provision for the estimated payments discounted by the Treasury discount rate of 3.5 per cent in real terms.

Notes to the Resource Accounts (continued)

9. Reconciliation of net operating cost to changes in general fund

| | <u>2004-05</u> | <u>2003-04</u> |
|--|---------------------|-----------------------|
| | £000 | £000 |
| Net operating cost for the year | (74,415) | (76,866) |
| Parliamentary funding | 62,341 | 63,265 |
| | <u>(12,074)</u> | <u>(13,601)</u> |
| Subsidy payments to Forest Enterprise England | 17,713 | 16,741 |
| | 5,639 | 3,140 |
| Notional cost of capital | 21 | (37) |
| Transfer of fixed assets from/to other forestry bodies | – | 128 |
| Non-cash inter-country transfers | 83 | (430) |
| Notional audit fees | 50 | 47 |
| Amounts issued from the Consolidated Fund for supply but not spent | (2,420) | (4,107) |
| Net increase/(decrease) in General Fund | <u>3,373</u> | <u>(1,259)</u> |
| General Fund as at 1 April | <u>(1,971)</u> | <u>(712)</u> |
| General Fund as at 31 March (Schedule 3) | <u>1,402</u> | <u>(1,971)</u> |

10. Revaluation Reserve

| | <u>2004-05</u> | <u>2003-04</u> |
|--|-------------------|-------------------|
| | £000 | £000 |
| Balance at 1 April | 336 | 290 |
| Arising on revaluation during the year | 46 | 46 |
| Balance at 31 March | <u>382</u> | <u>336</u> |

11. Capital commitments

There were no contracted capital commitments at 31 March 2005.

12. Commitments under leases

Operating leases

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

| | <u>2004-05</u> | <u>2003-04</u> |
|----------------------------------|---------------------|---------------------|
| | £000 | £000 |
| Building leases expiring within: | | |
| One year | 63 | – |
| Two to five years | – | 59 |
| More than five years | 1,961 | 1,961 |
| Total | <u>2,024</u> | <u>2,020</u> |
| Other leases expiring within: | | |
| One year | 93 | – |
| Two to five years | 235 | – |
| More than five years | – | – |
| | <u>328</u> | <u>–</u> |

13. Other financial commitments

Following approval of a management plan for planting proposals, Forestry Commission England undertakes to pay planting grants in two instalments. At 31 March 2005, Forestry Commission England was committed under signed plans to the payment of future instalments of planting and replanting grants amounting to £12.261 million (£0.305 million in 2003-04). Grants for the management of existing woodlands are payable annually in arrears during the five-year currency of an approved plan, so long as specific objectives and age criteria are met. Commitments to future payments in respect of approved plans amounted to £17.95 million at 31 March 2005 (£16.9 million in 2003-04). Applications for planting and replanting grants, awaiting approval at 31 March 2005, amounted to £0.713 million (£24.5 million in 2003-04).

14. Contingent Liabilities

There were no contingent liabilities at 31 March 2005 for damages caused to other persons' property or for compensation for personal injury to employees (£nil as at 31 March 2004).

15. Losses statement

| | <u>Number</u> | <u>£000</u> |
|------------------------|---------------|-------------|
| Losses total | 21 | 40 |
| Special payments total | <u>9</u> | <u>13</u> |

16. Related party transactions

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

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

In the year to 31 March 2005, Forest Enterprise England entered into the following material transaction involving non-executive Commissioners:

Martin Gale, a non-executive Forestry Commissioner was, at 31 March 2005, Chairman of Tilhill Forestry and Vice President, International Forestry, UPM-Kymmene Corporation. UPM-Kymmene is the parent company of Shotton Paper, Caledonian Paper and Tilhill Forestry Ltd. Tilhill Forestry has an interest in BSW Timber plc.

The value of purchases from Forest Enterprise England was:

| | |
|------------------|----------|
| BSW Timber plc | £254,000 |
| Tilhill Forestry | £746,000 |

Amounts owing to Forest Enterprise England at 31 March 2005 was:

| | |
|------------------|----------|
| BSW Timber plc | £35,000 |
| Tilhill Forestry | £184,000 |

Notes to the Resource Accounts *(continued)***17. Financial Instruments**

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

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

Liquidity risk

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

Interest-rate risk

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

Foreign currency risk

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

Fair Values

There is no difference between book value and fair value for the cash at bank shown in Note 6. Fair value for the provisions shown in Note 8 is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted by the Treasury rate of 3.5% in real terms.

Accounts Direction given by the Treasury in accordance with Section 5(2) of the Government Resources and Accounts Act 2000

1. This direction applies to those government departments and pension schemes listed in the attached appendix.*
2. These departments and pension schemes shall prepare resource accounts for the year ended 31 March 2005 in compliance with the accounting principles and disclosure requirements of the edition of the Resource Accounting Manual issued by H M Treasury ("the Resource Accounting Manual") which is in force for 2004-05.
3. The accounts for **government departments** shall be prepared so as to:
 - (a) give a true and fair view of the state of affairs at 31 March 2005 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year then ended; and
 - (b) provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.
4. The accounts for **pension schemes** shall be prepared so as to:
 - (a) give a true and fair view of the state of affairs at 31 March 2005 and of the net resource outturn and cash flows for the financial year then ended; and
 - (b) provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.
5. Compliance with the requirements of the Resource Accounting Manual will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the Resource Accounting Manual is inconsistent with the requirement to give a true and fair view, the requirements of the Resource Accounting Manual should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the Resource Accounting Manual. Any material departure from the Resource Accounting Manual should be discussed in the first instance with the Treasury.

David Cruden FCA

Head of Central Accountancy Team, Her Majesty's Treasury
16 February 2005

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

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