

Forestry Commission Great Britain/England

Annual Report 2006-07

Incorporating:

Forestry Commission Great Britain/England Resource Accounts
and
Forest Enterprise England Agency Accounts

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(For the year ended 31 March 2007)

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Foreword by the Rt Hon Lord Clark of Windermere, Chairman

As you will see in this year's report, once again I can take pleasure in reporting how the country's forests and woodland are contributing to the quality of life. I take particular pleasure in the growing importance of the many partnerships where we bring our expertise in what the forests can offer to help deliver the greatest good for people today and tomorrow.

Last year I reported that we had secured a Regulatory Reform Order amending the powers of the Forestry Commission in a number of areas of activity in England and Wales. Particularly welcome was the new power to form formal partnerships with a range of other organisations. The first of these partnerships came into being in May 2006 when we entered into a partnership with the Caravanning and Camping Club to run the Forest Holidays business. Very importantly, by working with a partner who shares our values of sustainable tourism, we can grow the business while offering people high-quality enjoyment in the natural forest environment.

In November I was pleased to participate in the 'Forestry: A Sectoral Response to Climate Change' conference that brought together leading forestry scientists and policymakers from around the world to discuss the role of deforestation in climate change. The year ended with the launch of the Woodfuel Strategy for England, which sets out a structure for government intervention to develop the production and use of wood as a fuel. Our challenge now is to develop the implementation plan. Closer to home we are also looking at improving the sustainability of our built environment and administrative functions through the Greenerways project.

In England we have continued our focus on delivery of the soon to be revised England Forestry Strategy. For example in the summer I accepted long-term leases for us to manage seven former colliery sites in Nottinghamshire that we had helped restore to community woodland.

Later in the year we celebrated the planting of the two millionth tree at the Great North Forest. This is an area I know well and over the years I have seen how the forest is not just improving health and well-being by bringing opportunities for fresh air, fitness, and fun to local people, but is also supporting the economic and social regeneration of the area. Nationally the Active Woods campaign continued to make the link between woods and health and well-being.

It was also the first full year of payments of incentives offered through the English Woodland Grant Scheme, which re-focused incentives on the delivery of public benefits, from existing and new woodland.

I am proud of these achievements and the other examples in the report, which show how we get things done, effectively and imaginatively, delivering across a range of policy priorities, at grassroots level.

Introduction by Tim Rollinson, Director General

In a world that is increasingly under threat from the impacts of climate change, the role of forests has perhaps never been of greater strategic importance. Forests cover some 30 per cent of the Earth's land surface. They are a major carbon sink that helps regulate the global climate and are home to around 80 per cent of the world's terrestrial biodiversity. They supply environmental services on which all of human society depends. Despite their importance, forests continue to be lost at an alarming rate. This deforestation is responsible for nearly 20 per cent of all global emissions – more than the whole of the transport sector worldwide.

The United Kingdom's forest history is one of deforestation – to an historical low of just five per cent forest cover by 1900 – followed by reforestation, when the forest area was more than doubled. This experience has made us a world leader in forest restoration. We are a founder member of the Global Partnership on Forest Landscape Restoration which aims to restore forest ecosystems around the globe. We have been at the forefront in international negotiations on sustainable forest management and forest certification, and have been working with other governments – for example in Brazil and China – to pursue the United Kingdom's objectives for climate change and sustainable development.

In November 2006, we hosted a conference on Forests and Climate Change, bringing together experts from around the world to discuss the actions that are needed by the forest sector. Planting new forests, restoring degraded forests and managing existing forests on a sustainable basis, can all be used to increase carbon sequestration. Action is both essential and urgent.

We continue to invest effort and resources in ensuring that the forests in our stewardship are managed sustainably. During the year under report we extended this approach through our Greenerways sustainability project to cover areas such as buildings, waste management and travel and transport. We are committed to making improvements and I am encouraged that this work has both high level commitment and enthusiasm at grassroots level within the Commission.

In a world of increasing globalisation, the links between the challenges at the international level and our efforts nationally have never been closer.

Introduction by Paul Hill-Tout, Director England

This year has seen a number of significant developments in relation to the Forestry Commission's work on climate change and actions to increase the use of biomass from woodland for energy in England. Of particular significance was the launch of the Woodfuel Strategy for England and work is now underway to develop the implementation plan.

Throughout the year the Commission has continued to play an important role in the delivery of public benefits in England through the provision of high quality green infrastructure. Our work to restore former industrial land and create green and attractive settings in which to encourage inward investment has been highlighted by the Newlands scheme in the north west.

Encouraging more active lifestyles and developing the link between trees and woodland and health and well-being has been the driving force behind our Active Woods campaign. Access to woodland has been secured in perpetuity by the dedication of the freehold public forest estate.

Timber production from the public forest estate has continued to sustain investment in the processing industry and we hope the increased prices for round timber are sustained and that this will encourage more private growers back into the market.

It was also the first full year of payments of incentives offered through the English Woodland Grant Scheme, which has re-focused incentives on the delivery of public benefits from existing and new woodland.

ANNUAL REPORT

Status

The Forestry Commission is the government department responsible for advising Forestry Ministers within the Westminster Parliament, Scottish Parliament and National Assembly for Wales on forestry policy and for implementing the three separate forestry policy strategies across England, Scotland and Wales. It has a Chairman and Board of Commissioners. 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. The Forestry Commission changed its structure on 1 April 2003 to reflect a step change in co-operation with rural affairs departments in England, Scotland and Wales. This co-operation is underpinned by concordats worked up individually between each rural affairs department and the relevant Forestry Commission National Office.

Forestry Commission England came into being on 1 April 2003 and remains part of the Forestry Commission. It serves as the forestry department of the Westminster Parliament, advising on, and implementing forestry policies. Through the executive agency, Forest Enterprise England, it also manages the public forest estate to deliver public benefits.

Strategy

Forestry Commission England

In 1998 the Government published a Forestry Strategy for England. The strategy 'A New Focus for England's Woodlands' set out the Government's strategic priorities and programmes for forestry in England. The strategy was founded on four guiding principles of quality, integration, partnership and public support. At the time of publication the Government said it would review the strategy within ten years and the Department for Environment, Food and Rural Affairs (Defra) issued a consultation document in May 2006 which will inform the development of a new Forestry Strategy for England later in the year. The England Forestry Strategy and the consultation document can be accessed via the Forestry Commission England website at: www.forestry.gov.uk/england.

Forestry Commission Great Britain

In the Great Britain role, the Forestry Commission provides advice and support to the UK Government and to the devolved administrations in Scotland and Wales. We set the standards for sustainable forest management and encourage good forestry practice. We conduct forestry research, provide information and we have statutory duties for some regulations that, by agreement with Ministers, are GB-wide. The Forestry Commission's Science and Innovation Strategy for British Forestry was approved by forestry ministers in England, Scotland, Wales and Northern Ireland in July 2005. The strategy sets out how research programmes are determined and how they are linked to forestry strategies and the wider policy objectives of the UK Government and the devolved administrations.

Aims and Objectives

Forestry Commission England

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*).

Forestry Commission Great Britain

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”*. A number of the Forestry Commission’s functions are operated by agreement on a Great Britain basis and funded directly by the Westminster Parliament. 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; and
- 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 internationally 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.

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.

The annual spending plans for the Forestry Commission’s activities in England and those functions which it carries out on a GB-wide basis are published as part of the Westminster Main Estimates. The Departmental Report 2005 for Defra was published in June 2005 and Chapter 5 includes the Forestry Commission Great Britain/England resource plans for the period 2004-05 to 2007-08. The latest Corporate Plan for England and Great Britain covers 2006-07 and is available on the Forestry Commission website at www.forestry.gov.uk.

Our values – how we behave in fulfilling our objectives

- **Teamwork** – Working as teams with colleagues and others to ensure that trees, woods and forests meet the needs of people in each part of the country
- **Professionalism** – Enjoying and taking pride in our work, achieving high standards of quality, efficiency and sustainability
- **Respect** – Treating one another with consideration and trust, recognising each person’s contribution
- **Communication** – Being open, honest and straightforward with colleagues and others, as willing to listen as to tell
- **Learning** – Always learning, from outside the Forestry Commission as well as from within
- **Creativity** – Not being afraid to try new ways of doing things

MANAGEMENT COMMENTARY

Key Facts

- Area of land we manage in England: 257,871 hectares
- Average number of employees in England (full time equivalents): 1,153
- Area of existing woodland in WGS/EWGS: 215,734 hectares
- SSSIs in a favourable or recovering condition on the public forest estate: 57,223 hectares

Events

The delivery of public benefits is a priority and nowhere is this more apparent than where we are creating woodland close to where people live. In October Secretary of State for Environment, Food and Rural Affairs, David Miliband, joined Lord Clark, local people and partners to plant the two millionth tree in the Great North Forest at Herrington Country Park in Sunderland. The Great North Forest was the first of England's Community Forests and has benefited from £22 million investment from the public, private and voluntary sectors.

In April, we completed the restoration of Moston Vale a 21 hectare ex-landfill site in Manchester, which was the first site to be restored as part of the Forestry Commission and North West Development Agency's Newlands scheme. The restoration involved the placement of 50,000 tonnes of soil and the planting of 9,000 trees. By the end of the year a further three sites, totalling 202 hectares, were well on the way to completion and a 106 hectare former gravel working has been purchased for regeneration as part of the £23 million scheme to reclaim large areas of derelict and neglected land across the north west.

At a hand over ceremony in June, Lord Clark formally accepted responsibility on behalf of the Commission for the long-term management of seven former colliery sites in Nottinghamshire through a series of 999-year leases from the County Council. The seven sites, restored between 1996 and 2004, have created 829 hectares of new community woodland that is a very popular local amenity.

Conservation of the natural environment and delivery of the biodiversity strategy for England continues to be important to us. In September the Forestry Minister, Barry Gardiner MP, visited the New Forest to mark the completion of 2,000 hectares of heathland restoration on the public forest estate in England. In 1994 the UK Biodiversity Action Plan identified lowland heath as a priority habitat and the Government set a target to restore 6,000 hectares. We are planning the restoration of a further 2,000 hectares in the next 15-20 years.

In August, we opened the 220 metre long Bellcrag Flow Boardwalk at Kielder Forest in Northumberland. The construction of the Boardwalk was funded by the National Park Authority and allows access to the heart of these internationally significant mires. Over 600 hectares will be restored as part of the Border Mires Rehabilitation Project, a partnership between the Forestry Commission, Northumberland National Park and Northumberland Wildlife Trust.

In May, the Countess of Wessex and the Friends of Bedgebury officially launched the redeveloped facilities at the Bedgebury Forest and Pinetum in Kent. These include a new visitor centre, all ability trails, cycle tracks and horse riding facilities. This project was supported by Sport England's Active England programme. Since its opening, visitor numbers have almost quadrupled to over 180,000 people and the centre is appealing to a broader range of ages.

We launched the innovative 'Growing Adventure' report and guidance on children's play at our Den Building activity day in May, in the Forest of Dean. This was hosted by Ken Hames, presenter of the BBC2 series *Beyond Boundaries*. The report sets out the activities, lessons, recommendations and outputs of Growing Adventure, a year-long project that aims to develop the Forestry Commission's activity around children and young people's play and leisure.

The results of the Public Opinion of Forestry 2005 England were published during the year and confirmed the value of woodland as a relaxing place to visit as well as a haven for wildlife.

Key Achievements

- New planting supported by WGS/EWGS: 2,535 hectares
- Increase in area of woodland with public access: 3,175 hectares
- Volume of timber sold: 1,489,000 cubic metres
- Number of people attending Forest Concerts: Over 100,000

Climate change and wood fuel

There continues to be intense activity on biomass for energy. At the end of April, the Government's response to the Biomass Task Force Report highlighted a key role for the Forestry Commission in the long-term development of a UK-wide sustainable biomass industry, and we were asked to prepare a strategy followed by an implementation plan to take this forward. The strategy was published on 28 March. The aim is to bring an additional two million tonnes of wood into the market annually, by 2020, saving 400,000 tonnes of carbon every year. The implementation plan will be published in 2007.

The Biomass Energy Centre has been established by our Forest Research Agency supported by Defra and complements the functions of the National Non-Food Crops Centre. It provides a one-stop-shop resource for expert information and advice on biomass. The Centre will work alongside Forest Research's existing Woodfuel Research Centre which integrates the activity of various project teams investigating aspects of the woodfuel supply chain. We are also using woodfuel for heating in new developments at our sites at Bedgebury in Kent, Grizedale in the Lake District and Dalby in North Yorkshire.

Grants and licences

This was the first full year of English Woodland Grant Scheme (EWGS) payments with £5 million of claims being approved. During the year 2,535 hectares of woodland creation was supported with grant aid. The seven-year England Rural Development Programme concluded in December with total planting of 30,170 hectares of new woodland against a target of 30,000 hectares. 24,600 hectares of woodland received EWGS woodland management grant under the new eligibility criteria of being certified and a priority woodland type for biodiversity or public access. £1.1 million of woodland improvement grants were approved for payment for work in connection with improving condition of Sites of Special Scientific Interest (SSSI), UK Biodiversity Action Plan and public access. Over 600 hectares of woodland regeneration and restocking was supported.

Our East of England Conservancy's pilot Woodland Improvement Grant Challenge Fund for the Forest Schools programme received 16 applications seeking funding of around £130,000. Applicants ranged from individual schools, environmental charities, NGOs and Local Education Authorities for items such as wet weather gear, fencing, training and first aid equipment. The judging panel approved twelve schemes awarding grants worth £64,000.

The Rural Development Service of Defra (Natural England, October 2006) has previously administered payments to farmers to compensate for the agricultural income they forgo when creating new woodlands. The Farm Woodland Premium Scheme (FWPS) was closed to new applicants with the introduction of EWGS in 2005. Together with its predecessor, the Farm Woodland Scheme (FWS), there is a legacy of some 10,000 live agreements with associated annual payments totalling about £10 million. Responsibility for administration of the FWS and FWPS transferred from Natural England to the Commission on 26 March in an agreement made under Part 8 of the Natural Environment and Rural Communities Act 2006. Comparable Farm Woodland Payments are now available via EWGS and the first payments totalling £266,000 over 1,118 hectares were made in October.

The EWGS Grant Budget Management Policy that we published in September expanded on the 2005 rescheduling policy guidance and covered the budget allocation process in relation to the Grant Prospectuses and the first-come first-served rules for awarding contracts with their associated financial commitments.

The Rural Development Programme for England (RDPE) is England's mechanism for delivering funds allocated to England from the European Agricultural Fund for Rural Development (EAFRD). It was due to start on 1 January 2007 but has been postponed because of the European Parliament's intervention over voluntary modulation. The delay in gaining EU Commission approval meant that measures were put in place to minimise disruption caused by the delay. These measures included committing the majority of the 2007-08 budget prior to 1 January 2007.

The controls on tree felling resulted in the Forestry Commission issuing 1,958 felling licences that were not linked to EWGS. These covered 2,341,420 cubic metres of timber. We also approved 724 EWGS plans with licences for felling or thinning. We received 180 reports of illegal felling and investigated 34 in more detail. We sought 9 prosecutions and have 29 cases still to resolve. We issued 9 formal warnings and served 10 restocking notices after successful prosecutions. The powers granted at the end of last year under the Regulatory Reform Order, that allow us to require restocking following unlawful felling without first obtaining a conviction, were used on one occasion this year.

Rural development

We released three reports that provide independent evaluation of projects aimed at developing rural economies through forestry. The projects were the South West Forest covering 340,000 hectares of north Devon and north Cornwall, and Forest Futures covering all of Cumbria. The projects represent an investment of nearly £1.5 million by partners including the Forestry Commission, with a further £3 million in associated grants and funding streams. The projects have had a positive impact on rural communities and the local economy, quality of life and the environment.

England Forestry Strategy Revision

In May, Defra's Forestry Policy Unit published 'England's Trees, Woods and Forests: a consultation document' which highlighted opportunities and challenges in relation to the evolving role of England's woodlands over the next 10-15 years. This was a major step on the road to producing a revised England Forestry Strategy and throughout the year we have supported Defra in producing this. We look forward to its publication next year when we will develop, with Natural England, a delivery plan.

Economic regeneration

Work is well underway to create a new 147 hectare community woodland called Jeskyns near Gravesend. The project is being developed by the Forestry Commission with funding from the Department of Communities and Local Government (DCLG). In July, the South East England Conservancy published the Environmental Impact Assessment and, having obtained approval, engineering works commenced. Tree planting began in January and February and incorporated several community engagement events, including working with the Woodland Trust as part of their 'Trees for All' campaign. The site will open in spring 2007.

In January, DCLG seconded a member of staff to the Commission to underpin the Commission's work in the Growth Areas and new Growth Points. DCLG are also funding an exemplar project to identify how trees and woodlands can make a difference in delivering enhanced levels of environmental benefits to the New Growth Points. The project will focus on three areas, namely Thetford, Burton-on-Trent and Portsmouth/Southampton.

A new Urban Regeneration Network was established to act as a forum for urban land regeneration and urban greening issues across the Commission. We launched a new 'Land Regeneration and Urban Greening' website aimed at bringing together advice and best practice.

The Tree Top Way in Salcey Forest won the environment award from the British Construction Industry Awards. We estimate that more than 250,000 people have visited the Forest over the year, many of which will have taken a closer look at the tree tops from this 15 metre high walkway.

Two Forestry Commission-funded strategic infrastructure studies in the east of England have been successful at the Landscape Industry Awards.

Recreation and access

The Active Woods campaign continues to raise awareness of the link between trees, woodland and forests and health and well-being. We have continued to develop the campaign, working with partners such as the Community Forests, Woodland Trust and the Tree Council and a number of local woodland initiatives. Many healthy living activities have been promoted across the country, such as 'Wear your Wellies in the Woods', building on the success of the campaign during 2005. It has helped people get more out of their woodland visit through organised activities and also aims to encourage first time visitors to the forest.

Over 140,000 hectares of the 198,915 hectares freehold public forest estate have been dedicated for public access in perpetuity under the Countryside and Rights of Way Act 2000. The remaining area, except for the New Forest which already has secure access, is planned to be dedicated, but some third party interests mean that dedication will only take place when the interest has legally expired.

The Forestry Commission has undertaken a challenging and complex Public Private Partnership (PPP) competitive process in order to find the most suitable partner to develop and expand its Forest Holidays business. In May, the Forestry Commission entered into a partnership with the Camping and Caravanning Club to take over management of Forest Holidays. The partnership will provide funding for modernisation and expansion together with the necessary skills and vision to grow the business.

Environment and conservation

Progress against the target for putting SSSIs into 'favourable and recovering condition' on the public forest estate has now reached 83 per cent. The condition of woodland SSSIs in other ownerships also continued to improve with 79 per cent meeting the target.

We supported a successful bid by the Northumberland Wildlife Trust for funding from the Heritage Lottery Fund for a major new initiative aimed at raising awareness about the plight of native red squirrels. The 'Save our Squirrels' project, costed at £1.1 million, is being managed and co-ordinated by Northumberland Wildlife Trust on behalf of the Red Alert North England (RANEng) partnership and concentrates on 16 priority sites in north England.

The Forestry Commission remains a committed partner in RANEng, having built the partnership and agreed a red squirrel conservation strategy for priority areas. We also co-funded a project officer to carry out ground surveys of candidate forest reserves, and have liaised with landowners and stakeholders.

Kielder Water and Forest Park were selected as the regional location for a BBC North East Regional Springwatch event running from 31 May to 15 June. The Forestry Commission and Northumberland Water jointly hosted a programme of events and activities including guided walks and talks in June to showcase the rich diversity of wildlife that thrives in the vast expanses of Kielder Forest. The events enabled the public to engage in wildlife conservation activities and meet wildlife experts.

In May, the Lincolnshire Limewoods Project was officially launched at a tree planting ceremony at Chambers Farm Wood, near Wragby. The £1 million project will initially run for five years. We are working with local partners on a number of initiatives, such as the refurbishment of the Education Centre at Chambers Farm Wood, local heritage workshops and woodland management to benefit nationally important species such as the dormouse.

The Heritage Lottery Fund confirmed £2 million in new funding for the Neroche Scheme, which will help conserve the Blackdown Hills area's unique natural landscape, and its man-made and cultural heritage. The Neroche Partnership is led by the Forestry Commission and covers 35 square miles around the northern ridge of the Blackdown Hills Area of Outstanding Natural Beauty, spanning the border of Somerset and Devon. The three-year programme of work began in October and will run until late 2009.

International

The European Forest Action Plan containing 18 key actions to facilitate the sustainable management of forests in the European Union, was adopted in October 2006. The Forestry Commission, along with other Member States, worked with the European Commission to develop a Work Programme to implement the Action Plan. New European Union guidelines for State aid in the agriculture and forestry sector were adopted on 1 January 2007, the Forestry Commission worked with the Department of Environment, Food and Rural Affairs during the negotiation of the guidelines and since their adoption on their implementation.

During the year, preparations intensified for the 5th Ministerial Conference on the Protection of Forests in Europe to be held in Warsaw in October 2007. The UK continued to support these through providing expert input on a range of subjects, in particular forests and water, and by hosting a meeting to consider the format and content for the Ministerial Declaration.

The international community continued to seek consensus on revised international arrangements on forests and the UK worked with key partners to identify an effective work programme for the period 2007 to 2015. The Forestry Commission continues to work with World Wide Fund for Nature (WWF) and the World Conservation Union (IUCN) in the Global Partnership on Forest Landscape Restoration to promote the restoration of forests globally.

Plant Health

Inspections:	Number Carried Out	Non-compliance
on 1.1 million m ³ of imported sawn wood	4,853	21
of goods with associated wood packaging material	4,700	255

Service Standard response time achieved in over 99 per cent of cases.

Following consultation, we introduced a new fee structure in the Plant Health (Fees) (Forestry) Regulations 2006. In response to requests from the industry, we also implemented the Plant Health (Wood Packaging Material Marking) (Forestry) Order 2006, and made minor amendments to the Plant Health (Forestry) Order 2005 to implement EU-wide measures against the Oriental Chestnut Gall Wasp. All three Statutory Instruments came into force on 6 November 2006.

In conjunction with Defra Plant Health and Seed Inspectorate, the Forestry Commission has continued its control programme in respect of *Phytophthora ramorum*. This has involved clearing of *Rhododendron ponticum* from infected sites, mainly in Cornwall and also in South Wales.

We surveyed horse chestnut trees across the UK to investigate the disease known as Horse Chestnut Bleeding Canker. It is estimated that up to 5,000 trees may have already been felled as a result of this disease.

Forest Reproductive Material

We amended the Forest Reproductive Material (Great Britain) Regulations 2002 to include provision for import of seed from countries outside the EU that have an equivalent system of regulation. We also introduced a new system for seed collection inspections.

The locations of all stands and seed orchards listed in the Register of Basic Material were digitally recorded and the resultant electronic maps, along with associated information, are now available from the Forestry Commission's website www.forestry.gov.uk.

Better Regulation

We are playing a full part in the Government's Better Regulation initiative by taking forward the forestry-related elements of the exercise. While there are relatively few regulations relating to forestry our simplification proposals cover all aspects of our dealings with stakeholders and have reduced the administrative burden imposed on business by some £375,000 each year (26 per cent of

the total administrative burden) exceeding the target set for us in the first year. In addition we considered what we might do for those stakeholders (timber merchants, haulage contractors etc) who, although not affected by regulatory control, face administrative costs when dealing with us. Our proposals have saved these businesses some £1.3 million a year (a reduction in their costs of some 30 per cent).

Research

During 2006-07 the Forestry Commission commissioned a wide body of research in support of the Science and Innovation Strategy. The bulk of expenditure was with the Commission's own agency, Forest Research, which presents a separate, detailed report on its activities to Parliament.

During the year, Commissioners approved a Development Strategy which sets the direction for Forest Research for the next five years. In particular, Forest Research will seek to diversify its income base by seeking more external funding, exploiting its intellectual property and ensuring best use of assets.

A follow-up study of the report 'Social and Environmental Benefits of Forests in Great Britain' was completed in 2006 entitled 'Valuing Forest Recreation Activities'. This study looked specifically at a range of recreational users, such as cyclists, horse riders and walkers, in seven forests across the UK and the associated local economic impact their activities had. Information from the study can assist in planning new facilities and predicting their use. See:

[http://www.forestry.gov.uk/pdf/VFRSummary.pdf/\\$FILE/VFRSummary.pdf](http://www.forestry.gov.uk/pdf/VFRSummary.pdf/$FILE/VFRSummary.pdf).

Standards

The revised UK Woodland Assurance Scheme Standard was launched in November 2006 and the Forestry Commission is now embarking on a revision of the UK Forestry Standard and its associated guidelines to ensure they reflect current best practice. We have also prepared an action plan for the sustainable management of independently certified woodland under the UKWAS scheme.

Forest Enterprise Summary of Key Performance Measures 2006-07

<i>Sustainable Forest Management</i>	<i>Target for 2006-07</i>	<i>Achieved</i>
Percentage of forest estate certified as sustainably managed.	100%	100%
Percentage of estate managed in accordance with approved Forest Design Plans.	94%	94%
<i>Social</i>		
Increase in area of forest estate with public access.	336 hectares	168 hectares
Area of new woodland created in priority areas for improving the environment of disadvantaged urban communities.	200 hectares	230 hectares
<i>Economic</i>		
Percentage of annual timber increment which is harvested.	74% ¹	77%
Income generated from sources other than timber production and sales of land and property.	£21.6m	£28.4m
<i>Environmental</i>		
Percentage of SSSIs in favourable or recovering condition.	84% ²	83.2%
Progress with implementing relevant UK Biodiversity Action Plan targets.	Publish a strategy for ancient woodlands on the estate	Strategy published
<i>Operational</i>		
Cost per cubic metre of production.	£13.55	£13.27
Profit/(Loss) on timber operations.	£7.1m	£9.3m
Number of reportable accidents per hundred employees.	1.8	0.54
Rate of return from capital invested in the 'Forest Holidays' business.	No longer applies with the establishment of the 'Forest Holidays Partnerships'	n/a
Percentage of customers and community partners "satisfied".	Key sites will achieve an average satisfaction score >0 ³	All sites measured achieved a satisfaction score of >0.865

¹ Defined as volume harvested/volume growth on FE estate as estimated by the national Inventory of Woodlands and Trees.

² Assessment of condition is carried out on a 6 year cycle by Natural England. We are aiming to have 95% in favourable condition by 2010 (dependent on funding).

³ The customer satisfaction score ranges from -2 (much worse than expected) to +2 (much better than expected).

Performance against Spending Review 2004 Targets for 2006-08

Key Result	Target	Progress to 31 March 2007
Great Britain		
Sustainable Development Sustainable development is advanced through the role of woodlands and forestry	Achieve an improvement in trends in specified UK Indicators of Sustainable Forestry during 2006-2008. A2 (woodland creation), A6 (area of sust. Man'd woodland), D3 (timber prodn) & E3 (public awareness)	The indicators, which are monitored as part of a larger exercise, will be reported on separately
England		
Sustainable Development Sustainable development is advanced through the role of woodlands and forestry	Create 6,000 hectares of new woodland from 2006-08	2,633 ha – slightly behind profile – precautionary approach adopted for grant allocation in first year of new grant scheme combined with unpredictable level of late-stage fall out of cases
	Promote an increase in the area of woodland certified against the UK Woodland Assurance Standard for sustainable forest management in England by 25,000 hectares from 2006 to 2008	8,473 ha (provisional)
Rural Development Local economies and rural development are enhanced by the contribution from forests and woodlands	Seek to improve the confidence of woodland and forestry related businesses by 5% on the 2005 baseline	Repeat of 2005 survey planned for 2008 to capture improvement
Economic Regeneration Disadvantaged urban communities are given new life and investment attracted by improving the environment	Create 1,200 hectares of new woodlands in priority areas (eg Coalfield Areas and the 'top' 20% of most deprived wards) from 2006 to 2008	936 ha – good progress linked to effective targeting of new planting targeting and partnership with Land Regeneration Trust
Access and Recreation People have healthier lifestyles and are more environmentally aware	Expand the area of woodlands with public access by 2,700 hectares over the period 2006-08 in priority areas established by the 2003 baseline study	3,175 ha – ahead of target, particularly good results from working with local authorities
	Increase the number of day visits by 5% over the 2005 baseline by 2008	Survey to be carried out in 2008
Environment and Conservation Future generations inherit improved biodiversity, landscape and cultural heritage in our forests by conserving and improving woodlands	To increase the area of all SSSIs where the Forestry Commission has statutory responsibilities which are in favourable or recovering condition to 87% by 2008 to ensure that 95% are in favourable or recovering condition by 2010	Provisional figure at March 2007 of 81% from March 2006 baseline of 79%
	Lead the implementation of the UK Biodiversity Action Plan and Habitat Action Plan for woodlands in England for and delivery by 2015	Revised HAP targets, for native woodland expansion, restoration and improvement, have been published. As a key part of the implementation of "Keepers of Time" the restoration of ancient woodland is proceeding both on the FC estate and in the private sector (which has responded well to increased broadleaved restocking grants). Woodland creation target is broadly on track. Woodland improvement remains the biggest challenge: the growing demand for woodfuel (and the publication of the Woodfuel Strategy) should help reverse declines in both woodland management and habitat condition
	Reverse the long-term decline in the number of woodland birds by 2020 as measured annually against underlying trends using the Woodland Birds Index	Woodland bird populations overall are likely to continue to rise slowly but many specialist woodland species of increasing conservation concern continue to decline sharply. Research is indicating key drivers of the changes and accurate targeting tools have been produced to focus conservation action
Value for Money	Ensure a unit cost of grant administration of 16p at 2008	Responsibility for Farm Woodlands payments now transferred to FC with first payments to be made October 2008. On schedule to achieve target cost by 2008
	Achieve 85% of compliance with the customer service standard for grant schemes in England	Outturn to end of year 82% – shortfall of period for grant approval during the first year of introduction of new grant scheme and IT system (revision of figure previously published in Corporate Plan 2007-08)
	Reduce the unit cost of timber production on the FC estate to £13.55 per cubic metre by 2008 whilst increasing the proportion of woodland managed with low impact silvicultural systems	£13.27 per cubic metre

CORPORATE SOCIAL RESPONSIBILITY

Environmental sustainability

All our woodlands are independently certified as sustainable through UKWAS. However, UKWAS does not address the sustainable management of our 'back office functions'. These functions include building construction, waste management, water and energy use, travel and transport.

The Commission's Greenerways project is about how we manage our sustainable development commitments in terms of our forests, staff and places of work. It aims to set up a network of local Greenerways champions to help highlight environmental issues in the workplace; establish baseline data on energy consumption, and travel and transport; and draft an environmental management system.

We started work on an environmental management system to be accredited under BS8555. We expect to apply for stage 2 accreditation in 2007 and then to progress in stages to the highest level. Details of the programme and the Department's environmental policy can be found at <http://www.forestry.gov.uk/forestry/INFD-6Z2JZM>.

Climate change

In November, a conference, entitled 'Forestry: A Sectoral Response to Climate Change', was hosted by the Organisation for Economic Co-operation and Development (OECD) and organised by Forest Research at the Foreign Office's Wilton Park conference centre in West Sussex. Attended by the Government's Climate Change Minister, Ian Pearson, and Forestry Commission Chairman, Lord Clark, the conference brought together leading forestry scientists and policymakers from around the world to discuss the role of deforestation in climate change.

Climate change is the greatest challenge facing the world today. Forests in Britain have a role to play and the work of the Forestry Commission makes a difference. Details about what the Commission is doing for climate change can be found on our website at <http://www.forestry.gov.uk/forestry/infd-6umkar>.

Social sustainability

We are also undertaking social research to provide guidance on how the Forestry Commission can promote diversity and ensure that its policies and activities make a positive contribution to diversity throughout the sector.

We provided a case study to the Sustainable Development Commission describing a project involving prisoners from HMP Dartmoor using practical skills for environmental projects. This is now being funded by Dartmoor National Park Sustainability Fund and Devon Renaissance.

Partnerships and communities

Forestry Commission England is empowered to pay grants to private landowners for, and in connection with, the use and management of land for forestry purposes. Historically, nearly all the support given to private sector forestry has been through grants to individual landowners. But now the Commission increasingly works through numerous national and regional partners and partnerships.

We have made a commitment to make local communities a priority in the way public forests are managed and England's Forestry Minister has pledged that local people will have an even greater involvement in decisions that will affect their community. Forest Enterprise England will build on its many partnership successes, working closely with communities. The measures demonstrate a pledge to bring the Government closer to people and in particular will mean:

- local people will be more involved in the plans and shape of local woodlands;
- the needs of local businesses and contractors will be given higher priority;
- more recreational information will be provided;
- local job opportunities will be promoted;

- communities will be consulted on the sales or development of land; and
- there is a recognition that different communities have different needs and should be accounted for.

Two documents under the banner 'Forests for People – Working with Communities' have also been launched.

Staff

Employment policies

We value and respect all employees, recognising that each person is different and everyone's contribution is important. We value diversity in our workforce and our employment policies seek to ensure that in all aspects of our business we do not discriminate against anyone on grounds of their age, gender, ethnic origin, disability, nationality, sexual orientation, marital status or religious beliefs. We currently monitor the black and ethnic applicants and those who self declare a disability; who we invite for interview and those we ultimately employ. The following statistics summarise this data:

Year	Disabled		Black and ethnic minorities	
	Applicants (Interviewed)	Total employed at year end	Applicants (Interviewed)	Total employed at year end
2006-07	54 (16)	77	123 (10)	18
2005-06	68 (21)	87	88 (10)	13
2004-05	97 (39)	96	42 (8)	11
2003-04	78 (27)	97	50 (5)	4

In addition, our employment policy seeks to extend opportunities for flexible working as far as possible within the operational needs of the business, including offering a range of options for organising working time, whether it be the hours worked, the number of days attended or the location of the work.

We attach great importance to listening to the views of employees, for example by organising a bi-annual Employee Opinion Survey, and those of the recognised trade union representatives, through regular meetings of the Forestry Commission Staff Council. We keep our employees informed about our business through a wide range of communications channels, including our quarterly newspaper, fortnightly bulletin and several topic-specific newsletters, such as HR News.

People initiatives

A number of initiatives have occurred during the year. We have developed a new Human Resource (People) Strategy and Action Plan, which will guide future development of our employment policies, procedures and systems. We introduced a new Graduate Development programme, which aims to identify and develop the leaders of the future. We published a Disability Equality Scheme describing our approach to ensuring that the needs of the disabled are given due regard in all aspects of our work. We introduced a new flexible benefits scheme, enabling employees to select from a range of benefits, depending on their particular needs.

Learning and Development

Our Learning and Development function (L&D) has been re-organised to increase the effectiveness of the service provision while being more efficient with our available resources. As well as continuing to deliver core traditional products, L&D has been aiming to find the right solution to fill the skills or knowledge gap, clarifying training course ownership, reducing waiting times and further involvement in new initiatives.

Effective communication has been essential in achieving goals. Firstly, in autumn of 2006 the L&D team was involved in visiting managers with the aim of understanding current and future development needs and creating delivery programmes to meet these needs. Secondly, the new "Yourself" system, which allows staff to access their own HR information, was launched on 1 February 2007. This software enables staff to search, choose and purchase training immediately on line.

From 1 April 2006 all training course administration has been handled centrally by two new Learning Co-ordinators. Development Advisor posts were filled in early 2007 to support organisational and personal development.

Throughout the year, L&D has been proactive in supporting the needs of the organisation. Some examples of delivery in 2006-07 include:

- closer integration of learning with Operational Guidance development;
- lead involvement in the creation of competency framework;
- pilot of 360 degree feedback;
- new development and delivery of a number of training initiatives including: Suite of Project Management training, Arc 9, GPS, Greenerways, Ranger induction, Mountain Biking at work; and
- delivery of three Safety and Health Awareness days for Health and Safety Executive, further events planned for 2007-08.

Health and safety

Policy

It is the policy of the Forestry Commission to ensure the health and safety of all its employees, and to provide appropriately for the health and safety of others, including contractors, visitors, neighbours and members of the public who use our forests.

Programmes

During the year the Safety, Health & Environment team carried out Health and Safety Chemical Support Visits to Forest Districts in Scotland, England and Wales.

Next year we plan to contribute to a project to improve the way the Forestry Commission manages vibration and noise.

Accidents

The following figures set out the incidence of reportable accidents (those causing incapacity for more than three days) for all staff in 2006-07 and the preceding years.

Year	No of accidents per 100 employees
2006-07	0.38
2005-06	0.98
2004-05	0.93
2003-04	0.38

LEADERSHIP AND GOVERNANCE

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 (until 5 May 2006)
Rt Hon David Miliband MP	Secretary of State, Department for Environment, Food and Rural Affairs (from 5 May 2006)
Jim Knight MP	Parliamentary Under-Secretary (Commons), Department for Environment, Food and Rural Affairs (until 5 May 2006)
Barry Gardiner MP	Parliamentary Under-Secretary (Commons), Department for Environment, Food and Rural Affairs (from 5 May 2006)

Forestry Commissioners and Permanent Head of the Department

The 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, Rt Hon Lord Clark of Windermere, and the Director General, Tim Rollinson, 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 Scotland
Ian Forshaw	Director Wales
Paul Hill-Tout	Director England

Non-executive Forestry Commissioners

Martin Gale CBE	Commissioner for Scotland
Dr Calum MacDonald	Commissioner for Scotland (from 1 April 2006)
Tony Cooper	Commissioner for England (until 17 January 2007)
Sir Harry Studholme	Commissioner for England (from 18 January 2007)
Dr Victoria Edwards	Commissioner for England (until 31 March 2006)
Dr Olutayo Adebawale	Commissioner for England (from 1 April 2006)
Anthony Bosanquet	Commissioner for Wales (until 17 January 2007)
Jon Owen Jones	Commissioner for Wales (from 18 January 2007)
Gareth Wardell	Commissioner for Wales (until 17 January 2007)
Judith Webb	Commissioner for Wales (from 18 January 2007)

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

The Board of Forestry Commissioners met in June, September and December 2006, and March 2007. They discussed a wide range of GB and international forestry issues, including forest research, health and safety, corporate governance, Forest Holidays, renewable energy, communications and the Forestry Commission 'brand'. In addition, much of the December meeting was devoted to a strategic discussion on climate change.

At each meeting, the Board also discussed the Director General's report, and country reports from the Forestry Commission's Directors in England, Scotland and Wales. Papers for these meetings and further information on the Board of Commissioners are available on our website: www.forestry.gov.uk.

The Executive Board

The Executive Board is responsible for:

- developing and delivering plans to reflect the long-term objectives and priorities established by the Board of Forestry Commissioners;
- overseeing the day-to-day management and direction of the Forestry Commission;
- monitoring performance to ensure that the Forestry Commission is properly and effectively managed; and
- ensuring effective communication.

The members are the Executive Board who served during the year were:

Tim Rollinson	Director General
Bob McIntosh	Director Scotland
Ian Forshaw	Director Wales
Paul Hill-Tout	Director England
Professor Jim Lynch OBE	Chief Executive, Forest Research Agency
Kim Lardge	Director Human Resources
Keith Gliddon	Director Finance
Wilma Harper	Secretary and Head of Corporate and Forestry Support

The Executive Board met in April, June, August, October and December 2006 and February 2007. In August, the Executive Board met jointly with the National Board of the Swedish Forest Agency to discuss and develop a programme of joint initiatives.

The Executive Board addressed a wide range of issues during the year including climate change, carbon offsetting, sustainable development, the Forest Holidays PPP, efficient delivery of shared services, procurement policy, brand development, production forecasting, developments on Forestry Commission land, development of key systems including GLADE and certification.

Further information on the Executive Board is available on our website, www.forestry.gov.uk.

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. Members of the Committee were:

Rt Hon Lord Clark of Windermere	Chair and Forestry Commission Chairman
Tony Cooper	Non-executive Commissioner for England (until 17 January 2007)
Dr Victoria Edwards	Non-executive Commissioner for England (until 31 March 2006)
Judith Webb	Non-executive member (until 17 January 2007)
Sir Harry Studholme	Non-executive Commissioner for England (from 18 January 2007)
Dr Olutayo Adebowale	Non-executive Commissioner for England (from 1 April 2006)
Gerald Dawe	Non-executive member
David Coleman	Non-executive member (Defra)
Paul Hill-Tout	Director, Forestry Commission England and Executive Commissioner
Simon Hodgson	Chief Executive, Forest Enterprise England
Charlotte Cane	Finance Director, Forestry Commission England
Rod Leslie	Head of Programme Group, Forestry Commission England

England Executive Board

The England Executive Board was established to manage the operations of the business of Forestry Commission England within the policy framework set by Ministers and the National Committee for England. Members who served on the Board were:

Paul Hill-Tout	Chair, Director, Forestry Commission England and Executive Commissioner
Simon Hodgson	Chief Executive, Forest Enterprise England
Richard Britton	Head of Forestry Authority and Regions
Rod Leslie	Head of Programme Group, Forestry Commission England
Mark Pritchard	Head of Communications and Secretariat, Forestry Commission England
Charlotte Cane	Finance Director, Forestry Commission England

Forest Research Management Board

Forest Research Agency has a separate management board with Professor Jim Lynch OBE as its Chief Executive. Full details can be found in Forest Research's Annual Report and Accounts.

Forest Enterprise England Management Board

The Agency Management Board gives strategic direction and leadership to the forest districts within England. The membership for 2006-07 was:

Simon Hodgson	Chief Executive
Jim Lyon	Forest District Manager, East Anglia (from 1 April 2006 until 31 March 2007)
Brian Mahony	Head of Sustainable Forestry and Land Management
Mark Thornycroft	Head of Estates
James Swabey	Head of Recreation and Public Affairs
Ken Milsom	Head of Human Resources
Steve Meeks	Head of Finance
Jo O'Hara	Head of Corporate and Forest Planning

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

Audit and Risk Committee

Following a review of the effectiveness of existing Audit Committee arrangements across the Forestry Commission, a revised structure, reflecting the needs of each country, was put in place during 2006-07. In England, the National Committee has established an Audit and Risk Committee (ARC) as a sub-committee to support them in their responsibilities for the effective management of risk, control and governance. Through its work the ARC provides independent assurance to the National Committee on these key activities which support the achievement of country objectives. Assurance is also provided on the GB element of the Forestry Commission's work through the review of the annual accounts and the findings from work carried out by Internal and External Audit. The ARC operates in accordance with the principles contained in the Treasury's Audit Committee Handbook. The members of the ARC for England are:

Sir Harry Studholme	non-executive Chair and Commissioner for England
Dr Olutayo Adebawale	non-executive Commissioner for England

The third non-executive member, Keith Oates, was appointed in July 2007.

Further information on the responsibilities and work of the Audit Committee during the year is provided in the Statement on Internal Control (SIC).

Corporate Governance

The SIC provides a summary of the way in which Forestry Commission Great Britain/England manages its Governance and Internal Control. Forestry Commission Great Britain/England has applied the principles of the Treasury's Code of Good Practice for Corporate Governance in the context of its own circumstances.

Principal risks, uncertainties and opportunities

Forestry Commission Great Britain/England has identified the following principal risks, uncertainties and opportunities in achieving its aims and objectives:

Economic – this relates to the management of the estate to benefit the wider economy. This includes opportunities or possible adverse effects relating to the maximisation of the value of the wood resource and maintenance of high and stable levels of economic growth and employment.

Reputational – this relates to the level of criticism that might be levelled at our Minister or Forestry Commission Great Britain/England and the effect that this might have on our relationships with other organisations and with the public.

Environmental – this relates to the implications for the targets of maintaining and enhancing the bio-diversity, cultural value and landscape character of our estate, making a positive contribution to the environment, effective protection of the environment and prudent use of natural resources.

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

Risk Management Policy

The Risk Management Policy of Forestry Commission Great Britain/England is to be fully committed to effective Risk Management, adopting best practice in the identification, evaluation and control of risks, in order to:

- integrate risk management into the culture of Forestry Commission Great Britain/England;
- eliminate or reduce risks to an acceptable level;
- anticipate and respond to changing social, environmental and legislative requirements;
- prevent injury and damage and reduce the cost of risk; and
- raise awareness of the need for risk management.

By adopting its Risk Management Policy, Forestry Commission Great Britain/England recognises Risk Management as a key function in helping to ensure it achieves its aims and objectives.

FORESTRY COMMISSION GREAT BRITAIN/ENGLAND

RESOURCE ACCOUNTS 2006-07

FINANCIAL COMMENTARY

Basis of accounts

The Forestry Commission Great Britain/England Resource 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.

Departmental accounting boundary

The Forestry Commission Main Estimate for Westminster provides for the net funding for the Forestry Commission's activities in England and those functions which it carries out on a Great Britain-wide basis. It is, therefore, 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.

RfR1 includes the operation of the Forestry Commission's estate in England by its agency, Forest Enterprise England. It is a public corporation for national accounting purposes and accordingly is outside the departmental boundary for resource accounting. Its net funding is, therefore, reflected wholly under RfR1 programme costs.

RfR2 includes the operation of the Forest Research Agency which is designated a Great Britain entity and is, therefore, consolidated in these accounts. The principal place of business of Forest Research is Alice Holt Lodge, Farnham, Surrey.

Forestry Commission Scotland and Forestry Commission Wales each produce their own Resource Accounts.

Financial Review

Resources to fund our activities in England and our GB functions come from Westminster, from Regional Development Agencies, from the European Union, and from income from the public forest estate managed by Forest Enterprise England.

Westminster funding for the Forestry Commission was decided as part of the Government's 2004 Spending Review. The planned sources of income and expenditure up to 2007-08 are shown in the latest Forestry Commission's Corporate Plan for England and Great Britain activities. Our Westminster funding from 2008-09 will be decided as part of the Government's 2007 Comprehensive Spending Review.

Resources in England are used to sustain and expand woodlands, increase recreation opportunities and public access together with woodland services in accordance with the England Forestry Strategy. This strategy will be replaced during 2007-08 by a Strategy for England's Trees, Woods and Forests.

Timber sales represent the largest single source of income for Forest Enterprise and its financial strength is closely linked to the strength of the UK timber market. 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 continuing improvement in the market for home-grown timber. Early indications are that this upward trend is continuing into 2007-08. Every attempt is also made to maximise income from other sources such as recreation.

Forest Holidays

The Forestry Commission has undertaken a challenging and complex public private partnership (PPP) competitive process in order to find the most suitable partner to develop and expand its Forest Holidays' business. On 8 May 2006, the Forestry Commission entered into a partnership with the Camping and Caravanning Club to take over management of Forest Holidays. The limited liability partnership will provide funding for modernisation and expansion together with the necessary skills and vision to grow the business.

The different parts of the Forestry Commission, namely Forest Enterprise England, Forest Enterprise Scotland and Forestry Commission Wales, will continue to account for and disclose in their financial statements their share in the Forest Holidays partnership. There will be a significant change to the way the Forestry Commission will account for its interest in Forest Holidays. As the investment is outside the departmental boundary and the Forestry Commission does not exercise in-year budgetary control over the partnership, then, in accordance with FReM 2.4, the investment will be treated as a fixed asset investment. As lessors of the sites to the partnership, Forest Enterprise England, Forest Enterprise Scotland and Forestry Commission Wales will show long-term debtor balances on their balance sheets to represent the net present value of the future rental payments due by the partnership. The Forestry Commission's investment in the partnership will be shown separately on the balance sheets of Forest Enterprise England, Forest Enterprise Scotland and Forestry Commission Wales representing their current value to the Forestry Commission.

Significant variances against estimate

The comparison of actual resource expenditure to Estimate is shown below:

£m	Estimate	Outturn	Difference
Total resource RfR1	65.7	53.7	12.0
Total resource RfR2	17.5	16.5	1.0
Total resource GB/England	83.2	70.2	13.0
Net cash requirement	65.2	62.1	3.1

The total resource net under spend in RfR1 principally arose from savings in cost of capital charges, asset sales, timber income and grant under spend. Cost of capital was under budget by £3.2m, because the value of the Estate was less than anticipated. The surplus on disposal of assets was £5.9m, most of this arose from the transfer of Forest Holidays assets. Timber income was £3.8m above estimate because prices increased during the year. This was partly offset by an increase in net operating expenditure of £2.1m. Take up on the new EWGS grant scheme was strong, but the scheme had only been open a short time before 2006-07, which led to slow claims. The effect was a £0.8m under spend in programme costs. The estimate included some £0.4m revenue provision to cover the development of grant management systems aimed at improving efficiency and effectiveness of delivery of services to customers. In accordance with accepted accounting practice such expenditure has been capitalised. Purchase of fixed assets showed an excess on estimate reflecting this adjustment.

For RfR2, the estimate included some £1.0m revenue provision to cover the development of e-business systems aimed at improving efficiency and effectiveness of delivery of services to customers. In accordance with accepted accounting practice such expenditure has been capitalised. Purchase of fixed assets showed an excess on estimate reflecting this adjustment.

The cash underspend of £3.1m is 4.8% less than estimate and includes a £2.0m additional cash requirement voted in the Winter Supplementary Estimate that was not required. The 2007-08 draw down of funds will be reduced by this amount to offset. The balance of £1.1m reflects the net effect of various measures taken during the year to contain costs whilst ensuring efficient service delivery.

Reconciliation of resource expenditure between Estimates, Accounts and Budgets

	<u>2006-07</u>	<u>2005-06</u>
	£000	£000
Net Resource Outturn (Estimates)	83,156	81,949
Adjustments to remove:		
Provision voted for earlier years	–	–
Adjustments to additionally include:		
Non-voted expenditure in the OCS	–	–
Consolidated Fund Extra Receipts in the OCS	–	–
Other adjustments	(6,905)	(1,948)
Net Operating Cost (Accounts)	76,251	80,001
Adjustments to remove:		
Capital grants to local authorities	–	–
Capital grants financed from the Capital Modernisation Fund	–	–
European Union income and related adjustments	–	–
Voted expenditure outside the budget	–	–
Adjustments to additionally include:		
Other Consolidated Fund Extra Receipts	–	–
Resource consumption of non departmental public bodies	–	–
Unallocated resource provision	–	–
Other adjustments	9,558	8,589
Resource Budget Outturn (Budget)	85,809	88,590
of which		
Departmental Expenditure Limits (DEL)	85,809	82,590
Annually Managed Expenditure (AME)	–	6,000

Market stability

The timber haulage sectors are facing inflationary pressures due to oil inflation. But these increased costs have been more than offset by the increase in timber prices. Indications are that the timber market is likely to remain strong for the foreseeable future. But we are mindful that timber prices can fluctuate dramatically and will seek to use any further increases from timber income to fund long-term investments rather than on-going operating costs.

Other Disclosures*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 2006-07 indicates that 98.9% of invoices paid by Forestry Commission Great Britain, 98.6% of invoices paid by Forestry Commission England and 100% 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.

Pensions

Information on pensions is contained in the Remuneration Report and accounting policy note 1.5.

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.

Disclosure of audit information to the auditors

So far as the Accounting Officer is aware, there is no relevant audit information of which the Forestry Commission Great Britain/England auditors are unaware. The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Forestry Commission Great Britain/England auditors are aware of that information.

T J D Rollinson
Accounting Officer
9 July 2007

REMUNERATION REPORT

Remuneration policy

Fees for non-executive Commissioners and National Committee members who are not Forestry Commission employees 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 the remaining senior staff posts.

In reaching its decisions on an individual's salary and bonus, the Senior Pay Committee has regard to the following considerations:

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

Remaining Committee and Board members receive annual salaries paid in accordance with the standard Forestry Commission Staff Pay Agreement negotiated through collective bargaining with the recognised Trade Unions. Their performance is monitored and reviewed through the Performance Monitoring System (PMS) of the Forestry Commission. Their increase in salary and performance bonus, if awarded, are based on their manager's assessment of their performance.

Employment contracts

Civil Service appointments are made in accordance with the Civil Service Commissioners' Recruitment code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Unless otherwise stated below, the senior staff covered in this report hold appointments which are open-ended until they reach the normal retiring age, with a maximum notice period of six months. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

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

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

	Date of current contract/letter	Unexpired term (months*)
Rt Hon Lord Clark of Windermere	10/12/2004	8.5
Martin Gale	1/5/2006	25
Dr Calum MacDonald	1/4/2006	24
Dr Olutayo Adebawale	1/4/2006	24
Jon Owen Jones	18/1/2007	33.5
Judith Webb	18/1/2007	33.5
Gerald Dawe	21/7/2006	10
Sir Harry Studholme	18/1/2007	33.5
David Coleman	24/5/2005	n/a
Professor Jim Lynch	1/7/2003	15

*months remaining from 31 March 2007

David Coleman, a member of the National Committee for England, is employed by Defra and does not receive any additional remuneration from Forestry Commission England.

Salary and pension entitlements

The salary and pension entitlements of the civil servants who are members of the Great Britain Executive Board, the National Committee for England and the England Executive Board were as follows:

	2006-07		2005-06	
	Salary	Benefits in kind	Salary	Benefits in kind
	£000	To the nearest £100	£000	To the nearest £100
Tim Rollinson	120-125	-	115-120	-
Paul Hill-Tout	85-90	-	80-85	-
Professor Jim Lynch	85-90	-	80-85	-
Kim Lardge	80-85	1,300	80-85	-
Keith Gliddon	75-80	-	70-75	-
Wilma Harper	60-65	-	55-60	-
Mark Pritchard	45-50	900	50-55	1,400
Charlotte Cane	50-55	-	15-20 ¹	-
Richard Britton	55-60	2,000	55-60	2,000
Rod Leslie	60-65	-	60-65	-

The salary and pension entitlements of Bob McIntosh, an Executive Forestry Commissioner, are borne and disclosed in the Forestry Commission Scotland Annual Report and Accounts 2006-07 as he is Director, Forestry Commission Scotland.

The salary and pension entitlements of Ian Forshaw, an Executive Forestry Commissioner during the year, are borne and disclosed in the Forestry Commission Wales Annual Report and Accounts 2006-07.

The salary and pension entitlements of Simon Hodgson, a member of the National Committee for England during the year are borne and disclosed in the Forest Enterprise England Annual Report and Accounts 2006-07.

The salary and pension entitlements of the members of the Forest Research Management Board and Forest Enterprise England Management Board are shown in each of the agency's Annual Report and Accounts 2006-07.

Salary

'Salary' includes basic salary; performance pay or bonus; overtime and any allowances subject to UK taxation. This report is based on payments made by Forestry Commission Great Britain/England and thus recorded in these accounts.

Benefits in kind

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

¹ Figure quoted is for the period 1 December 2005 to 31 March 2006. The full year equivalent is 50-55.

Pension benefits

	Accrued pension at age 60 at 31 March 2007 and related lump sum £000	Real increase in pension and related lump sum at age 60 £000	CETV at 31 March 2007 £000	CETV at 31 March 2006 £000	Real increase in CETV £000	Employer contribution to partnership pension account Nearest £100
Tim Rollinson	40-45 plus LS of 130-135	0-2.5 plus LS of 2.5-5.0	845	791	27	-
Paul Hill-Tout	25-30 plus LS of 80-85	0-2.5 plus LS of 2.5-5.0	467	436	19	-
Professor Jim Lynch	5-10 plus LS of 0-5	0-2.5 plus LS of 0-2.5	101	76	23	-
Kim Lardge	0-5 plus LS of 0-5	0-2.5 plus LS of 0-2.5	65	39	17	-
Keith Gliddon	30-35 plus LS of 90-95	0-2.5 plus LS of 0-2.5	640	607	9	-
Wilma Harper	20-25 plus LS of 0-5	0-2.5 plus LS of 0-2.5	398	382	6	-
Mark Pritchard	15-20 plus LS of 50-55	0-2.5 plus LS of 0-2.5	291	278	6	-
Charlotte Cane	10-15 plus LS of 30-35	0-2.5 plus LS of 2.5-5.0	188	159	19	-
Richard Britton	15-20 plus LS of 35-40	0-2.5 plus LS of 0-(2.5)	251	235	10	-
Rod Leslie	20-25 plus LS of 70-75	0-2.5 plus LS of 0-2.5	453	435	4	-

Civil Service Pensions

Pension benefits are provided through the Civil Service Pension 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).

The accrued pension quoted is the pension the member is entitled to receive when they reach 60, or immediately on ceasing to be an active member of the scheme if they are already 60.

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

Cash Equivalent Transfer Values

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

Real increase in CETV

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

Remuneration of non-executives

The non-executive Forestry Commissioners and members of the National Committee for England received the following remuneration for their services during the year ended 31 March 2007.

	£000
Rt Hon Lord Clark of Windermere	50
Martin Gale	10
Dr Calum MacDonald	14
Tony Cooper	10
Sir Harry Studholme	2
Dr Olutayo Adebawale	9
Anthony Bosanquet	7
Jon Owen Jones	3
Gareth Wardell	11
Judith Webb	9*
Gerald Dawe	4

*Judith Webb received £2,000 as non-executive Forestry Commissioner for Wales and £7,000 as a member of the England National Committee.

T J D Rollinson
Accounting Officer
9 July 2007

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under the Government Resources and Accounts Act 2000, HM Treasury has directed Forestry Commission Great Britain/England to prepare, for each financial year, resource accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the department during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the department and of its net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the principal Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- observe the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

HM Treasury has appointed the Permanent Head of the Department as principal Accounting Officer of the department. In addition, HM Treasury has appointed an additional Accounting Officer to be accountable for that part of the department's accounts relating to Forestry Commission England's specified request for resources and the associated assets, liabilities and cash flows. This appointment does not detract from the Head of Department's overall responsibility as Accounting Officer for the department's accounts.

The allocation of Accounting Officer responsibilities in the department is as follows:

Request for resources 1: Paul Hill-Tout, Director, Forestry Commission England

Request for resources 2: Tim Rollinson, Director General, Forestry Commission

In addition, Director, Forestry Commission England has designated an additional Accounting Officer to be accountable for that part of the department's accounts relating to the Forest Enterprise England Agency within Request for resources 1 and the associated assets, liabilities and cash flows. This appointment does not detract from the Head of Department's overall responsibility as Accounting Officer for the department's accounts.

In addition, Director General, Forestry Commission has designated an additional Accounting Officer to be accountable for that part of the department's accounts relating to the Forest Research Agency resources within Request for resources 2 and the associated assets, liabilities and cash flows. This appointment does not detract from the Head of Department's overall responsibility as Accounting Officer for the department's accounts.

The responsibilities of an 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 Forestry Commission Great Britain/England's assets, are set out in the Accounting Officers' Memorandum, issued by HM Treasury and published in *Government Accounting*. Under the terms of the Accounting Officers' Memorandum, the relationship between the department's principal and additional Accounting Officers, together with their respective responsibilities, is set out in writing.

STATEMENT ON INTERNAL CONTROL

1. Scope of responsibility

Forestry Commission

As Principal Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Forestry Commission's 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 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 the Westminster 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, Forestry Commission England, the Agency Chief Executive, a member from the Department for Environment, Food and Rural Affairs, Finance Director, Head of Programme Group and two non-executive members.

The Director, Forestry Commission 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 Commission's 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, Forestry Commission 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.

Public Accounts Committee

The Director General, Director, Forestry Commission 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's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Forestry Commission Great Britain/England for the year ended 31 March 2007 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 risks and, therefore, understands and accepts responsibility for 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 and 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, National Committee for England, 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; and
- Planning and budgeting system used to set objectives, agree action plans and allocate resources. Progress towards meeting plan objectives is monitored regularly.

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 2007 and up to the signing of the accounts Forestry Commission Great Britain/England has:

- Worked with a private sector risk management expert to develop a series of workshops. The purpose of the workshops is to share experiences of handling risk at country and agency level, to review progress on embedding risk management and to ensure common standards when assessing risks;
- Participated in the Forestry Commission wide, Risk Management Group (RMG), whose purpose is to ensure continued development of risk management within, and the sharing of best practice across, the Commission. The RMG met on three occasions, in May, August and November 2006;
- Updated existing risk registers to reflect newly identified potential risks and appropriate control measures for agreement by management board members. This has included the further enhancement of the Risk Register methodology to clearly define inherent and residual risk; and
- Continued to use and adapt the risk management software package working towards greater integration with Internal Audit and their planning.

An Internal Audit review in 2004-05 identified that the Forestry Commission needed fully developed contingency plans. The RMG has now identified a prioritised list of plans with a view to starting work on these in 2007-08. This will require investment of an internal and external resource in order to ensure completion during the next financial year.

During 2006-07 the Board of Commissioners reviewed the country arrangements and recommended the setting up of separate Audit and Risk Committees in each of the three countries. Interim arrangements were put in place for England for the June meeting using members of the existing Internal Control Committee (ICC). The interim Committees met once in June 2006 and the Committee in its new form met in February 2007. In both cases they considered a range of reports from management, and from internal and external audit.

The new Audit and Risk Committee (ARC) membership consists of three non-executives. The Director, Agency Chief Executive and Finance Director for England, the Head of Internal Audit and a National Audit Office representative attend meetings. It will deal with higher level issues concerning control and governance and will support the National Committee, Country Director and the Agency Chief Executive. It will be provided with detailed advice on the work of Internal Audit in particular, and control in general and will replace the local Internal Control Committee (ICC).

The ARC will advise the National Committee and Accounting Officers on:

- the strategic processes for risk, control and governance in FC England and FE England;
- the Statement on Internal Control in FC Great Britain/England and FE England;
- the accounting policies, the accounts and the annual report of FC Great Britain/England and FE England, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter(s) of representation to the external auditors;
- the planned activity and results of both internal and external audit;
- adequacy of management response to issues identified by audit activity, including internal audit reports and external audit's management letter;
- assurances relating to the corporate governance requirements for Forestry Commission England and Forest Enterprise England; and
- anti-fraud policies and whistle-blowing processes.

The ARC will also periodically review its own effectiveness and report the results of that review to the National Committee.

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 Country Audit Committees. 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 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.

6. Significant internal control problems

There were no significant problems to report.

T J D Rollinson
Accounting Officer
9 July 2007

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

I certify that I have audited the financial statements of Forestry Commission Great Britain/England for the year ended 31 March 2007 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises Management Commentary, Corporate Social Responsibility, Leadership and Governance and Financial Commentary is consistent with the financial statements. I also report 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.

In addition, I report to you if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Department's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report 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. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most 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 and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, 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 also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Forestry Commission Great Britain/England's affairs as at 31 March 2007 and the net cash requirement, net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information given within the Annual Report, which comprises Management Commentary, Corporate Social Responsibility, Leadership and Governance and Financial Commentary, is consistent with the financial statements.

Audit Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

16 July 2007

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

The maintenance and integrity of the Department's website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Statement of Parliamentary Supply

Summary of Resource Outturn 2006-07

	Note	Estimate			Outturn			2006-07	2005-06
		Gross expenditure £000	A-in-A £000	Net Total £000	Gross expenditure £000	A-in-A £000	Net Total £000	Net total outturn compared with estimate: saving/ (excess) £000	Net Total £000
Request for resources 1	2	66,499	(800)	65,699	54,454	(800)	53,654	12,045	63,419
Request for resources 2	2	17,457	–	17,457	16,443	–	16,443	1,014	14,370
Total resources	3	<u>83,956</u>	<u>(800)</u>	<u>83,156</u>	<u>70,897</u>	<u>(800)</u>	<u>70,097</u>	<u>13,059</u>	<u>77,789</u>
Non-operating cost A in A		–	–	–	–	–	–	–	–

Net cash requirement 2006-07

	Note	Estimate £000	Outturn £000	2006-07 Net total outturn compared with estimate: saving/ (excess) £000	2005-06 Outturn £000
Net cash requirement	4	<u>65,223</u>	<u>62,113</u>	<u>3,110</u>	<u>60,513</u>

Summary of income payable to the Consolidated Fund

	Note	Forecast 2006-07		Outturn 2006-07	
		Income £000	Receipts £000	Income £000	Receipts £000
Total		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

Explanations of variances between Estimate and outturn are given in note 4 and in the Financial Commentary.

The notes on pages 46 to 68 form part of these accounts.

Operating Cost Statement

for the year ended 31 March 2007

	Note				2006-07			Restated 2005-06	
		Staff Costs	Core Other Costs	Income	Consolidated Staff Costs	Other Costs	Income	Core	Consoli- dated
		£000	£000	£000	£000	£000	£000	£000	
Administration Costs:									
Staff Costs	5	17,412			26,929			16,904	25,818
Other administration costs	6		14,930			17,909		13,880	16,989
Operating income	7			(14,242)			(14,242)	(15,047)	(15,047)
Programme costs:									
Request for resources 1:									
Programme costs	8		53,085			53,085		59,132	59,132
EU receipts	9			(4,153)			(4,153)	(3,746)	(3,746)
Other income	9			(1,818)			(1,818)	(2,095)	(2,095)
Request for resources 2:									
Programme costs	8		870			3,192		484	2,468
EU receipts	9			-			(995)	-	(998)
Other income	9			(342)			(3,656)	(418)	(2,520)
Totals		17,412	68,885	(20,555)	26,929	74,186	(24,864)	69,094	80,001
Net Operating Cost				65,742			76,251	69,094	80,001

All income and expenditure are derived from continuing operations.

Statement of Recognised Gains and Losses

for the year ended 31 March 2007

	Note	2006-07		2005-06	
		Core	Consolidated	Core	Consolidated
		£000	£000	£000	£000
Net gain on revaluation of tangible fixed assets	19	164	1,497	94	838
Recognised gains and losses for the financial year		164	1,497	94	838

The notes on pages 46 to 68 form part of these accounts.

Balance Sheet

as at 31 March 2007

	Note	Core £000	2006-07 Consolidated £000	Core £000	2005-06 Consolidated £000
Fixed assets:					
Tangible assets	11	6,949	19,751	5,848	17,455
Intangible assets	12	1,175	1,358	1,453	1,560
Debtors falling due after more than one year	14	61	112	51	83
Current assets:					
Stocks	13	173	1,567	1,024	2,310
Debtors	14	3,986	4,644	4,647	5,365
Cash at bank and in hand	15	2,862	3,110	1,276	1,503
		7,021	9,321	6,947	9,178
Creditors (amounts falling due within one year)	16	(9,891)	(10,551)	(9,377)	(9,820)
Net current liabilities		(2,870)	(1,230)	(2,430)	(642)
Total assets less current liabilities		5,315	19,991	4,922	18,456
Provisions for liabilities and charges	17	(730)	(900)	(1,025)	(1,468)
		4,585	19,091	3,897	16,988
Taxpayers' equity:					
General fund	18	3,959	11,454	3,422	10,767
Revaluation reserve	19	626	7,637	475	6,221
		4,585	19,091	3,897	16,988

T J D Rollinson
Accounting Officer
9 July 2007

The notes on pages 46 to 68 form part of these accounts.

Consolidated Cash Flow Statement

for the year ended 31 March 2007

		<u>2006-07</u>	<u>2005-06</u>
	Note	£000	£000
Net cash outflow from operating activities	20(a)	(59,708)	(57,548)
Capital expenditure and financial investment	20(b)	(2,405)	(2,965)
Payments of amount due to Consolidated Fund	20(e)	(1,503)	(2,420)
Financing	20(d)	65,223	62,016
Increase/(decrease) in cash in the period	20(e)	<u>1,607</u>	<u>(917)</u>

The notes on pages 46 to 68 form part of these accounts.

Consolidated Statement of Operating Costs by Departmental Aim and Objectives

for the year ended 31 March 2007

	<u>Gross</u>	<u>2006-07</u>	<u>Net</u>	<u>Gross</u>	<u>2005-06</u>	<u>Net</u>
	£000	Income	£000	£000	Income	£000
		£000			£000	
England Objectives						
Increase the contribution of forests and woodlands to local economies and rural development	18,777	(631)	18,146	36,531	(2,671)	33,860
Expand the role of woodlands in supporting the economic regeneration of former industrial land and disadvantaged communities	4,675	(948)	3,727	2,420	(414)	2,006
Promote public access to woods and forests and develop diverse recreational opportunities	19,845	(1,579)	18,266	15,271	(841)	14,430
Conserve and improve biodiversity, landscape and cultural heritage of our forests and woodlands	22,826	(3,157)	19,669	17,737	(2,401)	15,336
England Net Operating Costs	66,123	(6,315)	59,808	71,959	(6,327)	65,632
Great Britain Objective						
To take the lead in development and promotion of sustainable forest management and to support its achievement nationally	34,992	(18,549)	16,443	32,448	(18,079)	14,369
Great Britain Net Operating Costs	34,992	(18,549)	16,443	32,448	(18,079)	14,639
Great Britain/England Net Operating Costs	101,115	(24,864)	76,251	104,407	(24,406)	80,001

See note 21 for explanation of apportionment across objectives.

NOTES TO THE RESOURCE ACCOUNTS

1. STATEMENT OF ACCOUNTING POLICIES

These financial statements have been prepared in accordance with the 2006-07 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the *FReM* follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

In addition to the primary statements prepared under UK GAAP, the *FReM* also requires Forestry Commission Great Britain/England to prepare two additional primary statements. The *Statement of Parliamentary Supply* and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement. The *Statement of Operating Cost by Departmental Aim and Objectives* and supporting notes analyse Forestry Commission Great Britain/England's income and expenditure by the objectives agreed with Ministers.

Where the *FReM* permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of Forestry Commission Great Britain/England for the purpose of giving a true and fair view has been selected. Forestry Commission Great Britain/England'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.

1.2 Basis of consolidation

These accounts comprise a consolidation of the non-agency parts of the department (the core department) and those entities which fall within the departmental boundary as defined in the *FReM* (chapter 1.5). Transactions between entities included in the consolidation are eliminated.

A list of all those entities within the departmental boundary is given in note 30.

1.3 Administration and programme expenditure

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

1.4 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.

1.5 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. Forestry Commission Great Britain/England recognises the expected cost of these elements 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. In respect of the defined contribution schemes, Forestry Commission Great Britain/England recognises the contributions payable for the year.

1.6 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, Forestry Commission Great Britain/England discloses for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of Government Accounting.

Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS 12 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

1.7 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.

Tangible fixed assets are revalued annually as at 31 March. With the agreement of HM Treasury, from 1 April 2008, future revaluations shall take place on 1 April.

Land and buildings

Professionally qualified staff employed by the Forestry Commission undertake a full revaluation of dwellings and other buildings at five yearly intervals coinciding with that for the forest estate and non-forest land. They follow the principles set out in the RICS Red Book and value on the basis of Open Market Value, Existing Use Value, Depreciated Replacement Cost or Discounted Cash Flow as appropriate under the RICS guidance. Indices provided by the District Valuer are used to restate values between full valuations. The next full valuation shall take place on 1 April 2008.

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

Plant and machinery

Forestry vehicles, machinery and equipment are revalued every five 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)

IT 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.

1.8 Depreciation

Freehold land is not depreciated in line with FRS 15.

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:

Buildings	–	20 to 80 years
Plant and machinery	–	up to 20 years
IT	–	4 to 20 years

Impairments of fixed assets are charged to the revaluation reserve until the carrying amount of the asset reaches its depreciated historical cost and thereafter in the operating cost statement.

1.9 Intangible assets

Purchased software licences with an acquisition value of £5,000 or more are 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. Intangible asset values are restated to current value each year using indices provided by the Office for National Statistics.

1.10 Stocks and work in progress

Stocks and work in progress are valued as follows:

- (a) 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;
- (b) work in progress is valued at the lower of cost, including appropriate overheads, and net realisable value;
- (c) 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.

1.11 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. All research and development expenditure is charged to the operating cost statement in the year.

1.12 Operating income

Operating income represents income receivable from fees and charges for services provided.

1.13 Operating leases

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

1.14 Grants payable

Grants payable to individuals and bodies by the Forestry Commission in accordance with its statutory powers and duties are accounted for as they are approved for payment. No provision is made in the financial statements for grant offers made but not yet approved for payment.

1.15 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 and the European Agricultural Fund for Rural Development. Once grants become recognised, contributions from the EU are claimed. If grants are subsequently recovered because of failure to fulfil the conditions of the relevant woodland grant scheme, the amount of co-financing may be repayable to the EU.

1.16 Provisions

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.

1.17 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 Revenue and Customs at the year-end included in the Forestry Commission Great Britain/England accounts as a debtor or creditor in the balance sheet. Irrecoverable VAT is charged to the operating cost statement in the year in which it is incurred.

1.18 Forest Holidays

The Forestry Commission has undertaken a challenging and complex public private partnership (PPP) competitive process in order to find the most suitable partner to develop and expand its Forest Holidays' business. On 8 May 2006, the Forestry Commission entered into a partnership with the Camping and Caravanning Club to take over management of Forest Holidays. The limited liability partnership will provide funding for modernisation and expansion together with the necessary skills and vision to grow the business.

The different parts of the Forestry Commission, namely Forest Enterprise England, Forest Enterprise Scotland and Forestry Commission Wales, will continue to account for and disclose in their financial statements their share in the Forest Holidays Partnership. There will be a significant change to the way the Forestry Commission will account for its interest in Forest Holidays. As the investment is outside the departmental boundary and the Forestry Commission does not exercise in-year budgetary control over the partnership, then, in accordance with FReM 2.4, the investment will be treated as a fixed asset investment. As lessors of the sites to the partnership, Forest Enterprise England, Forest Enterprise Scotland and Forestry Commission Wales will show a long-term debtor balance on their balance sheets to represent the net present value of the future rental payments due by the partnership companies. The Forestry Commission's investment in the partnership will be shown separately on the balance sheets of Forest Enterprise England, Forest Enterprise Scotland and Forestry Commission Wales representing their current value to the Forestry Commission.

2. ANALYSIS OF NET RESOURCE OUTTURN BY SECTION

						Outturn	2006-07		2005-06
	Admin	Other current	Grants	Gross resource expenditure	A-in-A	Net Total	Net Total	Estimate Net Total	Prior-year outturn
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Request for resources 1									
To implement the programmes of the England Forestry Strategy									
Forestry Commission England DEL	-	54,454	-	54,454	(800)	53,654	65,699	12,045	61,407
Forestry Commission England non-budget	-	-	-	-	-	-	-	-	2,012
Total	-	54,454	-	54,454	(800)	53,654	65,699	12,045	63,419
Request for resources 2									
To take the lead in development and promotion of sustainable forest management and to support its achievement nationally									
Forestry Commission Great Britain DEL	-	15,430	1,013	16,443	-	16,443	17,457	1,014	14,370
Total	-	15,430	1,013	16,443	-	16,443	17,457	1,014	14,370
Resource Outturn	-	69,884	1,013	70,897	(800)	70,097	83,156	13,059	77,789

Explanations of the variances are given in the Financial Commentary and note 4.

3. RECONCILIATION OF NET RESOURCE OUTTURN TO NET OPERATING COST

		2006-07	2005-06
		Outturn	Outturn
		compared	with
		Estimate	Estimate
		£000	£000
	Note	<u>Outturn</u>	<u>Outturn</u>
		<u>£000</u>	<u>£000</u>
Net Resource Outturn	2	70,097	77,789
Forest Enterprise England depreciation		2,107	2,346
Forest Enterprise England net capital income/(expenditure)		4,047	(134)
Prior Period Adjustment		-	-
Non-supply income (CFERs)		-	-
Non-supply Expenditure		-	-
Net operating cost		<u>76,251</u>	<u>80,001</u>

4. RECONCILIATION OF RESOURCES TO CASH REQUIREMENT

		Estimate	Outturn	Net total
		£000	£000	outturn
				compared
				with Estimate:
				saving/
				(excess)
	Note	<u>Estimate</u>	<u>Outturn</u>	<u>£000</u>
		<u>£000</u>	<u>£000</u>	
Resource Outturn	2	83,156	70,097	13,059
Capital:				
Acquisition of fixed assets	11/12	790	2,406	(1,616)
Proceeds of fixed asset disposals		-	-	-
Investments		-	(1)	1
Non-operating cost A in A:				
Proceeds of fixed asset disposals		-	-	-
Accruals adjustments:				
Non-cash items	6	(1,420)	(2,402)	982
Changes in working capital other than cash		2,933	(559)	3,492
Changes in creditors falling due after more than one year		-	-	-
Use of provision	17	-	482	(482)
Timing between accrual and cash VAT		-	1,101	(1,101)
Non-cash inter-country transfers		-	42	(42)
Other adjustments:				
Adjustment of FE net deficit to financing	8	(20,236)	(9,053)	(11,183)
Net cash requirement		<u>65,223</u>	<u>62,113</u>	<u>3,110</u>

The variances between estimate and outturn (net total resources) are primarily due to savings in cost of capital, higher surplus on disposal of Forest Holidays than anticipated and higher timber prices, offset by an increase in the agency's net operating expenditure.

The variances between estimate and outturn (net cash requirement) are primarily due to additional cash voted in the winter supplementary not required and efficiency savings.

Additional explanations of variances between estimate and outturn are given in the financial commentary.

5. STAFF NUMBERS AND RELATED COSTS

5(a) Staff costs

Staff costs comprise:

Forestry Commission England	2006-07			2005-06
	Total	Permanently employed staff	Others	Total
				Total
£000	£000	£000	£000	
Wages and salaries	5,363	5,363	–	4,875
Social security costs	427	427	–	392
Other pension costs	1,040	1,040	–	898
Agency staff	122	–	122	89
Inward secondments	38	38	–	34
Total net costs	6,990	6,868	122	6,288

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

Forestry Commission Great Britain	2006-07			2005-06
	Total	Permanently employed staff	Others	Total
				Total
£000	£000	£000	£000	
Wages and salaries	1,674	1,674	–	1,687
Social security costs	145	145	–	145
Other pension costs	325	325	–	313
Agency staff	–	–	–	1
Inward secondments	8	8	–	17
Total net costs	2,152	2,152	–	2,163
Less recoveries in respect of outward secondments	(152)	(152)	–	–
Total net costs	2,000	2,000	–	2,163

Forestry Commission Central Shared Services	2006-07			2005-06
	Total	Permanently employed staff	Others	Total
				Total
£000	£000	£000	£000	
Wages and salaries	6,646	6,646	–	6,853
Social security costs	520	520	–	540
Other pension costs	1,274	1,274	–	1,259
Agency staff	62	–	62	73
Inward secondments	46	46	–	–
Capitalised costs	(278)	(278)	–	(272)
Sub-total	8,270	8,208	62	8,453
Less recoveries in respect of outward secondments	(44)	(44)	–	(94)
Total net costs	8,226	8,164	62	8,359

Forestry Commission Great Britain/England Core department	2006-07			2005-06
	Total	Permanently employed staff	Others	Total
				Total
£000	£000	£000	£000	
Total costs per Operating Cost Statement	17,412	17,228	184	16,904
Less recoveries in respect of outward secondments	(196)	(196)	–	(94)
Total net costs	17,216	17,032	184	16,810

Forest Research	2006-07			2005-06
	Total	Permanently employed staff	Others	Total
	£000	£000	£000	£000
Wages and salaries	7,515	7,515	–	7,090
Social security costs	585	585	–	547
Other pension costs	1,390	1,390	–	1,277
Agency staff	27	–	27	–
Total net costs	9,517	9,490	27	8,914

Forestry Commission Great Britain/England Consolidated department	2006-07			2005-06
	Total	Permanently employed staff	Others	Total
	£000	£000	£000	£000
Total costs per Operating Cost Statement	26,929	26,718	211	25,818
Less recoveries in respect of outward secondments	(196)	(196)	–	(94)
Total net costs	26,733	26,522	211	25,724

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 2006-07, employers' contributions of £4,020,000 were payable to the PCSPS (2005-06 £3,740,000) at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands (the rates in 2005-06 were between 16.2% and 24.6%). The scheme's actuary reviews employer contributions every four years following a full scheme valuation. From 2007-08, the salary bands will be revised and the rates will remain the same. The contribution rates are set to meet the cost of the benefits accruing during 2006-07 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a **partnership** pension account, a stakeholder pension with an employer contribution. Employers' contributions of £18,000 were paid to one or more of a panel of three appointed **stakeholder** pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £1,000, 0.8% 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.

One individual retired early on ill health grounds; the total additional accrued pension liabilities in the year amounted to £1,100.

5. STAFF NUMBERS AND RELATED COSTS *continued***5(b) 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	2006-07			2005-06
	Total number	Permanently- employed staff number	Others number	Number
England				Total number
Increase the contribution of forests and woodlands to local economies and rural development	58	57	1	93
Expand the role of woodlands in supporting the economic regeneration of former industrial land and disadvantaged communities	13	12	1	5
Promote public access to woods and forests and develop diverse recreational opportunities	58	57	1	41
Conserve and improve the biodiversity, landscape and cultural heritage of our forests and woodlands	62	62	–	44
England Total	191	188	3	183
Great Britain				
To take the lead in development and promotion of sustainable forest management and to support its achievement nationally	561	558	3	579
Staff engaged in capital projects	5	3	2	–
	566	561	5	579

6. OTHER ADMINISTRATION COSTS

	2006-07		Restated 2005-06	
	Core	Consolidated	Core	Consolidated
	£000	£000	£000	£000
Staff transfers	362	424	495	566
Computer costs	1,875	1,967	1,951	2,043
Travel and subsistence	1,174	1,766	1,135	1,668
Accommodation	1,619	2,269	1,899	2,520
Communication	1,688	1,834	1,421	1,558
Training	317	384	267	420
Premature retirement costs	45	338	292	302
Losses and compensation	506	514	115	115
Legal	106	168	81	89
Other	2,217	2,350	1,579	1,657
	9,909	12,014	9,235	10,938
Rentals under operating leases:				
Hire of plant and machinery	207	207	568	568
Other operating leases	2,273	2,273	2,010	2,010
	2,480	2,480	2,578	2,578
Research and development expenditure	1,013	1,013	943	943
Non-cash items:				
Cost of capital	155	631	116	557
Notional audit fees – audit work	58	58	53	53
Notional audit fees – non-audit work	–	–	–	–
Depreciation of tangible fixed assets	750	1,338	649	1,220
Depreciation of intangible fixed assets	278	318	–	–
(Gains)/losses on disposal of assets	98	98	4	14
Impairment	45	45	63	63
VME revaluation reserve write-off	–	–	6	6
Provisions				
Provided in year	135	281	179	558
Provisions not required written back	(5)	(374)	(6)	(6)
Unwinding of discount	14	7	60	65
	1,528	2,402	1,124	2,530
Total	14,930	17,909	13,880	16,989

7. OPERATING INCOME

	2006-07		Restated 2005-06	
	Core £000	Consolidated £000	Core £000	Consolidated £000
Shared services				
Income from Scotland	6,427	6,427	6,959	6,959
Income from Wales	2,895	2,895	3,052	3,052
Income from Forest Enterprise England	3,759	3,759	3,870	3,870
	<u>13,081</u>	<u>13,081</u>	<u>13,881</u>	<u>13,881</u>
Income from operating leases	468	468	468	468
Other operating income	693	693	698	698
Total	<u>14,242</u>	<u>14,242</u>	<u>15,047</u>	<u>15,047</u>

On consolidation, the internal income received by central shared services from Forestry Commission Great Britain £3,540,000 (2005-06 £5,464,000), Forestry Commission England £2,806,000 (2005-06 £3,290,000) and Forest Research £757,000 (2005-06 £704,000) was removed from operating income. 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 was 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.

The method for accounting for internal charges has been revised in order that the resource accounts provide a better reflection of where costs lie as to what is included in the core and consolidated for the benefit of the stakeholders. The corresponding amounts from the previous year's accounts have also been revised to ensure comparability with the current year.

All income from operating leases are from buildings that are sub-leased and not owned by Forestry Commission Great Britain/England.

8. PROGRAMME COSTS

	2006-07		Restated 2005-06	
	Core £000	Consolidated £000	Core £000	Consolidated £000
Request for resources 1				
Support for forestry and the rural economy, including grants paid to private woodland owners	12,680	12,680	14,056	14,056
Grants paid to private woodland owners from EU receipts	4,153	4,153	3,746	3,746
Other programme costs	1,642	1,642	1,813	1,813
Sub-total	18,475	18,475	19,615	19,615
Forest Enterprise England funding	34,610	34,610	39,517	39,517
Total	53,085	53,085	59,132	59,132
Request for resources 2				
Other programme costs, including research and publications	870	3,192	484	2,468
Total	870	3,192	484	2,468

Forestry Commission Great Britain/England programme costs include Forest Enterprise England's deficit of £34,610,000 (2005-06 £39,517,000). After adjusting for non-cash transactions and capital of £15,207,000 (2005-06 £19,412,000), Forest Enterprise received cash funding of £19,403,000 (2005-06 £20,105,000). To reconcile resource outturn to the net cash requirement in the Statement of Parliamentary Supply, the non-cash transactions are adjusted by Forest Enterprise England's net capital expenditure and depreciation to calculate the adjustment of Forest Enterprise England's deficit to financing of £9,053,000 (2005-06 £17,200,000).

	2006-07 £000	2005-06 £000
Capital		
Net capital expenditure	336	(3,452)
Donations toward capital expenditure	552	137
Government grants toward capital expenditure	3,159	3,181
Accruals adjustments		
Cost of capital	17,039	15,905
Non cash items	(2,878)	978
Changes in working capital, including cash	(2,961)	2,316
Changes in provision	(40)	347
Total cash adjustments (note 20a)	15,207	19,412
Adjust supply expenditure for Forest Enterprise net capital	(336)	3,452
Adjust supply expenditure for Forest Enterprise depreciation	(2,107)	(2,346)
Donations toward capital expenditure	(552)	(137)
Government grants toward capital expenditure	(3,159)	(3,181)
Adjustment of FE deficit to financing (Statement of Parliamentary Supply)	9,053	17,200

9. PROGRAMME INCOME

	2006-07		Restated 2005-06	
	Core £000	Consolidated £000	Core £000	Consolidated £000
Request for resources 1				
EU receipts	4,153	4,153	3,746	3,746
Other income	1,818	1,818	2,095	2,095
	5,971	5,971	5,841	5,841
Request for resources 2				
EU receipts	–	995	–	998
Other income	342	3,656	418	2,520
Total	342	4,651	418	3,518

10. ANALYSIS OF NET OPERATING COST BY SPENDING BODY

	Estimate	2006-07 Outturn	2005-06 Outturn
	£000	£000	£000
Forestry Commission Great Britain/England	82,556	76,230	79,651
Forest Research Agency	600	21	350
Net Operating Cost	83,156	76,251	80,001

11. TANGIBLE FIXED ASSETS

	Land and Buildings	Plant and Machinery	IT	Payments on Account & Assets Under Construction	Total
	£000	£000	£000	£000	£000
Cost or valuation:					
At 1 April 2006	12,581	2,618	6,944	3,327	25,470
Adjustment to value at 1 April 2006	(332)	–	(1,707)	–	(2,039)
Additions	22	341	600	1,336	2,299
Transfers	(16)	(46)	3,391	(3,327)	2
Disposals	–	(81)	(2,448)	–	(2,529)
Revaluation to current prices	1,632	16	(39)	–	1,609
Impairment	–	–	(66)	–	(66)
At 31 March 2007	13,887	2,848	6,675	1,336	24,746
Depreciation:					
At 1 April 2006	1,315	1,364	5,336	–	8,015
Adjustment to value at 1 April 2006	(332)	–	(1,707)	–	(2,039)
Provided during year	293	213	832	–	1,338
Transfers	(3)	2	12	–	11
Disposals	–	(77)	(2,353)	–	(2,430)
Revaluation to current prices	134	2	(15)	–	121
Impairment	–	–	(21)	–	(21)
At 31 March 2007	1,407	1,504	2,084	–	4,995
Net Book Value at:					
31 March 2007	12,480	1,344	4,591	1,336	19,751
1 April 2006	11,266	1,254	1,608	3,327	17,455

Analysis of tangible fixed assets

The net book value of tangible fixed assets comprises:

Core 2007	1,330	18	4,265	1,336	6,949
Agency 2007	11,150	1,326	326	–	12,802
Core 2006	1,215	22	1,284	3,327	5,848
Agency 2006	10,051	1,232	324	–	11,607

The accounts include an equal and opposite adjustment to the gross book value and depreciation at 1 April 2006 for land and buildings and IT to reflect necessary adjustments in historic balances. The change to the net book value is nil.

Land and buildings were valued at £9,372,000 as at 31 March 2002 by professionally qualified land agents employed by the Forestry Commission on the basis of open market value or existing use value as appropriate under the RICS guidance. They were scheduled to be re-assessed as at 31 March 2005 in accordance with the three-yearly interval stated in the previous accounting policy. To bring the policy in line with UK GAAP, professional valuations of land and buildings will be undertaken on a five-yearly basis. The first five-yearly valuation will be as at 31 March 2008 with annual updates in the intervening years based on indices provided by the District Valuer.

Plant and machinery was valued at £1,344,000 as at 31 March 2007 based on indices provided by the District Valuer for specialist research equipment and indices provided by the Office for National Statistics for all other assets.

Information technology assets were restated to a current value of £4,591,000 as at 31 March 2007 using an index provided by the Office for National Statistics.

12. INTANGIBLE FIXED ASSETS

Intangible fixed assets comprise software licences.

	2006-07	2005-06
	<u>£000</u>	<u>£000</u>
Cost or valuation:		
At 1 April 2006	2,080	1,599
Additions	107	519
Disposals	–	–
Transfers	–	(30)
Revaluation to current prices	10	(8)
At 31 March 2007	<u>2,197</u>	<u>2,080</u>
Amortisation:		
At 1 April 2006	520	248
Provided during year	318	275
Disposals	–	–
Transfers	–	(3)
Revaluation to current prices	1	–
At 31 March 2007	<u>839</u>	<u>520</u>
Net Book Value at:		
31 March 2007	<u>1,358</u>	<u>1,560</u>
1 April 2006	<u>1,560</u>	<u>1,351</u>

Analysis of intangible fixed assets

The net book value of intangible fixed assets comprises:

	£000
Core 2007	1,175
Agency 2007	183
<hr/>	
Core 2006	1,453
Agency 2006	107

13. STOCKS AND WORK IN PROGRESS

	2006-07		2005-06	
	Core	Consolidated	Core	Consolidated
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Stocks	173	173	1,024	1,024
Raw materials and work in progress	–	1,394	–	1,286
Total	<u>173</u>	<u>1,567</u>	<u>1,024</u>	<u>2,310</u>

14. DEBTORS**14.(a) Analysis by type**

	2006-07		2005-06	
	Core	Consolidated	Core	Consolidated
	£000	£000	£000	£000
Amounts falling due within one year:				
VAT	1,475	1,475	2,458	2,458
Trade debtors	501	974	359	884
Other debtors	117	141	35	21
House purchase loans to employees	15	22	17	54
EU funding accrued income	997	997	909	909
Prepayments and accrued income	881	1,035	869	1,039
	3,986	4,644	4,647	5,365
Amounts falling due after more than one year:				
House purchase loans to employees	61	112	51	83
Total	61	112	51	83

Forestry Commission Great Britain/England had house purchase loans totalling £134,000 outstanding at 31 March 2007 relating to 24 employees. The core department had house purchase loans totalling £76,000 outstanding at 31 March 2007 relating to 17 employees.

14.(b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2006-07	2005-06	2006-07	2005-06
	£000	£000	£000	£000
Balances with other central government bodies	2,616	3,054	-	-
Balances with local authorities	-	10	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-
Intra-government balances	2,616	3,064	-	-
Balances with bodies external to government	2,028	2,301	112	83
Total debtors at 31 March	4,644	5,365	112	83

15. CASH AT BANK AND IN HAND

	2006-07		2005-06	
	Core	Consolidated	Core	Consolidated
	£000	£000	£000	£000
Balance at 1 April	1,276	1,503	1,872	2,420
Net change in cash balances	1,586	1,607	(596)	(917)
Balance at 31 March	2,862	3,110	1,276	1,503
The following balances at 31 March are held at:				
Balance with Office of Paymaster General	2,862	2,862	1,276	1,276
Cash at commercial banks and cash in hand	-	248	-	227
Balance at 31 March	2,862	3,110	1,276	1,503
Amounts issued from the consolidated fund for supply but not spent at the year end	2,862	3,110	1,276	1,503

16. CREDITORS**16.(a) Analysis by type**

	2006-07		2005-06	
	Core	Consolidated	Core	Consolidated
	£000	£000	£000	£000
Amounts falling due within one year:				
Other taxation and social security	1,989	1,989	1,955	1,955
Trade creditors	2,712	3,204	3,922	4,304
Other creditors	1,322	1,334	1,198	1,209
Accruals and deferred income	758	758	799	799
Payments received on account	-	156	-	50
Amounts issued from Westminster consolidated fund (supply) but not spent at year end	3,110	3,110	1,503	1,503
Total	9,891	10,551	9,377	9,820

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 the promotion and guidance of 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. The project will end in October 2007. As third party assets these sums are not recorded on the face of these accounts. At 31 March 2007 the amount held in Forestry Commission bank accounts on behalf of partners was £nil (£72,600 in 2005-06).

Amounts held in Forest Research bank accounts on behalf of partners in European Commission projects at 31 March 2007 was £260,000 (£26,500 in 2005-06). This has subsequently all been transferred to the partners concerned.

16.(b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2006-07	2005-06	2006-07	2005-06
	£000	£000	£000	£000
Balances with other central government bodies	6,520	4,783	-	-
Balances with local authorities	281	299	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	2	15	-	-
Intra-government balances	6,803	5,097	-	-
Balances with bodies external to government	3,748	4,723	-	-
Total creditors at 31 March	10,551	9,820	-	-

17. PROVISION FOR LIABILITIES AND CHARGES

	Early departure costs	
	Core	Consolidated
	£000	£000
Balance at 1 April 2006	1,025	1,468
Provided in the year	135	281
Provisions not required written back	(5)	(374)
Utilised in the year	(439)	(482)
Unwinding of discount	14	7
Balance at 31 March 2007	730	900

Forestry Commission Great Britain/England meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. Forestry Commission Great Britain/England provides for this in full when the early retirement programme becomes binding on Forestry Commission Great Britain/England by establishing a provision for the estimated payments.

18. GENERAL FUND

	2006-07		2005-06	
	Core	Consolidated	Core	Consolidated
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Balance at 1 April	3,422	10,767	1,402	9,254
Net operating cost for the year	(65,742)	(76,251)	(69,094)	(80,001)
Internal charges adjustment	(10,488)	–	(10,557)	–
Net Parliamentary funding	65,580	65,223	62,554	62,016
Forest Enterprise England non-cash adjustments	15,207	15,207	19,412	19,412
Notional cost of capital	156	631	116	557
Transfer of fixed assets from/to other forestry bodies	4	(9)	6	(100)
Realised element of revaluation reserve	13	81	7	46
Timing between accrual and cash VAT	(1,099)	(1,101)	1,037	1,044
Non-cash inter-country transfers	(42)	(42)	(11)	(11)
Notional audit fees	58	58	53	53
Amounts issued from the Consolidated Fund for supply but not spent at year end	(3,110)	(3,110)	(1,503)	(1,503)
Balance at 31 March	<u>3,959</u>	<u>11,454</u>	<u>3,422</u>	<u>10,767</u>

19. REVALUATION RESERVE

	2006-07		2005-06	
	Core	Consolidated	Core	Consolidated
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Balance at 1 April	475	6,221	382	5,423
Arising on revaluation during the year	164	1,497	94	838
Realised element of revaluation reserve	(13)	(81)	(7)	(46)
Write-off	–	–	6	6
Balance at 31 March	<u>626</u>	<u>7,637</u>	<u>475</u>	<u>6,221</u>

20. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**20.(a) Reconciliation of operating cost to operating cash flows**

	Note	<u>2006-07</u> £000	<u>2005-06</u> £000
Net operating cost	10	76,251	80,001
Adjustments for non-cash transactions	6	(2,402)	(2,530)
Timing between accrual and cash VAT		1,101	(1,044)
Non-cash inter-country transfers		42	11
Forest Enterprise England non-cash adjustments		(15,207)	(19,412)
Increase/(decrease) in stock		(743)	787
Increase/(decrease) in debtors		(692)	(1,043)
(Increase)/decrease in creditors		(731)	1,140
less movements in creditors relating to items not passing through OCS		1,607	(917)
Use of provisions	17	482	555
Net cash outflow from operating activities		<u>59,708</u>	<u>57,548</u>

20.(b) Analysis of capital expenditure and financial investment

	Note	<u>2006-07</u> £000	<u>2005-06</u> £000
Tangible fixed assets additions	11	2,299	2,448
Intangible fixed assets additions	12	107	519
Proceeds of disposal of fixed assets		(1)	(2)
Loans to other bodies		-	-
Repayment of loans to other bodies		-	-
Net cash outflow from operating activities		<u>2,405</u>	<u>2,965</u>

20.(c) Analysis of capital expenditure and financial investment by Request for Resources

	<u>Capital expenditure</u> £000	<u>Loans</u> £000	<u>A in A</u> £000	<u>Net total</u> £000
Request for resource 1	499	-	-	499
Request for resource 2	1,907	-	-	1,907
Net movement in debtors/creditors	-	-	-	-
Total 2006-07	<u>2,406</u>	<u>-</u>	<u>-</u>	<u>2,406</u>
Total 2005-06	<u>2,965</u>	<u>-</u>	<u>-</u>	<u>2,965</u>

20.(d) Analysis of financing

	Note	<u>2006-07</u> £000	<u>2005-06</u> £000
From the Consolidated Fund	18	65,223	62,016
Net financing		<u>65,223</u>	<u>62,016</u>

20.(e) Reconciliation of Net Cash Requirement to increase/(decrease) in cash

	Note	<u>2006-07</u> £000	<u>2005-06</u> £000
Net cash requirement		(62,113)	(60,513)
From the Consolidated Fund (Supply)	20(d)	65,223	62,016
Payment of amount due to Consolidated Fund		(1,503)	(2,420)
Increase/(decrease) in cash		<u>1,607</u>	<u>(917)</u>

21. NOTE TO THE CONSOLIDATED STATEMENT OF OPERATING COSTS BY DEPARTMENTAL AIM AND OBJECTIVES

Expenditure in the schedule 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.

Capital employed by Departmental Aim and Objectives at 31 March 2007

Forestry Commission Great Britain/England's capital is employed for both programme and administration purposes. Its distribution amongst objectives is not markedly different from the proportion of related gross expenditure. Capital employed has therefore been allocated to objectives in proportion to gross expenditure.

	<u>2006-07</u>	<u>2005-06</u>
	£000	£000
England Objectives		
Increase the contribution of forests and woodlands to local economies and rural development	3,545	5,944
Expand the role of woodlands in supporting the economic regeneration of former industrial land and disadvantaged communities	883	394
Promote public access to woods and forests and develop diverse recreational opportunities	3,747	2,485
Conserve and improve biodiversity, landscape and cultural heritage of our forests and woodlands	4,310	2,886
England capital employed	<u>12,485</u>	<u>11,709</u>
Great Britain Objective		
To take the lead in development and promotion of sustainable forest management and to support its achievement nationally	6,606	5,279
Great Britain capital employed	<u>6,606</u>	<u>5,279</u>
Capital employed	<u>19,091</u>	<u>16,988</u>

22. CAPITAL COMMITMENTS

There were no contracted capital commitments at 31 March 2007.

23. 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:

	Core	2006-07 Consolidated	Core	2005-06 Consolidated
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Building leases expiring within:				
One year	–	–	42	42
Two to five years	392	392	311	311
More than five years	1,881	1,881	1,650	1,650
Total	<u>2,273</u>	<u>2,273</u>	<u>2,003</u>	<u>2,003</u>

Building lease rentals in 2006-07 include irrecoverable VAT which was not included in 2005-06 figures.

Other leases expiring within:

One year	–	–	–	–
Two to five years	207	207	261	261
More than five years	–	–	10	10
Total	<u>207</u>	<u>207</u>	<u>271</u>	<u>271</u>

24. OTHER FINANCIAL COMMITMENTS**Planting and replanting grants**

Following approval of a management plan for planting proposals Forestry Commission England undertakes to pay planting grants in two instalments. Replanting grants are payable in one instalment. At 31 March 2007, Forestry Commission England was committed under draft and signed contracts to the payment of future instalments of planting and replanting grants amounting to £135.2 million (2005-06 – £20 million). This includes £111.3 million of Farm Woodland schemes administered by Forestry Commission England on behalf of Defra.

Existing woodlands

Grants for the management of existing woodlands are payable annually in arrears during the 5-year currency of an approved plan, provided specific objectives are met. Grants, which support capital investment work to improve public benefits from woodlands, including planning grants, are usually payable in one instalment. Forestry Commission England was committed under draft and signed contracts to the payment of future instalments of grants which support existing woodlands amounting to £18 million at 31 March 2007 (2005-06 – £11.9 million).

25. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2007 (£nil at 31 March 2006).

26. LOSSES AND SPECIAL PAYMENTS

	2006-07		2005-06	
	<u>Number</u>	<u>£000</u>	<u>Number</u>	<u>£000</u>
Losses total	<u>19</u>	<u>448</u>	<u>75</u>	<u>196</u>
Special payments total	<u>8</u>	<u>13</u>	<u>25</u>	<u>23</u>

During 2006-07 there were losses totalling £400,000 relating to obsolete publication stocks that were destroyed.

27. POST BALANCE SHEET EVENTS

In accordance with the requirements of FRS 21, post balance sheet events are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date the accounts are laid before Parliament. These accounts will be laid before Parliament on 19 July 2007.

28. 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, HM Revenue and Customs, the Department for the Environment, Food and Rural Affairs, the Department for Communities and Local Government, the North West Development Agency and Yorkshire Forward.

In the year to 31 March 2007, Forest Enterprise England entered into material transactions involving Martin Gale, a non-executive Forestry Commissioner, which are disclosed in their Annual Report and Accounts for 2006-07.

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 2007 was £67,000. Sam Evans holds a visiting professorship at the University of Southampton with which £19,000 was spent on research services. Other members of staff hold professorships at UK and foreign universities but no financial transactions took place with these in 2006-07.

29. 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.

29. FINANCIAL INSTRUMENTS *(continued)**Fair Values*

There is no difference between book value and fair value for the cash at bank shown in Note 15. Fair value for the provisions shown in Note 17 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 2.2% in real terms.

30. ENTITIES WITHIN THE DEPARTMENTAL BOUNDARY

The entities within the boundary during 2006-07 were as follows:

(a) Supply-financed agencies:

Forest Research Agency, which incurred a net deficit of £21,000. The aggregate amount of its capital and reserves as at 31 March 2007 was £14,506,000. The annual report and accounts of the Forest Research Agency are published separately.

(b) Non-executive NDPBs:

None

(c) Other entities:

None

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 2007 in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual issued by H M Treasury ("the FReM") which is in force for 2006-07.
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 2007 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 2007 and of the net resource outturn and cash flows for the financial year then ended;
 - (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; and
 - (c) ensure that the contributions payable to the Scheme during the year have been paid in accordance with the Scheme rules and the recommendations of the Actuary.
5. Compliance with the requirements of the FReM 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 FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM 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 FReM. Any material departure from the FReM should be discussed in the first instance with the Treasury.

David Watkins

Head of Financial Reporting Policy Team, Her Majesty's Treasury

18 December 2006

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

Forest Enterprise England

Annual Accounts 2006-07

FINANCIAL COMMENTARY

Basis of accounts

The Forest Enterprise England accounts have been prepared under a direction given by the Treasury in accordance with Section 7 of the Government Resources and Accounts Act 2000. The direction is produced as an appendix to the accounts.

Departmental accounting boundary

Forest Enterprise England is designated as a public corporation for national accounting purposes, by the Office of National Statistics, in accordance with European System of Accounts (ESA) 95. Accordingly, it is outside the departmental boundary for resource accounting purposes but with the net funding reflected in the Forestry Commission Great Britain/England Resource Accounts.

Status

Forest Enterprise is part of Forestry Commission England which serves as the forestry department of the Westminster Parliament to advise on and implement forestry policies. Through the executive Agency, it also manages the public forest estate to deliver public benefits. The Secretary of State for Environment, Food and Rural Affairs is answerable to the Westminster Parliament for Forestry Commission Great Britain/England's overall policies and performance. Further information on Forestry Commission Great Britain/England can be found in its Annual Report and Accounts.

Financial review

Details of the financial performance targets set for Forest Enterprise England by the Forestry Commission National Committee for England and achievement against those targets are shown in Note 24 to the accounts.

Forest Enterprise England incurred a deficit on its Income and Expenditure Account, before cost of capital, of £17.6 million (2005-06 £23.6 million). The operating deficit reduced by £6 million and the key factors are described below:

- We fully met our marketing and sales plans, dispatching 1,489,000 cubic metres of timber with a value of £20.3 million.
- £5.5 million was raised from property sales. This comprised £3.7 million from woodland rationalisation sales, £1.2 million from development and other sales, and £0.6 million from the disposal of houses.
- Acquisitions totalled 167 hectares. These comprised 148 hectares in North West England, 11 hectares in the West Midlands, 6 hectares in Northants, 1 hectare in the Forest of Dean and 1 hectare in Peninsula.
- The net cost of recreation, conservation and heritage was £15.8 million. The increase of £2 million reflected an increase in partnership projects and an increase in staff resource applied to delivering our important social and community policies.
- The value of the forest estate increased by £17 million and other land by £4.7 million using indices. Building assets were revalued upwards by £4.9 million using information provided by the District Valuer and buildings under construction at the year end amounted to £6.2 million. The main projects being taken forward, with the assistance of external funding, are the visitor centres at Dalby in the North York Moors, Fineshade in Northants, Bedgebury in Kent and Grizedale in the Lake District.

After adjusting the total deficit for items not involving the movement in cash and for capital expenditure and receipts, the net cash funding received from Forestry Commission England was £19.4 million (2005-06 £20.1 million).

Forest Holidays

In May 2006, the Forestry Commission entered into a partnership with the Camping and Caravanning Club to take over management of its Forest Holidays business. This has resulted in a significant change to the way in which the Forestry Commission will account for its interest in Forest Holidays. As the investment in the partnership is outside the departmental boundary and Forest Enterprise England does not exercise in-year budgetary control over the partnership, then, in accordance with FReM 2.4, the investment will be treated as a fixed asset investment.

The net book value of Forest Enterprise England's cabin and campsite land and buildings transferred to the partnership was £10,454,000. In return, Forest Enterprise England received £13,391,000 comprising:

- a fixed asset investment valued at nil at 31 March 2007;
- as lessors of the sites to the partnership, Forest Enterprise England will show a long-term debtor balance on its balance sheet representing the net present value of the future rental payments over 75 years due by the partnership company totalling £10,087,000; and
- a long-term long debtor of £3,304,000 with the capital and interest due to be repaid in five instalments commencing year end 31 March 2012.

The gain on disposal and increase in the value of the balance sheet was £2,937,000.

During 2006-07, no income was received from the investment in the partnership.

OTHER DISCLOSURES*Research and Development*

Forest Research, an executive agency of the Forestry Commission, is responsible for carrying out forest research and allied work. Although forestry is a devolved subject, Forest Research continues to be funded from Westminster. More information on the work of Forest Research can be found on the Forestry Commission website <http://www.forestry.gov.uk/research>.

Pensions

Information on pensions is contained in the Remuneration Report and accounting policy note 1.3.

Supplier Payment Policy

Forest Enterprise 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 2006-07 indicates that 97.1% of invoices were paid within the due date. Arrangements for handling complaints on payment performance are notified to suppliers on contracts.

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

Auditors

These accounts are audited by the Comptroller and Auditor General.

Disclosure of audit information to the auditors

So far as the Accounting Officer is aware, there is no relevant audit information of which the Forest Enterprise England auditors are unaware. The Accounting Officer has taken all the necessary steps to make him self aware of any relevant audit information and to establish that the Forest Enterprise England auditors are aware of that information.

Simon Hodgson
Accounting Officer
10 July 2007

REMUNERATION REPORT

Remuneration policy

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

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

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

Remaining Board members receive annual salaries paid in accordance with the standard Forestry Commission Staff Pay Agreement negotiated through collective bargaining with the recognised Trade Unions. Their performance is monitored and reviewed through the Performance Monitoring System (PMS) of the Forestry Commission. Their increase in salary and performance bonus, if awarded, are based on their manager's assessment of their performance.

Employment contracts

Civil Service appointments are made in accordance with the Civil Service Commissioners' Recruitment code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

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

Salary and pension entitlements

The salary and pension entitlements of the members of the Forest Enterprise England Management Board were as follows:

	2006-07		2005-06	
	Salary	Benefits in kind	Salary	Benefits in kind
	£000	£100	£000	£100
Simon Hodgson	70-75	1,500	35-40 ¹	–
Jim Lyon	50-55	–	–	–
Brian Mahony	55-60	–	55-60	–
Mark Thornycroft	55-60	–	50-55	–
James Swabey	50-55	–	45-50	–
Ken Milsom	45-50	–	45-50	–
Steve Meeks	45-50	–	45-50	–
Jo O'Hara	30-35	–	35-40	–

Salary

'Salary' includes basic salary; performance pay or bonus; overtime and any allowances subject to UK taxation. This report is based on payments made by Forest Enterprise England and thus recorded in these accounts.

Benefits in kind

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

Pension benefits

	Accrued pension at age 60 at 31 March 2007 and related lump sum £000	Real increase in pension and related lump sum at age 60 £000	CETV at 31 March 2007 £000	CETV at 31 March 2006 £000	Real increase in CETV £000	Employer contribution to partnership pension account Nearest £100
Simon Hodgson	10-15 plus LS of 35-40	0-2.5 plus LS of 2.5-5.0	231	203	22	–
Jim Lyon	15-20 plus LS of 55-60	0-2.5 plus LS of 0-2.5	350	332	9	–
Brian Mahony	20-25 plus LS of 45-50	0-2.5 plus LS of 0-(2.5)	365	347	9	–
Mark Thornycroft	10-15 plus LS of 40-45	0-2.5 plus LS of 0-2.5	340	312	16	–
Ken Milsom	20-25 plus LS of 70-75	0-2.5 plus LS of 0-2.5	551	515	11	–
Steve Meeks	15-20 plus LS of 45-50	0-2.5 plus LS of 0-2.5	236	224	9	–
James Swabey	20-25 plus LS 0-5	0-2.5 plus LS of 0-2.5	404	360	30	–
Jo O'Hara	5-10 plus LS of 20-25	0-2.5 plus LS of 0-2.5	110	101	7	–

¹ Figure quoted is for the period 15 September 2005 to 31 March 2006. The full year equivalent is 70-75.

Civil Service Pensions

Pension benefits are provided through the Civil Service Pension 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).

The accrued pension quoted is the pension the member is entitled to receive when they reach 60, or immediately on ceasing to be an active member of the scheme if they are already 60.

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

Cash Equivalent Transfer Values

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

Real increase in CETV

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

Simon Hodgson
Accounting Officer
10 July 2007

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Forestry Commission to prepare for each financial year a statement of accounts for Forest Enterprise England in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Forest Enterprise England and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

Director, Forestry Commission England as the additional Accounting Officer for Forestry Commission England has designated the Chief Executive as the Accounting Officer for Forest Enterprise England. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding Forest Enterprise England's assets, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in Government Accounting.

STATEMENT ON INTERNAL CONTROL

1. Scope of responsibility

As Agency Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Forest Enterprise England 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 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.

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 for England, the normal exercise of their powers and duties in connection with the estate. In turn, the National Committee has delegated management of the estate to the Agency. 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 Agency Chief Executive, a member from the Department for Environment, Food and Rural Affairs, Finance Director, Head of Programme Group and two non-executive members.

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 the Westminster Parliament for the financial affairs of the Forestry Commission, including the Agency. In practice, the Director General's role in relation to the Agency is delegated to Director England as Additional Accounting Officer.

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. Director England is appointed Additional Accounting Officer and is a member of the National Committee. He is responsible, on behalf of the Forestry Commissioners, for the oversight of the Agency. In particular, Director England is responsible for advising the National Committee and Ministers on the Agency's Corporate Plan and performance targets and for ensuring the Agency operates a proper system of financial management. Director England also advises the National Committee and Ministers on the strategic direction of the Agency, performance management and on ensuring that the Agency has the resources, delegations and authorities necessary to effectively deliver its remit.

The Chief Executive of the Agency is responsible, normally through Director England, to the National Committee for the management of the estate, and of the Agency and its staff. The Chief Executive has a right of direct access to the Commissioners and to the Minister, and will meet them at least once a year. 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. In particular, the Agency Chief Executive is responsible for:

- preparing the Agency's Corporate Plans and for achieving the targets set in them;
- appointment and organisation of the Agency's staff, and deployment of other resources to achieve the aims and objectives;
- maintaining financial and management information systems to assist in the monitoring and control of performance;
- preparing and submitting the Agency's Annual Report and Accounts; and
- establishing and chairing an Agency Management Board comprising senior managers within the Agency.

The Director General, Director England and Agency Chief Executive 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. In practice, where a Committee's interest is confined to the day-to-day operations of the Agency, Ministers will normally regard the Chief Executive as the person best placed to appear on their behalf.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Forest Enterprise 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 Forest Enterprise England for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3. Capacity to handle risk

Risk management is the responsibility of every member of staff in Forest Enterprise England. Everyone has a role to play in managing risks and, therefore, understands and accepts responsibility for managing the risks within their own area of authority. Risk awareness and responsibility lies in parallel with the structure of Forest Enterprise England's objectives and at every level of objective there is 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 Forest Enterprise England to respond to a variety of operational, financial and commercial risks. These elements include:

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

4. The risk and control framework

Forest Enterprise 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 2007 and up to the signing of the accounts Forest Enterprise England has:

- Worked with a private sector risk management expert to deliver a series of workshops to cost centre managers. The purpose of the workshops is to share experiences of handling risk at country and agency level, to review progress on embedding risk management and to ensure common standards when assessing risks;
- Participated in the Forestry Commission wide, Risk Management Group (RMG), whose purpose is to ensure continued development of risk management within, and the sharing of best practice across, the Commission. The RMG met on three occasions, in May, August and November 2006;
- Updated existing risk registers to reflect newly identified potential risks and appropriate control measures for agreement by management board members. This has included the further enhancement of the Risk Register methodology to clearly define inherent and residual risk; and
- Continued to use and adapt the risk management software package working towards greater integration with Internal Audit and their planning.

An Internal Audit review in 2004-05 identified that the Forestry Commission, needed fully developed business continuity plans. The RMG has now identified a prioritised list of plans with a view to starting work on these in 2007-08. This will require investment of an internal and external resource in order to ensure completion during next financial year.

During 2006-07 the Board of Commissioners reviewed the country arrangements and recommended the setting up of separate Audit and Risk Committees in each of the three countries. Interim arrangements were put in place for England for the June meeting using members of the existing Internal Control Committee (ICC). The interim Committees met once in June 2006 and the Committee in its new form met February 2007. In both cases they considered a range of reports from management, and from internal and external audit.

The new Audit and Risk Committee (ARC) membership consists of three non-executives. The Director England, Agency Chief Executive and Finance Director for England, the Director Finance, Head of Internal Audit and a National Audit Office representative attend. It will deal with higher level issues concerning control and governance and will support the National Committee, Country Director and the Agency Chief Executive. It will be provided with detailed advice on the work of Internal Audit in particular, and control in general and will replace the local Internal Control Committee (ICC).

The ARC will advise the National Committee and AOs on:

- the strategic processes for risk, control and governance in FC England and FE England;
- the Statement on Internal Control in FC Great Britain/England and FE England;
- the accounting policies, the accounts and the annual report of FC Great Britain/England and FE England, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter(s) of representation to the external auditors;
- the planned activity and results of both internal and external audit;
- the adequacy of management response to issues identified by audit activity, including internal audit reports and external audit's management letter;
- assurances relating to the corporate governance requirements for Forestry Commission England and Forest Enterprise England; and
- anti-fraud policies and whistle-blowing processes.

The ARC will also periodically review its own effectiveness and report the results of that review to the National Committee.

5. Review of effectiveness

As Agency 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 executive managers within Forest Enterprise England who have responsibility for the development and maintenance of the internal control framework;
- the work of the internal auditors, who submit to the ARC reports which include the Head of Internal Audit's independent and objective opinion on the adequacy and effectiveness of the systems of internal control together with recommendations for improvement; and
- comments made by the external auditors in their management letters and other reports.

The Head of Internal Audit has prepared an annual report and assurance statement to me as Agency Chief Executive and Accounting Officer. The report includes an overall assessment of the adequacy and effectiveness of risk management, control and governance within Forestry Commission England and Forest Enterprise England. The Director General as Principal Accounting Officer has 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 Forestry Commission England and Forest Enterprise England continues to provide substantial assurance that material risks to the achievement of objectives are identified and adequately managed.

6. Significant internal control problems

There were no significant internal control problems to report.

S Hodgson
Accounting Officer
10 July 2007

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

I certify that I have audited the financial statements of Forest Enterprise England for the year ended 31 March 2007 under the Government Resources and Accounts Act 2000. These comprise the Income and Expenditure Account and Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Agency, the Chief Executive and auditor

Forest Enterprise England and the Chief Executive, as Accounting Officer, are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises Management Commentary, Corporate Social Responsibility, Leadership and Governance and Financial Commentary is consistent with the financial statements. I also report 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.

In addition, I report to you if Forest Enterprise England has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects Forest Enterprise England's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Forest Enterprise England's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by Forest Enterprise England and the Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to Forest Enterprise England'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 and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, 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 also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state Forest Enterprise England's affairs as at 31 March 2007, and of the net operating cost, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- The information given within the Annual Report, which comprises Management Commentary, Corporate Social Responsibility, Leadership and Governance and Financial Commentary, is consistent with the financial statements.

Audit Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
16 July 2007

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

The maintenance and integrity of the Department's website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Income and Expenditure Account

for the Year Ended 31 March 2007

	Note	<u>2006-07</u> £000	<u>2005-06</u> £000
Operating Income			
Sales of Timber		20,338	18,705
Forest Protection and Maintenance		1,822	1,059
Management and Development of Estate	2		
Continuing operations		5,830	5,222
Discontinued operations		1,951	3,724
		<u>29,941</u>	<u>28,710</u>
Operating Expenditure			
Forest Planning		2,942	3,173
Harvesting and Haulage of Timber		11,087	10,760
Forest Roads		2,341	2,531
Forest Protection and Maintenance		14,517	13,412
Management and Development of Estate	2		
Continuing operations		5,328	5,899
Discontinued operations		1,047	3,418
		<u>37,262</u>	<u>39,193</u>
Operating Deficit		(7,321)	(10,483)
Recreation, Conservation & Heritage			
Income		14,266	12,989
Expenditure		30,023	26,790
		<u>(15,757)</u>	<u>(13,801)</u>
Operating Deficit Net of R,C & H		(23,078)	(24,284)
Surplus on sale of discontinued operations	4	2,937	–
Surplus/(deficit) on sale of properties	4	2,570	672
Deficit		<u>(17,571)</u>	<u>(23,612)</u>
Notional cost of capital	5	<u>(17,039)</u>	<u>(15,905)</u>
Net Deficit for the Year		(34,610)	(39,517)
Transferred to General Fund	13	<u>(34,610)</u>	<u>(39,517)</u>

There have been no acquisitions during the year

The notes on pages 88 to 105 form part of these accounts

Statement of Total Recognised Gains and Losses

for the Year Ended 31 March 2007

		<u>2006-07</u>	<u>2005-06</u>
	Note	£000	£000
Net deficit for the year		(34,610)	(39,517)
Revaluation surplus for the year	14	28,093	691
Movement in donated asset reserve	15(a)	705	161
Movement in government grant reserve	15(b)	3,049	3,181
Total recognised gains and losses for the financial year		<u>(2,763)</u>	<u>(35,484)</u>

The notes on pages 88 to 105 form part of these accounts

Balance Sheet

as at 31 March 2007

	Note	<u>2006-07</u> £000	<u>2005-06</u> £000
Fixed Assets			
Tangible assets	6	488,868	470,665
Debtors falling due after more than one year	9	12,941	175
Current Assets			
Stocks	8	3,367	3,430
Debtors	9	9,478	8,893
Cash at banks and in hand	10	19	19
		<u>12,864</u>	<u>12,342</u>
Creditors (amounts falling due within one year)	11	(7,518)	(10,451)
Net Current Assets		<u>5,346</u>	<u>1,891</u>
Total assets less current liabilities		507,155	472,731
Creditors (amounts falling due after more than one year)	11	(2,319)	(2,119)
Provision for Liabilities and Charges	12	(868)	(908)
		<u>503,968</u>	<u>469,704</u>
Capital and Reserves			
General fund	13	352,196	346,412
Revaluation reserve	14	144,359	119,625
Donated Asset Reserve	15	1,185	486
Government Grant Reserve	15	6,228	3,181
		<u>503,968</u>	<u>469,704</u>

S Hodgson
Accounting Officer
10 July 2007

Cash Flow Statement

for the Year Ended 31 March 2007

		<u>2006-07</u>	<u>2005-06</u>
	Note	<u>£000</u>	<u>£000</u>
Net cash outflow from operating activities	16(a)	(23,450)	(19,973)
Capital expenditure and financial investment	16(b)	336	(3,452)
Financing	16(c)	23,114	23,423
Increase/(decrease) in cash	10	<u> -</u>	<u> (2)</u>

The notes on pages 88 to 105 form part of these accounts

NOTES TO THE ACCOUNTS

Note 1 Accounting policies

These financial statements have been prepared in accordance with the 2006-07 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the *FReM* follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

Where the *FReM* permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of Forest Enterprise England for the purpose of giving a true and fair view has been selected. Forest Enterprise England'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.

1.2 Capital charges

A notional charge, reflecting the cost of capital used by Forest Enterprise England, is included in the income and expenditure account. 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.

1.3 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. Forest Enterprise England recognises the expected cost of these elements 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. In respect of the defined contribution schemes, Forest Enterprise England recognises the contributions payable for the year.

1.4 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, Forest Enterprise England discloses for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of Government Accounting.

Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS 12 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

1.5 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. Legal ownership of other tangible fixed assets is vested in the Forestry Commissioners. Where the agency is the principal beneficial user of assets owned by the Secretary of State or Forestry Commissioners these are treated as a fixed asset of the agency. See also "Leases" at 1.12. below.

Tangible fixed assets are revalued annually as at 31 March. With the agreement of HM Treasury, from 1 April 2008, future revaluations shall take place on 1 April.

Forest estate

A full valuation is undertaken at five yearly intervals by a panel comprising Forest Enterprise England's country land agent and two external valuers. In accordance with the RICS Appraisal and Valuation Standards (the "Red Book"), the valuation is based on the assets' existing use. This is because the forest estate is regarded as a non-specialised asset that is occupied by its owners for the purposes of their business. The next full valuation shall take place on 1 April 2008. From that date, accounts shall be prepared under International Accounting Standards and the Forest Estate shall be valued under the Existing Use and Fair Value bases as appropriate. Indices provided by the valuation panels are used to restate values in the intervening years. Use of the indices shall continue after 1 April 2008.

Non-forest land

Professionally qualified staff employed by the Forestry Commission undertake a full revaluation of non-forest land at five yearly intervals coinciding with that for the forest estate. They follow the principles set out in the RICS Red Book and value on the basis of Open Market Value, Existing Use Value, Depreciated Replacement Cost or Discounted Cash Flow as appropriate under the RICS guidance. Unequipped agricultural land indices provided by the District Valuer are used to restate values between full valuations. The next full valuation shall take place on 1 April 2008.

Dwellings and other buildings

Professionally qualified staff employed by the Forestry Commission undertake a full revaluation of dwellings and other buildings following the principles set out in the RICS Red Book. Valuation is on the basis of Open Market Value or Existing Use Value as appropriate under the RICS guidance. Dwellings and other 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. The first five-yearly valuation will be undertaken at 1 April 2008 to coincide with the next full revaluation of the Forest Estate. Between full valuations, dwellings and other buildings are restated to current value using appropriate indices provided by the District Valuer. The normal threshold for capitalisation of buildings is £2,000.

Expenditure on infrastructure

To maximise the environmental, social and economic benefits of the Forest Estate and Other Land, the Commission improves and develops access and services by adding to the infrastructure on its sites. Infrastructure includes new roads, bridges, culverts etc. Costs in respect of infrastructure works are expensed as they occur. The Commission takes the view that the professional valuations of the Forest Estate and Other Land properly recognise the contribution that infrastructure items make to land values.

Surplus properties

Fixed assets are reviewed regularly to ensure they continue to contribute positively to policy and business objectives. Assets that no longer provide the required level of contribution are considered for disposal by senior management. Decisions to sell such properties take into account a number of factors including the social and environmental effects as well as marketability. Surplus properties are retained in their fixed asset category and continue to be valued on the appropriate basis as set out in the preceding paragraphs. However, values may be materially affected by development factors such as the award of planning permissions. Where this occurs, assets are revalued to an Open Market Value based on advice provided by the selling agents and taking account of the circumstances of the sales. Revaluation takes place in the quarter following the development event.

Forestry vehicles, machinery and equipment

Forestry vehicles, machinery and equipment are revalued every five 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.

Office machinery and equipment

Office machinery and equipment values are restated to current value each year using indices provided by the Office for National Statistics. The normal threshold for capitalisation of assets is £1,500.

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.

1.6 Donations

Donations in respect of capital expenditure are credited to a donated asset reserve. Subsequent revaluations are also taken to this reserve. Each year, an amount equal to the depreciation charge on the asset is released from the donated asset reserve to the Income and Expenditure account. Where the donor contributes only part of the cost of the fixed asset, only that proportion is released from the donated asset reserve.

1.7 Government grants receivable

Government grants in respect of capital expenditure are credited to a government grant reserve. Subsequent revaluations are also taken to this reserve. Each year, an amount equal to the depreciation charge on the asset is released from the government grant reserve to the Income and Expenditure account. Where the grant contributes only part of the cost of the fixed asset, only that proportion is released from the government grant reserve. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

1.8 Depreciation

Land (forest estate and non-forest) held under Freehold is not depreciated in accordance with FRS 15.

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

Land held under a finance lease	–	unexpired term of the lease
Lease premium	–	unexpired term of the lease
Freehold buildings	–	up to 60 years
Buildings held under a finance lease	–	lesser of unexpired term of lease and 60 years
Forestry vehicles, machinery and equipment	–	over 3 to 16 years
Office equipment	–	over 4 to 20 years

1.9 Subsidiaries, associates and joint ventures

Where Forest Enterprise England holds investments in subsidiaries, associates or joint ventures and does not exercise in-year budgetary control, then, in accordance with FReM 2.4, the investment will be treated as a fixed asset investment.

1.10 Stocks

Finished goods and work in progress are valued as follows:-

- a. timber at the cost of production;
- b. seed at the lower of cost of collection or net realisable value;
- c. plants and livestock at net realisable value;
- d. 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.

Cost of production and collection comprises labour and attributable administrative expenses based on the normal level of activity. Net realisable value is based on estimated selling prices, less further costs expected to be incurred to completion and disposal.

1.11 Turnover

Turnover represents income receivable from forestry and related activities and is stated net of value added tax.

1.12 Leases

Where substantially all the risks and rewards of ownership of a leased asset are borne by the Forestry Commission (a Finance Lease), the right to use the asset is recorded as a tangible fixed asset of the agency. A corresponding debt is recorded to the lessor represented by the minimum lease payments discounted by the Treasury discount rate of 3.5% in real terms. The interest element of the finance lease payment is charged to the Income and Expenditure Account over the period of the lease at a constant rate in relation to the balance outstanding. Costs in respect of operating leases (any lease other than a Finance Lease) are charged on a straight-line basis to expenditure over the lease term.

Where land held under a lease give the Forestry Commissioners a right to carry out forestry activities on the land, the value of timber including uncut trees, is treated as a fixed asset of the agency. These values are included in the valuation of the forest estate.

1.13 Provisions

Forest Enterprise 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.

1.14 Value added tax (VAT)

The Forestry Commission is registered for VAT and accounts for it on a Great Britain basis, which includes any VAT transactions for Forest Enterprise England. Any VAT due to or from HM Revenue and Customs at the year end is included in the Forestry Commission Great Britain/England accounts as a debtor or creditor in the balance sheet. Irrecoverable VAT is charged to the income and expenditure account in the year in which it is incurred.

1.15 Third party assets

Third party assets are not recorded on the face of these accounts. A disclosure is made in the accounts of amounts owing to third parties at the balance sheet date.

Note 2 Operating deficit

The operating deficit net of recreation, conservation and heritage is stated after charging:

	2006-07	2005-06
	£000	£000
Depreciation of fixed assets	2,107	2,346
Hire of plant and equipment	586	761
Operating lease rentals:		
Land and buildings	116	129
Plant and machinery	1,817	1,665
Auditors' remuneration – audit work	60	55
Auditors' remuneration – non-audit work	–	–
Shared central services	3,759	3,870

Expenditure includes the cost of shared central services provided to Forest Enterprise England. As part of the Forestry Devolution Review, shared central 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 was formed composed of 'intelligent buyers' from the countries and Forest Research together with the service provider. The boards have joint accountability for the operation of these services to ensure the needs of the customer and the wider organisation are met. Charges were made at regular intervals during the year.

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

The Forest Research Agency provides research development and survey services to Forest Enterprise England through a service level agreement and charges internal Forest Enterprise England customers in the year. The Forest Research Agency is charged for shared services and business unit costs where appropriate.

Income and expenditure from management and development of the estate included in the operating deficit are:

	<u>Income</u>	<u>Expenditure</u>	<u>2006-07</u>	<u>2005-06</u>
	<u>£000</u>	<u>£000</u>	<u>Net</u>	<u>Net</u>
			<u>£000</u>	<u>£000</u>
Continuing operations				
Estate Management	3,280	3,238	42	(189)
Other	2,550	2,090	460	(488)
	5,830	5,328	502	(677)
Discontinued operations				
Forest Holidays	1,951	1,047	904	306
Totals	7,781	6,375	1,406	(371)

In May 2006, the Forestry Commission entered into a partnership with the Camping and Caravanning Club to take over management of its Forest Holidays business. This has resulted in a significant change to the way in which the Forestry Commission will account for its interest in Forest Holidays. As the investment in the partnership is outside the departmental boundary and Forest Enterprise England does not exercise in-year budgetary control over the partnership, then, in accordance with FReM 2.4, the investment will be treated as a fixed asset investment. During 2006-07, no income was received from the investment in the partnership but a gain on disposal of £2,937,000 is included in sale of properties in note 4. More details on the financial implications of the transfer of the Forest Holidays is disclosed in note 7.

Estate Management reflects the net cost of managing the non-forested estate which comprises houses, farms, agricultural land and all other lettings. It includes surplus assets which are disposed of wherever possible.

Other expenditure includes agency work carried out on a full cost recovery basis, net income earned by Mechanical Engineering Services business unit and sale of Christmas trees.

Note 3 Staff costs and numbers

3.1 Employees and costs

The average number of whole time equivalent persons employed in Forest Enterprise England during the year was 965 (960 in 2005-06). In addition, the number of whole time equivalents employed as Agency\Temporary staff was 4 (13 in 2005-06). The aggregate payroll costs were as follows:

	<u>2006-07</u>	<u>2005-06</u>
	<u>£000</u>	<u>£000</u>
Salaries	21,198	20,614
Social Security Costs	1,511	1,488
Other pension costs	3,607	3,309
Agency\temporary staff	113	176
	26,429	25,587
Less recoveries in respect of outward secondments	(89)	(96)
	26,340	25,491

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 2006-07, employers' contributions of £3,574,000 were payable to the PCSPS (2005-06 £3,295,000) at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands (the rates in 2005-06 were between 16.2% and 24.6%). The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2007-08, the salary bands will be revised and the rates will remain the same. The contribution rates are set to meet the cost of the benefits accruing during 2006-07 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a **partnership** pension account, a stakeholder pension with an employer contribution. Employers' contributions of £33,000 were paid to one or more of a panel of three appointed **stakeholder** pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £2,000, 0.8% 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.

No individuals retired early on ill health grounds.

Note 4 Sale of properties

	Sale of Forest Holidays	Other	2006-07	2005-06
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Income	13,391	5,686	19,077	2,123
Book value	<u>10,454</u>	<u>2,755</u>	13,209	1,095
	2,937	2,931	5,868	1,028
Disposal costs				
External costs	–	169	169	83
Administration expenses	–	192	192	273
	–	<u>361</u>	361	356
Surplus/(deficit) on sale of properties	<u>2,937</u>	<u>2,570</u>	5,507	672

Note 5 Notional cost of capital

Notional cost of capital based on 3.5% of average total assets less liabilities employed in 2006-07 amounted to £17,039,000 (£15,905,000 in 2005-06).

Note 6 Tangible fixed assets

	Forest Estate	Land	Forest Holidays Land	Dwellings and Other Buildings	Forest Holidays Buildings	VME	OME	POA & AUC	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Valuation:									
At 1 April 2006	381,184	28,508	2,770	50,557	8,808	5,741	692	3,592	481,852
Additions	1,126	110	-	-	-	137	57	665	2,095
Donations/government grants	-	-	-	-	-	-	-	3,711	3,711
Transfers	-	-	-	1,408	-	4	(5)	(1,408)	(1)
Disposals	(1,904)	(105)	(2,770)	(970)	(8,808)	(597)	(433)	-	(15,587)
Write-off	-	-	-	-	-	-	-	(327)	(327)
Revaluation	17,731	4,668	-	6,268	-	-	-	-	28,667
Impairment	-	-	-	-	-	-	(12)	-	(12)
At 31 March 2007	398,137	33,181	-	57,263	-	5,285	299	6,233	500,398
Depreciation:									
At 1 April 2006				5,469	1,095	4,132	491	-	11,187
Provided during year				1,524	30	487	66	-	2,107
Transfers				-	-	6	(5)	-	1
Disposals				(223)	(1,125)	(542)	(402)	-	(2,292)
Revaluation				531	-	-	-	-	531
Impairment				-	-	-	(4)	-	(4)
At 31 March 2006				7,301	-	4,083	146	-	11,530
Net book value at 31 March 2007	398,137	33,181	-	49,962	-	1,202	153	6,233	488,868
Net book value at 1 April 2006	381,184	28,508	2,770	45,088	7,713	1,609	201	3,592	470,665

The forest estate was revalued at £330,305,000 as at 31 March 2003 by a country valuation panel comprising John Clegg & Co. Chartered Surveyors, Bidwells Chartered Surveyors and professionally qualified land agents employed by the Forestry Commission. The valuation is based on a sample number of properties and the results extrapolated by professionally qualified staff employed by the Forestry Commission. Values are determined using the RICS Existing Use basis. The next full revaluation is due as at 1 April 2008 with annual updates in the intervening years based on an external professional opinion. For 2006-07, valuations were updated using indexation information provided by the country valuation panel.

Non-forest land was valued at £20,651,000 and dwellings and other buildings at £34,584,000 as at 31 March 2002 by professionally qualified land agents employed by the Forestry Commission. This was on the basis of Open Market Value, Existing Use Value, Depreciated Replacement Cost Value or Discounted Cash Flow Value as appropriate under the RICS guidance. The properties were scheduled to be re-assessed as at 31 March 2005 in accordance with the three-yearly interval stated in the previous accounting policy. To bring the policy in line with UK GAAP, professional valuations of non-forest land and dwellings and other buildings will be undertaken on a five-yearly basis. The first five-yearly valuation will be at 1 April 2008, to coincide with the next full revaluation of the Forest Estate. Annual updates in the intervening years are based on indices provided by the District Valuer.

The forest estate and other land and buildings assets comprise both freehold and leasehold assets.

As at 31 March 2007, management had taken the decision to dispose of six Dwellings and Other Buildings and 35 properties within the Forest Estate and Other Land. These are at various stages of the disposal process from initial marketing through to acceptance of offers. The buildings are included in the financial statements at a net book value of £2,014,000. The land assets are included at a value of £3,109,000. These values have been determined using an Open Market Valuation basis by internal, professionally qualified staff. Prior to revaluation the net book values were £693,000 for buildings and £1,573,000 for land.

Forestry vehicles, machinery and equipment (VME) was valued at £2,085,000 as at 31 March 2005 by professionally qualified staff employed by the Forestry Commission 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. The next full revaluation is due as at 31 March 2010 with annual updates in the intervening years based on indices provided by the Office for National Statistics. For 2006-07, the movement in the index was immaterial and no revaluation was undertaken.

Office machinery and equipment (OME) was restated to a current value of £153,000 as at 31 March 2007 using an index provided by the Office for National Statistics.

Additions to assets under construction included £662,000 funded by donations, £2,019,000 funded by UK government grants and £1,030,000 funded by EU grants.

Note 7 Fixed asset investments

In May 2006, the Forestry Commission entered into a partnership with the Camping and Caravanning Club to take over management of its Forest Holidays business. This has resulted in a significant change to the way in which the Forestry Commission will account for its interest in Forest Holidays. As the investment in the partnership is outside the departmental boundary and Forest Enterprise England does not exercise in-year budgetary control over the partnership, then, in accordance with FReM 2.4, the investment will be treated as a fixed asset investment.

The net book value of Forest Enterprise England's cabin and campsite land and buildings transferred to the partnership was £10,454,000. In return, Forest Enterprise England received £13,391,000 comprising:

- a fixed asset investment valued at nil at 31 March 2007;
- as lessors of the sites to the partnership, Forest Enterprise England will show a long-term debtor balance on its balance sheet to represent the net present value of the future rental payments over 75 years due by the partnership totalling £10,087,000; and
- a long-term long debtor of £3,304,000 with the capital and interest due to be repaid in five instalments commencing year end 31 March 2012.

The gain on disposal and increase in the value of the balance sheet was £2,937,000.

During 2006-07, no income was received from the investment in the partnership.

Forest Enterprise England's share of the net assets and results is summarised below:

	£000
Net assets at 31 March 2007	5,146
Turnover	1,556
Deficit for the year (before financing)	127

Note 8 Stocks

	<u>2006-07</u>	<u>2005-06</u>
	<u>£000</u>	<u>£000</u>
Timber	535	480
Plants and seed	2,332	2,439
Consumable materials, supplies and livestock	500	511
	<u>3,367</u>	<u>3,430</u>

Note 9 Debtors**9(a) Analysis by type**

	<u>2006-07</u>	<u>Restated 2005-06</u>
	<u>£000</u>	<u>£000</u>
Amounts falling due within one year:		
Trade debtors	6,276	4,745
Other debtors	85	143
House purchase loans to employees	26	30
Partnership lease	331	–
Prepayments and accrued income	2,760	3,975
	<u>9,478</u>	<u>8,893</u>
Amounts falling due after more than one year:		
Partnership loan	3,304	–
Partnership lease	9,425	–
House purchase loans to employees	212	175
	<u>12,941</u>	<u>175</u>
	<u>22,419</u>	<u>9,068</u>

Forest Enterprise England had house purchase loans totalling £238,000 outstanding at 31 March 2007 relating to 29 employees.

The 2005-06 'trade debtors' and 'prepayments and accrued income' figures have been restated by an equal and opposite amount to properly classify accrued timber income.

9(b) Intra-Government Balances

	Amounts falling due within one year £000		Amounts falling due after more than one year £000	
	<u>2006-07</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2005-06</u>
Balances with other central government bodies	35	173	–	–
Balances with local authorities	93	193	–	–
Balances with NHS Trusts	–	–	–	–
Balances with public corporations and trading funds	1	–	–	–
Intra-government balances	129	366	–	–
Balances with bodies external to government	9,349	8,527	12,941	175
Total debtors at 31 March	<u>9,478</u>	<u>8,893</u>	<u>12,941</u>	<u>175</u>

Note 10 Cash at banks and In hand

	<u>2006-07</u>	<u>2005-06</u>
	£000	£000
Cash at commercial banks and in hand	<u>19</u>	<u>19</u>
	19	19

Note 11 Creditors**11(a) Analysis by type**

	<u>2006-07</u>	<u>2005-06</u>
	£000	£000
Amounts falling due within one year:		
Trade creditors	3,267	6,311
Other creditors	166	89
Accruals and deferred income	3,975	3,944
Current part of finance leases	103	103
Payments received on account	<u>7</u>	<u>4</u>
	7,518	10,451
Amounts falling due after more than one year:		
Finance leases	<u>2,319</u>	<u>2,119</u>
	9,837	12,570

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 the promotion and guidance of 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. The project will end in October 2007. As third party assets these sums are not recorded on the face of these accounts. At 31 March 2007 the amount held in Forestry Commission bank accounts on behalf of partners was £nil (£152,200 in 2005-06).

11(b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	£000		£000	
	<u>2006-07</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2005-06</u>
Balances with other central government bodies	11	42	–	–
Balances with local authorities	253	231	–	–
Balances with NHS Trusts	–	–	–	–
Balances with public corporations and trading funds	–	1	–	–
Intra-government balances	<u>264</u>	<u>274</u>	–	–
Balances with bodies external to government	<u>7,254</u>	<u>10,177</u>	<u>2,319</u>	<u>2,119</u>
Total creditors at 31 March	<u>7,518</u>	<u>10,451</u>	<u>2,319</u>	<u>2,119</u>

Note 12 Provision for liabilities and charges

	Early departure costs	Public legal claims	Other legal claims	Total
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Balance at 1 April 2006	443	212	253	908
Provided in the year	94	170	158	422
Provisions not required written back	–	(103)	(40)	(143)
Provisions utilised in the year	(230)	(28)	(68)	(326)
Unwinding of discount	7	–	–	7
Balance at 31 March 2007	<u>314</u>	<u>251</u>	<u>303</u>	<u>868</u>

Early departure costs

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

Public and other legal claims

Provision has been made for various legal claims against Forest Enterprise England. The provision reflects all known claims where legal advice indicates that it is more than probable that the claim will be successful and the amount of the claim can be reliably estimated.

Legal claims which may succeed but are less likely to do so or cannot be estimated reliably are disclosed as contingent liabilities. Public legal claims are those claims from the public for personal injury or damage caused to property, and other legal claims are for compensation for injury to employees.

Note 13 General fund

	<u>2006-07</u>	<u>2005-06</u>
	<u>£000</u>	<u>£000</u>
Balance at 1 April	346,412	349,480
Movement in year:		
Net deficit for the year	(34,610)	(39,517)
Notional cost of capital	17,039	15,905
Cash deficit funded by Forestry Commission	19,403	20,105
Transfers of fixed assets from/to other Forestry Bodies	(2)	71
Transferred to general fund (realised element of revaluation reserve)	3,359	691
Timing between accrual and cash VAT	541	(497)
Non-cash inter-country transfers	54	174
	<u>5,784</u>	<u>(3,068)</u>
Balance at 31 March	<u>352,196</u>	<u>346,412</u>

Note 14 Revaluation reserve

	<u>2006-07</u>	<u>2005-06</u>
	<u>£000</u>	<u>£000</u>
Balance at 1 April	119,625	89,326
Arising on revaluation during the year:		
Forest Estate	17,731	26,772
Land	4,668	235
Forest Holidays buildings	–	472
Dwellings and other buildings	5,694	3,500
VME	–	11
	<u>28,093</u>	<u>30,990</u>
Transferred to general fund (realised element of revaluation reserve)	(3,359)	(691)
Balance at 31 March	<u>144,359</u>	<u>119,625</u>

The following realised revaluation surpluses were transferred to the General Fund:

	<u>2006-07</u>	<u>2005-06</u>
	<u>£000</u>	<u>£000</u>
Buildings	(3,359)	(676)
VME	–	(15)
	<u>(3,359)</u>	<u>(691)</u>

Note 15 Reserves**Note 15(a) Donated asset reserve**

	<u>2006-07</u>	<u>2005-06</u>
	<u>£000</u>	<u>£000</u>
Balance at 1 April	486	325
Additions during the year	662	137
Revaluations	43	30
Release to I&E	(6)	(6)
Balance at 31 March	<u>1,185</u>	<u>486</u>

Note 15(b) Government grant reserve

	<u>UK</u>	<u>EU</u>	<u>2006-07</u>	<u>2005-06</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Balance at 1 April	2,917	264	3,181	–
Additions during the year	2,019	1,030	3,049	3,181
Revaluations	–	–	–	–
Release to I&E	(2)	–	(2)	–
Balance at 31 March	<u>4,934</u>	<u>1,294</u>	<u>6,228</u>	<u>3,181</u>

Note 16 Notes to the Cash Flow Statement**16(a) Reconciliation of net deficit to operating cash flows**

	<u>2006-07</u>	<u>2005-06</u>
	£000	£000
Net deficit for the year	(34,610)	(39,517)
Notional cost of capital	17,039	15,905
Depreciation charges	2,107	2,346
Donated asset reserve released	(8)	(6)
(Profit)/loss on sale of properties	(5,868)	(1,030)
Tangible fixed asset write-off	327	42
Impairment of tangible fixed assets	8	14
(Profit)/loss on sale of other tangible fixed assets	(39)	(65)
Timing between accrual and cash VAT	541	(497)
Non-cash inter-country transfers	54	174
(Increase)/decrease in stocks	63	(150)
(Increase)/decrease in debtors	(13,351)	(2,628)
less movements in debtors relating to items not passing through I&E	13,060	–
Increase/(decrease) in creditors	(2,733)	5,092
Increase/(decrease) in provisions	(40)	347
Net cash outflow from operating activities	<u>(23,450)</u>	<u>(19,973)</u>

16(b) Analysis of capital expenditure and financial investment

	<u>2006-07</u>	<u>2005-06</u>
	£000	£000
Payments to acquire tangible fixed assets	(5,806)	(5,763)
Receipts from sale of properties	5,686	2,123
Receipts from sale of other tangible fixed assets	125	188
Lease repayment	331	–
Net cash inflow/(outflow) from investing activities	<u>336</u>	<u>(3,452)</u>

16(c) Analysis of financing

	<u>2006-07</u>	<u>2005-06</u>
	£000	£000
Deficit funded by Forestry Commission	19,403	20,105
Donations toward capital expenditure	662	137
Government grants towards capital expenditure	3,049	3,181
Net financing	<u>23,114</u>	<u>23,423</u>

Note 17 Capital commitments

Amounts contracted for but not provided in the accounts amounted to £4,212,000 (£1,802,000 for 2005-06) and relates to various building works: £20,000 at Chamber Farm Centre at Sherwood and Lincs Forest District; £95,000 at Sudborough Lodge and £207,000 at Top Lodge at Northants Forest District; £3,540,000 at the Grizedale Visitor Centre and £350,000 at the Cannock Education Centre at West Midlands Forest District.

Note 18 Commitments under leases**Operating leases**

Commitments on operating lease rentals for the next year are as follows:

	<u>2006-07</u>	<u>2005-06</u>
	<u>£000</u>	<u>£000</u>
Land and building leases expiring within:		
One year	–	–
Two to five years	–	13
More than five years	<u>116</u>	<u>116</u>
	<u>116</u>	<u>129</u>
Plant and machinery leases expiring within:		
One year	<u>168</u>	–
Two to five years	<u>1,628</u>	1,459
More than five years	<u>21</u>	<u>206</u>
	<u>1,817</u>	<u>1,665</u>

Finance leases

Obligations under finance leases fall due as follows:

	<u>2006-07</u>	<u>2005-06</u>
	<u>£000</u>	<u>£000</u>
Rentals due in one year or less	<u>103</u>	103
Rentals due in more than one year but not more than two years	<u>103</u>	100
Rentals due in more than two years but not more than five years	<u>206</u>	280
Rentals due in more than five years	<u>2,010</u>	<u>1,739</u>
	<u>2,422</u>	<u>2,222</u>

Note 19 Other financial commitments

Forest Enterprise England has entered into non-cancellable contracts for artist fees and stage rental for the 'Forest Concert Tour 2007' at various venues in England of £2,054,000 (£1,805,000 for 2005-06).

Note 20 Contingent liabilities

There were no contingent liabilities.

Note 21 Post Balance Sheet Events

In accordance with the requirements of FRS21, post balance sheet events are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date the accounts are laid before Parliament. These accounts will be laid before Parliament on 19 July 2007.

Note 22 Related party transactions

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

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, HM Revenue and Customs, the Department for the Environment, Food and Rural Affairs, Communities and Local Government, the North West Development Agency and Yorkshire Forward.

During the year, Forest Enterprise England entered into the following material transactions involving the non-executive Commissioners of the Forestry Commission:-

Martin Gale, a non-executive Forestry Commissioner, is Chairman of Tilhill Forestry, Vice President of UPM Corporation and a non-executive Director of BSW Timber plc. UPM Corporation is the parent company of 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	£2,033,000
Tilhill Forestry	£1,171,000

Amounts owing to Forest Enterprise England at 31 March 2007 were:

BSW Timber plc	£206,000
Tilhill Forestry	£368,000

Simon Hodgson, Chief Executive of Forest Enterprise England, is Chair of the England Forest Industries Partnership which approved a Forestry Commission England grant of £60,000 to the Confederation of Forest Industries UK Ltd.

Note 23 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, Forest Enterprise 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 Forest Enterprise 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. Forest Enterprise England is not therefore exposed to significant liquidity risks.

Interest-rate risk

Forest Enterprise England is not exposed to interest-rate risk.

Foreign currency risk

Forest Enterprise 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 10. Fair value for the provisions shown in Note 12 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.

Note 24 Financial performance measures

The financial performance measures set by the National Committee for England for 2006-07 and the actual outturns achieved were:

	<u>Achieved</u>	<u>Target</u>
	<u>£000</u>	<u>£000</u>
Operating deficit	34,610	41,100
Cash deficit	23,450	21,500
Gross receipts from sale of properties	19,077	5,000

ACCOUNTS DIRECTION GIVEN BY THE TREASURY IN ACCORDANCE WITH SECTION 7 OF THE GOVERNMENT RESOURCES AND ACCOUNTS ACT 2000

1. The Forestry Commission shall prepare accounts for Forest Enterprise of its activities in England for the financial year ended 31 March 2006 and subsequent years, comprising:
 - (a) an annual report;
 - (b) a statement of Accounting Officer's responsibilities;
 - (c) a statement on internal control;
 - (d) an income and expenditure account;
 - (e) a statement of total recognised gains and losses;
 - (f) a balance sheet; and
 - (g) a cash flow statement,including such notes as may be necessary for the purposes referred to in the following paragraphs.
2. The accounts shall give a true and fair view of the income and expenditure, and cash flows for the financial year, and the state of affairs as at the end of the financial year.
3. Subject to this requirement, the accounts shall be prepared in accordance with:
 - (a) generally accepted accounting practice in the United Kingdom (UK GAAP) having regard for the requirements of the *Government Financial Reporting Manual*;
 - (b) the disclosure and accounting requirements contained in *The Fees and Charges Guide* (in particular those relating to the need for segmental information for services or forms of service provided) and in any other guidance which HM Treasury may issue from time to time in respect of accounts which are required to give a true and fair view;
 - (c) the accounting and disclosure requirements of *Government Accounting*, as amended or augmented from time to time,insofar as these are appropriate to Forest Enterprise and are in force for the financial year for which the accounts are to be prepared.
4. Additional requirements are set out in Schedule 1 attached.
5. Clarification of the application of the accounting and disclosure requirements of the Companies Act and accounting standards is given in Schedule 2 attached.
6. The **income and expenditure account** and **balance sheet** shall be prepared under the historical cost convention modified by the inclusion of:
 - (a) the forest estate at its existing use value;
 - (b) land and buildings at their existing use value where a market exists, otherwise at depreciated replacement cost;
 - (c) machinery, plant and equipment at current replacement cost;
 - (d) commercial recreation assets at their existing use value; and
 - (e) stocks of seed at the lower of cost or net realisable value, stocks of plants and livestock at net realisable value and stocks of consumable materials at current replacement cost.
7. This direction shall be reproduced as an appendix to the accounts and supersedes that dated 21 May 2002.

IAN CARRUTHERS
Director, Government Reporting, HM Treasury
27 February 2006

SCHEDULE 1

ADDITIONAL REQUIREMENTS

Annual Report

1. The Annual Report shall be prepared in accordance with the provisions of the *Government Financial Reporting Manual*.

Income and Expenditure Account

2. The income and expenditure account shall be in a form which discloses the information described below, as the recommended formats described in Schedule 4 to the Companies Act are not appropriate for Forest Enterprise:
 - (a) under "operating income":
 - sales of timber
 - other forest sales
 - other activities
 - (b) under "operating expenditure (by activity)":
 - harvesting and haulage of timber
 - restocking after felling
 - forest roads
 - forest maintenance and protection
 - other activities
 - (c) the resulting operating surplus/deficit shall be shown as a separate heading
 - (d) under "recreation, conservation and heritage":
 - income
 - expenditure
 - (e) giving operating surplus/deficit net of recreation, conservation and heritage
 - (f) the surplus/deficit arising from the sale of properties and the notional cost of capital
 - (g) the "net surplus/deficit for the year" which shall be transferred to the general fund.
3. Minor changes may be made to the headings in the accounts without the approval of HM Treasury.

Notes to the Accounts

4. The notes to the accounts shall include, inter alia, details of the total income, expenditure and operating result for each of the operations shown within "other activities", together with explanatory notes of the financial objectives set and performance achieved.

SCHEDULE 2

APPLICATION OF THE ACCOUNTING AND DISCLOSURE REQUIREMENTS OF THE COMPANIES ACT AND ACCOUNTING STANDARDS

Companies Act

1. The disclosure exemptions permitted by the Companies Act shall not apply to Forest Enterprise unless specifically approved by HM Treasury.
2. Forest Enterprise is not required to provide the historical cost information described in paragraph 33(3) of Schedule 4 to the Companies Act.

Accounting standards

3. Forest Enterprise is not required to include a note showing historical cost profits and losses as described in FRS 3.



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