

# **Forest Enterprise England**

## **Annual Report and Accounts 2016-17**

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## Forest Enterprise England

### Contents

Performance report	2
Overview	2
Foreword by Simon Hodgson, Chief Executive	2
Purpose and activities of the organisation	3
Performance analysis	4
Delivery of our objectives in 2016-17	4
Key performance indicators 2016-17	11
Issues and risks	13
Sustainability	15
Parliamentary accountability report	21
Corporate governance report	21
Directors' report	21
Statement of Accounting Officer's responsibilities	22
Governance statement	22
Remuneration and staff report	27
Remuneration report	27
Staff report	33
Other accountability matters	37
Independent auditor's report to the House of Commons	39
Financial statements	41
Statement of comprehensive income	41
Statement of financial position	42
Statement of cash flows	43
Statement of changes in taxpayers' equity	44
Notes to the accounts	45

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

# Performance report

## Overview

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

### Foreword by Simon Hodgson, Chief Executive

It has been a strong year for Forest Enterprise England with records set in both timber sales value, and visitor numbers to our sites. At the same time we have continued to balance an improving commercial performance with our responsibilities towards nature in our forest management.

Visitor numbers have been driven by strong marketing campaigns around the Gruffalo and Stick Man books, with new activity trails delivering significant uplifts in off-peak visitor numbers.

This year's Christmas tree sales campaign was also very successful, showing an 8% year-on-year income uplift at sales centres, in the context of a dwindling national market for real trees.

Timber sales performance has been helped by increased demand for domestic timber as the fall in the pound has made imports more expensive. Our very strong performance in certification audits also represents a significant achievement in ensuring that there is strong demand for our timber.

Poyry Management Consulting reviewed our timber marketing and sales this year, concluding that we perform well against our international peers. Some room for continued marginal improvements was identified, particularly a need to address resilience and succession within the timber

marketing team. The Executive Team accepted the findings and we have begun work on implementation.

Management of our Sites of Special Scientific Interest continues to improve, with 99.5% in favourable or recovering condition. In late 2016, the figure just for favourable was 35% and we remain confident that we can meet or exceed the 50% target by 2020.

The drive to create new native woodland received a boost this year with grant funding from the Heritage Lottery Fund to restore 94 hectares of open moorland in Northumberland to native upland forest. This project is in partnership with Northumberland Wildlife Trust.

At the same time we have made good progress with urban community woodlands, particularly in Manchester where we are a main partner in the City of Trees initiative and aim to deliver the first new City Forest Park in Britain. Our community woodland assets now total 3,913 hectares.

The year has seen notable wildlife partnership projects around butterflies, dragonflies, water voles, pine marten, ospreys and turtle doves. This work received a valuable boost with £125,000 of funding from Forest Holidays over five years.

A new four-year Memorandum of Understanding with Arts Council England was signed this year. This will ensure we continue to develop high quality engaging artwork on the Public Forest Estate. The signing took place at the Forest of Dean Sculpture Trail, which celebrated its 30<sup>th</sup> anniversary this year.

It has been a good year for volunteering, as we hit double our target for volunteering hours, valued at £2 million. New software was rolled out this year, which will help the way we support and manage our volunteers.

We have continued to invest in staff, with the development of a leadership model aimed at *all* staff, and a wellbeing strategy with a particular focus on stress and mental health. Our commitment to apprenticeships has also continued with eight new appointments.

Finally, 2016 saw us develop a new Strategic Framework which establishes a solid basis for our work in the years ahead, as we continue to deliver for people, the economy and nature.

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

### **Who we are**

#### **About us**

Forest Enterprise England is responsible for creating and caring for England's national forests for people to enjoy, wildlife to flourish and business to grow. We are an international leader in delivering and demonstrating sustainable, integrated land management. We increasingly work with others, both nationally and locally, in looking after the estate for the good of everyone – today and for the future. We think long-term and are open to innovation and change, achieving internationally recognised standards for our land and business management. We embrace both a public service and business ethos and aim to maintain and enhance the overall financial viability of the estate. Our task is to realise the potential of each of our nation's forests for sustainable business opportunities, wildlife and nature conservation, and the enjoyment and well-being of local people and visitors.

The heart of our organisation is our staff – some 938 committed, responsive, talented and professional people – on whom all of our success depends.

#### **England's national forests**

England's national forests are a treasured natural, economic and social resource held in trust for the people of England and managed by Forest Enterprise England.

At more than 250,000 hectares, they make up almost a fifth of the total forest resource. With 1,800 forest areas dispersed throughout the country, almost everyone in England is within an hour's drive of a forest we look after.

The management of England's national forests provides many benefits such as: capturing carbon; cleaning our air and water; controlling flood risk; as well as creating and caring for places for people to enjoy, wildlife to flourish and business to grow.

Around half of England's softwood production comes from our national forests, supporting hundreds of small contracting businesses and several large sawmills that rely on a guaranteed supply of timber to attract capital investment. Broadleaved production from the estate is growing in importance with more contractors and enterprises making use of the material, rekindling the contribution of native woodland to economic activity. The 70 million day visits per year support more than 70 substantial business partners on the estate delivering most of the Forest Centre services, as well as bike hire and other outdoor activities. Alongside all this economic and recreational activity, 45% of the estate contributes to England's most precious National Park landscapes and Areas of Outstanding Natural Beauty. Additionally, 68,000 hectares are designated Sites of Special Scientific Interest in recognition of their value for nature, virtually all of which is in favourable or recovering ecological condition.

#### **Financing**

Forest Enterprise England operates a mixed business model, deriving income from trading activities and from government funding that comes from Forestry Commission England. The majority of Forest Enterprise England's income is from trading activities including the sale of timber, leisure and tourism services and maximising the broader commercial potential of the land it manages through rental and mineral income, licences and permissions. It also receives income from a

range of public, private and charitable sources through partnerships to support specific developments or programmes.

Forest Enterprise England's direct income from trading is augmented by funds received through Forestry Commission England's financial settlement from Defra and managed through a Payment for Ecosystem Services agreement between Forest Enterprise England and Forestry Commission England. Together with funding to pay for allocated Forestry Commission overhead costs, in 2016-17 this amounted to £28.0 million.

## Performance analysis

### Delivery of our objectives in 2016-17

#### Forests that deliver for people

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

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

**Outcome 1:** Deliver and facilitate a wide variety of high quality learning initiatives to around 350,000 people, through which visitors, schools, groups, families and individuals will be able to engage with, and learn about, trees and forests and their sustainable management.

**Delivered:** Across England, more than 80 learning providers have licences to operate their environmental education businesses in our forests, working with schools and groups, and often providing family events. This year, these partners have worked with almost 50,000 learners, and included our messages in their teaching as part of their commitment to us.

Our self-led offer also continues to grow – the Ranger in a Bag resource for schools has been used by 11,500 learners so far this year, and 25 sites provide a variety of learning trails for a general audience. The 'Friend or Foe' trail launched in National Insect Week in June 2016 proved very popular with visitors of all ages.

In addition to the 'learning trails', we are increasingly including our messages in other areas of the visitor offer. For example, the learning team has worked closely with marketing colleagues to ensure that the highly popular 2016 Stick Man trail and the 2017 Gruffalo Spotter trail included elements of learning as well as being great fun for young children and their families.

Learning downloads are also increasing in popularity. Between April and September 2016, our lesson plans, designed to be used by primary school teachers who bring their classes to the forest for a self-led visit, were downloaded more than 8,000 times, and our early years teacher pack well over 10,000 times. It is impossible to say accurately how many learners have benefited from these resources, but if we assume that the majority were downloaded by teachers, who work with classes of perhaps 25–30 children, then the reach is extensive.

In summer 2016, we started working on a new national learning strategy for Forest Enterprise England. Launched this year, this document explains how we intend to reach more learners by incorporating our messages into different areas of work, for example through activities provided by non-learning permission holders, and through other public-facing programmes, such as arts and volunteering.

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

**Delivered:** We continue to manage a network of community woodland sites to provide green space access around many of England's towns and cities. Our network

of community woodlands continues to evolve as our management agreement with the Land Trust for woodlands in South Yorkshire comes to a planned end and we start new discussions such as those with Manchester's City of Trees. At the end of the year our community woodland assets totalled 3,913 hectares.

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

**Delivered:** Volunteering was also an area of success. Over the past year the total number of participants recorded as having volunteered either directly with Forest Enterprise England or taken part through a permitted or partnership arrangement grew to 9,166. The total number of volunteer hours was 194,263 and using industry standard metrics this equated to £2.0 million of benefit to Forest Enterprise England.

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

**Delivered:** Rural business growth was seen across the estate and is demonstrated in a diverse range of ways including Adventure Forest Limited (Go Ape! and Forest Segways) being awarded Amazon Small Rural Business of the Year 2016 and 72 local businesses now running activities across England.

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

**Delivered:** The range of rural businesses that operate on the Public Forest Estate is significant. These include our major business partners, Forest Holidays, Camping in the Forest and Adventure Forests who have all seen further growth in the year and created significant employment opportunities in the rural environment. Most activity is focussed around our existing visitor facilities but more traditional rural businesses and activities continue to lease property.

Although there has been a reduction in the overall number of businesses active on the estate this year, the businesses that account for the majority of investment and employment on the estate have experienced significant growth, demonstrating the strength of the Public Forest Estate as a place to do business. We are also looking to include a number of the new educational businesses active on the Estate such as Forest Schools which are not currently captured in the data set.

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

**Delivered:** A continuing programme of work across the estate has ensured that the objective for limiting the number of assets recorded as at risk is being met. The extensive works at Penyard Castle for example, has meant that the site is no longer regarded as being at risk.

Working with partners, notably Heritage Lottery Fund and community groups, many projects support understanding and enjoyment of the heritage. 'Breaking New Ground' in Breckland and 'The Foresters Forest' in the Forest of Dean have significant heritage components engaging local volunteers. Heritage assets relating to the First World War provide continuing learning opportunities in Sherwood Forest and elsewhere.

## Other outcomes delivered for people

### Art

In July 2016 Forest Enterprise England signed a new Memorandum of Understanding with Arts Council England. The partnership builds on the success of the first Memorandum of Understanding between the two organisations, signed in

2012, which resulted in the successful 'Forest Art Works' programme. Through this partnership Forest Enterprise England will continue to develop high-quality, ambitious work that breaks new ground for both artists and audiences. Arts interventions in forests create a fresh conversation between artists, the environment and our communities; they can be exciting and surprising, and help people see the world in new ways. The development of a long-term relationship with Arts Council England provides Forest Enterprise England with exciting new opportunities to help people experience this, wherever they live in the country.

The four year agreement was signed at the Forest of Dean Sculpture Trail in Gloucestershire which has been a flagship site for art for 30 years. A programme of work celebrating the 30th anniversary in 2016 saw the most ambitious period of commissioning and programming since the trail's inception. This has helped achieve a 50% increase in visitors to the Sculpture Trail and overall the anniversary programme reached a combined audience of more than two million people.

'In the Eyes of the Animal' by artists Marshmallow Laser Feast, is a virtual reality project which Forest Enterprise England co-commissioned with Abandon Normal Devices. The innovative work, putting people in the eyes of four different species of forest animal, was created and premiered at Grizedale Forest in Cumbria and has since been a global success, selected for the Sundance Film Festival. The work has also toured to Hamsterley Forest, County Durham and around the globe, enabling audiences to experience the forest at events in Spain, Belgium, Japan, South Korea, Singapore, Canada and Mexico as well as across the UK and at the Victoria and Albert Museum and Roundhouse in London. The project won the WIRED Innovation in Experience Design Award and was nominated in the Digital category of the Beazley Designs of the Year 2016 exhibited at the Design Museum.

## Moors Valley

Moors Valley Country Park and Forest is a joint venture between East Dorset District Council and the Forestry Commission and welcomes more than 750,000 visitors per year. The team at Moors Valley are passionate about ensuring they provide countryside recreation of the highest standard for people of all ages and abilities and for people to improve their physical and mental wellbeing in a way that is sensitive to the environment. In recognition of this, Moors Valley Country Park and Forest was awarded two Gold accolades in the Dorset Tourism Awards and followed this up with a further two bronze awards in the South West Regional Tourism Awards.

The Access and Inclusivity award recognises organisations that demonstrate exceptional customer service to all, particularly those with impairments and other access needs, including mobility, auditory, sensory or dietary. The other accolade, the Sustainable Tourism award, which is given to organisations that demonstrate commitment to sustainability and implement clear reduce, reuse and recycle initiatives.

Moors Valley remains at the forefront of organisations providing access to the countryside for people with limited mobility through activities such as free, guided accessible cycle rides and wheelchair-friendly tractor and trailer rides. The team are committed to continuing to embed the principles of access and inclusivity into everything they do.

## Savernake volunteers

Forest Enterprise England has been working with the Richmond Fellowship and other volunteers at Savernake Forest in Wiltshire to help ensure that people can be involved in caring for this local forest. The Richmond Fellowship champions recovery and social inclusion for those with mental health difficulties. This volunteering work has created a feeling of community involvement as participants can see how

Forest Enterprise England is managing the forest, as well as having an opportunity to learn new skills through the training provided.

### **Nature: forests that deliver for nature and the environment**

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

Outcomes relate to outcomes funded through the public expenditure system.

**Outcome 7:** The 67,796 hectares of designated habitats (Sites of Special Scientific Interest (SSSIs)), Special Protection Areas (SPAs) and Special Areas of Conservation (SACs), are managed so that 95% are maintained as being in favourable or recovering condition and 50% are in favourable condition by 2020.

**Delivered:** Of the 67,796 hectares of SSSI under Forest Enterprise England stewardship, 99.5% remains in favourable or favourable recovering condition. At the last assessment 37% was recorded as in favourable condition and this percentage continues to increase with work supported by the Payment for Ecosystems Services contract. Ongoing work and condition reassessment by Natural England support a confident expectation of meeting and exceeding the 50%, by area, of SSSI in favourable condition by 2020.

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

**Delivered:** We continue to pursue our policy of restoration across the 39,337 hectares of PAWs on the Forest Enterprise England estate via the commercial harvesting of planted components at economic maturity and through carefully

planned thinning programmes and where required, enhancement planting with native trees. This year 2,183 hectares was thinned or clear felled in line with this policy.

Reporting on progress has become more complex as change has proceeded with both the resurgence of native and regenerating planted elements, alongside changes in the recording of tree and native woodland composition on the Forest Enterprise England sub-compartment database, the dataset that records the present composition of all forested elements of the estate.

We are moving over to using the condition assessment model for non-designated priority habitats to report on progress on PAWs condition and restoration, and over the past year and in 2016 collated information on the condition of all PAWs (alongside all other areas of propriety habitat).

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

**Delivered:** As with other priority habitats we are transitioning to use the condition assessment model for non-designated priority habitats. This allows us to report accurately on progress on the condition of ASNW. Over the past year we have collated information on the condition of all ASNW sites (alongside all other areas of propriety habitat).

Initial findings covering a large proportion of the total area, but not as yet complete coverage, suggests we may well be challenged by this target with only an estimated 12% currently in favourable condition (with 55% in recovering condition, 13% unfavourable and 1% declining). Continued prioritised effort will have to be placed on this element of the target if we are to achieve the aim of getting 45% in favourable condition by 2020.

Initial examination of the condition assessments suggest the main causes of current poor performance in meeting this target are under-management of native woodlands (as coppice or other forms of traditional management on rides) and the continued impact of deer. Meeting these target conditions continues to be supported by the Payment for Ecosystems Service contract.

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

**Delivered:** New native woodland can be created either from the conversion of existing plantations (on non-ancient woodland areas), or from the afforestation of bare land.

In 2016 virtually no new land was acquired and afforested. The area of land converted to native woodland from existing plantations across the Forest Enterprise England estate in 2016-17 was 323 hectares.

Across the estate the existing agreed Forest Design Plans predict an additional 2,593 hectares will be replanted or naturally regenerated as native woodland by 2020, along with the 576 hectares already brought into existence since 2010. We are confidently on track to achieve the target.

This target received a significant boost in 2016 with the securing of development grant funding from the Heritage Lottery Fund to restore 94 hectares of open moorland, to native upland forest of pine, birch, alder and willow. This project is in partnership with the Northumberland Wildlife Trust and is intended to link up native woodland elements within Kielder Forest with the Wildlife Trust's large reserve at Whiteleys to the north, on the border with Scotland.

**Outcome 11:** The 22,348 hectares of Open Habitat not designated SSSI is managed so that their condition is steadily

improved and 3,800 hectares of additional open habitat is created by 2020.

**Delivered:** We are moving over to using the condition assessment model for non-designated priority habitats to report on progress on the condition of open habitats not designated as SSSI. Over the past year we have collated information on the condition of all such sites. Initial findings covering a large proportion of the total area, but not as yet complete coverage, suggests we may well be challenged by this target. Continued effort will be needed if we are to achieve the aim of getting 45% in favourable condition by 2020.

Nevertheless the programme to improve condition is in place and steadily upgrading sites. The steady progress of sites scheduled for restoration to open habitat within agreed Forest Design Plans now exceeds 50% of the target area of 3,800 hectares. We remain well on track for this aspect of the programme with every expectation of meeting the 2020 target.

**Outcome 12:** The suite of partnership species conservation projects is maintained at the same or similar levels as in 2014-15.

**Delivered:** We continue to engage with a wide range of partners in developing and delivering species conservation projects across the country. Notable in this year's programme have been projects with Butterfly Conservation and Plantlife addressing conservation work for rare and declining plants and Lepidoptera in several locations, notably the Brecks and Savernake Forest, and projects to restore the white faced darter dragonfly to the ponds of Delamere Forest in Cheshire.

Other notable developments in 2016 have been the securing of significant sums to restore water voles to the streams and brooks of Kielder Forest, and the development and start of a project to restore the pine marten to the Forest of Dean (in collaboration with the Vincent Wildlife Trust and the Gloucestershire Wildlife Trust).

This species conservation programme received a significant boost in 2016 with the securing of £125,000 over five years from Forest Holidays to be used as matched funding and direct funding. Projects currently under way include butterfly habitat restoration works in Hampshire, osprey nest platforms in Cornwall and turtle dove habitat management in North Yorkshire, with a project on veteran tree recording being planned.

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

#### **UK Woodland Assurance Standard (UKWAS)**

The 2016 audit against the UKWAS focused on North England Forest District and resulted in the best performance ever for Forest Enterprise England. All five previous Corrective Action Requests (CARs) and 12 observations were closed out. No major CARs were raised and a total of three new minor CARs and eight new observations were picked up during the audit. This is the first time Forest Enterprise England has had 11 or fewer issues to respond to and is testament to the hard work and expertise of the North England Forest District team and their 'demonstrably intelligent forest management'. The low number of issues raised is also due to the contributions made by members of the national team who have undertaken a significant body of work to tackle historic national issues.

The three new minor CARs raised were due to Forest Enterprise England's management of sporting rights on leased land, the process of recording Forest Stewardship Council versus Programme for the Endorsement of Forest Certification sales figures and the identification of a grader operating on the estate without appropriate environmental protection (spill kit). The eight observations were across a range of business areas relating to site specific issues. As ever, a significant number of commendations were received, out-numbering the issues raised. These also covered the breadth of business activities, from North Forest District's support of the Dark Sky Project to the

transition to non-lead ammunition by Forest Enterprise England's wildlife rangers.

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

#### **Marketing**

In 2016-17 Forest Enterprise England continued its partnership with Magic Light, the rights holders for the popular Julia Donaldson books 'The Gruffalo' and 'Stick Man', by creating a new Stick Man activity trail at 25 sites across England. The campaign was targeted at increasing off-peak visitors by using the popular book and brand to connect with pre-school and young families and increase their understanding of the natural forest environment. A wide range of marketing activity has helped to promote the trail across digital channels, advertising, PR, marketing partners and on-site promotion. This has reached more than 70 million people and has seen 78,000 people actively engage with us on social media. Since launch the campaign has attracted 1.1 million visitors to the trails and an 18% increase in visits to participating forest centres. More than 102,000 activity packs have been sold on-site, generating more than £0.3 million of revenue for Forest Enterprise England's leisure business.

Seasonal marketing activity throughout the year has succeeded in bringing more people to England's national forests in 2016-17. A successful 'Colour Me Happy' autumn campaign led to a 20% increase in October visitors compared to 2015-16, with 17 sites hosting themed trails and activities that helped connect people with nature. Marketing activity in 2016-17 also supported Christmas tree sales, launching a '100% Santa Approved trees' campaign with a free sapling promotional giveaway. The campaign helped increase sales by 8% year on year and saw a 39% rise in visitors to Christmas tree sales sites.

#### **Review of timber sales and marketing**

In 2015-16, following a competitive tender process, Forest Enterprise England engaged Poyry Management Consulting to

carry out a review of its timber marketing and sales activity. The main areas of the review, concluded in 2016-17, were as follows:

- benchmarking Forest Enterprise England's timber sales performance over the last ten years
- identifying the strengths, weaknesses, opportunities and threats of Forest Enterprise England's timber sales activity
- analysing alternative approaches to marketing timber products, drawing on private sector and international practice
- recommending options for developing Forest Enterprise England's timber marketing strategy, practices, structure and capability

Overall, the review confirmed that Forest Enterprise England's sales and marketing activity is performing in line with its international peers. It also found that opportunities exist for continued marginal improvements. Also, while the small team that delivers on sales and marketing is considered likely to be able to cope in the future, efforts should be made to increase team resilience.

The reviews findings were accepted by the Executive Team and a programme of internal and external work started in the areas most likely to bring benefits. The consultants were asked to give further, more specific guidance in three areas: training, long-term contract price indexing and integrated management systems. Poyry delivered a report at the end of March 2017 on training and indexing which is being considered by the sales and marketing team. The latter was the subject of a peer group visit to counterparts in Eire with further scoping work to follow.

### **Capital investment – fleet**

The capital investment for replacement of vehicles, machinery and equipment (VME) this year has enabled Forest Enterprise England to replace more than 80 vehicles, including specialist conversions such as wildlife management vehicles. A harvester

and forwarder have also been replaced, together with 12 tractors and other machines and equipment required to meet the business requirements of forest district and nurseries.

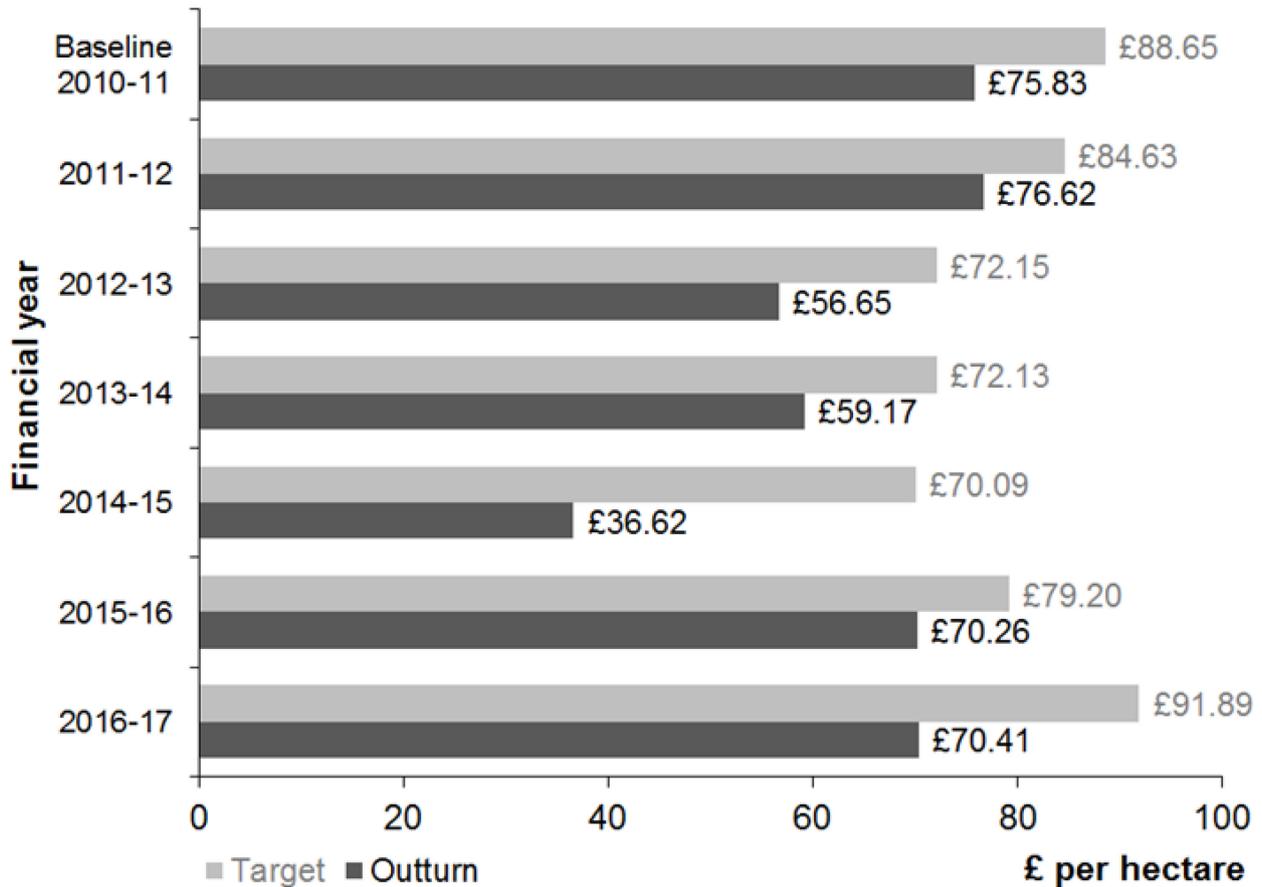
Financial benefits include fuel savings and reduced repair and asset finance costs, and other benefits include improved emissions, safety advancements, and improved ergonomics.

**Key performance indicators 2016-17**

The current key performance indicators (KPIs) for Forest Enterprise include the two headline indicators set out in Forestry Commission England’s Corporate Plan

2016-17, for which reports are shown below. Reports on these headline indicators are published quarterly in our Headline Performance Updates, and reports on our other indicators are published annually in our Corporate Plan Performance Indicators Report.

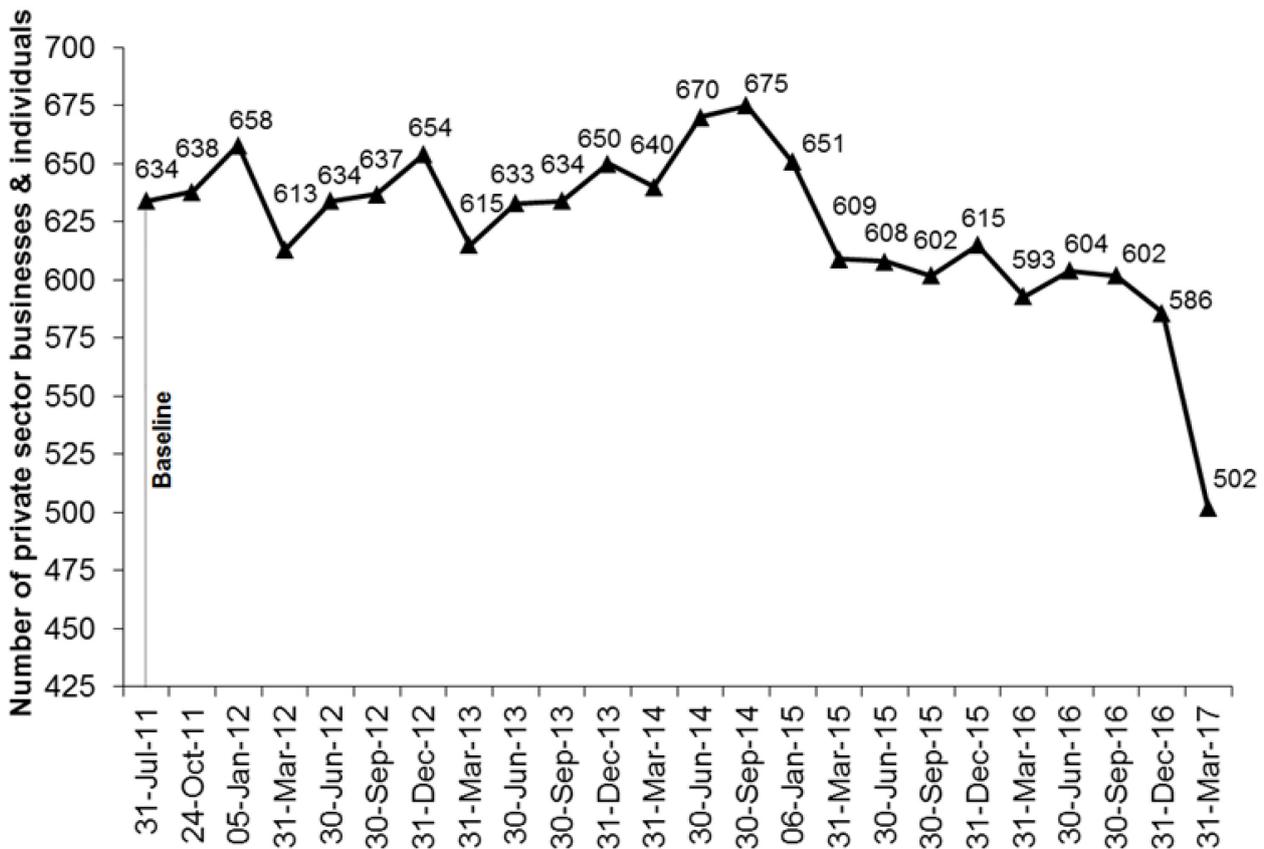
**KPI 1: cost of managing the Public Forest Estate**



The outturn for 2016-17 was £70.41 per hectare, against a target of £91.89 per hectare. Operating revenues have increased since last year and are higher than plan for 2016-17, with very strong growth in the recreation business. The growth in revenue has exceeded the

planned cost increases for 2016-17 meaning the outturn is comfortably below the target for 2016-17. The increase in net cost compared to last year reflects the transfer of back office functions from Forestry Commission England to Forest Enterprise England.

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



As at 31 March 2017, there were 502 private businesses and individuals operating on the Public Forest Estate, which shows an anomalous one-off reduction not consistent with the previous data pattern. Further investigation has identified that a number of contracts were in the process of renewal and therefore not recorded in the indicator. This has been confirmed by a re-collection of the data in the middle of April 2017 showing in net terms 124 more active contracts with external businesses. Therefore the underlying position is actually positive compared to the indicator report for the last quarter, with continuing strong growth in the core commercial partners of Adventure Forests, Forest Holidays and Camping in the Forest. In addition we identified over 50 education providers, including Forest Schools across England, who are using the Public Forest Estate following a successful drive by the

Education teams to promote the estate to external operators. These businesses are not currently included in the indicator due to the nature of their contracts, however in 2017-18 we plan to review the definition of the indicator to include these important business partners.

## Issues and risks

### Non-forestry development projects

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

### Tax

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

### Business continuity and cyber security

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

### Long-term trends

Operating surplus/(deficit)

Add back impact of valuations:

Loss/(gain) on biological assets

Value of felled timber

Deficit excluding valuation movements

Funding

Surplus/(deficit) after funding

## EU exit

On 29 March 2017, the UK Government submitted its notification to leave the EU in accordance with Article 50. The triggering of Article 50 starts a two-year negotiation process between the UK and the EU. Any subsequent changes in legislation, regulation and funding arrangements are subject to the outcome of the negotiations. During this two year period, which includes the full duration of the next accounting period, the UK remains a full member of the EU with all the rights and obligations arising from membership. There are no significant impacts on the financial statements in the short term from making the formal notification.

## Operating performance

### Long-term trends

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

	2016-17	2015-16	2014-15
	£m	£m	£m
Operating surplus/(deficit)	(16.0)	(24.4)	(5.3)
Add back impact of valuations:			
Loss/(gain) on biological assets	(23.8)	(13.4)	(24.2)
Value of felled timber	21.9	20.0	20.1
Deficit excluding valuation movements	(17.9)	(17.8)	(9.4)
Funding	28.0	20.5	8.8
Surplus/(deficit) after funding	10.1	2.7	(0.6)

The 'deficit excluding valuation movement' is used by the Forestry Commission in the net cost per hectare target measure, a key performance indicator for the Public Forest Estate. Net cost performance for 2016-17 was:

	Actual	Target	Variance
Net cost before funding	(£17.9m)	(£23.3m)	£5.4m favourable below target.

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

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

As reported in 2015-16, to accommodate the costs of services provided from Forestry Commission England to Forest Enterprise England the target net cost was raised from £20.1 million in 2015-16 to £23.3 million in 2016-17.

Relative to the previous year our external income was similar at £73.8 million (2015-16: £67.1 million) while total cost was, as planned, also higher at £91.6 million (2015-16: £84.9 million).

Income less total costs gives a net cost of £17.9 million (2015-16: £17.8 million).

The difference between the actual net cost and plan delivery is £5.4 million favourable. The improvement was driven by strong sales in timber and recreation.

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

## Capital

For 2016-17, the Management Board approved a capital expenditure programme of £9.7 million, with an additional £5.2 million allocated for land acquisition. The land acquisition was not completed during the year, but £7.2 million of other capital additions and improvements were delivered.

Major capital schemes completed or progressed during the course of the year were:

- the second phase of recreation facility developments at the Alice Holt site
- a new operations site within Alice Holt
- new infrastructure and facilities, including a new glasshouse, for the nursery at Delamere
- improvements to the visitor services infrastructure at Sherwood Pines
- refreshing and improving our fleet of vehicles, including timber harvesting machines

Any outstanding capital commitments as at 31 March 2017 are reported within note 13.

## Sustainability

### Introduction

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

The environmental impacts of the organisation's forest management support activities are managed through our Environmental Management System (EMS) which is designed to deliver our environmental policy, with performance improvement targets for reducing fossil fuel-based energy and reducing waste and our use of water. Our EMS meets the requirements of the internationally recognised standard for EMS, BS EN ISO 14001 2004. The EMS is independently assessed for certification by accredited 14001 assessors.

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

### Summary of performance

#### Overview

A number of on-going initiatives on the estate have continued to contribute

towards our environmental performance and policy aims during the year ensuring that the EMS adds value to the organisation. These are:

- continuing certification to BS EN ISO 14001-2004 for all of England's built estate
- mapping the operational guidance relevant to the estate to the ISO standard
- planning an energy strategy to meet the on-going energy needs of the business. Three energy audits have been carried out in three districts to determine user profiles and risks and opportunities for improvement
- looking at options for reducing water use across the estate and automating data capture
- more effectively monitoring assets such as septic tanks and soak-aways through the resumption system, to ensure legal compliance and reduce staff time in waste water management
- improving F-Gas monitoring through better asset management and recording, ensuring legal compliance and the capture of required data for reporting
- investigating switching to CO<sub>2</sub>-based refrigerant systems to determine possible savings on on-going replacement and monitoring costs
- advanced metering systems are being installed on more sites to further reduce staff time in collecting data

Performance measure		2013-14	2014-15	2015-16	2016-17
Business travel	Total miles	5,878,889	5,839,706	6,105,016	6,209,178
	tonnes CO <sub>2</sub> e↑	1,620	1,566	1,560	1,477
	Expenditure (£000)	2,933	2,947	3,126	2,925
Electricity, gas and other heating fuels	Consumption (KwH)	5,819,423	4,103,267	5,110,859	9,754,575
	Expenditure (£000)	370	305	369	469
	tonnes CO <sub>2</sub> e↑	1,493	1,401	1,093	1,582
	% Renewable	48	31	51	60
Total energy (Scopes 1, 2 and 3) estate and travel	tonnes CO <sub>2</sub> e↑	3,095	3,946	2,653	3,059
	Expenditure (£000)	3,304	3,493	3,494	3,394
F-Gas – CO <sub>2</sub> (e) Δ	(Kg)	25	16	21.2	26
Fugitive emissions F-Gases (GWP)	CO <sub>2</sub> e↑ (T)(GWP)	52.2	62.7	72	80
Refrigerants maintenance	Expenditure (£000)	20	20	22	20
Sewerage/waste water	Expenditure (£000)	55	73	174	99
Estate and office waste	Amount (Tonnes/m <sup>3</sup> )	2,401	2,152	2,566	1,819
	Expenditure (£000)	102	183	161	158
Estate and office water	Quantity (m <sup>3</sup> )	35,896	65,771	49,407	171
	Expenditure (£000)	57	46	49	77

## Summary of future strategy

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

During 2016-17 our main priorities have been:

- processing and improving collected data, providing managers with information to plan business performance improvement
- providing system support to local managers
- reviewing and improving the management system so that it adds value to the operational objectives reviewing the effectiveness of our operational guidance booklet that outlines our EMS
- scoping improvement programmes and recording projects for future funding and implementation, for example we are looking at conversion to LED lighting
- reviewing energy needs and options for further improvements through

renewables across the estate including generation, storage and smart distribution opportunities working with others

- reviewing fossil fuel types used to see if further alternatives for renewable energy options are feasible in light of projected future energy cost increases
- reviewing refrigerants used in cold stores and deer larders along with air-conditioning to plan phased replacement F-gas requirements and
- exploring the feasibility of transitioning to a low carbon (or electric/fuel cell) vehicle fleet over the next 20 years, as the technology and infrastructure develops and improves

## Greenhouse gas emissions

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

CO<sub>2</sub> emissions from business travel are managed through ongoing support for use of remote working arrangements, the provision of audio-conferencing facilities to reduce the need to travel for meetings and the procurement of low emission vehicles for which there are also tax incentives. A few electric vehicles are being trialled to determine their possible current use and future potential as the technology and infrastructure advances over the next few years to address range anxiety and better battery life. Plug-in points are being investigated.

A fugitive emission figure from equipment that contains harmful refrigerant gases (HFCs/CFCs) was included in the report to Defra at their request to provide a 2012 baseline figure (Scope One emissions). Emissions from the maintenance of cold stores, deer larders and fridges as well as the maintenance of air-conditioning units in vehicles and buildings are reported. The phase-out of different gases over the next ten years which started with R22 gas will

mean that the gases used in this equipment will have to be changed as the different types of refrigerant gas are no longer allowed under international agreements. The move to CO<sub>2</sub> refrigerant equipment is being monitored as options to change become available that meet our business needs. R404 gas is the next gas with restrictions on on-going use at certain thresholds. Forest Enterprise England use this gas in many appliances and an assessment will be made to determine actions over the coming year.

## **Waste**

Significant reductions in operational waste to landfill have already been achieved across most of the estate and all locations have recycling in place. A number of material storage facilities have been modernised over the past three years to meet legal waste storage and segregation requirements.

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

Fly-tipping continues to be a challenge and significant dumping occurred in 2016-17, totalling 145 tonnes.

Treated (painted/coated) timber is hazardous waste. The number of waste service suppliers appropriately licensed to receive this waste stream has reduced from 3 to 2 since the last report. Some sites still don't have a local waste service supplier able to accept treated timber. Most Forest Enterprise England timber is categorised as non-hazardous due to the treatments we specify for our timber products.

Sewage and waste water is a significant product from our activities at visitor centres and discharge consents are now being monitored and recorded to ensure legal compliance across the estate. A number of systems have struggled to remain in compliance as visitor numbers

have increased over the last two to three years. There may be scope to send this waste to local anaerobic digesters rather than paying to have the separated fraction tinkered away from visitor sites.

## **Water use**

Use of reed bed systems is being considered at a number of sites; a new one at Dalby was installed this year. This allows activities such as bike washing to use alternative water sources. The use of rain water harvesting and reed beds will significantly reduce the cost of disposal of waste water.

## **Use of resources (water and timber)**

The uses of natural resources for Forest Enterprise England activity are being monitored. Water use and sustainable timber procurement are recorded and reported on as required.

Our water use baseline was established with Defra in 2012-13. Most paid-for mains water use is being monitored through manually read meters and invoice payments. Local initiatives, such as rainwater harvesting and micro-irrigation at nurseries, are being explored. Nurseries are looking at their long-term water needs in the same way as other similar plant suppliers; ensuring capacity for dealing with possible drought conditions is managed.

All timber used by Forest Enterprise England must be recorded as certified as coming from legal and sustainable sources, including all construction projects and temporary works. Forest Enterprise England is supporting 'Grown in Britain' in their efforts to promote sustainable UK timber. All treated timber used within Forest Enterprise England is specified with non-hazardous treatment substances and processes, with the aim of reducing the cost of disposal of this waste stream at end

of life, subject to future changes of current regulations.

### **Climate change adaptation and mitigation**

Progress in achieving the outcomes of the Climate Change Action Plan for the Public Forest Estate 2011 (CCAP) was evaluated in 2016-17. The CCAP has been revised, and we are seeking to build on the progress made. The risks to be addressed cover the breadth of activities undertaken on the Public Forest Estate from those affecting forest resilience to the Public Forest Estate's role in sequestering carbon and the opportunities to reduce emissions in the functioning of the business. Carbon sequestration associated with the Public Forest Estate is also assessed in our Corporate Natural Capital Accounts.

### **Sustainable procurement including food**

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

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

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

### **Sustainable construction**

Whilst achieving BREEAM compliance is current government policy, achieving even bespoke BREEAM compliance in a rural setting is challenging for us.

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

### **Environmental management system**

As part of business management, Forest Enterprise England operates an integrated environmental management system (EMS) which is independently certified to BS EN ISO 14001-2004, the internationally recognised standard for EMS. Our management system has already provided cost savings as well as environmental benefits in terms of improved management procedures, changed behaviours and improved awareness of environmental impacts and legal compliance with regards to waste, procurement and emissions.

The implementation of the EMS has established baseline data against fossil fuel-derived energy, travel CO<sub>2</sub>, water use and waste reduction and includes sustainable procurement requirements as part of the improvement targets following the government buying standards. The maintenance of certification represents a significant commitment on the part of staff and the investment in time and effort represents a cultural shift and change to the way we work, maintaining strong public support by demonstrating our care of the environment across all our activities.

The focus for this year is to make sustainable business 'business as usual' driving further performance improvement in the face of expected rapidly rising energy and fuel costs over the coming years.

The most recent round of internal environmental audits confirms that conformance and policy delivery are increasingly embedded in the normal

business planning process and not seen as a separate consideration in decision taking.

### **Governance**

During 2016-17 business sustainability has been fully devolved from Forestry Commission Central Services to Forest Enterprise England with a support service provided to Forestry Commission England/Central Services.

Senior management have endorsed the on-going EMS to transition to the new version of the ISO 14001.

Simon Hodgson  
6 July 2017  
Accounting Officer

## Parliamentary accountability report

### Corporate governance report

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

### Directors' report

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

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

Membership of the Strategy Board is:

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

The notes on pages 45 to 72 form part of these accounts.

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

### Significant interests held by board members

Details of company directorships and other significant interests held by board members are included within the register of interests maintained by the Forestry Commission and published on the Forestry Commission website ([www.forestry.gov.uk](http://www.forestry.gov.uk)). Related party transactions are separately disclosed within note 18.

### Personal data related incidents

There were no protected personal data related incidents reported for Forest Enterprise England in 2016-17 or previous financial years. Forest Enterprise England will continue to monitor and assess its information risks to identify and address any weaknesses and ensure continued improvement of its systems. Further information on the handling of information risk is contained in the Governance Statement.

### Supplier payment policy

Forest Enterprise England complies with the government's Better Payment Practice Code. Unless otherwise stated in the contract or by special arrangement with individual suppliers, we aim to pay within ten days from the receipt of goods and services or the presentation of a valid invoice, whichever is the later. A sample analysis for 2016-17 indicates that 98.1% (2015-16: 97.6%) of invoices were paid within the due date. Arrangements for handling complaints on payment performance are notified to suppliers on contract.

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

## Auditors

These accounts are audited by the Comptroller and Auditor General. The audit fee was £91,000 (2015-16: £96,000). No fees were charged for other services (2015-16: nil).

## Statement of Accounting Officer's responsibilities

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

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

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

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

The Agency Accounting Officer is responsible for and confirms that the

annual report and accounts as a whole is fair, balanced and understandable.

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

## Governance statement

### The purpose of the governance framework

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

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Forest Enterprise England's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Forest Enterprise England for the year ended 31 March 2017 and up to the date of approval of the annual report and accounts, and accords with HM Treasury and Forestry Commission guidance.

### The governance framework

The Forestry Act 1967 (as amended) and the Forestry Act 1979 set out the principal

The notes on pages 45 to 72 form part of these accounts.

legislative framework within which the Forestry Commission operates. The Forestry Commissioners are established by statute and derive their powers primarily from the Forestry Acts but also from other legislation such as the Environmental Impact Assessment (Forestry) (England and Wales) Regulations 1999. Under the Plant Health Act 1967, the Commissioners are the competent authority for the protection of forest trees and timber from attack by pests and diseases.

The Forestry Commission is a non-ministerial government department and has a Royal Charter, dated 25 March 1920. It is headed by a Board of Commissioners.

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

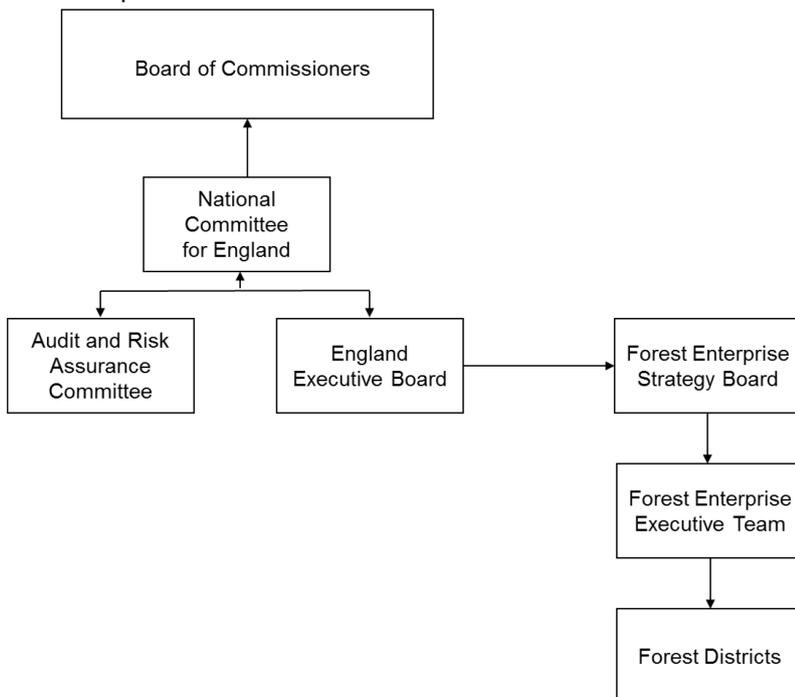
Under section 2(3) of the Forestry Act 1967, the Commissioners have delegated their responsibilities to the National

Committees in each country. National Committees are comprised of non-executive and executive members and they oversee the work of each country, making decisions about country forestry strategies and policies.

**Governance arrangements**

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

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



The notes on pages 45 to 72 form part of these accounts.

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

- health and safety
- governance and management arrangements
- strategic plans
- organisational transitions
- management information
- staff surveys
- business investment programmes
- business performance reports

At each meeting, the board also discussed the chair's report, and finance and risk management reports. They also reviewed reports on forestry and land management, recreation and estates.

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

### **Audit and Risk Assurance Committee**

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

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

The committee met four times during the year and discussed a wide range of issues

related to Forest Enterprise England including:

- risk management
- Annual Report and Accounts 2015-16
- external and internal audit strategy and reports
- information security
- governance statement
- review of committee's structure and effectiveness
- tax compliance and audits
- timber security
- information services
- payroll

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

### **Review of effectiveness**

The Agency Accounting Officer has responsibility for conducting, at least annually, a review of the effectiveness of the governance framework. The review is informed by the work of internal audit and the executive managers across Forest Enterprise England who have responsibility for the development and maintenance of the governance and control framework, and comments made by the external auditors in their management letter and other reports.

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

The Head of Internal Audit has prepared an annual report and assurance statement which includes an overall assessment of the adequacy and effectiveness of risk management, control and governance within Forest Enterprise England.

The overall opinion is that internal control within Forest Enterprise England continues to provide moderate assurance. Some

The notes on pages 45 to 72 form part of these accounts.

improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control. Plans to address weaknesses and ensure continuous improvement of the system are in place.

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

The ARAC reviews its own effectiveness in line with best practice as set out in HM Treasury's Audit Committee Handbook. Work to date has not identified any control weaknesses and has supported findings from financial control visits and the work of internal and external auditors.

### **Corporate Governance Code**

Forest Enterprise England fully complies with the Corporate Governance Code where relevant and applicable.

### **Risk management**

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

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

- integrate and embed risk management into the culture of Forest Enterprise England
- eliminate or reduce risks to an acceptable level

- anticipate and respond to changing social, environmental and legislative requirements
- prevent injury and damage and reduce the cost of risk
- raise awareness of the need for risk management
- ensure that business continuity plans are in place and are effective

Forest Enterprise England has identified the following principal areas of risk in achieving its aims and objectives:

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

*Reputational* – this relates to exposure to events which might undermine the level of confidence, held by organisations and the general public, in government ministers and the Forestry Commission and Forest Enterprise England and the consequences on effective delivery and relationships that might result from a loss of confidence.

*Environmental* – this relates to the exposure of the forest estate to climatic and ecological events. This includes implications for the targets of maintaining and enhancing the biodiversity, cultural value and landscape character of the estate, making a positive contribution to the environment, effective protection of the environment and prudent use of natural resources.

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

By adopting its Risk Management Policy, Forest Enterprise England recognises risk management as an important function in

The notes on pages 45 to 72 form part of these accounts.

helping to ensure it achieves its aims and objectives.

## Information risk management

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

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

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

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

No lapses of data security were reported during 2016-17.

## Significant risks

### Non-forestry development projects

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

the assurance that they will be acceptable to government, and to be able to sustain the confidence of the Forestry Commission, business partners and stakeholders.

Forest Enterprise England has endeavoured to maintain a range of development prospects during a period of major uncertainty, but their further progression will need careful management and consultation.

## Information Communication Technology (ICT) infrastructure

The ICT infrastructure modernisation programme continues with further migration of important business applications to the new platform. This programme continues to make positive inroads into the business risk posed by ICT infrastructure failure. Disaster recovery facilities are now operational and have the capacity to restore major corporate systems within five working days. Risks arising from the increased level of national and international cyber-attacks are being addressed by keeping our systems up to date and applying software patches promptly. Whilst some risk to the business still remains as disaster recovery work continues, and because the facilities have not been fully tested, the overall risk position has substantially improved.

## Tax

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

The notes on pages 45 to 72 form part of these accounts.

## Whistleblowing

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

Director Central Services of Forestry Commission has overall responsibility for whistleblowing policy and practice and works with the Chief Executive to ensure its effectiveness. Throughout the year cases were managed centrally by the Head of Internal Audit. In April 2017, Internal Audit was devolved to the countries. Mechanisms have been established through our policy whereby all cases for England are now managed through our nominated officer. All cases are investigated thoroughly ensuring that any lessons learnt and recommendations are embedded into how we operate as an organisation. During October 2016, as part of the Civil Service Whistleblowing Awareness Week, we reinforced the importance of whistleblowing through a communication which reminded staff what whistleblowing is, why it is important and what we should do if we think something is not right. The whistleblowing policy is reviewed regularly and was last updated in May 2015 to take account of the changes made by the Civil Service Employee Policy to reflect the Public Accounts Committee recommendations.

## Remuneration and staff report

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

### Remuneration report

#### Employment contracts

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

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

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

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

Details of letters of appointment for the non-executives who do not have open-

The notes on pages 45 to 72 form part of these accounts.

ended appointments who served during the year are:

	Date of current contract	Unexpired term (months*)
Sir Harry Studholme	10/02/2017	34
Julia Grant	01/11/2016	31
Mark Pountain	04/02/2015	10

\*months remaining from 31 March 2017.

### Remuneration policy

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

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

- Guidelines circulated by the Cabinet Office implementing government decisions on the recommendations of the Senior Salaries Review Body (SSRB). The SSRB is responsible for monitoring the operation of the Senior Civil Service pay system and for making

recommendations to the Government on the shape of the system, including the salary values for the minimum and maximum of each of the senior pay bands, the range of percentage increases to base salary and range of bonuses. Further information on the work of the SSRB can be found at [www.ome.uk.com](http://www.ome.uk.com).

- Reporting Officers' recommendations on the relative performance of each of their senior staff, whether a bonus should be paid, and if so, whether low or high. The Senior Pay Committee considers the recommendations, determines the allocation of senior staff to tranches, and decides the percentage increase to salary and any bonus to be awarded.

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

### Remuneration (salary, benefits in kind and pensions)

(subject to audit)

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

The notes on pages 45 to 72 form part of these accounts.

		Single total figure of remuneration				
		Salary	Bonus payments	Benefits in kind (to nearest £100)	Pension Benefits	Total
		£000	£000	£	£000	£000
<b>Simon Hodgson</b>	<b>2016-17</b>	80-85	5-10	4,000	17	110-115
Chief Executive	2015-16	80-85	-	1,700	(1)	80-85
<b>Mike Seddon</b>	<b>2016-17</b>	70-75	-	-	29	100-105
Director of Operations	2015-16	70-75	-	-	54	125-130
<b>Jo Ridgway</b>	<b>2016-17</b>	65-70	-	-	26	90-95
Head of Human Resources	2015-16	15-20 <sup>1</sup>	-	-	6	20-25
<b>Paddy Harrop</b>	<b>2016-17</b>	65-70	-	-	23	85-90
Head of Marketing	2015-16	65-70	-	-	48	110-115
<b>David Hodson</b>	<b>2016-17</b>	60-65	-	-	24	85-90
Head of Finance & Business Support	2015-16	60-65	-	-	24	85-90
<b>Mark Street</b>	<b>2016-17</b>	60-65	-	3,400	23	85-90
Head of Estates	2015-16	60-65	-	2,000	34 <sup>4</sup>	95-100
<b>Rachael Edwards</b>	<b>2016-17</b>	45-50 <sup>2</sup>	-	-	46	90-95
Acting Head of Strategy and Insight	2015-16	-	-	-	-	-
<b>PK Khaira-Creswell</b>	<b>2016-17</b>	45-50	-	-	20	65-70
Head of Corporate Affairs	2015-16	-	-	-	-	-
<b>Miranda Winram</b>	<b>2016-17</b>	25-30 <sup>3</sup>	-	-	20	45-50
Head of Strategy and Insight	2015-16	55-60	-	-	41 <sup>4</sup>	95-100

1. Figure quoted is for the period 4 January 2016 to 31 March 2016. The full year equivalent is 65-70.
2. Figure quoted is for the period 6 April 2016 to 31 March 2017 while covering a period of maternity leave. The full year equivalent is 45-50.
3. Figure quoted is for the full year. A period of maternity leave ended 28 February 2017. The full-year equivalent is 50-55.
4. Figure quoted has been recalculated as incorrect figures were used to calculate the added pension in 2015-16.

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

## Salary

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

## Benefits in kind

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

## Bonuses

Bonuses are based on performance levels attained and are made as part of the

The notes on pages 45 to 72 form part of these accounts.

appraisal process. Bonuses relate to the performance in the year prior to that in which they become payable to the individual. The bonuses reported in 2016-17 relate to performance in 2015-16 and the comparative bonuses reported for 2015-16 relate to performance in 2014-15.

## Pension benefits

(subject to audit)

	<b>Accrued pension at pension age at 31 March 2016 and related lump sum</b>	<b>Real increase/ (decrease) in pension and related lump sum at pension age</b>	<b>CETV at 31 March 2017</b>	<b>CETV at 31 March 2016</b>	<b>Real increase/ (decrease) in CETV</b>	<b>Employer contribution to partnership pension account</b>
	£000	£000	£000	£000	£000	to nearest £100
Simon Hodgson	25-30 plus a lump sum of 75-80	0-2.5 plus a lump sum of 2.5-5	665	635	18	-
Mike Seddon	25-30 plus a lump sum of 70-75	0-2.5 plus a lump sum of 0-2.5	464	427	13	-
Jo Ridgway	0-5	0-2.5	23	4	13	-
Paddy Harrop	20-25 plus a lump sum of 55-60	0-2.5 plus a lump sum of 0	361	335	10	-
David Hodson	5-10	0-2.5	118	98	13	-
Mark Street	15-20 plus a lump sum of 40-45	0-2.5 plus a lump sum of 0	267	244	9	-
Rachael Edwards	5-10	0-2.5	91	65	20	-
PK Khaira-Creswell	5-10 plus a lump sum of 20-25	0-2.5 plus a lump sum of 0-2.5	124	110	7	-
Miranda Winram	15-20	0-2.5	184	165*	5	-

\* Prior year results have been recalculated as incorrect factors were used for *nuvos* and *alpha* added pension.

## Civil service pensions

Pension benefits are provided through the civil service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or **alpha**, which provides benefits on a career average basis with a normal pension age equal to the member's state pension age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined **alpha**. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: three providing benefits on a final salary basis (**classic**, **premium** or **classic plus**) with a normal pension age of 60; and one

providing benefits on a whole career basis (**nuvos**) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus**, **nuvos** and **alpha** are increased annually in line with pensions increase legislation. Existing members of the PCSPS who were within ten years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between ten years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into **alpha** sometime between 1 June 2015 and 1 February 2022. All members who switch to **alpha** have their PCSPS benefits 'banked', with those with earlier benefits in

The notes on pages 45 to 72 form part of these accounts.

one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave **alpha**. (The pension figures quoted for officials show pension earned in PCSPS or **alpha** – as appropriate. Where the member has benefits in both the PCSPS and **alpha** the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are salary-related and range between 3% and 8.05% of pensionable earnings for members of **classic** (and members of **alpha** who were members of **classic** immediately before joining **alpha**) and between 4.6% and 8.05% for members of **premium, classic plus, nuvos** and all other members of **alpha**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in **alpha** build up in a similar way to **nuvos**, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic, premium** and **classic plus**, 65 for members of **nuvos**, and the higher of 65 or State Pension Age for members of **alpha**. (The pension figures quoted for board members show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at the website [www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.uk).

### Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and

The notes on pages 45 to 72 form part of these accounts.

chooses to transfer the benefits accrued in their former scheme.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

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

### Real increase in CETV

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

### Remuneration of non-executives

(subject to audit)

The non-executive members of the Forest Enterprise England Strategy Board received the following remuneration for their services during the year ended 31 March 2017. As both individuals are members of the National Committee for England this is also borne and disclosed in the Annual Report and Accounts of Forestry Commission England/Central Services.

	2016-17		2015-16	
	Fees £000	Expenses £000	Fees £000	Expenses £000
Sir Harry Studholme	27	5	24	6
Julia Grant	5	1	-	-
Mark Pountain	5	1	5	1

### Fair pay disclosure

(subject to audit)

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

The banded remuneration of the highest-paid director of Forest Enterprise England in the financial year 2016-17 was £90,000-£95,000 (2015-16: £80,000-£85,000). This was 3.63 times (2015-16: 3.29) the median remuneration of the workforce, which was £25,460 (2015-16: £25,059).

In 2016-17, no (2015-16: nil) employees received remuneration in excess of the highest-paid director. Remuneration ranged from £17,000 to £91,000 (2015-16: £17,000 to £84,000).

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

The notes on pages 45 to 72 form part of these accounts.

## Staff report

### Average number of persons employed

(subject to audit)

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

	Permanently employed staff	Others	2016-17 Total	2015-16 Total
	Number	Number	Number	Number
Directly employed	780	98	878	838
Other	-	60	60	54
Total	780	158	938	892

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

	Directors and senior civil servants	Permanently employed staff	Others	2016-17 Total	2015-16 Total
	Number	Number	Number	Number	Number
Male	2	528	86	616	621
Female	-	250	72	322	271
Total	2	778	158	938	892

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

The notes on pages 45 to 72 form part of these accounts.

**Staff costs**

(subject to audit)

	Permanently employed staff	Others	2016-17 Total	2015-16 Total
	£000	£000	£000	£000
Salaries	24,212	-	24,212	22,757
Social security costs	2,347	-	2,347	1,575
Other pension costs	4,623	-	4,623	4,550
Agency/temporary staff	-	1,566	1,566	1,074
<b>Total</b>	<b>31,182</b>	<b>1,566</b>	<b>32,748</b>	<b>29,956</b>

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS) – known as **alpha** are unfunded multi-employer defined benefit schemes but Forest Enterprise England is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the PCSPS as at 31 March 2012. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2016-17, employers' contributions of £4,778,000 were payable to the PCSPS (2015-16: £4,417,000) at one of four rates in the range 20.0% to 24.5% of pensionable earnings, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2016-17 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a **partnership** pension account, a stakeholder pension with an employer contribution. Employers' contributions of £66,000 (2015-16: £60,000) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer

contributions are age-related and ranged from 8% to 14.75% of pensionable earnings (2015-16: 3% to 12.5% to 30 September 2015 and 8% to 14.75% from 1 October 2015). Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £2,200, 0.5% of pensionable pay (2015-16: £2,300 0.8% to 30 September 2015 and 0.5% from 1 October 2015), were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

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

**Ill-health retirement**

Two people (2015-16: three) retired early on ill health grounds; the total additional accrued pension liabilities in the year amounted to £11,200 (2015-16: £6,000).

The notes on pages 45 to 72 form part of these accounts.

**Sickness absence data**

Year	Working days lost per staff year	
	Forestry Commission Number	Forest Enterprise England Number
2016-17	10.1	11.1
2015-16	10.5	7.4
2014-15	6.9	6.1

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

**Accidents**

The following figures set out the incidence of reportable accidents (those causing incapacity for more than seven days) in 2016-17 and the preceding years.

RIDDOR accidents per 100 employees	
Year	Number
2016-17	0.85
2015-16	0.44
2014-15 (restated)	0.80

There was one case of Lyme disease reported in 2016-17 and one reportable incidence of hand arm vibration syndrome. There were no major injuries. We continue to monitor our health and safety performance and strive to make our woodlands and workplaces safer places.

**Staff policies**

**Leadership**

Forest Enterprise England is a changing organisation that intends to improve upon its already exemplary record as guardians of the Public Forest Estate. It intends to be more commercial, more independent, setting its own direction and offering a wider choice to its stakeholders, partners and public. To achieve that, Forest Enterprise England has decided to invest in its workforce, helping them to be the very best and to model, consistently, the finest behaviours.

During 2015, it was agreed that a leadership model would be commissioned with a partner organisation (Cambridge Strategy Centre) for the delivery of a set of skills and behaviours that would support Forest Enterprise England. The model was built between January 2016 and May 2016 with the input of circa 30 senior leaders from across the organisation. Three workshops were held and final approval to the design was given by the Executive Team on 13 June 2016. As part of the last workshop, attendees were asked to rate themselves against each of the behaviours contained within the three main areas of the model, People, Impact and Drive.

Since October 2016 the Executive Team has been working with Civil Service Learning and KPMG on the development of modules for the programme and the roll out strategy for spring 2017.

**Diversity, inclusion and wellbeing**

Forest Enterprise England continues to strive towards having a diverse and inclusive environment for all staff and visitors to our sites.

During 2016-17, progress has been made on wellbeing and mental health. A wellbeing strategy has been positively received and signed off by our Executive Team. A mental health session for senior leaders has been run by Business in the

The notes on pages 45 to 72 form part of these accounts.

Community to ensure that all executive and senior leaders have the foundation knowledge in a range of mental health conditions and know how to reduce the associated stigma. The next stage is getting mental health first aiders trained across England who will be equipped to have effective conversations around mental health and can signpost people to available resources.

It is important that our employees feel part of our strategies and direction. This is why we will be involving them in revising our diversity and inclusion strategy. In 2017 we are running a number of inclusion focus groups across England to understand what our employees want to see from this strategy and get their views on how we can make the organisation even more inclusive.

At the end of January 2017, Forest Enterprise England published its equality monitoring report which reports on the year to 31 March 2016. This report highlights the progress being made in areas such as the diversity of our workforce, our recruitment processes and training. It also emphasises that there is a lot more work to be done. It highlights a number of positive case studies, including Moors Valley Country Park and Forest which won a Gold Access and Inclusivity Award at the Dorset Tourism Awards. The full report can be accessed on our website.

### **Apprenticeships**

Forest Enterprise England continued its apprenticeship programme, with eight new forest craftperson apprentice appointments in Central, East and North forest districts. Forest craftpersons are an essential and cost effective way of undertaking a wide range of operations on the estate, due to their high levels of training and ability to work independently. Their work includes income - generating work, essential estate management and health and safety operations.

Over the two year training programme, the apprentices undertake a number of these duties, learning in both a formal training

environment and by working under the supervision of experienced Forest Enterprise England staff. The main aim is for the apprentices to fill forest craftperson roles at the end of their training. The programme complements the graduate development scheme and trainee forester programme, providing well trained staff for Forest Enterprise England and potentially the wider forestry sector.

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

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

Within our Equality and Diversity Objectives 2016-20 we intend to improve our understanding of our volunteers work on the Public Forest Estate and whether this reflects local community diversity.

'People Matters – Disability and Reasonable Adjustments' provides information and guidance to managers on disability and how to identify and implement reasonable adjustments. Forest Enterprise England will attempt to make the recommended reasonable adjustments and where they cannot be implemented will justify decisions with facts. To date, Forest Enterprise England has been unable to make an adjustment in one case only.

Forest Enterprise England is proud to have delivered high quality, in-house equality

The notes on pages 45 to 72 form part of these accounts.

and diversity training. We have different levels of training, tailored to suit the needs of staff, their level of exposure to customers and/or their involvement in policy making. The training includes all aspects of equality as they relate to our business. On-line and face-to-face training on the equality analysis process are also delivered. All new starters receive sessions on this important area. We also benefit from best-in-class resources through Civil Service Learning.

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

### Expenditure on consultancy

During the year Forest Enterprise England incurred £173,000 costs for tax advice and other consultancy services (2015-16: £50,000).

Costs incurred on agency and temporary staff during the year total £1,566,000 (2015-16: £1,074,000).

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

(subject to audit)

No staff members left under voluntary exit or voluntary redundancy terms in the year to 31 March 2017 (2015-16: nil). Therefore compensation payments totalled £nil (2015-16: £nil).

No staff members left under compulsory redundancy terms in the year to 31 March 2017 (2015-16: 1). Therefore compensation payments totalled £nil (2015-16: £8,851).

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where Forest Enterprise England has agreed early retirements, the additional costs are met by Forest Enterprise England and not by the civil service pension scheme. Ill health retirement costs are met by the pension scheme and are not included in the figures above.

## Other accountability matters

### Losses and special payments

(subject to audit)

		2016-17		2015-16
	Number	£000	Number	£000
Losses	53	242	34	62
Special payments	189	331	200	236
Total	242	573	234	298

There were more losses cases in 2016-17 compared with 2015-16, including stock losses from changes in planned planting programmes at Wykeham Nurseries,

totalling £149,000. The increase in the cost of special payments in 2016-17 compared with 2015-16 is largely due to a payment

The notes on pages 45 to 72 form part of these accounts.

of £67,000 for alleged subsidence damage caused by tree root encroachment.

**Remote contingent liabilities**

(subject to audit)

In addition to contingent liabilities reported within the meaning of IAS 37, Forest

Enterprise England also reports liabilities for which the likelihood of a transfer of economic benefit in settlement is too remote to meet the definition of contingent liability. There are currently no remote contingent liabilities.

Simon Hodgson  
6 July 2017  
Accounting Officer  
Forest Enterprise England

The notes on pages 45 to 72 form part of these accounts.

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

I certify that I have audited the financial statements of Forest Enterprise England for the year ended 31 March 2017. The financial statements comprise: the Statements of Comprehensive Income, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report and Parliamentary Accountability Report that is described in those reports as having been audited.

### Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Forest Enterprise England's circumstances and have been consistently applied and adequately

disclosed; the reasonableness of significant accounting estimates made by Forest Enterprise England; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

### Opinion on regularity

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

### Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of Forest Enterprise England's affairs as at 31 March 2017 and of the surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with the directions issued by the Forestry Commission.

The notes on pages 45 to 72 form part of these accounts.

**Opinion on other matters**

In my opinion:

- the parts of the Remuneration and Staff Report and Parliamentary Accountability Report to be audited have been properly prepared in accordance with HM Treasury guidance and directions made by the Forestry Commission; and
- the information given in the Performance Report and Parliamentary Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Sir Amyas C E Morse** 10 July 2017

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

**Matters on which I report by exception**

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

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

**Report**

I have no observations to make on these financial statements.

The notes on pages 45 to 72 form part of these accounts.

## Financial statements

### Statement of comprehensive income

for the year ended 31 March 2017

		<b>2016-17</b>	<b>2015-16</b>
	Note	£000	£000
Income	3	73,757	67,094
Staff costs	4	(32,748)	(29,956)
Other costs	4	(58,886)	(54,996)
Value of felled timber	5/6	(21,882)	(19,996)
<b>Operating (deficit) before gain on revaluation of biological assets</b>		<b>(39,759)</b>	<b>(37,854)</b>
Gain on revaluation of biological assets	6	23,792	13,418
<b>Operating (deficit) after gain on revaluation of biological assets</b>		<b>(15,967)</b>	<b>(24,436)</b>
Funding received from Forestry Commission England/Central Services		28,037	20,519
Interest on Forest Holiday investment		213	195
Impairment on property, plant and equipment	5	(69)	(127)
(Loss) on sale of properties		(171)	(50)
<b>Surplus/(deficit) for the year</b>		<b>12,043</b>	<b>(3,899)</b>
<b>Other comprehensive income</b>			
Net gain on revaluation of property, plant and equipment	5	58,514	64,751
Net gain on revaluation of available for sale financial assets	7	2,920	2,035
Net gain on revaluation of partnership lease receivables	9	469	1,239
<b>Total other comprehensive income for the year</b>		<b>61,903</b>	<b>68,025</b>
<b>Total comprehensive income</b>		<b>73,946</b>	<b>64,126</b>

The notes on pages 45 to 72 form part of these accounts.

## Statement of financial position

as at 31 March 2017

		<b>31 March 2017</b>	<b>31 March 2016</b>
		£000	£000
<b>Non-current assets</b>	<b>Note</b>		
Property, plant and equipment	5	1,553,208	1,507,131
Biological assets	6	171,926	157,702
Financial assets	8	14,525	11,605
Trade and other receivables	9	7,808	7,151
<b>Total non-current assets</b>		<b>1,747,467</b>	<b>1,683,589</b>
<b>Current assets</b>			
Non-current assets held for sale		2,982	1,057
Inventories		2,176	1,609
Trade and other receivables	9	15,662	14,086
Cash and cash equivalents	10	24,921	20,120
<b>Total current assets</b>		<b>45,741</b>	<b>36,872</b>
<b>Total assets</b>		<b>1,793,208</b>	<b>1,720,461</b>
<b>Current liabilities</b>			
Trade and other payables	11	(11,908)	(12,429)
Provisions	12	(139)	(712)
<b>Total current liabilities</b>		<b>(12,047)</b>	<b>(13,141)</b>
<b>Total assets less current liabilities</b>		<b>1,781,161</b>	<b>1,707,320</b>
<b>Non-current liabilities</b>			
Trade and other payables	11	(17,592)	(17,674)
Provisions	12	(66)	(89)
<b>Total non-current liabilities</b>		<b>(17,658)</b>	<b>(17,763)</b>
<b>Total assets less total liabilities</b>		<b>1,763,503</b>	<b>1,689,557</b>
<b>Taxpayers' equity</b>			
General fund		361,466	348,490
Revaluation reserve		1,402,037	1,341,067
<b>Total taxpayers' equity</b>		<b>1,763,503</b>	<b>1,689,557</b>

Simon Hodgson  
6 July 2017  
Accounting Officer  
Forest Enterprise England

The notes on pages 45 to 72 form part of these accounts.

## Statement of cash flows

for the year ended 31 March 2017

		<b>2016-17</b>	<b>2015-16</b>
	Notes	£000	£000
<b>Cash flows from operating activities</b>			
Net surplus/(deficit) for the year		12,043	(3,899)
Adjustments for non-cash transactions:			
Loss on disposal of property		161	26
Depreciation	5	5,084	5,944
Property, plant and equipment written off	5	223	12
(Gain) on revaluation of biological assets	6	(23,792)	(13,418)
Value of fellings	5/6	21,882	19,996
Decrease in plant and seed (biological assets)	6	588	187
(Increase) in inventories		(567)	(32)
(Increase) in trade and other receivables	9	(2,233)	(2,260)
Increase/(decrease) in trade and other payables	11	86	(18)
Movements in provisions	12	1,894	437
Use of provisions	12	(2,490)	(874)
Non-cash inter-country transfers		-	(119)
Impairment of property, plant and equipment and write-off of revaluation reserve	5	69	127
Finance lease additions		(86)	(61)
Profit on revaluation of partnership lease receivables	9	469	1,239
Deferred income released	11	(689)	(416)
<b>Net cash inflow from operating activities</b>		<b>12,642</b>	<b>6,871</b>
<b>Cash flows from investing activities</b>			
Proceeds of disposal of land and properties		108	110
Purchase of property, plant and equipment		(7,949)	(7,845)
<b>Net cash (outflow) from investing activities</b>		<b>(7,841)</b>	<b>(7,735)</b>
<b>Net increase/(decrease) in cash and cash equivalents in the period</b>		<b>4,801</b>	<b>(864)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	10	<b>20,120</b>	<b>20,984</b>
<b>Cash and cash equivalents at the end of the period</b>	10	<b>24,921</b>	<b>20,120</b>

The notes on pages 45 to 72 form part of these accounts.

## Statement of changes in taxpayers' equity

for the year ended 31 March 2017

	Notes	General Fund £000	Revaluation Reserve £000	Total £000
<b>Balance at 1 April 2015</b>		<b>350,578</b>	<b>1,274,972</b>	<b>1,625,550</b>
<b>Changes in taxpayers' equity for 2015-16</b>				
Net gain on revaluation of property, plant and equipment	5	-	66,786	66,786
Net gain on revaluation of partnership lease	9	1,239	-	1,239
Non-cash charges - intercountry transfers		(119)	-	(119)
Realised element of revaluation reserve		691	(691)	-
Net deficit for the year		(3,899)	-	(3,899)
<b>Total recognised income and expense for 2015-16</b>		<b>(2,088)</b>	<b>66,095</b>	<b>64,007</b>
<b>Balance at 31 March 2016</b>		<b>348,490</b>	<b>1,341,067</b>	<b>1,689,557</b>
<b>Balance at 1 April 2016</b>		<b>348,490</b>	<b>1,341,067</b>	<b>1,689,557</b>
<b>Changes in taxpayers' equity for 2016-17</b>				
Net gain on revaluation of property, plant and equipment	5	-	61,434	61,434
Realised element of revaluation reserve		464	(464)	-
Net gain on revaluation of partnership lease receivables	9	469	-	469
Net surplus for the year		12,043	-	12,043
<b>Total recognised income and expense for 2016-17</b>		<b>12,976</b>	<b>60,970</b>	<b>73,946</b>
<b>Balance at 31 March 2017</b>		<b>361,466</b>	<b>1,402,037</b>	<b>1,763,503</b>

The notes on pages 45 to 72 form part of these accounts.

## Notes to the accounts

### Note 1: Statement of accounting policies

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

#### 1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment, inventories and available-for-sale financial assets.

#### 1.2 Funding

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

### 1.3 Public corporation dividend

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

### 1.4 Employee benefits

#### *Pensions*

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). PCSPS is an unfunded, defined benefit, contributory, public service occupational pension scheme. Forest Enterprise England accounts for the PCSPS scheme as a defined contribution plan and recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from the employee's services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, Forest Enterprise England recognises the contributions payable for the year. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

#### *Performance pay*

The Forestry Commission's Senior Pay committee determines performance pay for staff in the Senior Staff Grade. The Committee comprises the Chairman, Director England, Director Central Services and the Chair of the National Committee for Scotland. Remaining board members receive annual salaries paid in accordance with the standard Forestry Commission Staff Pay Agreement negotiated through collective bargaining and the recognised trade unions. Their performance is

monitored and reviewed through the Performance Management System (PMS) of the Forestry Commission. Increases in salary, if awarded, are based on their manager's assessment of their performance.

#### *Short-term employee benefits*

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

### **1.5 Contingent liabilities**

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

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

### **1.6 Property, plant and equipment**

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

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

#### *Forest Estate*

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

#### *Forest Estate land*

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

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

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

custom indices are used to restate tree values. The indices are provided by Savills who are contracted to undertake the work until 2017.

#### *Other land*

Non-forest land is shown at fair value. Professionally qualified staff members employed by Forest Enterprise England undertake a full revaluation of non-forest land at five yearly intervals coinciding with that for the Forest Estate (31 March 2013). They follow the principles set out in the RICS Red Book and value on the basis of Open Market Value, Existing Use Value, Depreciated Replacement Cost or Discounted Cash Flow as appropriate under the RICS Standards for determining fair value. The work of internal chartered surveyors is reviewed by Savills. A full valuation took place on 31 March 2013.

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

- Open land - custom indices provided by Savills, Chartered Surveyors
- Agricultural land - Farmland Market Index provided by the RICS Rural Land Survey
- Telecom masts - indices provided by Strutt and Parker, Chartered Surveyors
- Wayleaves - index provided by the Energy Networks Association
- Quarries and mineral workings - internal chartered surveyors undertook full valuations based on the capitalisation of the future cash inflows taking into account the reserve levels in the individual quarries
- Car parks, trails and picnic areas - indices provided by the Office for National Statistics (ONS) using the relevant Producer Price Index
- Community woodlands - internal chartered surveyors assessed the components of the woodlands and determined that the woodlands consist of three main components which are listed below together with the associated valuation methodology

- Land - internal chartered surveyors determined that the land is agricultural in nature, and therefore, the Farmland Market Index provided by the RICS Rural Land Survey is the most appropriate valuation method
- Landscaping and planting - custom indices provided by Savills, Chartered Surveyors
- Infrastructure - consists mainly of paths and determined by internal chartered surveyors that the ONS indices applied to car parks, trails and picnic areas above is the most appropriate valuation method.

#### *Dwellings and other buildings*

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

Professionally qualified staff employed by Forest Enterprise England undertake a full revaluation of dwellings and other buildings at five-yearly intervals coinciding with that for the Forest Estate and other land (31 March 2013). They follow the principles set out in the RICS Red Book and value on the basis of Open Market Value, Existing Use Value, Depreciated Replacement Cost or Discounted Cash Flow as appropriate under the RICS standards for determining fair value. Suitably qualified external valuers review the work of internal professional valuers. A full valuation took place on 31 March 2013 and Savills, Chartered Surveyors, reviewed this.

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

*Expenditure on infrastructure*

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

*Subsequent expenditure*

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Forest Enterprise England and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

*Non-current assets held for sale*

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

*Vehicles, machinery and equipment*

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

*Office, machinery and equipment*

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

*Assets under construction*

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

*Revaluation reserve*

Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to the revaluation reserve. Decreases that offset previous increases of the same asset are charged against the revaluation reserve directly in equity; all other decreases are charged to the Statement of Comprehensive Income. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the Statement of Comprehensive Income and depreciation based on the asset's original cost is transferred from the revaluation reserve to the general fund.

### 1.7 Depreciation

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

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

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

Lease premium	unexpired term of the lease
Freehold buildings	over 1 to 60 years
Buildings held under a finance lease	lesser of unexpired term of lease and 60 years
Plant and machinery	over 3 to 16 years
Plant and machinery held under a finance lease	lesser of unexpired term of lease and 16 years
Information technology	over 4 to 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within the Statement of Comprehensive Income.

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

### 1.8 Land and buildings leased to customers

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

### 1.9 Government grants receivable

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

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

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

### 1.10 Subsidiaries, associates and joint ventures

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

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

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

### 1.11 Biological assets

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

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

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

Holdings of plants and seed are accounted for as biological assets under IAS 41. They are stated at the lower of current cost and net realisable value. Net realisable value is based on estimated selling prices, less further costs expected to be incurred to completion and disposal.

### 1.12 Inventories

Consumable materials and supplies are stated at the lower of current cost and net realisable value. Net realisable value is based on estimated selling prices, less further costs expected to be incurred to completion and disposal.

### 1.13 Revenue recognition

Income comprises the fair value of the consideration received or receivable from forestry and related activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

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

### 1.14 Leases

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

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

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

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

### **1.15 Grants payable**

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

### **1.16 Provisions**

Forest Enterprise England provides for present legal and constructive obligations which are of uncertain timing or amount at the reporting date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the real rate set by HM Treasury. The increase in the provision due to passage of time is recognised in the Statement of Comprehensive Income.

### **1.17 Value added tax (VAT)**

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

### **1.18 Segmental reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker responsible for allocating resources and assessing performance of

the operating segments has been identified as the Forest Enterprise England Management Board. In applying IFRS 8, management has determined that Forest Enterprise England operates as one operating segment.

### **1.19 Foreign currency translation**

#### *Functional and presentation currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which Forest Enterprise England operates ('the functional currency'). The functional currency and the presentational currency of the financial statements is GB pounds sterling.

#### *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the banking transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

### **1.20 Impairment of non-financial assets**

Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an asset is not held for the purpose of generating cash flows, value in use is assumed to equal the cost of replacing the service potential provided by the asset, unless there has been a reduction in service potential. For the purposes of assessing impairment, assets

are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffer impairment are reviewed for possible reversal of the impairment at each reporting date.

### 1.21 Financial assets

#### *Classification*

Forest Enterprise England classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

#### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss comprise derivatives. Assets in this category are classified as current assets. Forest Enterprise does not trade in derivatives and does not apply hedge accounting.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. Loans and receivables comprise trade and other receivables and cash and cash equivalents in the Statement of Financial Position.

#### *Available-for-sale financial assets*

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

#### *Recognition and measurement*

Financial assets are recognised when Forest Enterprise England becomes party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the rights to receive cash flows from the asset have expired or have been transferred and Forest Enterprise England has transferred substantially all risks and rewards of ownership.

#### *Financial assets at fair value through profit or loss*

Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the Statement of Comprehensive Income.

Financial assets carried at fair value through profit or loss are subsequently measured at fair value. Gains or losses arising from changes in the fair value are presented in the Statement of Comprehensive Income.

#### *Loans and receivables*

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that Forest Enterprise England will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the loan and receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the

loss is recognised in the Statement of Comprehensive Income. When a loan or receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited in the Statement of Comprehensive Income.

#### *Available-for-sale financial assets*

Available-for-sale financial assets are initially recognised and subsequently carried at fair value. Changes in the fair value of financial assets classified as available for sale are recognised in equity. When financial assets classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the Statement of Comprehensive Income. Dividends on available-for-sale equity instruments are recognised in the Statement of Comprehensive Income when Forest Enterprise England's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), Forest Enterprise England establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Forest Enterprise England assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in

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

### **1.22 Cash and cash equivalents**

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

### **1.23 Financial liabilities**

#### *Classification*

Forest Enterprise England classifies its financial liabilities in the following categories: at fair value through profit or loss, and other financial liabilities. The classification depends on the purpose for which the financial liabilities were issued. Management determines the classification of its financial liabilities at initial recognition.

#### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss comprise derivatives. Liabilities in this category are classified as current liabilities. Forest Enterprise England does not trade in derivatives and does not apply hedge accounting.

#### *Other financial liabilities*

Other financial liabilities are included in current liabilities, except for maturities greater than 12 months after the reporting date. These are classified as non-current liabilities. Forest Enterprise England's other financial liabilities comprise trade and other payables in the Statement of Financial Position.

*Recognition and measurement*

Financial liabilities are recognised when Forest Enterprise England becomes party to the contractual provisions of the financial instrument.

A financial liability is removed from the Statement of Financial Position when it is extinguished, that is when the obligation is discharged, cancelled or expired.

*Financial liabilities at fair value through profit or loss*

Financial liabilities carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the Statement of Comprehensive Income.

Financial liabilities carried at fair value through profit or loss are subsequently measured at fair value. Gains or losses arising from changes in the fair value are presented in the Statement of Comprehensive Income.

*Other financial liabilities*

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

**1.24 Effective in these financial statements**

All International Financial Reporting Standards (IFRS), interpretations and amendments effective at 31 March 2016 have been adopted in these statements.

**1.25 Effective for future financial years**

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, requires disclosures in respect of new IFRSs, amendments and interpretations that are, or will be applicable after the reporting period. There are a number of IFRSs, amendments and interpretations that have been issued by the International Accounting Standards Board that are effective for future reporting periods. Those

with relevance to Forest Enterprise England are outlined below. None have been adopted early.

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

Forest Enterprise England will apply the standards at their formal effective dates. For IFRS 9 and IFRS 15 it is not anticipated that material adjustments to the financial statements will be required following the introduction of these standards. IFRS 16 is expected to have some impact in financial reporting terms. This impact will be assessed when further guidance is forthcoming from HM Treasury.

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

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

### **Critical accounting judgements and sources of estimation uncertainty**

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

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

### **Critical judgements in applying the accounting policies**

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

#### *Classification of the Forest Estate and biological assets*

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

Social and environmental areas generate a significant proportion of the agency's annual timber income. However, the planned felling of this timber (and resulting sales income) is to maintain and enhance

the areas' contribution to Social and Environmental objectives. Where land is classed as a specific Social and Environmental category such as 'Special Protection Area', 'Area of Outstanding Natural Beauty' or as a 'National Park' it is deemed appropriate that such woodland fall outwith the scope of IAS 41.

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

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

Management recognises that land use and designations may change over time. It shall therefore carry out an annual review to consider whether changes such as major sales or acquisitions of land may materially affect the analysis and its accounting and valuation estimates. Where material

changes have occurred, the analysis shall be updated for that year. Retrospective adjustments shall not be made prior to the current year.

#### *Valuation of the Forest Estate and biological assets*

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

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

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

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

On initial recognition and at the end of each reporting period, a biological asset must be measured at fair value less estimated point-of-sale costs. Fair value is linked to the market valuation determined by proceeds from the sales of woodlands as a whole and it has been determined that associated costs would be those relating to marketing and sales expenses. Analysis of sales and marketing costs in prior years show these to vary annually. Management has calculated the cost of sales percentage figure by using the actual sales cost data attributed to woodland sales over the three years to 30 November in the year of disposal. For 2016-17 woodland disposals, the cost of sales percentage was calculated as 4.5 per cent of the Fair Value. Management considers that the incorporation of any ad-hoc actual disposal costs in the cost of sales percentage, post November 2012, would distort the true cost of sales figure for the period when Forest Enterprise England was acquiring and disposing of woodlands.

Forest Enterprise England shall monitor and review costs of sales annually and update its estimated point-of-sale costs where material.

#### *Other land*

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

To achieve greater independence to the other land valuation process during intervening years between formal professional valuations, management reviewed the components of Other Land and obtained external professional input into the valuations of the components of other land. The other land valuation now includes valuations that are based on

indices provided by external Chartered Surveyors. These indices are reviewed by internal Chartered Surveyors to ensure that they are reasonable and consistent with internal valuation knowledge. Accounting policy note 1.6 details the components of other land and together with the source of the valuation.

*Dwellings and other buildings*

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

external professional valuations of dwellings and other buildings are obtained where active markets operate.

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

**Note 3: Income**

	<b>2016-17</b>	<b>2015-16</b>
	£000	£000
<b>Sale of goods</b>		
Timber	38,948	36,747
Retail and other goods	4,435	5,083
	<b>43,383</b>	<b>41,830</b>
<b>Services rendered</b>		
Sustainable forest management	3,763	2,242
Forest estate	4,652	4,140
Recreation and public affairs	21,323	18,038
	<b>29,738</b>	<b>24,420</b>
<b>Royalties</b>		
Mineral income	636	844
	<b>636</b>	<b>844</b>
<b>Total income</b>	<b>73,757</b>	<b>67,094</b>

**Note 4: Staff and other costs**

	<b>2016-17</b>	<b>2015-16</b>
	<u>£000</u>	<u>£000</u>
<b>Staff costs: <sup>1</sup></b>		
Wages and salaries	24,212	22,757
Social security costs	2,347	1,575
Other pension costs	4,623	4,550
Agency and temporary staff	1,566	1,074
	<b><u>32,748</u></b>	<b><u>29,956</u></b>
<b>Other costs:</b>		
Staff transfers	363	252
Computer costs	162	131
Travel and subsistence	1,032	840
Accommodation	1,314	903
Communication	209	173
Training	246	174
Losses and compensation	336	66
Legal expenses	413	291
Auditors' remuneration - audit work	91	96
Shared central services	6,653	5,476
Sustainable forest management	24,398	22,176
Forest estate	1,965	2,261
Recreation and public affairs	13,057	13,636
	<b><u>50,239</u></b>	<b><u>46,475</u></b>
<b>Rentals under operating leases:</b>		
Hire of plant and equipment	1,212	1,676
Operating lease rentals:		
Land and buildings	375	364
Plant and machinery	82	98
	<b><u>1,669</u></b>	<b><u>2,138</u></b>
<b>Non-cash costs:</b>		
Depreciation of property, plant and equipment	5,084	5,944
Provisions –		
Provided in year	1,961	593
Provisions not required written back	(81)	(157)
Unwinding of discount	14	3
	<b><u>6,978</u></b>	<b><u>6,383</u></b>
<b>Total</b>	<b><u>91,634</u></b>	<b><u>84,952</u></b>

1. Further analysis of staff costs is located in the Staff Report on page 34.

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

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

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

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

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

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

Office machinery and equipment (OME) was restated to current value at 31 March 2017 using an index provided by the Office for National Statistics.

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

**Note 6: Biological assets**

Movements on biological assets during the year were as follows:

	<b>2016-17</b>	<b>2015-16</b>
	£000	£000
Balance at 1 April	157,702	152,663
Fellings	(8,926)	(8,192)
Movement on plant and seed	(588)	(187)
Transferred to NCAHFS	(54)	-
Gains and losses arising from changes in fair values	23,792	13,418
<b>Balance at 31 March</b>	<b>171,926</b>	<b>157,702</b>

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

	<b>31 March 2017</b>	<b>31 March 2016</b>
	£000	£000
Plant and seed	4,067	4,655
Timber	167,859	153,047
<b>Balance at 31 March</b>	<b>171,926</b>	<b>157,702</b>

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

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

<b>Forest District</b>	<b>31 March 2017</b>	<b>31 March 2016</b>
	<b>Area ha</b>	<b>Area ha</b>
North	33,951	34,207
Yorkshire	579	578
Central	5,721	2,726
East	1,975	1,972
West	5,250	5,262
South	2,317	2,334
<b>At 31 March</b>	<b>49,793</b>	<b>47,079</b>

Savills Chartered Surveyors carried out an interim valuation of the Public Forest Estate, including biological assets, at 31 March 2017. The next full valuation is due for 31 March 2018. Apportionment of biological assets was carried out by Forest Enterprise England staff using the judgements and estimates outlined in Note 2.

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

**Note 7: Financial instruments****Investments in non-public sector bodies (available for sale financial assets)**

	<b>2016-17</b>	<b>2015-16</b>
	£000	£000
Balance at 1 April	11,605	9,570
Net gain transfer to equity	2,920	2,035
<b>Balance at 31 March</b>	<b>14,525</b>	<b>11,605</b>

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

**Financial instruments by category**

	<b>31 March 2017</b>			<b>31 March 2016</b>		
	<b>Loans and receivables</b>	<b>Available for Sale</b>	<b>Total</b>	<b>Loans and receivables</b>	<b>Available for Sale</b>	<b>Total</b>
	£000	£000	£000	£000	£000	£000
<b>Assets as per the SFP</b>						
Available-for-sale financial assets	-	14,525	14,525	-	11,605	11,605
Trade and other receivables (excluding prepayments)	22,265	-	22,265	19,635	-	19,635
Cash and cash equivalents	24,921	-	24,921	20,120	-	20,120
<b>Total</b>	<b>47,186</b>	<b>14,525</b>	<b>61,711</b>	<b>39,755</b>	<b>11,605</b>	<b>51,360</b>

	<b>31 March 2017</b>			<b>31 March 2016</b>		
	<b>Liabilities at fair value through the profit and loss</b>	<b>Other financial liabilities</b>	<b>Total</b>	<b>Liabilities at fair value through the profit and loss</b>	<b>Other financial liabilities</b>	<b>Total</b>
	£000	£000	£000	£000	£000	£000
<b>Liabilities as per the SFP</b>						
Finance lease liabilities	-	3,197	3,197	-	3,293	3,293
Trade and other payables excluding statutory liabilities	-	25,177	25,177	-	24,949	24,949
<b>Total</b>	<b>-</b>	<b>28,374</b>	<b>28,374</b>	<b>-</b>	<b>28,242</b>	<b>28,242</b>

**Exposure to risk**

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

**Note 8: Financial assets**

	<b>CITF and Forest Holidays Investment 2016-17</b>	<b>2015-16</b>
	£000	£000
At 1 April	11,605	9,570
Revaluation to current prices	2,920	2,035
<b>At 31 March 2017</b>	<b>14,525</b>	<b>11,605</b>

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

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

	<b>31 March 2017</b>	<b>31 March 2016</b>
	£000	£000
Forest Holidays Group Limited	12,250	9,650
Camping in the Forest LLP	2,275	1,955
<b>Total</b>	<b>14,525</b>	<b>11,605</b>

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

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

	<b>31 March 2017</b>	<b>31 March 2016</b>
	£000	£000
<b>Amounts expected to be received within one year</b>		
Trade receivables	9,122	9,556
less provision for impairment of trade receivables	(33)	(29)
Trade receivables - net	9,089	9,527
Other receivables	1,812	438
House purchase and temporary loans to employees	22	15
Partnership lease	381	369
Prepayments and accrued income	4,358	3,737
	<b>15,662</b>	<b>14,086</b>
<b>Amounts expected to be received after more than one year</b>		
Partnership loan	2,264	2,050
Partnership lease	5,506	5,049
House purchase and temporary loans to employees	35	44
Prepayments and accrued income	3	8
	<b>7,808</b>	<b>7,151</b>
<b>Total receivables</b>	<b>23,470</b>	<b>21,237</b>

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

As at 31 March 2017, trade receivables of £1,295,000 (2015-16: £2,320,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default.

**Note 10: Cash and cash equivalents**

	<b>2016-17</b>	<b>2015-16</b>
	£000	£000
Balance at 1 April	20,120	20,984
Net change in balances	4,801	(864)
<b>Balance at 31 March</b>	<b>24,921</b>	<b>20,120</b>
	<b>31 March 2017</b>	<b>31 March 2016</b>
	£000	£000
Government Banking Service	24,900	20,099
Cash at commercial banks and cash in hand	21	21
<b>Total</b>	<b>24,921</b>	<b>20,120</b>

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

	<b>31 March 2017</b>	<b>31 March 2016</b>
	£000	£000
<b>Amounts expected to be paid within one year</b>		
Trade payables	2,418	2,726
Other payables	32	123
Taxation and social security costs	140	261
VAT	627	93
Accruals	2,179	2,241
Deferred income	5,922	6,334
Current part of finance leases	563	630
Payments received on account	27	21
	<b>11,908</b>	<b>12,429</b>
<b>Amounts expected to be paid after more than one year</b>		
Deferred income	14,901	14,957
Payments received on account	57	54
Finance leases	2,634	2,663
	<b>17,592</b>	<b>17,674</b>
<b>Total payables</b>	<b>29,500</b>	<b>30,103</b>

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

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

	<b>Early departure costs</b>	<b>Legal claims</b>	<b>Other provisions</b>	<b>Total</b>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
<b>At 31 March 2015</b>	<b>173</b>	<b>204</b>	<b>862</b>	<b>1,239</b>
Provided in the year	11	117	465	593
Provisions not required written back	(41)	(93)	(23)	(157)
Provisions utilised in the year	(29)	(110)	(738)	(877)
Unwinding of discount	3	-	-	3
<b>At 31 March 2016</b>	<b>117</b>	<b>118</b>	<b>566</b>	<b>801</b>
Provided in the year	2	135	1,824	1,961
Provisions not required written back	-	(58)	(23)	(81)
Provisions utilised in the year	(38)	(103)	(2,349)	(2,490)
Unwinding of discount	14	-	-	14
<b>At 31 March 2017</b>	<b>95</b>	<b>92</b>	<b>18</b>	<b>205</b>

Analysis of expected timing of discounted flows:

	<b>Early departure costs</b>	<b>Legal claims</b>	<b>Other provisions</b>	<b>Total</b>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Not later than one year	29	92	18	139
Later than one year and not later than five years	66	-	-	66
<b>At 31 March 2017</b>	<b>95</b>	<b>92</b>	<b>18</b>	<b>205</b>

**Early departure costs**

Forest Enterprise England meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. Forest Enterprise England provides for this in full when the early retirement programme becomes binding on Forest Enterprise England by establishing a provision for the estimated payments, and discounting the provision at the HM Treasury stipulated rate of 0.24%

**Other provisions**

An HMRC audit of the Forestry Commission's treatment of VAT and income tax is under way. Provisions for HMRC liabilities have been raised during the year to address areas of non-compliance. For Forest Enterprise England, these liabilities amounted to £1,684,000 and were subsequently settled by 31 March 2017. The HMRC audit is continuing into 2017-18 and an unquantifiable contingent liability is disclosed within note 17 to recognise the possibility of future non-compliance liabilities arising from the audit.

**Note 13: Capital commitments**

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

	<b>31 March 2017</b>	<b>31 March 2016</b>
	£000	£000
Property, plant & equipment	499	25

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

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

	<b>31 March 2017</b>	<b>31 March 2016</b>
	£000	£000
<b>Land</b>		
Not later than one year	6	5
Later than one year and not later than five years	8	14
More than five years	84	122
<b>Total</b>	<b>98</b>	<b>141</b>
<b>Buildings</b>		
Not later than one year	369	359
Later than one year and not later than five years	1,403	1,338
More than five years	3,495	3,864
<b>Total</b>	<b>5,267</b>	<b>5,561</b>
<b>Plant and machinery</b>		
Not later than one year	82	98
Later than one year and not later than five years	67	53
More than five years		
<b>Total</b>	<b>149</b>	<b>151</b>

**Finance lease commitments**

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

	<b>31 March 2017</b>	<b>31 March 2016</b>
	£000	£000
<b>Land</b>		
Not later than one year	174	148
Later than one year and not later than five years	635	540
More than five years	3,932	3,340
	<b>4,741</b>	<b>4,028</b>
Less: interest element	(2,283)	(1,947)
<b>Present value of obligations</b>	<b>2,458</b>	<b>2,081</b>
<b>Plant and machinery</b>		
Not later than one year	485	586
Later than one year and not later than five years	271	679
	<b>756</b>	<b>1,265</b>
Less: interest element	(16)	(55)
<b>Present value of obligations</b>	<b>740</b>	<b>1,210</b>

**Note 15: Other financial commitments**

Forest Enterprise England has entered into non-cancellable contracts for artists' fees and stage rental for the 'Forest Concert Tour 2017'. All payments are due in less than one year.

	<b>31 March 2017</b>	<b>31 March 2016</b>
	£000	£000
Not later than one year	3,505	3,159
<b>Total</b>	<b>3,505</b>	<b>3,159</b>

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

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

	<b>31 March 2017</b>	<b>31 March 2016</b>
	£000	£000
<b>Land and buildings</b>		
Not later than one year	5,130	4,680
Later than one year and not later than five years	13,922	14,371
More than five years	77,188	79,625
<b>Total</b>	<b>96,240</b>	<b>98,676</b>

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

**Finance lease receivables**

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

	<b>31 March 2017</b>	<b>31 March 2016</b>
	£000	£000
<b>Buildings</b>		
Not later than one year	380	369
Later than one year and not later than five years	1,521	1,477
More than five years	25,864	25,477
	<b>27,765</b>	<b>27,323</b>
Less: interest element	(21,879)	(21,906)
<b>Present value of receivables</b>	<b>5,886</b>	<b>5,417</b>

**Note 17: Contingent liabilities disclosed under IAS 37**

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

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

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

An HMRC audit of Forest Enterprise England's treatment of VAT and income tax is under way. Provisions for HMRC liabilities have been raised during the year to address areas of

non-compliance. These liabilities are included within note 4 and were subsequently settled by 31 March 2017.

The HMRC audit is continuing into 2017-18 and in accordance with IAS 37, an unquantifiable contingent liability is disclosed to recognise the possibility of future non-compliance liabilities arising from the audit.

### Note 18: Related party transactions

Forestry Commission England/Central Services is regarded as a related party. During the year, Forest Enterprise England received annual subsidy funding of £28,037,000 (2015-16: £20,519,000) from Forestry Commission England/Central Services.

Forest Enterprise England has had material transactions with various government departments and other central government bodies, including HM Treasury, the Government Banking Service, HM Revenue and Customs, the Department for the Environment, Food and Rural Affairs, and the Department for Communities and Local Government.

The following additional activities were carried out with related parties:

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

2015-16	Ground rent received	Income for other services	Purchases from related party	Amounts owed (to) by related party
	£000	£000	£000	£000
Entities sponsored by Defra	-	20	41	-
Forest Holidays	476	31	626	7
Camping in the Forest	343	16	126	206
Grown in Britain	-	-	13	-
	<b>819</b>	<b>67</b>	<b>806</b>	<b>213</b>

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

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

Transactions to support Grown in Britain to deliver and develop the partnership of public forests are disclosed as Simon Hodgson, Chief Executive of Forest Enterprise England, is a director of Grown in Britain. Additional transactions for consultancy, production of price data for English-grown hardwood, a grant towards development of Grown in Britain Nursery

Assurance scheme and development of a business case occurred in 2016-17 between Grown in Britain and Forestry Commission England/Central Services totalling £53,500.

George McRobbie, a non-executive director of Forestry Commission England/Central Services, is a director of Tilhill Forestry. Tilhill Forestry has transactions with Forest Enterprise England which are disclosed in the Forestry Commission England/Central Services Annual Report and Accounts 2016-17. George McRobbie is also a steering group member of Grown in Britain.

Sir Harry Studholme, the non-executive Chair of the Forestry Commission, received woodland improvement grants from Forestry Commission England/Central Services, which are disclosed in the Forestry Commission England/Central Services Annual Report and Accounts 2016-17.

#### **Note 19: Events after 31 March 2017**

In accordance with the requirements of IAS 10, events after 31 March 2017 are considered up to the date on which the accounts are authorised for issue by the Accounting Officer. The authorised date for issue is the date of the Comptroller and Auditor General's audit certificate.

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

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