

**Annual report and accounts incorporating Forestry Commission Great Britain/England Accounts and Forest Enterprise Agency Accounts : 2012/2013 / Forestry Commission Great Britain/England.**

**Contributors**

Great Britain. Forestry Commission  
Great Britain. Forest Enterprise

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# **Forestry Commission Great Britain/England**

## **Annual Report and Accounts 2012-13**

**Incorporating:**

**Forestry Commission Great Britain/England Accounts**

**and**

**Forest Enterprise Agency Accounts**

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# Forestry Commission Great Britain/England

## Annual Report and Accounts 2012-13

Incorporating:

Forestry Commission Great Britain/England Accounts

and

Forest Enterprise Agency Accounts

(For the year ended 31 March 2013)

Presented to the House of Commons pursuant to Section 7(3) of the Government Resources and Accounts Act 2000

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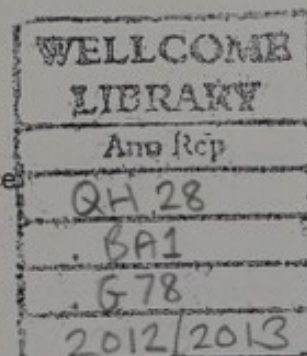
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*This is part of a series of Annual Reports and Accounts which, along with the Main Estimates 2013-14 and the document Public Expenditure: Statistical Analyses 2013, present the Government's outturn and planned expenditure for 2013-14.*

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Any enquiries regarding this publication should be sent to us at:  
Public Enquiries  
Forestry Commission,  
231 Corstorphine Road,  
Edinburgh  
EH14 5NE

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## FOREWORD by Sir Harry Studholme, Chair

This has been a year of challenge, change and reorganisation; the last year in which Wales was part of the Forestry Commission, the year in which the Independent Panel on Forestry in England reported and the year in which *Chalara fraxinea*, Ash Die Back, brought the problem of tree health to public attention.

Pam Warhurst's appointment as Chair came to an end in December. I have been asked to act until a permanent Chair is found. Pam's energy and enthusiasm served the Forestry Commission well during her term. In January after 37 years service, Tim Rollinson retired from the Forestry Commission. He had been Director General for the last seven of those years and will be last person to hold that post. Tim led the Commission through some turbulent times and throughout his career initiated important changes that have helped our organisation adapt to changing priorities.

New organisational structures went live in England after a year of intensive effort to shape the Commission to meet the challenges of the spending review. We have worked with stakeholders and our staff to embrace new roles, relationships and ways of working, while continuing to focus on business continuity across all areas of our work. The Commission's exceptional staff have once again proved that with commitment, expertise and knowledge we can remain resilient during these challenging economic times.

Natural Resources Wales came into existence on 1 April 2013, bringing together Forestry Commission Wales, Environment Agency Wales and the Countryside Council for Wales. This creates a new relationship. We look forward to working with our new partners on a wide range of cross border issues, particularly the health of Britain's trees.

The most visible current challenge facing forestry at present is that of protecting the trees and forests of Great Britain from pests and diseases. Not only are social and climatic changes increasing the movement of pathogens around the world but also the technology for identification is improving. Last year's discovery in the UK of *Chalara fraxinea* was only the most public of the disease outbreaks handled in the year. The outbreak reminded us how deeply Britain cares about its trees and how vital they are to our economy, landscape and lives. Helped by the Tree Health and Biosecurity Action Plan we have been working ever more closely with FERA, Defra and other partners to tackle present and future pests and diseases. Beyond *Chalara*, the biggest threats include *Phytophthora ramorum*, Oak Processionary Moth, Asian Longhorn Beetle and *Dothistroma* (Red Band) Needle Blight. I am in no doubt that this work will remain of the highest priority through 2013-14 and beyond. In the face of this very public threat the response of staff was exemplar; a demonstration of the quality of Forest Research and the importance of a Forest Service.

The Independent Panel on Forestry reported in July 2012. The Government's Forestry and Woodland Policy Statement and response was published in January 2013. This set out an immensely positive and compelling vision for the future of forestry in England. While proposing the Public Forest Estate moves further away from Government, it endorsed its continuing role in public ownership. The report also highlighted the importance of our woodlands and forests to society and the economy. We look forward to working with Government, the sector and our other partners on taking this forward. We must do justice to the Panel's seminal report.

This year has also seen a milestone in Health and Safety for the Forestry sector. The Forest Industry Safety Accord was drawn up last year. The Commission fully supports this important initiative. We need to make a step change in our culture and attitudes towards health and safety for all those involved in forestry, whether employees, contractors or visitors and raise the culture and practices within the Forest Industries to the best standards of other business sectors. The Accord has received wide support across the industry.

This Annual Report shows many examples of the wide range of activities and achievements of the Forestry Commission and its staff. It has not been an easy year. We should be proud of what has been accomplished against a backdrop of significant change.

## ANNUAL REPORT

### Great Britain

#### Forest biosecurity: protecting the woodland resource and reducing its susceptibility to pests and diseases

##### *Chalara* dieback of Ash

During the year, we responded to a new threat from a serious disease of Ash trees caused by the *Chalara fraxinea* fungus. The disease has already affected a high proportion of Ash trees in Northern Europe and was discovered for the first time in Great Britain in a nursery in Buckinghamshire in February 2012. A first outbreak was confirmed on recently planted trees in July and October this year, it was also found in the wider environment in woodland in Norfolk. Following a consultation exercise we drafted an emergency regulation to ban the importation and movement of Ash trees, which was introduced at the end of October. A unique national survey to ascertain the presence of *Chalara* in the wider environment was undertaken in five days, visiting over 10,000 sites. This required co-ordination between the Department for Environment, Food and Rural Affairs (Defra), the Food and Environment Research Agency (FERA), Natural England and the devolved forestry administrations. Over 500 Forestry Commission staff worked in partnership with these other organisations and the Country Landowners Association, the Woodland Trust and the National Trust. By the end of 2012 over 300 sites had been confirmed with infected material comprising 17 nurseries, 156 recently planted sites and 166 in the wider environment. We worked closely with other departments, agencies, and stakeholders to produce an interim control plan, which is now being implemented.

##### Biosecurity Action Plan

As a result of the rising threat to our trees and woodlands, the Government has made preparing for and managing risk from plant disease a top priority. Together with Defra, we have made good progress against the Tree Health and Plant Biosecurity Action Plan during this year. We have been closely involved with the setting up of the Defra Tree Health and Plant Biosecurity Expert Taskforce. The Taskforce is an independent group, drawn from key members of the academic community, to bring a multi-disciplinary approach to ensure Defra has access to the most up-to-date and robust evidence to inform decisions on dealing with tree and plant disease. We have provided expert input to the Taskforce as members of a Practitioners' Advisory Group. The Taskforce produced an interim report to the Government in December 2012.

##### Other important outbreaks

We are working to eradicate a number of other outbreaks of new pests and pathogens, including the first UK outbreak of Asian Longhorn Beetle in Kent, a new outbreak of Oak Processionary Moth in the London Borough of Bromley, separate findings of sweet chestnut blight in recent plantings in Warwickshire and East Sussex and a number of new findings of *Phytophthora lateralis* on Lawson cypress in Scotland and Wales. As is the case with *Chalara*, our response to these new outbreaks has been successfully co-ordinated with other organisations.

We made a proposal to the European Commission to regulate Oak Processionary Moth as a quarantine pest, which has been accepted. Measures to eradicate the outbreak of this moth in Pangbourne are looking positive and we have allocated more resources, including a dedicated Project Officer, to the containment of the pest in the larger outbreak in west London. The finding of a separate new outbreak of the moth in Bromley increases the challenge we face, but we have been very pleased with the support provided by all those involved in assisting with eradication measures there this year. We will continue the eradication programmes in Pangbourne and Bromley in 2013 and are actively developing further measures to tackle the pest in London.

Following consultation, we have adopted a containment strategy in response to new findings of *Phytophthora austrocedrae* on juniper in the wider environment. To date, 16 wider environment sites have been confirmed in the north of England and the north east of Scotland. There have also been a total of 7 confirmed findings in nurseries and gardens in England and Scotland. We are working with colleagues in the devolved administrations, Natural England and FERA to implement the strategy.



By the end of 2012-13 the area of larch which has been felled, or is due to be felled, because of infection from *Phytophthora ramorum*, will exceed 5,000 hectares across the UK. There has been an increase in the area of new outbreaks due to be felled in 2012 compared with the area felled in 2011, largely as a consequence of expansion from infected areas in Wales and Scotland. The increase in new findings is partly down to better diagnosis of the disease after rapid expression of symptoms early in the year. The disease was confirmed for the first time in two woods in south east England, which had been kept under surveillance due to their proximity to known areas of infected rhododendron. The continuing support from landowners, whose forests and woodlands are affected, has been vital and is greatly appreciated. We held a strategy review meeting in December to refine the way in which we tackle this challenging disease.

The health of pine continues to suffer as a result of *Dothistroma* needle blight. We published a GB strategy for managing the disease in April 2012 with the aims of retaining pine as a silvicultural option, conserving Caledonian pinewoods and reducing the risk of damage from other pests and diseases. Forest Research provided specialist training to plant health officers involved with nursery inspections again in 2012. Although the disease was detected in one nursery in England and three nurseries in Scotland, these are fewer findings than those made in previous years.

### **Forest Reproductive Material (FRM)**

We successfully lobbied the EU Commission proposal for changes to the legislation which permits forestry material from third countries to be freely marketed between Member States. This simplifies trade, while continuing to protect our biosecurity borders.

The Commission continues to work towards replacing the twelve Directives covering Seed and Propagating Material with a single legal framework, the EU Seed Law. We have been liaising with stakeholders and sought ministerial support to ensure that the new law does not add additional burdens to UK forestry.

On a more practical note, our FRM database has helped to supply essential evidence about the source of imported Ash trees from other member states, to aid the control approach we are adopting.

### **Climate change: ensuring a resilient woodland resource that contributes to mitigating climate change and helps us to adapt to its impacts**

#### **Woodland Carbon Code**

We are working to enable forestry's potential to help mitigate and adapt to climate change to be put into action. A key part of this work in 2012 has been the further development of the Woodland Carbon Code, a voluntary code of good practice for the forest carbon market in the UK. The Code is helping UK forestry to meet the objectives of all UK administrations to increase woodland cover and to reduce net greenhouse gas emissions over decades to come.

Launched in 2011, the Code has attracted increasing numbers of investors in woodland creation during 2012. To date, 78 projects have registered which will create almost 3000 hectares of new woodland and sequester 1.37 million tonnes of carbon dioxide over their lifetime (of up to 100 years). The validation of projects by independent certification bodies has gathered pace during 2012, with almost 40% of the registered woodland area now having been validated.

We have begun a pilot phase for a new group scheme for the Code which will help smaller projects to gain certification. We are also working with international carbon standards to assess future opportunities for collaboration that might benefit the Code and strengthen the appeal of woodland creation in the UK. Two global publications by the Ecosystem Marketplace (based in Washington D.C) in 2012 have reported the achievements of the Code to date and have helped to establish its international reputation.

#### **Financing woodland carbon**

The Code is part of a programme of work to attract additional finance to support woodland creation in the UK. We have developed a new investment appraisal model to assess the financial returns to woodland creation in

the UK. The model enables returns from timber, carbon and other outputs to be assessed together, and will be the basis for providing improved information on future investment returns to different types of woodland creation.

We have commissioned research into potential financial instruments which could provide ways to channel private finance into woodland creation, and are exploring the potential to help implement pilot projects to test these new approaches. We have also commissioned a major study into the cost-effectiveness of woodland creation as a means of abating carbon dioxide emissions.

Following the publication of the UK National Ecosystem Assessment and the Environment White Paper in 2011, we are examining the potential for developing markets in other ecosystem services in addition to carbon sequestration.

## **Standards: setting standards for sustainable forest management**

### **UK Forestry Standard**

The UKFS and Guidelines project, completed in November 2011, was supplemented by our first eBook "quick start" summary in December 2012. This was produced in response to the Task Force on Forestry Regulation and is aimed at making the requirements and links to other publications and information more accessible. It will be available in an easy-to-use electronic format. Also in December, we issued a draft of the Practice Guide on Forestry in acid sensitive water catchments. This links to the UKFS Water Guidelines and will be accompanied by a Research Note that summarises the latest scientific understanding of the issues involved.

We have worked with other Departments to ensure a number of developments are adequately dealt with under the aegis of the UKFS without the need for additional regulations or measures. These include the EU Timber Regulation (EUTR, Defra), which comes into force in April 2013, criteria for sustainable timber procurement (Defra / Central Point of Expertise for Timber Procurement) and criteria for sustainable biomass (DECC). We have held a series of meetings and held an EUTR seminar for the sector in January 2013.

### **Certification**

The main development in certification was the endorsement by both certification schemes, FSC and PEFC of the third edition of the UK Woodland Assurance Standard. Informed by the UKFS & Guidelines, this facilitates independent certification across the UK for those that choose it.

### **International Forestry**

The Forestry Commission continues to represent the UK at the EU Standing Forestry Committee and at other international fora with a high technical content, and we support Defra who have the lead in international forestry policy. A principal development over the last 12 months is progress towards a Legally Binding Agreement (LBA) by countries who are signatories to the Forest Europe protocols on sustainable forest management. The UKFS provides the foundation of our contribution to international forestry development.

We continued to support the Global Partnership on Forest Landscape Restoration and our Director General, as chair of the project, promoted it in several international fora including the Rio plus 20 meeting (June) and the UN Committee on Forestry (September). We also continued our participation and involvement in the World Wide Fund For Nature's (WWF) New Generation Plantation Project (NGP). This aims to share experience and in particular to promote high standards of plantation design, management and expansion. We provided a Scottish example of social forestry for a project case study.

## **Evidence: making sure that all policy making is founded on a robust evidence base**

### **External Review of Science Quality**

The report on the Independent Review of Forest Research's science quality was published during the year. The review was chaired by Professor Sir David Read FRS, and focused on two main areas:

- fitness for purpose and science quality – the quality of the research, innovation and development and knowledge exchange work being undertaken in Forest Research; and
- the extent to which Forest Research's research programmes are contributing to its overall aims as set out in its 2011-12 Corporate Plan and in its science strategy, Forest Research Science Focus.

The review group identified some outstanding programmes of research and made some helpful recommendations for improving the quality of others. We are now implementing an action plan to address its recommendations.

### **Commissioned research**

Our ongoing commissioned research programmes have now been revised to reflect the SR10 settlement, and this necessitated the loss of some areas of work. The programmes continue to deliver excellent value for money, and additional work has been commissioned for plant health, to produce the robust evidence base required for addressing the increasing number of threats.

A formal review of the Science and Innovation Strategy for British Forestry started during the year. This involved a number of workshops in each country and with other departments to gain a wide perspective on the research priorities over the next five years. The review will also be informed by an independent evaluation of the impacts from the last strategy. The new strategy will be published in late summer 2013.

We continued to work with the Living with Environmental Change partnership and have, with a number of partners, initiated a new five year Tree Health and Plant Biosecurity research initiative, which began in the autumn.

### **National Forest Inventory**

The National Forest Inventory is a multi-purpose programme to provide accurate, up-to-date information about the size, distribution, composition and condition of our forests and woodlands.

The field survey programme of representative one hectare squares is used to refine map-based estimates of woodland area and to collect detailed information on species, age, size, management and a range of other parameters. Approximately 3000 squares are surveyed each year, and in 2012-13 the programme undertook additional field work and analyses to support management of the *Chalara* outbreak.

The current inventory cycle will be completed in 2015; however a number of preliminary results were published during 2012-13.

Results for standing coniferous volume (as at 31 March 2011) are available in the Standing timber volume for coniferous trees in Britain report (PDF). This report provides the latest overall estimates of total timber volume standing in forests and woodland in Great Britain. In addition, it gives a breakdown of the volume by principal species, age class and size class, and by country and National Forest Inventory region.

Preliminary estimates for broadleaved species in British woodlands (as at 31 March 2011) are available in the Preliminary estimates of quantities of broadleaved species in British woodlands, with special focus on Ash (PDF). This report provides the latest overall estimates of stocked area, total standing timber volume the number of trees in forests and woodland in Great Britain. In addition, it gives a breakdown of these quantities for principal broadleaf species groups, age classes and size classes, by country and National Forest Inventory region.

## **Making the results of our research available**

The research we undertake is only of real value if it leads to positive changes in the way we manage our forests and woodlands. Our aim is to ensure that our stakeholders have access to the most up to date information in easily accessible formats. During the year, the publications part of our website was redesigned to make it easier to access material, and many more items were added including:

- Major new publications from the National Forest Inventory;
- Statistics reports;
- Practice guides and notes;
- Research reports and notes; and
- eBooks.

## **Restructuring our business**

### **Meeting SR10 targets**

With the reduction in a significant number of staff under SR10 already made, we have been adjusting workloads and expectations to continue delivering high quality services to our customers. Further reductions in research staffing and Inventory and Forecasting teams will take place over the next two years to achieve the full SR10 programme, and we are ensuring that critical areas of work for both the organisation and our customers continue.

### **Governance Review**

On 29th November 2011 the Welsh Government announced the creation of a Single Environmental Body (now renamed Natural Resources Wales (NRW)) which would incorporate the functions of the Countryside Council for Wales (CCW) as well as the Wales related functions of the Environment Agency and Forestry Commission. NRW came into being in June of 2012 and formally vested on 1st April 2013.

The Forestry Commission has agreed to continue to deliver functions for the Welsh Government at a GB level, the principal ones being research and plant health functions. The maintenance of these as cross-border functions will help to minimise the critical risks that might otherwise arise if NRW were required to establish parallel functions from day one.

The Forestry Commission has also agreed to continue to supply the Welsh Government and NRW with most of the services currently supplied to Forestry Commission Wales. There will be a phased withdrawal over a period of years, due mainly to Information Communication Technology (ICT) complexities, which will allow time to evolve relationships on cross-border services and to manage transition in a controlled way which minimises cost to all.

## Improving how we work – an efficient, effective and sustainable organisation

### People

The Forestry Commission's People Strategy sets the strategic direction in relation to our people and is the framework for taking this forward. We continue to be an organisation that is committed to high levels of employee engagement, motivation and achievement, and one that openly encourages participation, personal development and which values its staff.

We continued to improve policies and procedures by:

- introducing a new Performance Improvement policy and procedure that provided a more robust process for managing performance problems;
- introducing a new Managing Sickness Absence policy and procedure that clarified the different processes for managing short term intermittent absence and long term absence;
- responding to feedback from the business about the continued suitability of our career break scheme and developed a new scheme that was more fit for purpose; and,
- commissioning social research to understand employee mobility and used this information to begin reviewing the Relocation Transfer Expenses policy and procedure.

Our focus continues to be on:

### Deployment of people

In response to the continued need to reduce staff numbers over the SR10 period, we ran a restricted Voluntary Exit Scheme, giving employees in specific areas of the business an opportunity to request voluntary early exit. We have adopted an eight-step Change Management framework, emphasising the importance of leadership through times of change and have launched a portfolio of change management workshops to support the framework.

### Learning & Development (L&D)

The Learning & Development (L&D) Skills Support Unit is managing and supporting thirty one Modern Apprentices in Scotland and has just recruited twenty Modern Apprentices in England.

The recruitment for the 2013 Graduate Programme is underway and the plan is to recruit three graduates. Interest and demand for the Management Development Programme (MDP) continues as forecast. A review of MDP was carried out at the end of 2012.

We have continued to support different parts of the business through change and have developed a programme of training based upon an 8 step change management framework. This training/development is now available and supporting material on change management is also being prepared and this will be available for staff in early 2013.

The L&D strategy has been reviewed and a new strategy for 2013-2016 was published in March 2013. The strategy identifies the need to continue to deliver good quality training, both technical and people based, alongside greater organisational development support to develop the capability of teams, units and the organisation.

### Technical Training

L & D have set up a new cost centre to support the England Apprentices and successfully recruited two new trainers / assessors during January 2013.

Members of the technical team are working with both awarding bodies Lantra Awards and City and Guilds/National Proficiency Test Council (C&G/NPTC) on new qualifications for the trees and timber sector. It is hoped that we can resolve concerns over a perceived dilution of assessment criteria standards.

### Equality and Diversity

Our new Diversity Strategy and Diversity Objectives were launched in April 2012, with our ambition being to have a diverse workforce that reflects the society that we serve and to continue to offer exemplar customer services to diverse communities.

The diversity training was refreshed and was re-launched in October 2012. As well as face-to-face training courses on diversity and customer recreation and the equality analysis process, two new e-learning courses were launched.

All statutory monitoring reports were published in accordance with the required timescales. Workforce diversity remains very similar to last year and has not been greatly affected by the SR10 staffing reductions.

### Pay and Recognition

Our October 2012 pay award was the second year of the Government's second year pay freeze. Staff earning below £21,000 received a modest increase in salary.

### Safety, Health and Environment

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

During the year the Forestry Commission hosted a second Health & Safety Executive (HSE) Forest Industry Safety summit. The purpose of the summit was to build on the initial HSE Summit and develop a Forest Industry Safety Accord to tackle the unacceptably high rate of fatal or major injuries in forestry.

The Forestry Commission has signed up to the Forest Industry Safety Accord. We also have representatives on the Steering Group and the eight Working Groups.

The Forestry Commission also established an internal Health and Safety Advisory Task Force to develop a Forestry Commission Health & Safety Strategy and Action Plan. As part of this work we held a training workshop for Senior Managers to improve understanding of safety leadership and improving safety culture.

### Accidents

The following figures set out the incidence of reportable accidents (those causing incapacity for more than three days) for all staff in 2012-13 and the preceding years:

| Year    | No of accidents per 100 employees |
|---------|-----------------------------------|
| 2012-13 | 0.71                              |
| 2011-12 | 1.03                              |
| 2010-11 | 0.71                              |
| 2009-10 | 0.73                              |
| 2008-09 | 0.57                              |

Sickness absence

| Year    | Working days lost per staff year |         |
|---------|----------------------------------|---------|
|         | Great Britain                    | England |
| 2012-13 | 4.9                              | 4.6     |
| 2011-12 | 5.8                              | 5.5     |
| 2010-11 | 6.4                              | 6.2     |
| 2009-10 | 6.6                              | 6.2     |
| 2008-09 | 7.1                              | 6.8     |

**Honours**

The following Forestry Commission nominees were successful in the Queen's Honours List:

- Timothy John Denis Rollinson CBE, Director General and Deputy Chair of the Forestry Commission and for services to forestry
- Christopher Starr OBE, Chair, Forestry Regulation Task Force.

**Communications**

Forestry issues received unprecedented media coverage in 2012, following the *Chalara* Ash dieback outbreak. The Forestry Commission worked closely with Defra and the Scottish and Welsh Governments to get clear messages out to decision makers and the public, including through thousands of broadcast, online and newspaper articles. Digital communications were vital – in just over one month our *chalara* web page was viewed 200,000 times and our YouTube symptoms video 60,000 times. This followed high profile coverage of Oak Processionary Moth, Asian Longhorn Beetle, *Phytophthora Ramorum* and *Dothistroma* Needle Blight earlier in the year. We also increased the profile of tree health and recreation on our public forest estate, including major BBC Countryfile and One Show features on Westonbirt Arboretum, Grizedale, Bedgebury and the Forest of Dean.

**Finance and accounting**

During another challenging year, Finance and Accounting Services (FAS) continued to work closely with its internal and external customers to deliver an efficient and effective service meeting their needs.

*Main achievements in 2012-13*

Coping with the organisational changes arising from the 2010 Spending Review (SR10) was inevitably a challenge but we have improved and generated efficiencies from the financial processes and systems of the Forestry Commission. We have:

- identified the changes to systems and processes due to the creation of Natural Resources Wales (who are continuing to use Forestry Commission services after 1 April 2013);
- developed a self-billing system for non-harvesting contractors;
- further enhanced the Forestry Commission's business sustainability systems, carried out training and formally handed over management to countries;

- undertaken the tender and contracting for the professional valuation of the forest estate, including project management of the sampling and on-site valuations;
- restructured our bank accounts and development of systems and process change in readiness for separate country bank accounts from 1 April 2013;
- integrated civil engineering into relevant procurement guidance;
- led the delivery of a number of high level contracts that have resulted in significant cost savings; and,
- improved systems to deliver meaningful interim accounts.

## Information Services (IS)

Information Services continued to deliver a reliable and efficient ICT service throughout the year with independent benchmarking showing that high levels of customer satisfaction have been achieved whilst costs to the business remain low.

Highlights for 2012/13 are:

- The establishment of recovery facilities to significantly reduce the business risk and improve recovery time in the event of a disaster;
- The establishment of a new telecommunications contract to improve communication performance across the organisation and achieve a substantial cost reduction;
- The on-going programme of rationalisation across the ICT estate continues resulting in real improvements to ICT systems performance & reliability;
- A new Case Management system has been successfully implemented; and,
- Work with Natural Resources Wales continues to ensure the smooth transition of ICT services from the Forestry Commission to the new body.

## Business sustainability

The Forestry Commission has completed the development and implementation of our Environmental Management System (EMS). During the year all sites in Forestry Commission Wales were externally assessed as compliant with ISO 14001 and in November we secured external accreditation for all sites in Forestry Commission England. This now means that the entire non forestry business operations of the Commission are compliant to ISO 14001. When taken together with forestry certification this enables the Commission to say that every aspect of its business is now externally verified as sustainably managed. We have published an updated version of Operational Guidance Booklet 35-“Waste Management” which includes a comprehensive directory of all waste types likely to be found on the estate, together with new guidance on recycling and waste reduction planning. We have also been able to work with the Environment Agency to secure a revision to their Regulatory Position Statement on premises notification to make it easier for us to discharge our obligations in relation to hazardous waste management, which represents a significant reduction in “red tape”.

The next stages in the EMS are to put in place measures to demonstrate continual improvement. Better understanding of the aspects of our business which have an adverse impact on the environment is enabling us to address these, as we look at areas such as waste and buildings management.

The EMS continues to help staff across the Commission to better understand the complex environmental legislation which affects the way we run our business. Compliance with environmental law is very important and the EMS is helping us to ensure that we meet the requirements at all levels.



## **Inventory, forecasting and operational support**

In addition to work delivered as part of the National Forest Inventory Programme IFOS manage a range of forestry products and services that support front line delivery in England, Scotland and Wales. As part of our ongoing efficiency programme we work closely with both programme leads and end users in each country in order to ensure that they remain both fit for purpose and affordable.

During 2012/13 we introduced a process to routinely copy locally held spatial data to a central server, staff can now view and query this data through a web browser greatly increasing the accessibility and utility of this business critical information. We also streamlined a number of key business processes associated with inspection and maintenance of assets (and liabilities) on the FC estate.

Operational Guidance Booklets (OGBs) continue to play a key role in FCs internal control processes in each country (more than 25,000 intranet 'hits' in 2012). During 2012/13 we reviewed and updated OGBs covering use of chemicals and use of firearms, with specialist input from colleagues in Forest Research, Safety, Health and Environment and Forest Enterprise.

## MANAGEMENT COMMENTARY

### Events

There were a number of events held during the year with royalty, Ministers and stakeholders throughout the year.

### Working with Defra

In June a refreshed working document was signed by Tim Rollinson and Peter Unwin, Director General within Defra setting out the relationship between the two organisations, with the aim of promoting high performance and safeguarding correct procedures according to government guidance. The document sets out our respective responsibilities and distinctions and the need to work together to develop and deliver forestry policy, it also covers the arrangements for senior appointments, resource and financial management, corporate planning, policy development, accountability and shared behaviour.

### SR10 Restructuring Programme

Forest Enterprise restructured its 11 Forest Districts to form six larger Forest Districts, which provide a wide range of programmes essential to the management and development of the Estate. This Forest Enterprise restructuring makes best use of the private sector involvement on the estate and has included the outsourcing of business areas such as retail and catering.

Forestry Commission England's new structures went live on 2 April 2012. The new 'Forest Services' function replaced eight regional structures with five management Areas. Their activity is supported by newly created administration hubs in each of the Areas. These administrative hubs have made the grants, investments and regulatory services more efficient and support the local Woodland Officer network to maintain close links to customers on the ground.

In 2012-2013, Forestry Commission England paid a total of £32.9m in grants via the English Woodland Grant Scheme in support of the protection, improvement and development of woodlands. Most funding was via the Rural Development Programme for England (RDPE). This was an increase of £0.5m compared to last year and delivery was achieved in spite of 20% staff reductions across the organisation as part of the SR10 process and significant disruption to the Forestry Commission and the forestry sector due to the Chalara outbreak. Forest Services also processed an increasing volume of grant applications in 2012-13, with 1,253 cases being processed compared to 953 cases the previous year, an increase of 30% in case numbers.

As part of the restructuring of activities to accommodate SR10 savings, Forestry Commission England has re-evaluated and reviewed its approach to education activities on the Estate.

### Protect

#### Regulation of tree felling

Forestry Commission England issued 1,908 felling licences which were not linked to new grant agreements in 2012-13. These covered an area of 21,248 hectares. We received 185 reports of alleged illegal felling. This includes seven reports made to us using a new service for people to report to us instances of tree felling online which became available in September 2012.

Of the 185 reports 28 were still under investigation at the end of March 2013 while 23 have been subject to a full investigation to determine any further action. Of these:

- Six investigations resulted in Forestry Commission England serving a Notice to restock land with trees.
- Six investigations resulted in a formal warning.
- Ten investigations are either still pending a decision on the final action or are in the process of having a Restocking Notice issued.
- One investigation on the Public Forest Estate resulted in an advisory letter being issued.

No cases have so far been considered for prosecution and eight further Restocking Notices were also issued in 2012-13 as a result of our investigations into reports of illegal felling that took place before 1 April 2012.

### Plant health

Plant health remained a priority for Forestry Commission England in 2012-13. This reflects how plant health issues have grown significantly in number and scale in recent years.

Following the confirmation of Asian longhorn beetle at Paddock Wood in Kent in late March 2012 the Forestry Commission took swift and decisive action to achieve eradication of this very damaging insect pest. An outbreak management team was formed with Forestry Commission taking the lead on tree identification and felling, Forest Research the identification and sampling of infested trees and FERA undertaking wider survey and stakeholder engagement. In the period April-July 2,166 trees were felled and destroyed over an area of 14 hectares including several gardens and field hedgerows. Following laboratory analysis 66 trees were found to be infested with the oldest exit hole indicating initial infestation as early as 2006. However the source tree was covered in ivy and not initially recognised as infested until felled. There was no evidence that any adult beetles had emerged before the last tree had been felled. Winter survey including tree climbing failed to find any further evidence of the beetle its larvae or eggs. There is cautious optimism that this outbreak has been eradicated but further surveys will continue on an annual basis.

Following the discovery of *Chalara* in the wider environment at the end of October, in November we led a rapid survey, undertaken by a range of government agencies and stakeholder groups, to check the extent of *Chalara* dieback in the wider natural environment across England. In less than one week we visited 4 sites in each of the 1,500 10km grid squares across England. As a result of this survey and ongoing work to check reports of possible infection, 310 sites in England have been checked for infection by Forestry Commission and FERA. Of these 127 sites have been confirmed as infected following laboratory analysis (18 of these relate to recent tree planting and 109 where in the wider environment).

We continued to monitor woodlands across the country for *Phytophthora ramorum*, issuing Statutory Plant Health Notices (SPHN) where infection is found. Between 1 April 2012 and 31 March 2013 567 sites had been checked resulting in 163 SPHNs being issued. These cover 462 hectares (net) of woodland. This is only a slight decline (30 hectares) in the area of woodland placed under SPHNs compared to 2011. We remain hopeful that continuity of action will lead to further declines of disease incidence in England. However, we are unlikely to see the impacts on spread due to the very wet summer and autumn until next year.

In June 2012 a project officer was appointed to lead Forestry Commission's renewed effort to manage the Oak Processionary Moth outbreak in London where the aim is to contain the moth's spread in-line with the FC strategy. An advisory group has been set up to advise policy makers, decision makers and research on the strategic issues of dealing with this pest. This has led to greater coordination of surveillance and control across stakeholders.

### Westonbirt Provides Key Location in Europe-wide Species Trials

The EU project REINFFORCE, which is helping plant trees resilient to climate change and disease threats in locations throughout Great Britain, includes species trials at Westonbirt Arboretum. Westonbirt is the sole English site for this Atlantic European project.

Forest Research has also established species trials to investigate the suitability of other UK forestry trees in Silk Wood. Interpretation to explain this work to visitors will be an important component for both these trials.

### Mining Hazards and Collapses in the Forest of Dean

Continuing wet weather triggered a rise in the number of surface mine entries in the Forest of Dean that require remedial work. The sudden and dramatic collapse of the Parkend Royal Deep pit No 2 shaft in the first week of November typifies the continuing risks to those living, working and enjoying the Forest. Parkend Royal No 2 shaft opened up suddenly behind the Forestry Commission's Castlemain Depot leaving a 137ft deep hole

around 15ft across in a period of 24hrs. The Deputy Gaveler has identified approximately 20 surface mine entries that are scheduled for repair by the Coal Authority over the coming years, with the planned work supplemented by unplanned and unforecasted collapses.

## Biodiversity

The fast declining Wood White butterfly has received a boost in Northamptonshire. The Forestry Commission is supporting a joint project with Butterfly Conservation to restore and improve habitat of this nationally important Priority Species. Funding has been provided by SITA Trust through their Enriching Nature Fund. FC has provided a 10% contribution of total project value. The project will run over three years, improving rides, glades and also investing in the recruitment of volunteers for future monitoring and habitat maintenance.

In September rangers found the rare Leisler's bat during checks at Elkesley Wood, near Retford, Nottinghamshire. To help other bat species in the wood prosper a further 30 bat boxes are to be introduced over the next few years.

The Red Squirrel North England Project (RSNE) is making excellent progress in developing an understanding of both the current distribution of red squirrels and the potential impact of grey squirrel control programme.

Key findings from the work this year include:

- Very positive results from the Lakes Stronghold, with well distributed reds and very few greys.
- Good red squirrel health in the Raylees, Yorkshire Dales, Kidland / Uswayford strongholds.
- Significant grey squirrel distribution on the key riparian approaches to Kielder in Cumbria and Northumberland (matched by very thin red squirrel distribution).
- Significant grey squirrel distribution throughout the Harwood and Kyloe strongholds but not in the associated reserve woodlands.
- Greys throughout the Slaley stronghold including all the reserve woodlands.
- The strong contribution by NRS volunteer groups and other parties across northern England, helping to conserve red squirrels well beyond the stronghold network

The project is making full use of the support available through specific EWGS Woodland Improvement Grant with a number of key schemes being agreed with private woodland owners across the stronghold areas.

## Improve

We continued to support the production of Woodland Management plans with grant aid to ensure the comprehensive and long-term approach to forest management, approving management plans on 29,846 hectares of woodland in 2012-13.

FC provided grant aid for 1,734 hectares of woodland regeneration (replanting and natural regeneration). Of this 916 ha relates to the restoration of native or broadleaved trees on ancient woodland sites. FC introduced a supplement to support replanting after tree felling in connection with statutory notices issued to control the spread of *P ramorum*. In the year to the end of March 2013 498 hectares of woodland had been replanted with this support.

## Weald Forest Ridge Project

In May, the Forestry Commission completed a three year project to improve habitats and public access in Forestry Commission woodland across the High Weald. Key areas of work included the upgrading of public access facilities and interpretation highlighting the historical and cultural significance of the ancient woodlands in the High Weald and work to improve ancient woodland habitats including the removal of invasive species.

Several significant woodland surveys were also undertaken, including an archaeological survey incorporating Lidar imagery and ecological surveys.

### **Wyre Forest**

In November Natural England and the Forestry Commission signed an agreement to work towards a single management plan for Wyre Forest, is currently roughly a third owned and managed by the Commission, a third managed by Natural England and a third managed by a number of private owners. Tim Selman has been recruited to lead a programme of work with the Wyre Forest Partnership Board that will include planning to unify management of the forest and unpick the perceived and real barriers for closer working between Natural England, the Commission and private woodland owners.

### **Westonbirt Development Project**

Implementation of phase 1 of the Westonbirt Project began in January with construction of the relocated visitor car park. This will be followed from the summer by the new Welcome Building and restoration of the heritage downland landscape. This £4.3m project has been part-funded by the Heritage Lottery fund and will include a range of opportunities for participation by community and health support groups. It is anticipated that the new visitor reception and interpretation facilities will be up and running by spring 2014.

### **Expand**

The total area of woodland creation grant aided by the English Woodland Grant Scheme in 2012-13 was 1,832 hectares. This was only a small 3% decrease on the previous year despite the impact of Chalara resulting in the loss of availability of ash trees which normally make up 20% of the programme, and also the coldest March weather in recent history during what is normally the peak month for planting.

In addition to woodland creation under EWGS Forestry Commission staff assisted Natural England in delivering woodland planting under Environmental Stewardship, the RDPE agri-environment scheme. The Woodland Trust planted 255 hectares of woodland without grant aid from the Forestry Commission.

Minister of State, David Heath CBE MP, attended a successful school tree planting event on 17 December in Harrow. At the same time, the Big Tree Plant 2012 report was released. The Big Tree Plant campaign aims to plant 1m trees where people live and work in England over the life of this parliament. To date, over 123 groups from across the country have had their projects approved, amounting to 813,000 trees. The grant scheme, run by the Forestry Commission, has awarded £3.4m of funding, matched by nearly £7.0m from the groups. Since the launch of the campaign by Ministers in December 2010 some 420,000 trees have been planted, over 70% of which are in England's most deprived and least green neighbourhoods.

### **Empowerment and engagement**

In July there was a search for any "Lumberjills" who are former members of the Women's Timber Corps and had worked in forests in the south of England during the Second World War. This was to help recognise and celebrate the 70-year anniversary of the Corps. They were looking to record stories and experiences from these women allowing a celebration of the contribution they made.

### **Training and Skills**

In February, 20 apprentices started work for Forest Enterprise based at locations across the Public Forest Estate in England. Each apprentice will be given the opportunity to learn while they work and help to achieve professional qualifications and longer-term employment opportunities within the forestry sector. The apprenticeships will last 2 years after which time the apprentices will be encouraged to apply for permanent jobs with the Forestry Commission or wider forestry sector.

The Forestry Skills Initiative is developing well, with training provision for 19 new apprentices being supported. Eight training providers are engaged with the scheme, and are offering the forestry Work Based Diploma with support of the Skills Initiative across England. This success will be built upon in Year 2 to achieve full capacity of 45 new apprentices.

## **Recreation**

The second meeting of the Sport and Recreation Alliance sub group on forestry access and recreation met on the 17 July and the then Forestry Commission Chair Pam Warhurst attended. The Group discussed the Independent Panel for Forestry's report and the next stages for preparing the Government's response. On behalf of the group the Sport and Recreation Alliance had undertaken research amongst the Public Forest Estate, Recreation Managers and the user governing bodies to ascertain key principles to which both parties could sign up to, in order to allow a more consistent approach to how each sport or recreational use is perceived and managed across the Public Forest Estate. The set of "Principles" is being developed and will be discussed further in early autumn. Alongside the principles, the Group are developing a suite of good practice case studies, to supplement the UK Forestry Standard (UKFS) Forest and People guidelines to encourage private woodland owners to consider allowing a wider range of sporting and recreational activities within their woodlands.

On 31 January, Kielder Water & Forest Park in Northumberland was awarded Gold for Best Tourism Experience in north east England and has been selected as a finalist in the national category of Tourism Experience of the Year.

Dalby Forest has earned official recognition from the UK Dark Sky Discovery which, is a network of national and local astronomy and environmental organisations and has been awarded the designation of Dark Sky Discovery Site "Milky Way" class venue for stargazers – the top rating – on account of its lack of light pollution and commitment to popularising astronomy.

## Review of Tax Arrangements of Public Sector Appointees

Defra are required to disclose information in their annual report and accounts relating to the review of tax arrangements of public sector appointees. The information relating to off payroll engagements for the Forestry Commission is reported below for consistency with Defra's annual report and accounts.

For off-payroll engagements at a cost of over £58,200 per annum that were in place as of 31 January 2012:

|   | Forestry Commission |
|---|---------------------|
| No. in place on 31 January 2012   | 7                   |
| <i>of which</i>   |                     |
| organisation's payroll  | 0                   |
| <i>of which</i>   |                     |
| negotiated/re-engaged, to include   | 7                   |
| No. that have not been successfully re-negotiated, and therefore continue without contractual clauses allowing the department to seek assurance as to their tax obligations | 0                   |
| No. that have come to an end  | 0                   |
| <b>Total</b>  | <b>7</b>            |

For all new off-payroll engagements between 23 August 2012 and 31 March 2013, for more than £220 per day and more than 6 months:

|  | Forestry Commission |
|--|---------------------|
| No. of new engagements   | 2                   |
| <i>of which</i>  |                     |
| No. of new engagements which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations | 2                   |
| <i>of which</i>  |                     |
| No. for whom assurance has been requested and received   | 0                   |
| No. for whom assurance has been requested but not received   | 0                   |
| No. that have been terminated as a result of assurance not being received  | 0                   |
| <b>Total</b>   | <b>2</b>            |

## FORESTRY COMMISSION ENGLAND IMPACT AND INPUT INDICATORS 2011-15

### HEADLINE PERFORMANCE REPORT AT 31 MARCH 2013

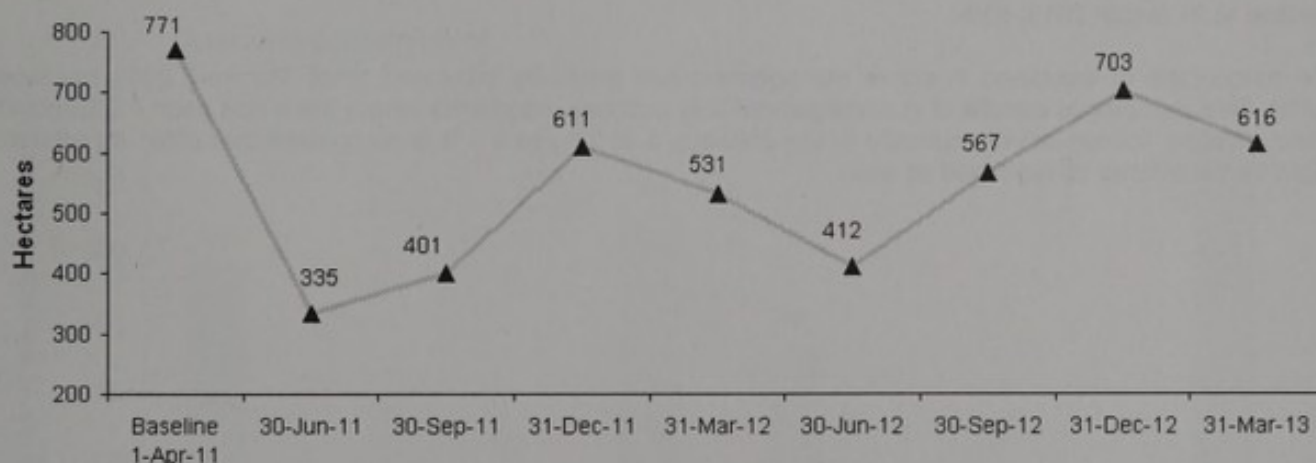
Forestry Commission England's Corporate Plan 2011-15 set out our key Impact and Input Indicators to show our contribution towards the wider State of England's Woodlands. The Indicators are also covered in our more recent Corporate Plan 2012-13.

Our Indicators Report 2012 provided the first annual monitoring report on all the Indicators.

This section provides the 2012-13 year-end position on our six headline performance indicators. It reflects our key priorities of protection, improvement and expansion of England's woodlands, as set out in the recent Government Forestry and Woodlands Policy Statement (January 2013).

#### 1. Protection

**Impact Indicator:** Hectares of woodland covered by plant-health notices (includes notices issued on the Public Forest Estate)



Position at 31 March 2013: 616 hectares of land requiring treatment.

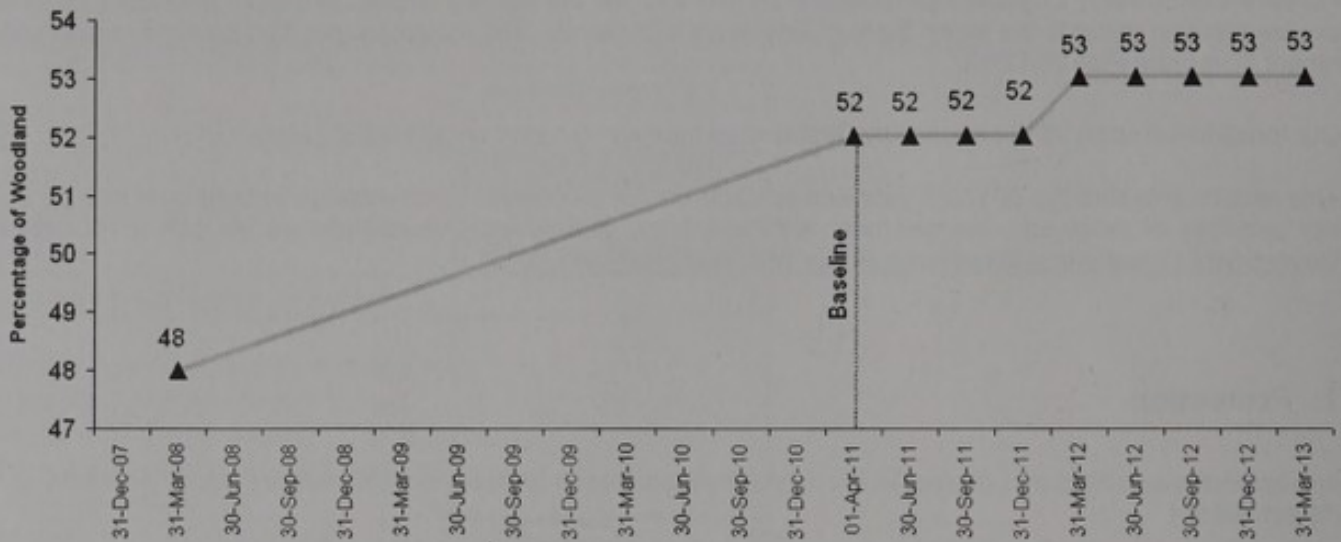
The fall of area under Notice this quarter is in line with what was expected as action is implemented.

No additional Notices were issued for sites infected with *Chalara fraxinea* during this period in line with our decision to await further development of the Chalara Management Plan.



## 2. Improvement

*Impact Indicator: Percentage of woodland in active management (including the Public Forest Estate)*



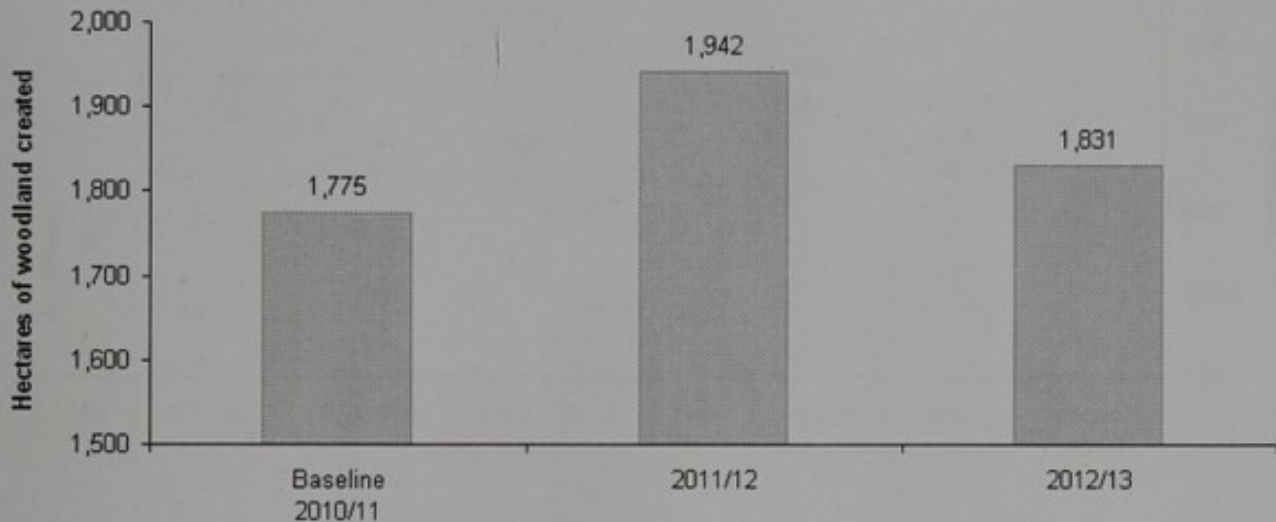
Position at 31 March 2013: 53%.

The percentage of woodland in active management has gradually increased since the April 2011 baseline (52%). This indicator of woodland in management only includes woodlands where there has been FC England grant or felling licence activity typically in the previous 5 to 10 years – it is recognised that other woodlands might be considered as managed as well.

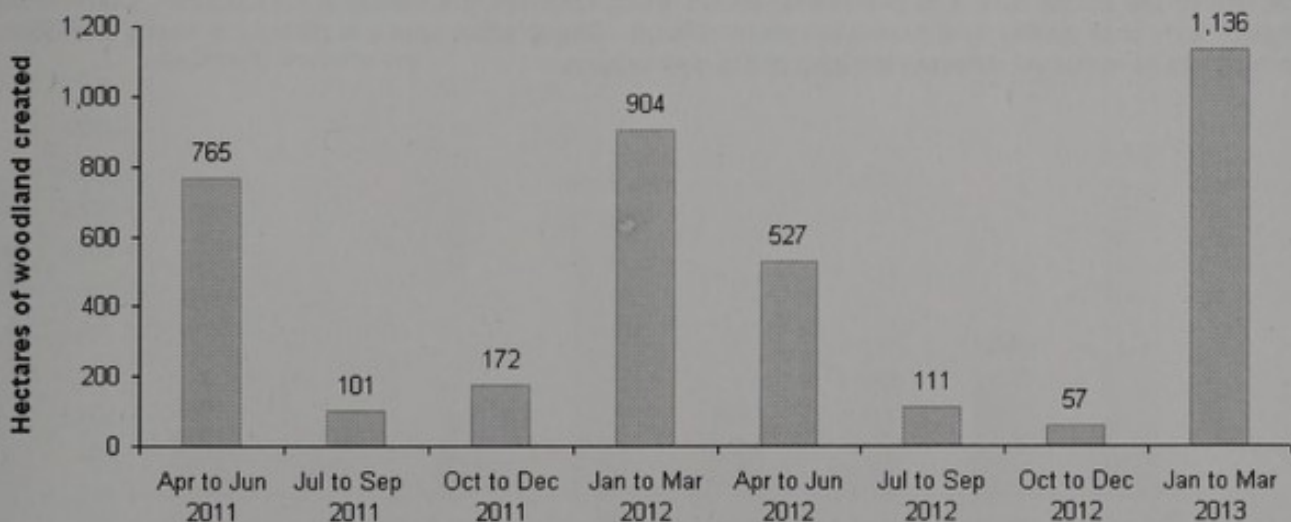
### 3. Expansion

*Impact Indicator: Hectares of woodland created (gross)*

#### Annual achievement



#### Quarterly achievement

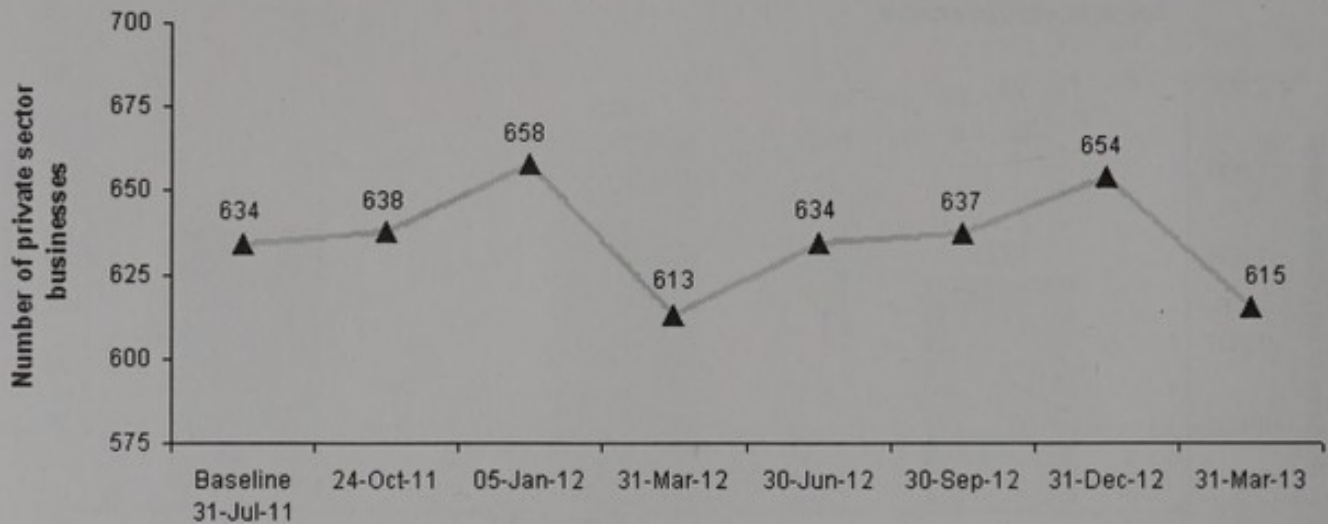


Report for January to March 2013: 1,136 hectares created.

A total of 1,831 hectares of woodland were created in the 2012-13 financial year; as shown by this measure based on grant payments made by the Forestry Commission in-year. This annual total is 6% less than the 2011-12 performance. This represents a reasonably robust performance as this was achieved in the context of the outbreak of *Chalara* die-back of Ash and the associated need for woodland owners and managers to select and source alternative species. The 2012-13 performance is still 3% greater than the 2010-11 baseline. There is work to do yet to increase woodland creation rates to the levels aspired to in the [Government Forestry and Woodlands Policy Statement \(January 2013\)](#).

## 4. Improvement

*Impact Indicator: Number of private sector businesses operating on the Public Forest Estate*

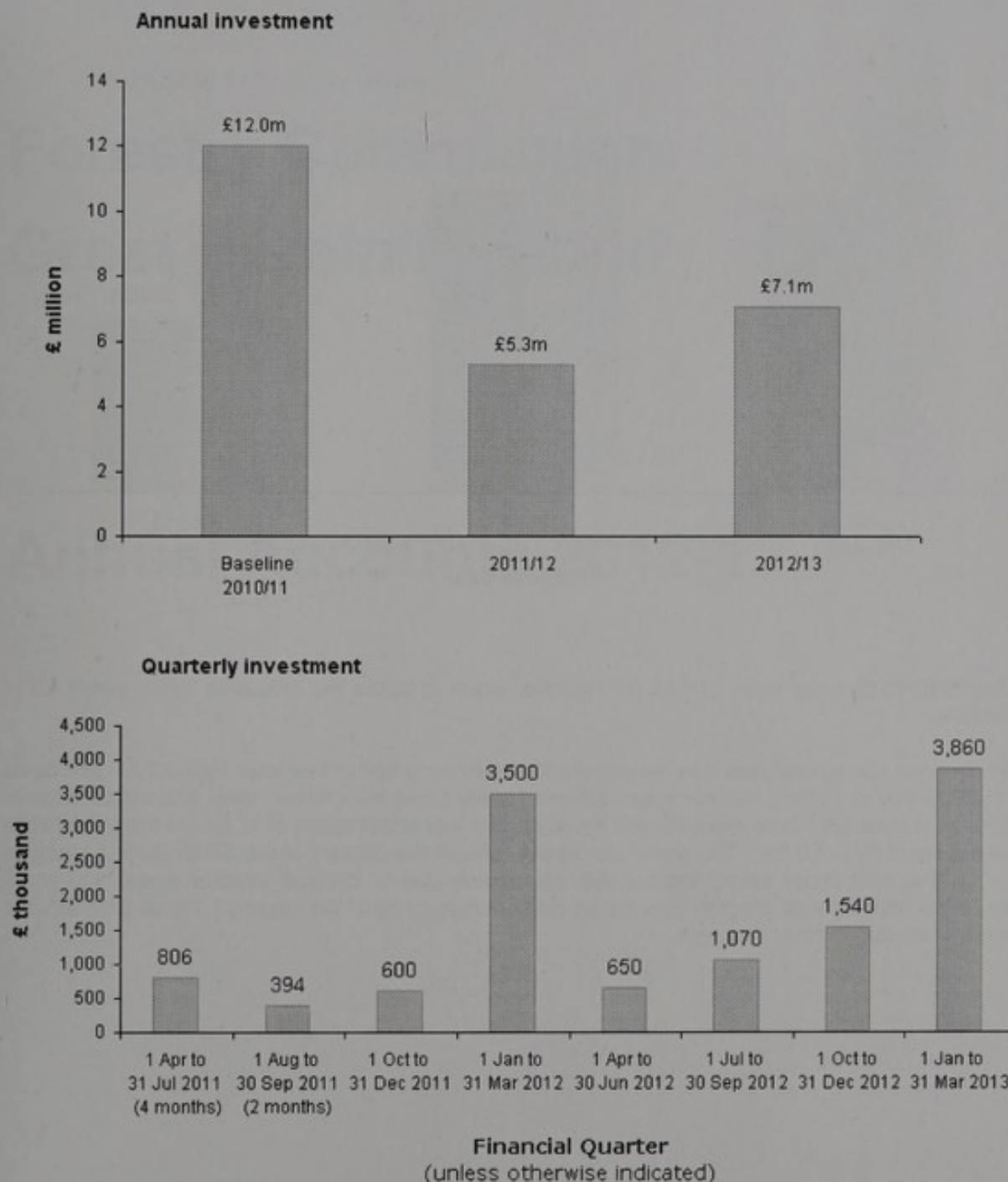


Position at 31 March 2013: 615 private businesses and individuals.

The figures are 2 lettings up on the same stage date last year; a very nominal increase. The trend indicates a stable use of the estate over a twelve month period which removes the seasonal fluctuations. Commercial lettings of fairly poor quality rural premises remain difficult. Cheap office space is plentiful in towns and cities. Franchise lets have not yet reflected the start of the new season.

## 5. Improvement

*Input Indicator: Cash spent on partnerships and engagement by Forest Services*

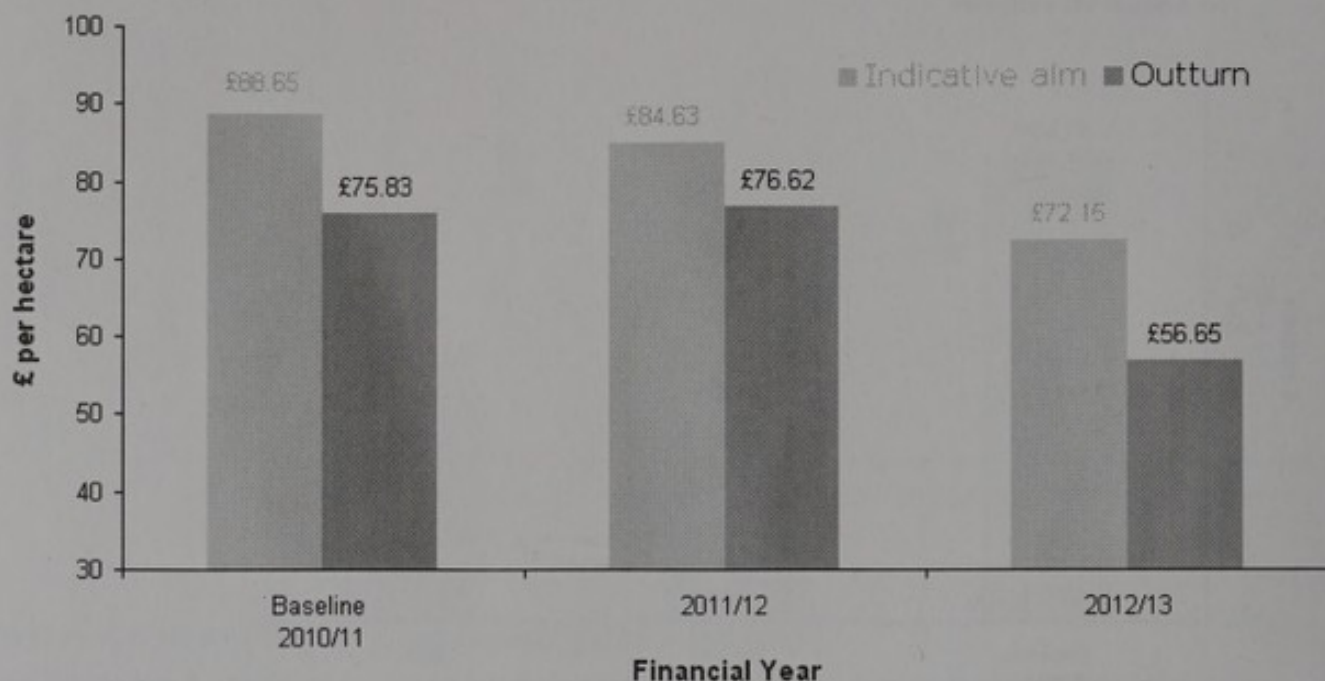


Position at 31 March 2013: £7.12 million spent in the financial year 2012-13.

The partnership spend for 2012-13 has been consistent with the SR10 programme reductions. A total spend of £7.12m includes partnerships programmes such as dealing with major plant health issues; the Big Tree Plant; and a number of high profile woodfuel projects. Spend still tends to focus towards the final quarter of the year and new systems and processes are in place to more evenly spread this throughout the year so that we further improve the way our spend enables the sector to protect, improve and expand England's woodland.

## 6. Restructuring our Business

*Input Indicator: Cost of managing the Public Forest Estate (per hectare)*



Outturn for the 2012-13 financial year: £56.65 per hectare, which is below the indicative figure aimed for of £72.15 per hectare.

The improved performance against plan was the result of income being higher than plan by c. £2.2m and costs being lower than plan by c. £1.6m. Income improvements mainly arose from timber sales and estate income, such as income from minerals. Cost improvement arose as pay was under spent by c. £1.1m from plan while other costs under spent by c. £0.5m. The pay under spend reflects the delivery of the SR10 staffing changes ahead of plan. Other cost under spend against plan was mainly due to the bad weather; preventing some restocking and other maintenance programmes taking place across parts of the country. These programmes naturally resume when the weather improves.

Reports for our other Corporate Plan performance indicators and wider State of England's Woodlands indicators are available from our website at [www.forestry.gov.uk](http://www.forestry.gov.uk) > [England](#) > [About us](#) > [Indicators](#)

Source: These Forestry Commission England key performance indicators are based on our administrative data and will be reviewed during 2013-14. The outturns against these indicators have been verified by Internal Audit at the Forestry Commission.

# **Forestry Commission Great Britain/England**

## **Annual Accounts 2012-13**

## FINANCIAL COMMENTARY

### Basis of accounts

The Forestry Commission Great Britain/England Accounts are prepared in accordance with a direction given by HM Treasury in pursuance of Section 7(2) of the Government Resources and Accounts Act 2000.

### Departmental accounting boundary

With effect from 1 April 2011, Parliament has approved Defra's revised resource Estimate structure which provides for expenditure by the Forestry Commission in England (including Forest Enterprise England) and its Great Britain wide functions (including the executive agency Forest Research) as a separate line within the Estimate.

The Supplementary Estimate published in February 2012 further revised the presentation of the resource Estimate structure and the disclosure of the Forestry Commission's expenditure as a separate entity was removed.

The funding covers the promotion of forestry and supporting the planting, management and conservation of forests and woodlands within England, including the operation of the Forestry Commission's Estate by its agency, Forest Enterprise England. In addition it funds the GB-wide functions covering sustainable forestry policy, forestry standards, international relations, plant health and forestry research.

### Financial Review

Resources to fund our activities in England and our Great Britain functions come from Defra, from regional agencies, from the European Union, from Local Authorities, from some Non-Governmental organisations and from income from the public forest estate managed by Forest Enterprise England.

Funding for Forestry Commission Great Britain/England was decided as part of SR10. The planned sources of income and expenditure up to 2014-15 are shown in the latest Corporate Plans for England and for Great Britain activities.

In addition to the expenditure shown in our accounts, Forestry Commission Great Britain/England manages grant schemes on behalf of Defra. These schemes total a further £32.4m (2011-12 £31.5m) of public funds that are administered by Forestry Commission Great Britain/England staff.

### Significant variances against budget

The comparison of resource and capital expenditure outturn to budget is shown below:

|  | 2012-13              |                              |                 |                   | Outturn<br>comparison to<br>budget<br>£000 |
|--|----------------------|------------------------------|-----------------|-------------------|--|
|  | Budget total<br>£000 | Gross<br>Expenditure<br>£000 | Income<br>£000  | Net Total<br>£000 |  |
| Resource Departmental Expenditure Limit (RDEL) | 53,385               | 85,647                       | (25,854)        | 59,793            | 6,408                                      |
| Resource Annually Managed Expenditure (AME)    | 7,329                | (2,264)                      | -               | (2,264)           | (9,593)                                    |
| <b>Total resource outturn</b>                  | <b>60,714</b>        | <b>83,383</b>                | <b>(25,854)</b> | <b>57,529</b>     | <b>(3,185)</b>                             |
| Capital Department Expenditure Limit (CDEL)    | 540                  | 826                          | -               | 826               | 286  |
| <b>Total capital outturn</b>                   | <b>540</b>           | <b>826</b>                   | <b>-</b>        | <b>826</b>        | <b>286</b>                                 |

The £6.4m Resource DEL variance between the 2012-13 post Supplementary Estimate budget and the resource outturn was due to an approved forecast overspend of £7m from additional Defra funding linked to the government's response to the Independent Panel on Forestry's Report and in recognition of the previous under

utilisation of cover for the suspension of woodland sales. The overspend on capital has been offset by a switch of RDEL funds. The overall underspend across RDEL and CDEL against the approved forecast is £0.3m (0.5%). The underspend on AME related to an under utilisation of provisions.

## Other Disclosures

### Supplier Payment Policy

Forestry Commission Great Britain/England complies with the Government's Better Payment Practice Code. Unless otherwise stated in the contract, we aim to pay within 10 days from the receipt of goods and services or the presentation of a valid invoice, whichever is the later. A sample analysis for 2012-13 indicates that 98.9% of invoices paid by Forestry Commission Great Britain, 98.6% of invoices paid by Forestry Commission England and 98.4% of invoices paid by Forest Research were paid within the due date. Arrangements for handling complaints on payment performance are notified to suppliers on contracts.

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

### Pensions

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

### Personal data related incidents

There were no protected personal data related incidents reported for Forestry Commission Great Britain/England in 2012-13 or previous financial years. Forestry Commission Great Britain/England will continue to monitor and assess its information risks in order 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.

### Auditors

The accounts of Forestry Commission Great Britain/England are audited by the Comptroller and Auditor General under the Government Resources and Accounts Act 2000. The notional audit fee was £55,000 (2011-12: £60,000). In addition, the notional fee for the audit of the Forest Research Agency was £31,000 (2011-12: £31,000). No fees were charged for other services (2011-12: nil).

### Disclosure of audit information to the auditors

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

*I Gambles*

5 June 2013

Additional Accounting Officer  
Forestry Commission  
620 Bristol Business Park  
Coldharbour Lane  
Bristol  
BS16 1EJ



## REMUNERATION REPORT

### Remuneration Policy

Fees for non-executive Commissioners and National Committee members who are not Forestry Commission employees are determined in accordance with guidelines prescribed by the Cabinet Office. The Forestry Commission's Senior Pay Committee comprises the Chairman, Director General, Director Scotland, Director England, and three other non-executive Commissioners. The Chairman and non-executive members determined the Director General's pay. The Chairman, Director General and non-executive Commissioners took decisions in respect of Country Directors. The entire committee took decisions on the remaining senior staff posts.

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

- Guidelines circulated by the Cabinet Office implementing Government decisions on the recommendations of the Senior Salaries Review Body (SSRB). The SSRB is responsible for monitoring the operation of the Senior Civil Service pay system and for making recommendations to the Government on the shape of the system, including the salary values for the minimum and maximum of each of the senior pay bands, the range of percentage increases to base salary and range of bonuses. Further information on the work of the SSRB can be found at [www.ome.uk.com](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 consider the recommendations, determines the allocation of senior staff to tranches, and decides the percentage increase to salary and any bonus to be awarded.

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

### Employment contracts

Civil Service appointments are made in accordance with the Civil Service Commission Recruitment Principles, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made. Unless otherwise stated below, the senior staff covered in this report hold appointments which are open-ended until they reach the normal retiring age, with a maximum notice period of six months. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. Non-executives are generally appointed for a fixed term of three years with a maximum notice period of one month. Contracts are renewable for further fixed terms if both parties agree. In the event of early termination, for whatever reason, there is no provision for compensation.

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

|                     | Date of current contract / letter | Unexpired term (months*) |
|---------------------|-----------------------------------|--------------------------|
| Sir Harry Studholme | 18/01/2007                        | 9***                     |
| Judith Webb MBE     | 18/01/2010                        | 10                       |
| Jon Owen Jones      | 18/01/2007                        | 0*****                   |
| Hamish Macleod      | 01/04/2009                        | 24****                   |
| Amanda Bryan        | 30/06/2012                        | 32                       |
| Pam Warhurst        | 01/10/2012                        | 0**                      |
| William Weston      | 11/12/2011                        | 20                       |
| Keith Oates         | 13/05/2010                        | 1                        |
| Sarah Hendry        | N/A                               | N/A*****                 |

\* months remaining from 31 March 2013.

\*\* Pamela Warhurst left on the expiration of her contract on 31 December 2012.

\*\*\* Sir Harry Studholme has had a one year extension to second term approved in July 2012.

\*\*\*\* Hamish Macleod has been re-appointed with a new contract from 1 April 2012.

\*\*\*\*\* Jon Owen Jones had a three month extension until 31 March 2013.

\*\*\*\*\* Sarah Hendry, Director Defra, a member of the National Committee for England during 2012-13, is employed by Defra.

### Salary and pension entitlements (INFORMATION SUBJECT TO AUDIT)

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

|                    | 2012-13              |                           |                                     | 2011-12            |                           |                                     |
|--------------------|----------------------|---------------------------|-------------------------------------|--------------------|---------------------------|-------------------------------------|
|                    | Salary<br>£000       | Bonus<br>Payments<br>£000 | Benefits in kind<br>to nearest £100 | Salary<br>£000     | Bonus<br>Payments<br>£000 | Benefits in kind<br>to nearest £100 |
| Tim Rollinson      | 105-110 <sup>6</sup> | -                         | -                                   | 125-130            | 14                        | -                                   |
| Ian Gambles        | 5-10 <sup>8</sup>    | -                         | -                                   | -                  | -                         | -                                   |
| Simon Hodgson      | 80-85                | 8                         | -                                   | 85-90              | -                         | 3,100                               |
| Jean Lindsay       | 80-85 <sup>7</sup>   | -                         | -                                   | 65-70              | 8                         | -                                   |
| Sarah England      | 55-60                | -                         | 1,500                               | 55-60              | -                         | 1,200                               |
| PK Khaira-Creswell | 45-50                | -                         | -                                   | 45-50              | -                         | -                                   |
| Keith Gliddon      | -                    | -                         | -                                   | 25-30 <sup>1</sup> | -                         | -                                   |
| Paul Snaith        | 70-75                | -                         | -                                   | 70-75 <sup>2</sup> | -                         | -                                   |
| Laura Jones        | -                    | -                         | -                                   | 35-40 <sup>3</sup> | -                         | -                                   |
| Richard Greenhous  | 65-70                | -                         | -                                   | 20-25 <sup>4</sup> | -                         | -                                   |
| Mark Funnell       | 60-65                | -                         | -                                   | 40-45 <sup>5</sup> | -                         | -                                   |
| Wilma Harper       | 70-75                | 8                         | -                                   | 70-75              | -                         | -                                   |
| David Felstead     | -                    | -                         | -                                   | 70-75              | -                         | -                                   |
| Frank MacCulloch   | -                    | -                         | -                                   | 65-70              | -                         | 400                                 |
| Brian Mahony       | 75-80                | 10                        | -                                   | 75-80              | -                         | -                                   |
| Steve Meeks        | 65-70                | -                         | -                                   | 65-70              | -                         | -                                   |

<sup>1</sup> Figure quoted is for the period 1 April 2011 to 22 July 2011 whilst Finance Director, Great Britain. The full year equivalent is 85-90.

<sup>2</sup> Figure quoted is for the period 3 May 2011 to 31 March 2012 whilst Finance Director, Great Britain. The full year equivalent is 70-75.

<sup>3</sup> Figure quoted is for the period 1 April 2011 to 30 September 2011 whilst Director of Forest Services, England. The full year equivalent is 70-75.

<sup>4</sup> Figure quoted is for the period 28 November 2011 to 31 March 2012 whilst Director of Forest Services, England. The full year equivalent is 60-65.

<sup>5</sup> Figure quoted is for the period 1 August 2011 to 31 March 2012 whilst Head of Communications. The full year equivalent is 60-65.

<sup>6</sup> Figure quoted is for the period 1 April 2012 to 31 January 2013 whilst Director General, Great Britain. The full year equivalent is 125-130.

<sup>7</sup> Figure quoted is for the period 1 April 2012 to 2 January 2013 whilst Director HR and remaining part of year as Director of Corporate Services.

<sup>8</sup> Figure quoted is for the period 11 March 2013 to 31 March 2013 whilst Director England. The full year equivalent is 105-110.

The salary and pension entitlements of Bob McIntosh, Director Scotland, an Executive Forestry Commissioner, are borne and disclosed in the Forestry Commission Scotland Annual Report and Accounts 2012-13 as he is Director, Forestry Commission Scotland.

The salary and pension entitlements of Trefor Owen, Director Wales, an Executive Forestry Commissioner during the year, are borne and disclosed in the Forestry Commission Wales Annual Report and Accounts 2012-13.

The salary and pension entitlements of the members of the Forest Research Management Board and Forest Enterprise England Management Board are borne and disclosed in each of the agency's Annual Report and Accounts 2012-13.

## Salary

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

## Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by 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.

## Highest paid Director and median salary cost disclosure

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 Forestry Commission Great Britain/England in the financial year 2012-13 was £125,000 - £130,000 (2011-12, £140,000 - £145,000). This was 4.2 times (2011-12, 4.5) the median remuneration of the workforce, which was £30,156 (2011-12, £31,612). In 2012-13, no (2011-12, nil) employees received remuneration in excess of the highest-paid director.

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

## Pension benefits (information subject to audit)

|                    | Accrued pension at pension age at 31 March 2013 and related lump sum<br>£000 | Real increase (decrease) in pension and related lump sum at pension age<br>£000 | CETV at 31 March 2013<br>£000 | CETV at 31 March 2012*<br>£000 | Real increase (decrease) in CETV<br>£000 | Employer contribution to partnership pension account<br>to nearest £100 |
|--------------------|--|---|-------------------------------|--------------------------------|--|---|
| Tim Rollinson      | 30-35 plus 100-105 LS  | (20)- (25) plus (70)- (75) LS   | 823                           | 1,248                          | (492)                                    | -   |
| Simon Hodgson      | 20-25 plus 65-70 LS  | 0-2.5 plus 2.5-5 LS   | 488                           | 441                            | 8  | -   |
| Ian Gambles        | 0-5 plus 0-5 LS  | 0-2.5 plus 0-2.5 LS   | 48                            | 47                             | 1  | -   |
| Richard Greenhous  | 5-10 plus 20-25 LS   | 0-2.5 plus 2.5-5 LS   | 93                            | 74                             | 12                                       | -   |
| Steve Meeks        | 25-30 plus 85-90 LS  | 0-2.5 plus 0-2.5 LS   | 508                           | 479                            | 2  | -   |
| Sarah England      | 20-25 plus 60-65 LS  | 0-2.5 plus 2.5-5 LS   | 305                           | 275                            | 14                                       | -   |
| Mark Funnell       | 0-5 plus 0-5 LS  | 0-2.5 plus 0-2.5 LS   | 23                            | 9                              | 10                                       | -   |
| PK Khaira-Creswell | 5-10 plus 15-20 LS   | 0-2.5 plus 0-2.5 LS   | 72                            | 64                             | 4  | -   |
| Wilma Harper       | 35-40 plus 0-5 LS  | 0-2.5 plus 0-2.5 LS   | 701                           | 626                            | 38                                       | -   |
| Jean Lindsay       | 30-35 plus 90-95 LS  | 5-7.5 plus 15-17.5 LS   | 573                           | 451                            | 95                                       | -   |
| Paul Snaith        | 45-50 plus 0-5 LS  | 0-2.5 plus 0-2.5 LS   | 857                           | 800                            | 11                                       | -   |
| Brian Mahony       | 35-40 plus 65-70 LS  | 0-2.5 plus 0-2.5 LS   | 716                           | 664                            | 12                                       | -   |

\*The figure may be different from the closing figure in last year's accounts. This is due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

## Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (**classic**, **premium** or **classic plus**); or a whole career scheme (**nuvos**). 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** and **nuvos** are increased annually in line with Pensions Increase legislation. 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 set at the rate of 1.5% of pensionable earnings for **classic** and 3.5% for **premium**, **classic plus** and **nuvos**. 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 updated in line with Pensions Increase legislation. 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 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three 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 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach 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** and 65 for members of **nuvos**.

Further details about the Civil Service pension arrangements can be found at the website <http://www.civilservice.gov.uk/my-civil-service/pensions/index.aspx>

## Cash Equivalent Transfer Values

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

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out within the guidelines and framework prescribed by the Institute and Faculty of Actuaries 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 (INFORMATION SUBJECT TO AUDIT)**

The non-executive Forestry Commissioners and members of the National Committee for England received the following remuneration for their services during the year ended 31 March 2013.

|                     | 2012-13<br>£000 | 2011-12<br>£000 |
|---------------------|-----------------|-----------------|
| Sir Harry Studholme | 16              | 11              |
| Judith Webb MBE     | 11              | 11              |
| Jon Owen Jones      | 14              | 14              |
| Hamish Macleod      | 16              | 16              |
| Amanda Bryan        | 8               | -               |
| Pam Warhurst        | 22              | 30              |
| William Weston      | 9               | 5               |
| Keith Oates         | 5               | 5               |
| Sarah Hendry        | N/A*            | N/A*            |

\*Sarah Hendry, Director Defra, a member of the National Committee for England during 2012-13, is employed by Defra and does not receive any additional remuneration from Forestry Commission England.

*I Gambles*  
Additional Accounting Officer

**5 June 2013**

## **STATEMENT OF RESPONSIBILITIES OF THE FORESTRY COMMISSION AND THE ACCOUNTING OFFICER**

Under Section 5, subsection 7 of the Government Resources and Accounts Act 2000, HM Treasury has directed Forestry Commission Great Britain/England to prepare accounts for each financial year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs and of the income and expenditure, changes in taxpayers' equity, and cash flows of the department for the financial year.

From February 2012 Forestry Commission GB/England's (including Forest Enterprise England and Forest Research) expenditure was no longer disclosed as a separate entity within the resource estimate structure. All expenditure falls within Defra's overall control totals.

In March 2013, and following the decision not to continue with the post of Director General after the last incumbent retired, Defra appointed the Director Forestry Commission England as the Additional Accounting Officer for the Forestry Commission. A Memorandum of Agreement exists between the Accounting Officers for the Forestry Commission and Defra.

The Chief Executive, Forest Enterprise England has been designated by Director Forestry Commission England as an Agency Accounting Officer for that part of the department's accounts relating to the Agency within England-wide activities and the associated assets, liabilities and cash flows. The Director General had designated the Chief Executive, Forest Research Agency as an Agency Accounting Officer for that part of the department's accounts relating to the Agency resources within Great Britain-wide activities and the associated assets, liabilities and cash flows. None of these appointments detract from the Director Forestry Commission England's overall responsibility as Accounting Officer for the department's accounts. Under the terms of the Accounting Officers' Memorandum, the relationship between the Accounting Officers, together with their respective responsibilities, is set out in writing.

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

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

The responsibilities of an Accounting Officer (including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding Forestry Commission Great Britain/England's assets) are set out in *Managing Public Money* published by HM Treasury.

## GOVERNANCE STATEMENT

### 1. Introduction and Scope of Responsibility

As Additional Accounting Officer for Forestry Commission GB/England, I have 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*.

In discharging this overall responsibility, I am responsible for putting in place appropriate arrangements for the governance of its affairs, 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.

This Governance Statement covers the full year and whilst there have been changes in Accounting Officer during the year, I have received appropriate assurances from the previous Accounting Officers.

### 2. The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the Forestry Commission is directed, controlled and led. It enables the Forestry Commission 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 the Forestry Commission'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 the Forestry Commission for the year ended 31 March 2013 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

### 3. The Governance Framework

The Forestry Act 1967 (as amended) and the Forestry Act 1979 set out the principal legislative framework within which the FC 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, Scottish Ministers and the Welsh Government. 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.

Although the vast majority of FC functions are now devolved, by agreement of Ministers in the three countries, certain functions and responsibilities are delivered on a GB-wide basis. This includes the work of its Agency, Forest Research.

From April 2013, the duties and functions in the Forestry Acts are exercised in Wales by the Welsh Government and Natural Resources Wales.

### Relationship with Defra

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

Caroline Spelman MP, Secretary of State to September 2012

Lord Taylor of Holbeach, Parliamentary Under Secretary to September 2012

Owen Paterson MP, Secretary of State from September 2012

David Heath MP, Minister of State for Agriculture and Food from September 2012

Various meetings were held with the Secretary of State and Minister of State by the Forestry Commission Chair, the Director General and other FC senior staff throughout 2012-13.

An agreement, 'Working Together: Defra and the Forestry Commission', is in place which sets out a framework for the Forestry Commission in England and Defra to work together to develop and deliver forestry policy. It is a statement of the principles, which will guide relations between the Forestry Commission and Defra to ensure sufficient communication and co-ordination to enable each to discharge their respective responsibilities effectively and efficiently.

Formal quarterly 'Forestry Strategy and Finance' meetings are held between senior Forestry Commission and Defra officials. Defra officials attend in support of their Principal Accounting Officer and to maintain oversight of sound management of the overall Defra vote. In year financial and corporate reporting is provided to the Defra Supervisory Board.

Closer working between the Forestry Commission, Environment Agency and Natural England has continued during 2012-13 with three meetings of the executives group and three meetings of the non executives group. The discussions focus on improving our collaboration and customer delivery but over the past year have been dominated by the formal Triennial Review of EA and NE functions. The preliminary results of this review should be known in early summer 2013 and will provide the basis for future joint working.

### Forestry Commissioners and Permanent Head of the Department

The Board of Commissioners consists of a Chair and up to 10 other members appointed by the Queen to be Forestry Commissioners. During the year, the Chairs were Pamela Warhurst CBE (until 31 December 2012) and Sir Harry Studholme (Interim from 1 January 2013). The Director General, Tim Rollinson CBE, as Permanent Head of the Department, retired on 31 January 2013 and this role was not replaced. Simon Hodgson, FC England Chief Executive, took on the Additional Accounting Officer role for the period 1 February 2013 to 10 March 2013, after which Ian Gambles assumed the responsibility upon his appointment as Director England.

From 1 February 2013, a new role of Director Central Services was created with responsibility for oversight and leadership of the cross border and shared service functions and driving forward continued evolution and review of these services.

In recognition of these structural changes the Forestry Commissioners reviewed their Terms of Reference in March. From 2013, the Board of Commissioners is responsible for:

- Ensuring that Commissioners' statutory duties are fulfilled.
- Determining the strategic direction for the Forestry Commission.



- Delegating to the England National Committee such functions as are required to support the Government Forestry and Woodlands Policy in England.
- Delegating to the Scotland National Committee such functions as are required to support the National Committee's role in ensuring that the Ministers policies are delivered efficiently and effectively.
- Maintaining an overview of the Central Services and recommending the Corporate Plan for cross border activities and the Forest Research Corporate Plan to Secretary of State Defra.
- Maintaining an overview of corporate risk.

The Board of Commissioners discussed a wide range of GB, and cross-border, forestry issues including:

- tree health and biosecurity;
- future of the Forestry Commission and governance;
- transfer of Commissioner's functions in Wales;
- external review of science quality in Forest Research;
- health and safety in the forestry sector;
- changes to Commissioners' involvement with Forest Holidays; and,
- business sustainability.

At each meeting, the Board also discussed the Director General and Director Central Services's report, and country reports from the Forestry Commission's Directors in England, Scotland and Wales. Papers for these meetings and further information on the Board of Commissioners, including membership and attendance, are available on our website, [www.forestry.gov.uk](http://www.forestry.gov.uk).

### The GB Executive Board

The GB Executive Board had been responsible for:

- developing and delivering plans to reflect the long-term objectives and priorities established by the Board of Forestry Commissioners, taking account of and incorporating cross-government objectives;
- overseeing the day-to-day management and direction of the Forestry Commission;
- monitoring performance to ensure that the Forestry Commission is properly and effectively managed. It will set targets for, and monitor the performance of, Forest Research; and,
- ensuring effective communication.

In recognition of the structural changes noted above, the Executive Board (EB) reviewed its Terms of Reference and as from in January 2013 is responsible for:

- Overseeing the operation and direction of the Forestry Commission with regard to organisational issues. The EB will make decisions on those issues which impact on the FC as a whole and therefore responsibility cannot be devolved e.g. staff pay and conditions. Approving and overseeing plans to deliver the strategic cross-border activities and shared services of the Forestry Commission.
- The EB will oversee the operation of cross border activities and shared services. It will approve the strategies for each main area and recommend the Corporate Plan for cross border activities to Commissioners.
- Setting targets and monitoring performance of Forest Research. As sponsor, the EB will oversee the relationship between the Forest Research Agency and Director Corporate Services. The EB will achieve this through approving Forest Research's Framework Document or other Memorandum of Agreement and by recommending its Corporate Plan to Commissioners.
- Providing leadership on health and safety and equality and diversity. The EB will provide a clear vision for health and safety and equality and diversity, to ensure that both agendas are considered at the

early stages of planning, decision making and strategy forming and ensuring that staff are empowered to provide the sustained commitment of time and resources.

- Monitoring performance for cross border activities and shared services to ensure the Forestry Commission is sharing information including providing advice on overseeing and mitigating risk. The EB will manage risk through a framework of prudent and effective controls, including horizon scanning.

The GB Executive Board addressed a wide range of issues during the year, including:

- tree health and biosecurity;
- Forestry Commission corporate governance;
- the recommendations of the Independent Forestry Panel;
- Natural Resources Wales;
- health and safety;
- graduate programme;
- Voluntary Exit Scheme; and,
- senior staff appointments.

Further information about the GB Executive Board, including membership and attendance, is available on our website, [www.forestry.gov.uk](http://www.forestry.gov.uk).

### National Committee for England

The Committee is appointed under Section 2(3) of the Forestry Act 1967 to, inter alia, undertake any of the functions of the Forestry Commissioners that they may delegate, subject to any restrictions or conditions as they see fit.

The National Committee for England is responsible for:

- working with the Westminster parliament and Whitehall departments to develop and promote forestry policy which meets England's needs;
- giving strategic direction to the Forestry Commission's activities in England to ensure delivery of the England Forestry Strategy;
- identifying and allocating the resources required to meet objectives and monitoring performance in that country against agreed objectives;
- setting targets for, and managing the performance of Forest Enterprise England, a Public Corporation, in managing the public forest estate; and,
- ensuring the safeguarding of resources in that country through internal control systems.

During the year the Committee discussed a wide range of issues including:

- finance and business planning;
- Annual Report and Accounts 2011-12;
- tree health and biosecurity;
- the Independent Panel on forestry;
- government's forestry and woodlands policy statement;
- grant integration;
- CAP delivery;
- Corporate plan and performance indicators; and,
- the establishment of Natural Resources Wales.

At each meeting the National Committee also discussed the Director's report. Papers for these meetings and further information on the National Committee, including membership and attendance, are available on our website, [www.forestry.gov.uk](http://www.forestry.gov.uk).

Interim and long term succession planning arrangements have been put in place to ensure business continuity in respect of the England non-executive Commissioners and members.

### England Executive Board

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

The Board addressed a wide range of issues including:

- finance and business planning;
- risk management;
- governance;
- the Independent Panel on forestry;
- government's forestry and woodlands policy statement
- tree health and biosecurity;
- RDPE programme;
- the establishment of Natural Resources Wales
- corporate functions;
- human resources; and,
- communications.

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

The England Executive Board is supported by two sub-committees, the Forest Enterprise England Management Board and Forest Services Management Board. The sub-committees were established to manage the operations of the two main delivery arms of Forestry Commission England under the overall direction of the England Executive Board.

### Audit and Risk Committee

The National Committee for England has established an Audit and Risk Committee (ARC) to support it in its responsibilities for the effective management of risk, control and governance. Each of the component parts of the organisation maintain their own risk register which is overseen by their respective ARCs. Great Britain risks were reviewed by the Forestry Commission-wide Audit and Risk Chairs Group. The Chairs Group met on two occasions during the year, in October 2012 and March 2013.

Through its work the England ARC provides independent assurance to the National Committee on those key activities which support the achievement of country objectives. Assurance is also provided on the Great Britain element of the Forestry Commission's work through the review of the annual accounts and the findings from work carried out by Internal and External Audit. The ARC operates in accordance with the principles contained in the Treasury's Audit Committee Handbook.

During the year the Committee discussed a wide range of issues including:

- risk management;
- Annual Report and Accounts 2011-12;
- Period 9 Accounts 2012-13;
- External and Internal Audit strategy and reports;
- Information Security;
- tree health and biosecurity;
- Governance Statement;
- Professional valuation of the forest estate; and,
- review of committee's effectiveness.

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

As part of the structural review noted above the England Audit and Risk Committee is to be expanded in 2013-14 to include GB and shared services risks, and be renamed as the Westminster ARC. This will replace the FC-wide ARC Chairs Group.

### Performance

All of the committees have linkages through shared membership. Commissioners are members of the National Committee, who in turn are members of the Audit Committee. This ensures a breadth of knowledge and understanding of the organisation and forestry issues which enhances the contribution made by non-executives and thus the effectiveness of all the committees. Each board and committee receives relevant reports from the other committees and the non-executives play an active part in agreeing and selecting items for inclusion in agendas.

The structures also ensure sharing of best practice and discussion of common issues between England, Scotland and Wales. The Chair of the England Audit and Risk Committee (ARC) also attends meetings of the other ARC Chairs across the Defra family.

The range of topics covered by all boards and committees have been highlighted under the individual sections above.

### Register of interests

A register of interests of all Board Members is maintained by the Forestry Commission and published on our website, [www.forestry.gov.uk](http://www.forestry.gov.uk).

## **4. Review of Effectiveness**

As Accounting Officer I have responsibility for conducting, at least annually, a review of the effectiveness of the governance framework. My review is informed by the work of Internal Audit, the Agency Accounting Officers and the executive managers across the Forestry Commission 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.

I receive Annual Assurance Statements from the executive managers across the Forestry Commission and have been advised on the implications of the result of my review of effectiveness by the various Boards and ARCs.

The Head of Internal Audit has prepared a suite of annual reports and assurance statements to me and the Agency Chief Executives in their capacities as Accounting Officers. The reports include an overall assessment of the adequacy and effectiveness of risk management, control and governance within each entity.

The overall opinion is that internal control within Forestry Commission Great Britain/England continues to provide substantial assurance that material risks to the achievement of objectives are adequately managed.

Plans to address weaknesses and ensure continuous improvement of the system are in place.

The Forestry Commission has continued to apply the principles of the Treasury's Code of Good Practice for Corporate Governance in the context of its own circumstances as a Non Ministerial Department, which encourage the adoption of practices set out, where relevant and practical.

The Audit and Risk Committee annually review its own effectiveness in line with best practice as set out in HM Treasury's Audit Committee Handbook.

The Forestry Commission also participated in HM Treasury's 'Managing the Risk of Financial Loss' (MRoFL) initiative, which focussed on end-to-end self-assessments of financial processes to identify where there may be risks of loss. During 2012-13, work focused on the processes surrounding the payments of grants. This followed previous assessments on payroll, procurement and employee expenses.

Work to date has not identified any new control weaknesses and has supported findings from management accounting inspections and the work of internal and external auditors.

## 5. Risk Management

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

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

Forestry Commission Great Britain/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 from 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 Great Britain/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 our estate, making a positive contribution to the environment, effective protection of the environment and prudent use of natural resources.

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

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

Further refinements of the organisation's risk registers were put into place during the year, following the formal review of FC England's risk management policy and practices in 2011-12.

## 6. Ministerial Direction

No ministerial directions were given during the year.

## 7. Significant Governance and Risk Issues

### Biosecurity

As a result of the rising threat to our trees and woodlands, the Government has made preparing for and managing risk from plant disease a top priority. Together with Defra we have made good progress against the Tree Health and Plant Biosecurity Action Plan during this year. We have been closely involved with the setting up and work of the Defra Tree Health and Plant Biosecurity Expert Taskforce. The Taskforce is an independent group, drawn from key members of the academic community, to bring a multi-disciplinary approach to ensure Defra has access to the most up-to-date and robust evidence to inform decisions on dealing with tree and plant disease. The Taskforce report was launched by the Secretary of State at the Chelsea Flower Show on the 20<sup>th</sup> May 2013, and was accompanied by a written Parliamentary Statement to the House of Commons.

During the year, we faced a new introduction of a serious disease of Ash trees caused by the *Chalara fraxinea* fungus (*Chalara* dieback of ash). A first outbreak was confirmed on recently planted trees in July and October 2012, it was also found in the wider environment in woodland in Norfolk. A unique national survey to ascertain the presence of *Chalara* in the wider environment was undertaken in five days, visiting over 10,000 sites. We worked closely with other departments, agencies, and stakeholders to respond to this outbreak. A *Chalara* Management Plan was published in March 2013. [www.forestry.gov.uk/chalara](http://www.forestry.gov.uk/chalara)

By the end of 2012/13 the area of larch which has been felled, or is due to be felled, because of infection from *Phytophthora ramorum*, will exceed 5,000 hectares across the UK. We held a strategy review meeting in December 2012 to refine the way in which we tackle this challenging disease. *Phytophthora austrocedrae* on juniper in the north of England and the north east of Scotland remains an ongoing concern and steps are underway to co-ordinate the response at a GB level. The health of pine continues to suffer as a result of *Dothistroma* needle blight (formerly known as Red band Needle Blight).

We are also working to manage a number of other outbreaks of new pests and pathogens, including the first UK outbreak of Asian Longhorn Beetle in Kent, a new outbreak of Oak Processionary Moth in the London Borough of Bromley, separate findings of sweet chestnut blight in recent plantings in Warwickshire and East Sussex and a number of new findings of *Phytophthora lateralis* on Lawson cypress in Scotland and Wales. As is the case with *Chalara*, our response to these new outbreaks has been successfully co-ordinated with other organisations.

### Forestry Policy

In July 2012 The Independent Panel on Forestry Policy in England published its report on the future direction of forestry and woodland policy in England, and advised on the role of the Forestry Commission in implementing policy on forestry and woodland in relation to England.

The Government's response to the report was published in January 2013 within a policy statement on forestry and woodlands. The policy is based on the need to ensure resilience in our woodlands and businesses that

depend on them. It reflects a clear hierarchy of priorities focused on protecting, improving and expanding public and private woodland assets.

For FC England this means delivering a number of new policy commitments, including the establishment of a new public body to hold the public forest estate in trust for the nation.

### Devolution

In November 2011 the Welsh Assembly Government announced its intention to create a new single environment body, which would take over the Wales related function of the Forestry Commission. Natural Resources Wales (NRW) formally vested on 1 April 2013. FC GB established a governance programme to represent the interests of the Forestry Commissioners, to support the establishment of NRW and to ensure that the departure of FC Wales did not represent a material risk to the provision of central services to the remaining part of the FC.

### Organisational Change

During 2012-13 Forestry Commission GB/England completed the restructuring necessary to meet the significantly reduced funding requirements of SR10. New structures were introduced from 1 April 2012, underpinned by modernisation funding from Defra to support the cost of staff exits. The operation of the new structures has been closely monitored to ensure business continuity. At the same time responsibility for the management of Mechanical Engineering Services was devolved to the three countries, and the management of Plant and Seed Supply Branch moved to England.

The government's response to the Independent Panel on Forestry included the establishment in the longer term of a new body to hold the Public Forest Estate in trust for the nation. Establishing such a new body with greater independence from government, and greater freedom to manage its own resources, will require further significant structural reform and demand long term resourcing to manage the transition.

The response also recognised the retention of core forestry expertise within government, and that the functions currently delivered by Forest Services would be considered alongside the work to review the functions and form of Environment Agency and Natural England as part of the Triennial Review which is expected to report its preliminary conclusions in spring 2013.

### Woodland Sales

As part of the SR10 settlement, Forest Enterprise England was asked to progressively reduce its dependence on woodland sales to fund operational costs by the end of the SR10 period. This was based on the assumption that the public forest estate would reduce in size by 15% across the SR10 period. Defra rescinded this sales policy in January 2013.

The decision to suspend SR10 woodland sales in February 2011 had an immediate, and direct, impact on our baseline funding position. Additional budgetary cover was made available for 2012-13 and 2013-14 following discussion of the financial implications with Defra.

The revised profile of budgetary cover will form a key element in the forthcoming settlement negotiations.

### Non Executive Succession Planning

Succession planning arrangements have been put in place to ensure business continuity in respect of the England non-executive Commissioners and National Committee members.

Sir Harry Studholme's term has been extended for a year and he is currently acting as interim Chair of the Forestry Commission. The other Commissioner, Dr Olutayo Adebawale, completed her second term office at the end of 2011-12. Keith Oates has been appointed as Tayo's replacement from 1 April 2013. Keith's second term as a non-executive member was due to end in May 2013 and work is in hand to appoint a new non-executive member.

To aid business continuity, and following the establishment of Natural Resources Wales, Judith Webb will attend the ENC.

Jon Owen Jones and Trefor Owen ceased to be Commissioners at the end of March 2013, following the transfer of Commissioners' responsibilities in Wales to Natural Resources Wales.

### CAP Delivery Programme (CAP and RDPE IT delivery tool)

The Rural Payments Agency's (RPA) Strategic Improvement Plan covers their preparations for Common Agricultural Policy (CAP) reform. The programme to take this work forward, formerly known as the 'Future Options Programme' was re-scoped, restructured and renamed during 2012-13. The 'CAP Delivery Programme', as it is now known, now extends beyond the RPA to core Defra's regional delivery teams and to the other two Network bodies involved in CAP delivery: Natural England and the Forestry Commission. The Chief Executives of all these Network bodies are members of the CAP Delivery Programme Board, and the governance brings together the SRO, Programme team, CAP Reform negotiation and policy teams and Network Bodies. The Forestry Commission currently delivers c.£32m of rural development programme England (RDPE) grants annually on behalf of Defra. A move to a new single delivery system across all CAP delivery bodies within the Defra family will have a significant impact on Forest Services operations, as will the potential integration of grant schemes across the Defra network. Forestry Commission staff are fully and positively engaged on the programme.

### Forest Enterprise Non-Forestry Development Projects

Forest Enterprise's long term financial plan is heavily 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, green burials and built commercial development. In order for these opportunities to come to fruition, FE will need to have the assurance that they will be acceptable to Government, and to be able to sustain the confidence of business partners and stakeholders. FC 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 key business applications to the new platform taking place over the next 18 months. Step by step this programme is making positive inroads into the business risk posed by ICT infrastructure failure. A new disaster recovery site has been established at Northern Research Station and this will have the operational capacity to restore major corporate systems within 5 working days. Completion of the facility significantly reduces the previous continuity requirement for manual processes.

Whilst some risk to the business still remains as work continues, the overall risk position has substantially improved over the past three years.

### Business continuity management

Significant progress has been made in developing business continuity management within FC GB and Shared Services.

The number of staff involved in continuity has increased in Silvan House from 4 to 7 and a programme of staff training and development has been completed. Under the programme, the Silvan House continuity manager has become professionally qualified.

Business Impact Assessments have been updated to identify key business processes. These are being prioritised and continuity plans developed to enable recovery. A pilot is underway to assess a continuity management system that will make it simpler to update and control plans. The system is web-based and shall give access to the Silvan House plans from any location. All current plans will be revised and transferred to the new system by July 2013.



Forestry Commission England will be undertaking a review of its business continuity plans during 2013-14 following the introduction of the new SR10 organisational structures, working closely with Central Shared Services to learn from their experience.

### 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 we do not handle as much sensitive information as most other departments and our information holdings are relatively small.

Forestry Commission England has appointed a Senior Information Risk Owner who attends regular meetings of the Information Security Management Forum (ISMF), chaired by Director Finance Great Britain, which coordinates and controls the implementation of information security across the Forestry Commission. The work of the ISMF is supported on a day to day basis by the Departmental Security Officer and the Information Technology Security Officer.

A policy on protecting information from loss or disclosure outside the Forestry Commission has been published. A Security Culture Change Plan is also in place. Information Asset Owners (IAOs) are in place for those corporate systems holding business critical information, the loss or compromise of which would cause disruption to business operations. We have also identified local Information Asset Owners and are working with them to assist in production of local asset registers. Forestry Commission England has been working with one of the Forest Enterprise England Districts to pilot the IAO process and in spring 2013 will roll this process out across FC England. A programme of Information Assurance training is accompanying this process for all nominated Information Asset Owners, their delegates, and those involved in the collection of information or design of information systems that involve personal or sensitive information.

Online training on Information Assurance was available to all Forestry Commission staff up to the end of March 2012. This is now only available to major departments and we are working with the ISMF to consider how best to keep up awareness. All laptops are encrypted and memory sticks used to store or transfer personal or other sensitive information must be pre-encrypted.

Improvements to systems access controls continue to be implemented to ensure that only the appropriate staff have privileged access to systems and data.

Documentation of processes and procedures is continuing to make us less dependent on key staff.

This ongoing work, and our other actions, are reflected in an improved assessment against the Cabinet Office information assurance maturity model.

There were no lapses of data security reported during 2012-13.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

### Modelling and Quality Assurance

A sensible and proportionate approach to quality assurance has been adopted across FCGB/England in terms of business critical models and the associated risks are being managed properly.

### Communications

The Forestry Commission and forestry issues have never been more newsworthy, following Government proposals in 2011 to sell Public Forest Estate assets and recent tree health threats – particularly *chalara* Ash dieback. Much of our recent external communications have focused on building stronger relationships with stakeholders through change and informing the public about biosecurity issues, including the action they need to take. This work will continue.

Locally contentious issues are increasing in number and impact, as proposals come forward for non forestry developments – often requiring a national approach to the support of local teams. Issues include renewable energy schemes, access to woodlands, car parking proposals and other charging schemes.

Our staff have faced unprecedented change to the organisation over the last few years and will continue to do so, underlining the importance of clear and engaging internal communications to maintain morale and support business continuity.

## 8. Wider circumstances and future challenges

The main challenges for FCGB/England from 2013-14 and beyond are:

- managing the delivery of new commitments in line with the Government forestry and woodlands policy statement;
- introducing revised stable and sustainable arrangements for the public forest estate as a result of the Government's policy statement on forests and woodlands;
- handling the continued and increasing biosecurity threat;
- contributing to Defra's growth agenda;
- managing the impact of the setting up of Natural Resources Wales from April 2013
- working with Defra on the Strategic Alignment Project which aims to identify work streams, functions and geographies where the Defra Network can co-operate aside (or consistent with) institutional change.
- contributing to the broader picture of how the Government's forestry functions and responsibilities will be delivered in the future following the Triennial Reviews of the Environment Agency and Natural England, and the Joint Nature Conservation Committee;
- ensuring business continuity and maintenance of UKWAS certification as the further efficiencies required under SR10 and SR14 are delivered;
- managing the long term resource demands of engagement on the CAP Delivery Programme, and the potential integration of grant schemes across the Defra network; and,
- continuing to deliver agreed performance targets within an increasingly constrained financial environment.

In 2013-14 FC GB/England will remain focussed on managing these challenges either directly, or in partnership with other bodies across the Defra Network and wider government, whilst continuing to maintain business continuity across the broad range of its operations and meeting stakeholder expectation in line with the Corporate Plan.

*I Gambles*

Additional Accounting Officer

5 June 2013

## **The Certificate and Report of the Comptroller and Auditor General to the House of Commons**

I certify that I have audited the financial statements of the Forestry Commission Great Britain/England for the year ended 31 March 2013 under the Government Resources and Accounts Act 2000. These financial statements comprise the Consolidated Statements of Comprehensive Net Expenditure, 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 Report that is described in that report as having been audited.

### **Respective responsibilities of the Forestry Commission, Accounting Officer and auditor**

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Forestry Commission and the Accounting Officer are 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, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. 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 Forestry Commission's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Forestry Commission and Accounting Officer; 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. 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 expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### **Opinion on regularity**

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

### **Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of the Forestry Commission's affairs as at 31 March 2013 and of its net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

**Opinion on other matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Management Commentary and Financial Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

**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 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.

**Amyas C E Morse**  
**Comptroller and Auditor General**

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

11 June 2013

**CONSOLIDATED STATEMENT OF COMPREHENSIVE NET EXPENDITURE**

for the year ended 31 March 2013

|  | Note | Core                |                     |                 | 2012-13 Consolidated |                     |                 | Core          | 2011-12 Consolidated |
|--|------|---------------------|---------------------|-----------------|----------------------|---------------------|-----------------|---------------|----------------------|
|  |      | Staff Costs<br>£000 | Other Costs<br>£000 | Income<br>£000  | Staff Costs<br>£000  | Other Costs<br>£000 | Income<br>£000  | £000          | £000                 |
| <b>Administration costs:</b>                                       |      |                     |                     |                 |                      |                     |                 |               |                      |
| Staff costs  | 3    | 8,010               |                     |                 | 8,010                |                     |                 | 7,604         | 7,604                |
| Other costs  | 4    |                     | 7,655               |                 |                      | 7,655               |                 | 7,845         | 7,845                |
| Income   | 6    |                     |                     | (4,617)         |                      |                     | (4,617)         | (3,693)       | (3,693)              |
| <b>Programme costs:</b>  |      |                     |                     |                 |                      |                     |                 |               |                      |
| Staff costs  | 3    | 11,531              |                     |                 | 19,208               |                     |                 | 12,520        | 21,250               |
| Other costs  | 5    |                     | 44,349              |                 |                      | 48,510              |                 | 34,115        | 39,767               |
| Income   | 6    |                     |                     | (16,715)        |                      |                     | (21,237)        | (17,552)      | (22,045)             |
| <b>Totals</b>  |      | <b>19,541</b>       | <b>52,004</b>       | <b>(21,332)</b> | <b>27,218</b>        | <b>56,165</b>       | <b>(25,854)</b> | <b>40,839</b> | <b>50,728</b>        |
| <b>Net operating cost</b>  |      |                     |                     | <b>50,213</b>   |                      |                     | <b>57,529</b>   | <b>40,839</b> | <b>50,728</b>        |
| <b>Other Comprehensive Net Expenditure</b>                         |      |                     |                     |                 |                      |                     |                 |               |                      |
| Net loss/(gain) on revaluation of property plant and equipment     |      |                     | 418                 |                 |                      | 1,073               |                 | (29)          | 261                  |
| Net loss on revaluation of intangible assets                       |      |                     |                     |                 |                      | 6                   |                 |               |                      |
| <b>Total other comprehensive expenditure/(income) for the year</b> |      |                     | <b>418</b>          |                 |                      | <b>1,079</b>        |                 | <b>(29)</b>   | <b>261</b>           |
| <b>Total comprehensive expenditure</b>                             |      |                     |                     | <b>50,631</b>   |                      |                     | <b>58,608</b>   | <b>40,810</b> | <b>50,989</b>        |

All income and expenditure are derived from continuing operations.

The notes on pages 53 to 85 form part of these accounts.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

as at 31 March 2013

|  | Note | 31 March 2013   |                      | 31 March 2012   |                      |
|--|------|-----------------|----------------------|-----------------|----------------------|
|  |      | Core<br>£000    | Consolidated<br>£000 | Core<br>£000    | Consolidated<br>£000 |
| <b>Non-current assets</b>  |      |                 |                      |                 |                      |
| Property, plant and equipment                                      | 8    | 2,229           | 13,036               | 2,004           | 12,553               |
| Intangible assets  | 9    | 2,981           | 3,022                | 4,412           | 4,451                |
| Financial assets   | 10   | -               | 25                   | -               | 14                   |
| Trade and other receivables  | 12   | 390             | 390                  | 109             | 119                  |
| <b>Total non-current assets</b>                                    |      | <b>5,600</b>    | <b>16,473</b>        | <b>6,525</b>    | <b>17,137</b>        |
| <b>Current assets</b>  |      |                 |                      |                 |                      |
| Inventories  | 11   | 135             | 137                  | 123             | 126                  |
| Trade and other receivables  | 12   | 6,934           | 8,157                | 6,935           | 8,424                |
| Cash and cash equivalents  | 13   | 7,447           | 7,706                | 3,140           | 3,145                |
| <b>Total current assets</b>  |      | <b>14,516</b>   | <b>16,000</b>        | <b>10,198</b>   | <b>11,695</b>        |
| <b>Total assets</b>  |      | <b>20,116</b>   | <b>32,473</b>        | <b>16,723</b>   | <b>28,832</b>        |
| <b>Current liabilities</b>   |      |                 |                      |                 |                      |
| Provisions   | 15   | (454)           | (745)                | (1,207)         | (2,556)              |
| Trade and other payables   | 14   | (17,939)        | (20,057)             | (13,708)        | (15,715)             |
| <b>Total current liabilities</b>                                   |      | <b>(18,393)</b> | <b>(20,802)</b>      | <b>(14,915)</b> | <b>(18,271)</b>      |
| <b>Non-current assets plus/less net current assets/liabilities</b> |      | <b>1,723</b>    | <b>11,671</b>        | <b>1,808</b>    | <b>10,561</b>        |
| <b>Non-current liabilities</b>                                     |      |                 |                      |                 |                      |
| Provisions   | 15   | (867)           | (1,079)              | (1,211)         | (1,532)              |
| Trade and other payables   | 14   | (485)           | (485)                | (895)           | (895)                |
| <b>Total non-current liabilities</b>                               |      | <b>(1,352)</b>  | <b>(1,564)</b>       | <b>(2,106)</b>  | <b>(2,427)</b>       |
| <b>Assets less liabilities</b>                                     |      | <b>371</b>      | <b>10,107</b>        | <b>(298)</b>    | <b>8,134</b>         |
| <b>Taxpayers' equity</b>   |      |                 |                      |                 |                      |
| General fund   | 16   | (339)           | 2,810                | (656)           | 1,722                |
| Revaluation reserve  | 16   | 710             | 7,297                | 358             | 6,412                |
| <b>Total taxpayers' equity</b>                                     |      | <b>371</b>      | <b>10,107</b>        | <b>(298)</b>    | <b>8,134</b>         |

*I. Gambles*

Additional Accounting Officer

5 June 2013

*The notes on pages 53 to 85 form part of these accounts.*

**CONSOLIDATED STATEMENT OF CASH FLOWS**

for the year ended 31 March 2013

|   |      | 2012-13         | 2011-12         |
|---|------|-----------------|-----------------|
|   | Note | £000            | £000            |
| <b>Cash flows from operating activities</b>   |      |                 |                 |
| Net operating cost  |      | (57,529)        | (50,728)        |
| Adjustments for non cash transactions   | 4/5  | 3,199           | 5,256           |
| Share of results of associate   | 10   | (17)            | -               |
| Timing between accrual and cash VAT   | 16   | (1,891)         | (350)           |
| Non-cash inter-country transfers  | 16   | 3,776           | (582)           |
| (Increase) / decrease in inventories  | 11   | (12)            | 43              |
| (Increase) in trade and other receivables   | 12   | (4)             | 1,471           |
| (Decrease) / increase in trade and other payables   | 14   | 3,932           | 4,267           |
| Movements in trade and other payables relating to items not passing through SCE   | 14   | (4,713)         | (5,205)         |
| Use of provisions   | 15   | (2,320)         | (1,678)         |
| <b>Net cash outflow from operating activities</b>   |      | <b>(55,579)</b> | <b>(47,506)</b> |
| <b>Cash flows from investing activities</b>   |      |                 |                 |
| Purchase of property, plant and equipment   | 8    | (733)           | (876)           |
| Purchase of intangible assets   | 9    | (149)           | (518)           |
| <b>Net cash outflow from investing activities</b>   |      | <b>(882)</b>    | <b>(1,394)</b>  |
| <b>Cash flows from financing activities</b>   |      |                 |                 |
| From the Defra vote   |      | 64,167          | 52,045          |
| <b>Net financing</b>  |      | <b>64,167</b>   | <b>52,045</b>   |
| <b>Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund</b> |      |                 |                 |
|   |      | <b>7,706</b>    | <b>3,145</b>    |
| (Payment) / receipt of amount due (to) / from Defra   |      | (3,145)         | 2,058           |
| <b>Balance at 31 March</b>  |      | <b>4,561</b>    | <b>5,203</b>    |
| <b>Cash and cash equivalents at the beginning of the period</b>   |      | <b>3,145</b>    | <b>(2,058)</b>  |
| <b>Cash and cash equivalents at the end of the period</b>   |      | <b>7,706</b>    | <b>3,145</b>    |

The notes on pages 53 to 85 form part of these accounts.

**CONSOLIDATED STATEMENT OF CHANGES IN TAXPAYERS' EQUITY**

for the period ended 31 March 2013

| Note  | Core         |                     |            | Consolidated    |                     |                 |
|---|--------------|---------------------|------------|-----------------|---------------------|-----------------|
|   | General Fund | Revaluation Reserve | Total      | General Fund    | Revaluation Reserve | Total           |
|   | £000         | £000                | £000       | £000            | £000                | £000            |
| <b>Balance at 1 April 2012</b>  | (656)        | 358                 | (298)      | 1,722           | 6,412               | 8,134           |
| <b>Changes in taxpayers' equity for 2012-13</b>                         |              |                     |            |                 |                     |                 |
| Net operating cost for the year   | (50,213)     | -                   | (50,213)   | (57,529)        | -                   | (57,529)        |
| Internal charges adjustment   | 16a          | (8,265)             | -          | (8,265)         | -                   | -               |
| Net gain/(loss) on revaluation of property, plant and equipment         |              | -                   | 418        | 418             | -                   | 1,073           |
| Net gain/(loss) on revaluation of financial asset                       | 10           | -                   | -          | -               | (6)                 | (6)             |
| Net gain/(loss) on revaluation of intangible assets                     |              | -                   | -          | -               | 6                   | 6               |
| Non-cash charges - auditors remuneration                                | 4/5          | 55                  | -          | 55              | 86                  | 86              |
| Non-cash charges - timing between accrual and cash VAT                  | 16a          | (1,803)             | -          | (1,803)         | -                   | (1,891)         |
| Non-cash inter-country transfers  | 16a          | 3,776               | -          | 3,776           | -                   | 3,776           |
| Transfer of property, plant and equipment from/to other forestry bodies | 16           | 5                   | (3)        | 2               | (5)                 | (3)             |
| Transfer from revaluation reserve                                       | 16           | 63                  | (63)       | -               | 183                 | (183)           |
| <b>Total recognised income and expense for 2012-13</b>                  |              | <b>(56,382)</b>     | <b>352</b> | <b>(56,030)</b> | <b>885</b>          | <b>(54,488)</b> |
| Funding received from Defra vote  | 16a          | 64,405              | -          | 64,405          | -                   | 64,167          |
| Amounts issued from Defra vote but not spent at year end                | 16           | (7,706)             | -          | (7,706)         | -                   | (7,706)         |
| <b>At 31 March 2013</b>   |              | <b>(339)</b>        | <b>710</b> | <b>371</b>      | <b>2,810</b>        | <b>7,297</b>    |
|   |              |                     |            |                 |                     | <b>10,107</b>   |



| Note  | Core         |                     |              | Consolidated    |                     |                 |
|---|--------------|---------------------|--------------|-----------------|---------------------|-----------------|
|   | General Fund | Revaluation Reserve | Total        | General Fund    | Revaluation Reserve | Total           |
|   | £000         | £000                | £000         | £000            | £000                | £000            |
| <b>Balance at 1 April 2011</b>  | 1,213        | 634                 | 1,847        | 4,514           | 6,395               | 10,909          |
| <b>Changes in taxpayers' equity for 2011-12</b>                         |              |                     |              |                 |                     |                 |
| Net operating cost for the year   | (40,839)     | -                   | (40,839)     | (50,728)        | -                   | (50,728)        |
| Internal charges adjustment   | 16a          | (8,941)             | (8,941)      | -               | -                   | -               |
| Net gain/(loss) on revaluation of property, plant and equipment         |              | -                   | (29)         | -               | 261                 | 261             |
| Release of reserves to the SCE  | 16           | -                   | 26           | -               | 26                  | 26              |
| Non-cash charges - auditors remuneration                                | 4/5          | 60                  | 60           | 91              | -                   | 91              |
| Non-cash charges - timing between accrual and cash VAT                  | 16a          | (348)               | (348)        | (350)           | -                   | (350)           |
| Non-cash inter-country transfers  | 16a          | (586)               | (586)        | (582)           | -                   | (582)           |
| Transfer of property, plant and equipment from/to other forestry bodies | 16           | (312)               | (393)        | (312)           | (81)                | (393)           |
| Transfer from revaluation reserve                                       | 16           | 192                 | (192)        | 189             | (189)               | -               |
| <b>Total recognised income and expense for 2011-12</b>                  |              | <b>(50,774)</b>     | <b>(276)</b> | <b>(51,050)</b> | <b>17</b>           | <b>(51,675)</b> |
| Funding received from Defra vote  | 16a          | 52,050              | 52,050       | 52,045          | -                   | 52,045          |
| Amounts issued from Defra vote but not spent at year end                | 16           | (3,145)             | (3,145)      | (3,145)         | -                   | (3,145)         |
| <b>At 31 March 2012</b>   |              | <b>(656)</b>        | <b>358</b>   | <b>(298)</b>    | <b>1,722</b>        | <b>6,412</b>    |
|   |              |                     | <b>(298)</b> | <b>1,722</b>    | <b>6,412</b>        | <b>8,134</b>    |

The notes on pages 53 to 85 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 2012-13 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of Forestry Commission Great Britain/England for the purpose of giving a true and fair view has been selected. The particular policies selected by Forestry Commission 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 Administrative and programme expenditure

The Consolidated Statement of Comprehensive Net Expenditure is analysed between administration and programme income and expenditure. From 2011-12 the Forestry Commission is required to comply with the Administration Budget Regime. HM Treasury and Defra determined how the Forestry Commission programme and administration income and expenditure outturn should be recorded to best meet the requirements of the Administration Budget Regime.

Administration income and expenditure is recognised where the activity has not been classified as a front line service by HM Treasury and Defra. Where an activity has been classified as a front line service the associated income and expenditure is recognised as programme.

Grants that include an element of co-financing from the European Union are accounted for by the Department for the Environment, Food and Rural Affairs.

#### 1.3 Funding paid to Forest Enterprise England

Forestry Commission Great Britain/England makes an annual funding payment to Forest Enterprise England. Funding is equal to Forest Enterprise England's agreed annual subsidy limit and is accounted for as programme expenditure through the Consolidated Statement of Comprehensive Net Expenditure.

#### 1.4 Public corporation dividend

Forestry Commission Great Britain/England receives a dividend from Forest Enterprise England, reflecting the expected rate of return on funding provided. This is included within programme income in the Consolidated Statement of Comprehensive Net Expenditure. The dividend rate has been agreed with HM Treasury and is set at 0% whilst Forest Enterprise England is loss-making. If Forest Enterprise England makes a surplus before revaluation gains on biological assets in the future, HM Treasury's real rate of 3.5% will apply.

#### 1.5 Employee benefits

##### Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit schemes are unfunded and are non-contributory except in respect of dependant's benefits. Forestry Commission Great Britain/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 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, Forestry Commission Great Britain/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 General, Director Scotland, Director England and three other non-executive commissioners. 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

A liability has been recognised for holiday entitlements earned to 31 March but not yet taken.

#### **1.6 Contingent liabilities**

Contingent liabilities are disclosed in accordance with IAS 37. In addition, where applicable certain statutory and non-statutory contingent liabilities are disclosed for parliamentary reporting and accountability purposes under HM Treasury's "Managing Public Money". These include liabilities where the likelihood of economic costs and benefits are remote but there is a requirement to report them to Parliament where applicable.

Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to Parliament separately noted where applicable. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament where applicable.

#### **1.7 Property, plant and equipment**

Legal ownership of all land and buildings is vested in Ministers. Legal ownership of the timber, including uncut trees, is vested in the Forestry Commissioners and accounted for by Forest Enterprise England. Legal ownership of other tangible assets is vested in the Forestry Commissioners and accounted for in Forestry Commission Great Britain/England, Forest Research and Forest Enterprise England as appropriate.

Property, plant and equipment are revalued annually as at 31 March using specialist indices provided by Smiths Gore.

#### Buildings

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

Professionally qualified staff employed by Forestry Commission Great Britain/England undertake a full revaluation of buildings at five yearly intervals coinciding with that for the Forest Estate and Other Land. Internal professionally qualified staff 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 Smiths Gore, Chartered Surveyors, reviewed this.

#### 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 Forestry Commission Great Britain/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 Consolidated Statement of Comprehensive Net Expenditure 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, they are actively marketed 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.

Plant and machinery

Plant and machinery are shown at fair value less accumulated depreciation. Assets are revalued every five years by professionally qualified staff employed by Forestry Commission Great Britain/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.

Information technology

Information technology (IT) is shown at fair value less subsequent depreciation. IT values are restated to current value each year using indices provided by the Office for National Statistics. The normal threshold for capitalisation of IT assets is £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 Consolidated Statement of Comprehensive Net Expenditure. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the Consolidated Statement of Comprehensive Net Expenditure and depreciation based on the asset's original cost is transferred from the revaluation reserve to the general fund.

**1.8 Depreciation**

Land is assumed to have an indefinite economic life and is 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 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 Consolidated Statement of Comprehensive Net Expenditure. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to the general fund.

**1.9 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.

**1.10 Government grants receivable**

Grants from the government are accounted for in accordance with IAS 20 as adapted by the FReM.

**1.11 Subsidiaries, associates and joint ventures**

Investments held in subsidiaries, associates or joint ventures that are outside the departmental boundary and where Forestry Commission Great Britain/England does not exercise in-year budgetary control are accounted for in accordance with paragraph 4.2.4 of the FReM. Where such an investment is in another public sector entity it is reported at historical cost less any impairment. Where an investment is in another entity it is accounted for following the requirements of IAS 39 (see note 1.23).

C-Cure Ltd is classified as an associate of the Forest Research Agency and is consolidated using the equity method in accordance with IAS 39.

**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. Forestry Commission Great Britain/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 are borne by Forestry Commission Great Britain/England (a Finance Lease), the right to use the asset is initially recorded as a tangible asset. Finance leases are capitalised at the lease commencement at the lower of the fair value of the leased property 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%.

Assets held under Finance Lease 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 the Forestry Commissioners. The policies and procedures for carrying out revaluations are described in note 1.7.

Each lease payment is allocated between the liability and finance charges so as 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 Consolidated Statement of Comprehensive Net Expenditure over the lease period so as 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 Great Britain/England in accordance with its statutory powers and duties are accounted for as they are approved for payment. No provision is made in the financial statements for grant offers made but not yet approved for payment, although they are quantified in note 21.

**1.16 European Union (EU) funding**

The Forestry Commission acts under delegated authority from Parliament to administer third party grants paid from Objective 1 and Woodland Grant Scheme payments made under the national European Agricultural Guarantee and Guidance Fund and the European Agricultural Fund for Rural Development. Once grants become recognised, contributions from the EU are claimed. If grants are subsequently recovered because of failure to fulfill the condition of the relevant woodland grant scheme, the amount of co-financing may be repayable to the EU. All such transactions are reflected in the accounts of Defra.

**1.17 Provisions**

Forestry Commission Great Britain/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 cashflows are discounted using the real rate set by HM Treasury.

**1.18 Value Added Tax (VAT)**

The Forestry Commission is registered for VAT. In order to comply with the government accounting regulations and normal commercial practice, income and expenditure shown in the Consolidated Statement of Comprehensive Net Expenditure is net of VAT. The Forestry Commission accounts for VAT on a Great Britain basis with any VAT due to or from HM Revenue and Customs at the year end included in the Forestry Commission Great Britain/England accounts as a receivable or payable in the Statement of Financial Position. Irrecoverable VAT is charged to the Consolidated Statement of Comprehensive Net Expenditure in the year in which it is incurred.

**1.19 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 Forestry Commission Executive Board. In applying IFRS 8, management has determined that the Forestry Commission operates as one operating segment.

**1.20 Foreign currency translation****(a) Functional and presentation currency**

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

**(b) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. 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 Consolidated Statement of Comprehensive Net Expenditure.

**1.21 Intangible assets**

Intangible assets are valued initially at cost and subsequently at fair value using the revaluation model.

Where an active market does not exist, income generating assets are valued at the lower of depreciated replacement cost and value in use. Non-income generating assets are carried at depreciated replacement cost. These valuation methods are considered to be a proxy for fair value.

**Software licences**

Acquired computer software licences are initially capitalised on the basis of the costs incurred to acquire and bring to use the specific software and subsequently revalued to depreciated replacement cost. Acquired computer software licences are amortised over their estimated useful lives dependent upon the period of the licence.

#### Information Technology and Development Expenditure

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Forestry Commission Great Britain/England are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the Information Technology internally developed software product include the software development and employee costs. Information Technology intangible assets are amortised over their estimated useful lives of seven years.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Computer software development costs relate to internally developed software under construction and are recognised as intangible assets and subsequently revalued to depreciated replacement cost and amortised over their estimated useful lives of seven years.

#### **1.22 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.

#### **1.23 Financial assets**

##### Classification

The Forestry Commission Great Britain/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.

##### **(a) 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. Forestry Commission Great Britain/England does not trade in derivatives and does not apply hedge accounting.

##### **(b) 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.

##### **(c) 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 Forestry Commission Great Britain/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 Forestry Commission Great Britain/England has transferred substantially all risks and rewards of ownership.

**(a) 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 Consolidated Statement of Comprehensive Net Expenditure.

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 Consolidated Statement of Comprehensive Net Expenditure.

**(b) 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 Forestry Commission Great Britain/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 Consolidated Statement of Comprehensive Net Expenditure. 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 Consolidated Statement of Comprehensive Net Expenditure.

**(c) 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 Consolidated Statement of Comprehensive Net Expenditure. Dividends on available-for-sale equity instruments are recognised in the Consolidated Statement of Comprehensive Net Expenditure when Forestry Commission Great Britain/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), Forestry Commission Great Britain/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.

Forestry Commission Great Britain/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 Consolidated Statement of Comprehensive Net Expenditure. Impairment losses recognised in the Consolidated Statement of Comprehensive Net Expenditure on equity instruments are not reversed through the Consolidated Statement of Comprehensive Net Expenditure.

**1.24 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 shown within borrowings in current liabilities on the Statement of Financial Position.



## 1.25 Financial Liabilities

### Classification

Forestry Commission Great Britain/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.

#### (a) 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. Forestry Commission Great Britain/England does not trade in derivatives and does not apply hedge accounting.

#### (b) 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. Forestry Commission Great Britain/England's other financial liabilities comprise trade and other payables in the Statement of Financial Position.

### Recognition and measurement

Financial liabilities are recognised when Forestry Commission Great Britain/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.

#### (a) 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 Consolidated Statement of Comprehensive Net Expenditure.

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 Consolidated Statement of Comprehensive Net Expenditure.

#### (b) Other financial liabilities

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

## 1.26 Effective in these Financial Statements

All International Financial Reporting Standards, Interpretations and Amendments effective at 31 March 2013 have been adopted in these statements, taking account of the specific interpretations and adaptations included within the FReM.

## 1.27 Effective for future Financial Years

At the date of authorisation of these financial statements, the following standards relevant to the Forestry Commission were issued but not yet effective:

- IAS 1 Presentation of Financial Statements (Other Comprehensive Income);
- IAS 19 Post-Employment Benefits (Pensions);
- IFRS 9 Financial Instruments, Classification and Measurement;
- IFRS 10 Consolidated Financial Statements;
- IFRS 11 Joint Arrangements;
- IFRS 12 Disclosure of Interests in Other Entities; and
- IFRS 13 Fair Value Measurement.

These standards have not been adopted by the Forestry Commission ahead of their implementation date. The future impact of IFRS 10, 11 and 12 is not considered to be significant. The Forestry Commission is reviewing the likely impact of the adoption of IFRS 9 and 13.

The Forestry Commission has also reviewed the changes in the FReM and determined that there will be no significant impact on the accounts from 2012–13.

**NOTE 2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of financial statements requires the Forestry Commission Great Britain/England to make estimates, assumptions and judgements. These are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Estimates, assumptions and judgements that are deemed to have a significant risk of causing a material adjustment to the carrying amounts of the Forestry Commission Great Britain/England's assets and liabilities are as follows:

**Forest Research Agency development activities**

Per IAS 38 Intangible Assets an intangible asset arising from development shall be recognised if all of the following can be demonstrated by the entity:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale.
- Its intention to complete the intangible asset and use or sell it.
- Its ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset itself, or if it is to be used internally, the usefulness of the intangible asset.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- Its ability to measure the expenditure attributable to the intangible asset during its development.

To date it has been deemed that the development activities undertaken by the Forest Research Agency have not met these conditions and therefore no intangible assets relating to development have been recognised by the Agency. This will continue to be reviewed on an on-going basis.

**NOTE 3 STAFF NUMBERS AND RELATED COSTS****3 (a) Employee benefit expense**

|  | 2012-13       |  | 2011-12        |               |
|--|---------------|--|----------------|---------------|
|  | Total<br>£000 | Permanently<br>employed<br>staff<br>£000 | Others<br>£000 | Total<br>£000 |
| <b>Great Britain/ England Core</b>   |               |  |                |               |
| Wages and salaries   | 15,063        | 15,063                                   | -              | 15,868        |
| Social security costs  | 1,220         | 1,220                                    | -              | 1,241         |
| Other pension costs  | 2,748         | 2,748                                    | -              | 2,840         |
| Agency staff   | 487           | -  | 487            | 209           |
| Inward secondments   | 23            | 23                                       | -              | 7             |
| Capitalised Costs  | -             | -  | -              | (41)          |
| <b>Total net costs</b>   | <b>19,541</b> | <b>19,054</b>                            | <b>487</b>     | <b>20,124</b> |
| <b>Forest Research</b>   |               |  |                |               |
| Wages and salaries   | 6,058         | 5,775                                    | 283            | 6,922         |
| Social security costs  | 498           | 476                                      | 22             | 545           |
| Other pension costs  | 1,116         | 1,085                                    | 31             | 1,263         |
| Agency staff   | 5             | -  | 5              | -             |
| <b>Total net costs</b>   | <b>7,677</b>  | <b>7,336</b>                             | <b>341</b>     | <b>8,730</b>  |
| <b>Forestry Commission Great Britain/England<br/>Consolidated Department</b> |               |  |                |               |
| Total costs per SCE  | 27,218        | 26,390                                   | 828            | 28,854        |
| <b>Total net costs</b>   | <b>27,218</b> | <b>26,390</b>                            | <b>828</b>     | <b>28,854</b> |

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

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Forestry Commission is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice.gov.uk/my-civil-service/pensions](http://www.civilservice.gov.uk/my-civil-service/pensions)).

For 2012-13, employers' contributions of £4,636,000 were payable to the PCSPS (2011-12: £3,871,000) at one of four rates in the range 16.7% to 24.3% of pensionable pay, 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 2012-13 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 £10,100 were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £1,400 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or 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.

1 individual retired early on ill health grounds (2011-12: 1); the total additional accrued pension liabilities in the year amounted to £1,900 (2011-12: £2,500).

Staff had the opportunity to apply for a Voluntary Early Retirement scheme in 2012-13. The results of this scheme are incorporated into note 3 (d) within the Compensation for loss of office section.

### 3 (b) Average number of persons employed

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

|  | 2012-13         |  | 2011-12          |
|--|-----------------|--|------------------|
|  | Total<br>number | Permanently -<br>employed<br>staff<br>number | Others<br>number |
| Great Britain/ England Core                                    | 451             | 425  | 25               |
| Forest Research  | 178             | 166  | 12               |
| <b>Great Britain/England consolidated department<br/>total</b> | <b>629</b>      | <b>591</b>                                   | <b>37</b>        |

### 3 (c) Benefits in kind are provided under the following schemes:

- Advances of salary for house purchase – available only for staff on relocation;
- Advances of salary for purchase of public transport and car park season tickets;
- Advances of salary for purchase of sports/health club membership;
- Advances of salary for purchase of IT and sports/health equipment, including bicycles; and
- Car provision for employee scheme.

Each scheme is subject to conditions and financial limits.

Forestry Commission Great Britain/England had house purchase loans totaling £94,000 outstanding at 31 March 2013 relating to 10 employees (2011-12: £130,000 relating to 12 employees). The core department had house purchase loans totaling £94,000 outstanding at 31 March 2013 relating to 10 employees (2011-12: £120,000 relating to 11 employees). Such loans are unsecured, interest free and typically repayable over 10 years, with an optional 2 year deferral period.

### 3 (d) Compensation for loss of office

34 staff left under Voluntary Exit and Voluntary Redundancy terms in the year to 31 March 2013 (2011-12:101). They received a compensation payment of £1,205,262.

3 staff left under Compulsory Redundancy terms in the year to 31 March 2013 (2011-12: nil). They received a compensation payment of £47,383.

| Exit package cost band               | Number of compulsory redundancies | Number of other departures agreed          | Total number of exit packages by cost band |
|--------------------------------------|-----------------------------------|--|--|
| <£10,000                             | - (2011-12: nil)                  | 6 (2011-12: 12)                            | 6 (2011-12: 12)                            |
| £10,000 - £25,000                    | 3 (2011-12: nil)                  | 8 (2011-12: 32)                            | 11 (2011-12: 32)                           |
| £25,000 - £50,000                    | - (2011-12: nil)                  | 14 (2011-12: 30)                           | 14 (2011-12: 30)                           |
| £50,000 - £100,000                   | - (2011-12: nil)                  | 4 (2011-12: 23)                            | 4 (2011-12: 23)                            |
| £100,000- £150,000                   | - (2011-12: nil)                  | 1 (2011-12: 4)                             | 1 (2011-12: 4)                             |
| £150,000- £200,000                   | - (2011-12: nil)                  | 1 (2011-12: nil)                           | 1 (2011-12: nil)                           |
| £200,000- £250,000                   | - (2011-12: nil)                  | - (2011-12: nil)                           | - (2011-12: nil)                           |
| <b>Total number of exit packages</b> | <b>3 (2011-12: nil)</b>           | <b>34 (2011-12: 101)</b>                   | <b>37 (2011-12: 101)</b>                   |
| <b>Total resource cost / £</b>       | <b>£47,383</b><br>(2011-12: Nil)  | <b>£1,205,262</b><br>(2011-12: £3,749,986) | <b>£1,252,645</b><br>(2011-12: £3,749,986) |

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 the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

**NOTE 4 ADMINISTRATION COSTS**

|   | Core         | 2012-13<br>Consolidated | Core         | 2011-12<br>Consolidated |
|---|--------------|-------------------------|--------------|-------------------------|
|   | £000         | £000                    | £000         | £000                    |
| Staff transfers                                     | 225          | 225                     | 154          | 154                     |
| Computer costs                                      | 20           | 20                      | 107          | 107                     |
| Travel and subsistence                              | 591          | 591                     | 428          | 428                     |
| Accommodation                                       | 722          | 722                     | 653          | 653                     |
| Communication                                       | 66           | 66                      | 34           | 34                      |
| Training  | 90           | 90                      | 84           | 84                      |
| Premature retirement costs                          | 39           | 39                      | 219          | 219                     |
| Losses and compensation                             | (120)        | (120)                   | 28           | 28                      |
| Legal expenses                                      | 45           | 45                      | 38           | 38                      |
| Partnership and Publicity                           | 4,913        | 4,913                   | 5,075        | 5,075                   |
| Private Woodland Grants                             | 545          | 545                     | 553          | 553                     |
| Other   | 379          | 379                     | 373          | 373                     |
|   | <u>7,515</u> | <u>7,515</u>            | <u>7,746</u> | <u>7,746</u>            |
| <b>Research and development expenditure:</b>        | -            | -                       | -            | -                       |
| <b>Non cash items</b>                               |              |                         |              |                         |
| Notional audit fees - audit work                    | 55           | 55                      | 60           | 60                      |
| Losses on disposal of property, plant and equipment | 74           | 74                      | 13           | 13                      |
| Impairment  | 10           | 10                      | -            | -                       |
| Release from Revaluation Reserve                    | 1            | 1                       | 26           | 26                      |
|   | <u>140</u>   | <u>140</u>              | <u>99</u>    | <u>99</u>               |
| <b>Total</b>  | <u>7,655</u> | <u>7,655</u>            | <u>7,845</u> | <u>7,845</u>            |

**NOTE 5 PROGRAMME COSTS**

|   | 2012-13       |               | 2011-12       |               |
|---|---------------|---------------|---------------|---------------|
|   | Core          | Consolidated  | Core          | Consolidated  |
|   | £000          | £000          | £000          | £000          |
| Staff transfers                                     | 213           | 228           | 189           | 215           |
| Computer costs                                      | 3,926         | 3,969         | 4,071         | 4,130         |
| Travel and subsistence                              | 714           | 1,205         | 647           | 1,068         |
| Accommodation                                       | 1,143         | 2,086         | 1,025         | 1,825         |
| Communication                                       | 2,084         | 2,137         | 1,784         | 1,838         |
| Training  | 210           | 228           | 246           | 294           |
| Premature retirement costs                          | (71)          | (101)         | 1,877         | 2,740         |
| Losses and compensation                             | 22            | (68)          | 4             | (35)          |
| Legal expenses                                      | 100           | 100           | 93            | 116           |
| Partnership and Publicity                           | 2,981         | 4,511         | 1,382         | 3,077         |
| Funding to Forest Enterprise England                | 26,133        | 26,133        | 14,600        | 14,600        |
| Other   | 1,744         | 2,133         | 1,757         | 2,050         |
|   | <b>39,199</b> | <b>42,561</b> | <b>27,675</b> | <b>31,918</b> |
| <b>Rentals under operating leases:</b>              |               |               |               |               |
| Hire of plant and machinery                         | 95            | 95            | 111           | 111           |
| Other operating leases                              | 1,993         | 1,993         | 1,992         | 1,992         |
|   | <b>2,088</b>  | <b>2,088</b>  | <b>2,103</b>  | <b>2,103</b>  |
| <b>Research and development expenditure:</b>        | 802           | 802           | 589           | 589           |
| <b>Non cash items</b>                               |               |               |               |               |
| Notional audit fees - audit work                    | -             | 31            | -             | 31            |
| Depreciation of property, plant and equipment       | 626           | 1,205         | 558           | 1,176         |
| Amortisation of intangible assets                   | 1,568         | 1,583         | 1,634         | 1,661         |
| Losses on disposal of property, plant and equipment | 18            | 134           | -             | 7             |
| Losses on disposal of intangible assets             | -             | (1)           | -             | -             |
| Impairment  | -             | 50            | 125           | 125           |
| Provisions  |               |               |               |               |
| Provided in year                                    | 63            | 129           | 1,530         | 2,250         |
| Provisions not required written back                | (49)          | (131)         | (41)          | (40)          |
| Unwinding of discount                               | 34            | 59            | (58)          | (53)          |
|   | <b>2,260</b>  | <b>3,059</b>  | <b>3,748</b>  | <b>5,157</b>  |
| <b>Total</b>  | <b>44,349</b> | <b>48,510</b> | <b>34,115</b> | <b>39,767</b> |



**NOTE 6 INCOME**

|  | 2012-13       |                      | 2011-12       |                      |
|--|---------------|----------------------|---------------|----------------------|
|  | Core<br>£000  | Consolidated<br>£000 | Core<br>£000  | Consolidated<br>£000 |
| <b>Administration Income</b>             |               |                      |               |                      |
| Project and partnership income           | 4,523         | 4,523                | 3,582         | 3,582                |
| Other income                             | 94            | 94                   | 111           | 111                  |
| <b>Total</b>                             | <b>4,617</b>  | <b>4,617</b>         | <b>3,693</b>  | <b>3,693</b>         |
| <b>Programme Income</b>                  |               |                      |               |                      |
| EU receipts                              | -             | 486                  | -             | 628                  |
| Other income                             | 1,620         | 5,656                | 1,623         | 5,488                |
| <b>Shared Services</b>                   |               |                      |               |                      |
| Income from Scotland                     | 7,151         | 7,151                | 7,330         | 7,330                |
| Income from Wales                        | 2,690         | 2,690                | 2,932         | 2,932                |
| Income from Forest Enterprise<br>England | 5,254         | 5,254                | 5,667         | 5,667                |
|  | <b>16,715</b> | <b>21,237</b>        | <b>17,552</b> | <b>22,045</b>        |
| <b>Total</b>                             | <b>21,332</b> | <b>25,854</b>        | <b>21,245</b> | <b>25,738</b>        |

On consolidation, the internal income received by central shared services from Forestry Commission Great Britain £4,279,000 (2011-12: £4,608,000), Forestry Commission England £1,830,000 (2011-12: £2,522,000) and Forest Research £861,000 (2011-12: £853,000) was removed from programme income.

Seven areas of work are identified as shared services:

- Finance and accounting services
- Information services
- Human resources, including learning and development
- Communications
- Inventory forecasting and operational support services
- Internal audit
- Business sustainability

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

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

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

All EU receipts generated by Forest Research are entirely used to fund the entity's own expenditure.

All income from operating leases is from buildings that are sub-leased and not owned by Forestry Commission Great Britain/England. Details are shown at note 23.

**NOTE 7 ANALYSIS OF NET OPERATING COST BY SPENDING BODY**

|   | 2012-13              | 2011-12              |
|---|----------------------|----------------------|
|   | Outturn              | Outturn              |
|   | <u>£000</u>          | <u>£000</u>          |
| Forest Commission Great Britain/England | 58,475               | 49,780               |
| Forest Research Agency                  | (946)                | 948                  |
| <b>Net Operating Cost</b>               | <u><b>57,529</b></u> | <u><b>50,728</b></u> |

**NOTE 8 PROPERTY, PLANT AND EQUIPMENT**

|  | Land                | Buildings            | Plant &<br>Machinery | OME                 | Total                |
|--|---------------------|----------------------|----------------------|---------------------|----------------------|
|  | <u>£000</u>         | <u>£000</u>          | <u>£000</u>          | <u>£000</u>         | <u>£000</u>          |
| <b>Valuation :</b>                     |                     |                      |                      |                     |                      |
| At 1 April 2012                        | 1,716               | 14,017               | 3,806                | 2,365               | 21,904               |
| Additions                              | -                   | 24                   | 555                  | 307                 | 886                  |
| Disposals                              | -                   | (501)                | (288)                | (544)               | (1,333)              |
| Transfers / reclassifications          | -                   | -                    | -                    | -                   | -                    |
| Write-off                              | -                   | -                    | -                    | -                   | -                    |
| Revaluations                           | 145                 | 172                  | 87                   | 229                 | 633                  |
| Impairment                             | -                   | (60)                 | -                    | -                   | (60)                 |
| <b>At 31 March 2013</b>                | <u><b>1,861</b></u> | <u><b>13,652</b></u> | <u><b>4,160</b></u>  | <u><b>2,357</b></u> | <u><b>22,030</b></u> |
| <b>Depreciation :</b>                  |                     |                      |                      |                     |                      |
| At 1 April 2012                        | -                   | 6,278                | 1,911                | 1,162               | 9,351                |
| Charged in year                        | -                   | 318                  | 435                  | 455                 | 1,208                |
| Disposals                              | -                   | (319)                | (264)                | (542)               | (1,125)              |
| Transfers / reclassifications          | -                   | -                    | -                    | -                   | -                    |
| Write-off                              | -                   | -                    | -                    | -                   | -                    |
| Revaluations                           | -                   | (528)                | 32                   | 56                  | (440)                |
| Impairment                             | -                   | -                    | -                    | -                   | -                    |
| <b>At 31 March 2013</b>                | <u><b>-</b></u>     | <u><b>5,749</b></u>  | <u><b>2,114</b></u>  | <u><b>1,131</b></u> | <u><b>8,994</b></u>  |
| <b>Net Book Value :</b>                |                     |                      |                      |                     |                      |
| <b>At 31 March 2013</b>                | <u><b>1,861</b></u> | <u><b>7,903</b></u>  | <u><b>2,046</b></u>  | <u><b>1,226</b></u> | <u><b>13,036</b></u> |
| At 31 March 2012                       | <u>1,716</u>        | <u>7,739</u>         | <u>1,895</u>         | <u>1,203</u>        | <u>12,553</u>        |
| <b>Asset Financing :</b>               |                     |                      |                      |                     |                      |
| Owned                                  | 1,861               | 7,903                | 1,777                | 1,226               | 12,767               |
| Finance leased                         | -                   | -                    | 269                  | -                   | 269                  |
| <b>Net Book Value at 31 March 2013</b> | <u><b>1,861</b></u> | <u><b>7,903</b></u>  | <u><b>2,046</b></u>  | <u><b>1,226</b></u> | <u><b>13,036</b></u> |

Land and Buildings were valued as at 31 March 2013 by professionally qualified staff employed by the Forestry Commission and approved by Mr Mark Thornycroft, FRICS who is Head of Estates. The results of this valuation were also subject to professional review by Smiths Gore, Chartered Surveyors. The next professional valuation is due on 31 March 2018. In the intervening years, the assets are revalued using the indices detailed in note 1.7.

Plant and Machinery are valued at five-year intervals. A professional valuation took place on 31 March 2011. Professionally qualified staff employed by the Forestry Commission undertook the valuation which was approved by Jeffrey Livingston, CEng., Head of Mechanical Engineering Services. In the intervening years,

revaluations are on the basis of indices provided by the Office of National Statistics (ONS) or internal professional staff as appropriate.

Office machinery and equipment assets were restated to a current value of £1,226,000 as at 31 March 2013 using an index provided by the ONS.

Depreciation expense of £1,208,000 (2011-12: £1,176,000) has been charged in other programme costs in the Consolidated Statement of Comprehensive Net Expenditure.

|                                 | Land         | Buildings     | Plant &<br>Machinery | OME          | Total         |
|---------------------------------|--------------|---------------|----------------------|--------------|---------------|
|                                 | £000         | £000          | £000                 | £000         | £000          |
| <b>Valuation :</b>              |              |               |                      |              |               |
| At 1 April 2011                 | 1,651        | 14,324        | 3,687                | 2,298        | 21,960        |
| Additions                       | -            | 31            | 404                  | 441          | 876           |
| Disposals                       | -            | (84)          | (365)                | (411)        | (860)         |
| Transfers / reclassifications   | -            | (566)         | (13)                 | 35           | (544)         |
| Revaluations                    | 65           | 312           | 93                   | 2            | 472           |
| At 31 March 2012                | <u>1,716</u> | <u>14,017</u> | <u>3,806</u>         | <u>2,365</u> | <u>21,904</u> |
| <b>Depreciation :</b>           |              |               |                      |              |               |
| At 1 April 2011                 | -            | 6,083         | 1,851                | 1,109        | 9,043         |
| Charged in year                 | -            | 335           | 416                  | 425          | 1,176         |
| Disposals                       | -            | (68)          | (370)                | (403)        | (841)         |
| Transfers / reclassifications   | -            | (254)         | (15)                 | 31           | (238)         |
| Revaluations                    | -            | 182           | 29                   | -            | 211           |
| At 31 March 2012                | <u>-</u>     | <u>6,278</u>  | <u>1,911</u>         | <u>1,162</u> | <u>9,351</u>  |
| <b>Net Book Value :</b>         |              |               |                      |              |               |
| At 31 March 2012                | <u>1,716</u> | <u>7,739</u>  | <u>1,895</u>         | <u>1,203</u> | <u>12,553</u> |
| At 31 March 2011                | <u>1,651</u> | <u>8,241</u>  | <u>1,836</u>         | <u>1,189</u> | <u>12,917</u> |
| <b>Asset Financing :</b>        |              |               |                      |              |               |
| Owned                           | 1,716        | 7,739         | 1,618                | 1,203        | 12,276        |
| Finance leased                  | -            | -             | 277                  | -            | 277           |
| Net Book Value at 31 March 2012 | <u>1,716</u> | <u>7,739</u>  | <u>1,895</u>         | <u>1,203</u> | <u>12,553</u> |

#### Analysis of property, plant and equipment:

The net book value of property, plant and equipment comprises:

|                         | Land         | Buildings    | Plant &<br>Machinery | OME       | Total         |
|-------------------------|--------------|--------------|----------------------|-----------|---------------|
|                         | £000         | £000         | £000                 | £000      | £000          |
| Core at 31 March 2013   | -            | 664          | 345                  | 1,220     | 2,229         |
| Agency at 31 March 2013 | <u>1,861</u> | <u>7,239</u> | <u>1,701</u>         | <u>6</u>  | <u>10,807</u> |
| Core at 31 March 2012   | -            | 563          | 262                  | 1,179     | 2,004         |
| Agency at 31 March 2012 | <u>1,716</u> | <u>7,176</u> | <u>1,633</u>         | <u>24</u> | <u>10,549</u> |

**NOTE 9 INTANGIBLE ASSETS**

|                               |                   |                        |                         | 2012-13       |
|-------------------------------|-------------------|------------------------|-------------------------|---------------|
|                               | Software Licenses | Information Technology | Development Expenditure | Total         |
|                               | £000              | £000                   | £000                    | £000          |
| <b>Cost or valuation:</b>     |                   |                        |                         |               |
| At 1 April 2012               | 1,925             | 10,647                 | 42                      | 12,614        |
| Additions                     | 12                | 137                    | -                       | 149           |
| Disposals                     | (43)              | -                      | -                       | (43)          |
| Transfers                     | -                 | -                      | -                       | -             |
| Revaluation to current prices | 10                | -                      | -                       | 10            |
| <b>At 31 March 2013</b>       | <b>1,904</b>      | <b>10,784</b>          | <b>42</b>               | <b>12,730</b> |
| <b>Amortisation:</b>          |                   |                        |                         |               |
| At 1 April 2012               | 1,456             | 6,707                  | -                       | 8,163         |
| Provided during year          | 28                | 1,555                  | -                       | 1,583         |
| Disposals                     | (42)              | -                      | -                       | (42)          |
| Revaluation to current prices | 4                 | -                      | -                       | 4             |
| <b>At 31 March 2013</b>       | <b>1,446</b>      | <b>8,262</b>           | <b>-</b>                | <b>9,708</b>  |
| <b>Net Book Value :</b>       |                   |                        |                         |               |
| <b>At 31 March 2013</b>       | <b>458</b>        | <b>2,522</b>           | <b>42</b>               | <b>3,022</b>  |
| At 31 March 2012              | 469               | 3,940                  | 42                      | 4,451         |

|                               |                   |                        |                         | 2011-12       |
|-------------------------------|-------------------|------------------------|-------------------------|---------------|
|                               | Software Licenses | Information Technology | Development Expenditure | Total         |
|                               | £000              | £000                   | £000                    | £000          |
| <b>Cost or valuation:</b>     |                   |                        |                         |               |
| At 1 April 2011               | 2,829             | 10,385                 | 42                      | 13,256        |
| Additions                     | 45                | 387                    | 86                      | 518           |
| Disposals                     | (949)             | -                      | -                       | (949)         |
| Transfers                     | -                 | -                      | (86)                    | (86)          |
| Revaluation to current prices | -                 | (125)                  | -                       | (125)         |
| <b>At 31 March 2012</b>       | <b>1,925</b>      | <b>10,647</b>          | <b>42</b>               | <b>12,614</b> |
| <b>Amortisation:</b>          |                   |                        |                         |               |
| At 1 April 2011               | 2,139             | 5,312                  | -                       | 7,451         |
| Provided during year          | 266               | 1,395                  | -                       | 1,661         |
| Disposals                     | (949)             | -                      | -                       | (949)         |
| Transfers                     | -                 | -                      | -                       | -             |
| Revaluation to current prices | -                 | -                      | -                       | -             |
| <b>At 31 March 2012</b>       | <b>1,456</b>      | <b>6,707</b>           | <b>-</b>                | <b>8,163</b>  |
| <b>Net Book Value :</b>       |                   |                        |                         |               |
| <b>At 31 March 2012</b>       | <b>469</b>        | <b>3,940</b>           | <b>42</b>               | <b>4,451</b>  |
| At 31 March 2011              | 690               | 5,073                  | 42                      | 5,805         |

Analysis of intangible assets:

The net book value of intangible assets comprises:

|                                | Software Licenses | Information Technology | Development Expenditure | Total        |
|--------------------------------|-------------------|------------------------|-------------------------|--------------|
|                                | £000              | £000                   | £000                    | £000         |
| <b>Core at 31 March 2013</b>   | <b>417</b>        | <b>2,522</b>           | <b>42</b>               | <b>2,981</b> |
| <b>Agency at 31 March 2013</b> | <b>41</b>         | <b>-</b>               | <b>-</b>                | <b>41</b>    |
| Core at 31 March 2012          | 430               | 3,940                  | 42                      | 4,412        |
| Agency at 31 March 2012        | 39                | -                      | -                       | 39           |

Amortisation of £1,583,000 (2011-12: £1,661,000) is included in other programme costs in the statement of Comprehensive Net Expenditure.

The Grants and Licences Online System (GLOS) has been capitalised and included within the Information Technology asset class. The carrying amount at 31 March 2013 is £1,933,000 and is being amortised over 7 years.

## NOTE 10 FINANCIAL ASSETS

The investment in C-Cure Ltd at 31 March is as follows:

|                    | <u>Core</u> | <u>31 March 2013</u><br><u>Consolidated</u> | <u>Core</u> | <u>31 March 2012</u><br><u>Consolidated</u> |
|--------------------|-------------|---|-------------|---|
|                    | £000        | £000  | £000        | £000  |
| <b>Valuation:</b>  |             |   |             |   |
| At 1 April         | -           | 14  | -           | 14  |
| Share of loss      |             | 17  | -           | -   |
| Revaluations       | -           | (6)   | -           | -   |
| <b>At 31 March</b> | <b>-</b>    | <b>25</b>                                   | <b>-</b>    | <b>14</b>                                   |

C-Cure Solutions Ltd is a spin-out company launched with the University of Surrey during 2009-10, in the area of land remediation. Until March 2011, Forest Research and the University of Surrey each owned 33.4% of the company and the inventors owned the remaining 33.2%. Genomia Management Ltd invested £100,000 for 107 shares in the company in March 2011. The shareholdings changed at this point. Forest Research now owns 30.93%, the University of Surrey 30.92%, the inventors 28.12% and Genomia 10.03%. C-Cure Solutions Ltd has its registered office at 25 Wakehurst Place, Rustington, West Sussex, BN18 3NG.

Dr James Pendlebury, Chief Executive – Forest Research Agency, represents Forest Research as a Director of the Company, for which he receives no personal payments.

## NOTE 11 INVENTORIES

|                     | <u>Core</u> | <u>31 March 2013</u><br><u>Consolidated</u> | <u>Core</u> | <u>31 March 2012</u><br><u>Consolidated</u> |
|---------------------|-------------|---|-------------|---|
|                     | £000        | £000  | £000        | £000  |
| Priced Publications | 135         | 137   | 123         | 126   |
| <b>Total</b>        | <b>135</b>  | <b>137</b>                                  | <b>123</b>  | <b>126</b>                                  |

**NOTE 12 TRADE AND OTHER RECEIVABLES****12(a) Analysis by type**

|   | 31 March 2013 |                      | 31 March 2012 |                      |
|---|---------------|----------------------|---------------|----------------------|
|   | Core<br>£000  | Consolidated<br>£000 | Core<br>£000  | Consolidated<br>£000 |
| <b>Current</b>                                      |               |                      |               |                      |
| Trade receivables                                   | 2,513         | 3,301                | 1,135         | 1,916                |
| Less: provision for impairment of trade receivables | (8)           | (8)                  | (129)         | (129)                |
| Trade receivables - net                             | <u>2,505</u>  | <u>3,293</u>         | <u>1,006</u>  | <u>1,787</u>         |
| VAT   | 3,246         | 3,246                | 3,112         | 3,112                |
| Other receivables                                   | 44            | 44                   | 122           | 122                  |
| House purchase loans to employees                   | 12            | 12                   | 11            | 11                   |
| Prepayments and accrued income                      | 1,127         | 1,562                | 2,684         | 3,392                |
| <b>Total current receivables</b>                    | <u>6,934</u>  | <u>8,157</u>         | <u>6,935</u>  | <u>8,424</u>         |
| <b>Non-current</b>                                  |               |                      |               |                      |
| House purchase loans to employees                   | 84            | 84                   | 109           | 119                  |
| Prepayments and other accrued income                | 279           | 279                  | -             | -                    |
| Other Receivables                                   | 27            | 27                   | -             | -                    |
| <b>Total non-current receivables</b>                | <u>390</u>    | <u>390</u>           | <u>109</u>    | <u>119</u>           |
| <b>Total receivables</b>                            | <u>7,324</u>  | <u>8,547</u>         | <u>7,044</u>  | <u>8,543</u>         |

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

Trade receivables of £3,174,000 (2011-12: £1,653,000) were past due but not impaired as of 31 March 2013. These relate to a number of customers for whom there is no recent history of default.

**12(b) Intra-government balances**

|   | Current               |                       | Non-current           |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
|   | 31 March 2013<br>£000 | 31 March 2012<br>£000 | 31 March 2013<br>£000 | 31 March 2012<br>£000 |
| Balances with other central government bodies | 1,046                 | 323                   | -                     | -                     |
| Balances with local authorities               | 44                    | 15                    | -                     | -                     |
| <b>Intra-government balances</b>              | <u>1,090</u>          | <u>338</u>            | <u>-</u>              | <u>-</u>              |
| Balances with bodies external to government   | 7,067                 | 8,086                 | 390                   | 119                   |
| <b>Total receivables at 31 March</b>          | <u>8,157</u>          | <u>8,424</u>          | <u>390</u>            | <u>119</u>            |

**NOTE 13 CASH AND CASH EQUIVALENTS**

|   | 31 March 2013 |                      | 31 March 2012 |                      |
|---|---------------|----------------------|---------------|----------------------|
|   | Core<br>£000  | Consolidated<br>£000 | Core<br>£000  | Consolidated<br>£000 |
| Balance at 1 April                              | 3,140         | 3,145                | (2,061)       | (2,058)              |
| Net change in cash and cash equivalent balances | 4,307         | 4,561                | 5,201         | 5,203                |
| Balance at 31 March                             | 7,447         | 7,706                | 3,140         | 3,145                |

|   | 31 March 2013 |                      | 31 March 2012 |                      |
|---|---------------|----------------------|---------------|----------------------|
|   | Core<br>£000  | Consolidated<br>£000 | Core<br>£000  | Consolidated<br>£000 |
| The following balances are held at:         |               |                      |               |                      |
| Balance with the Government Banking Service | 7,447         | 7,447                | 3,140         | 3,140                |
| Cash at commercial banks and cash in hand   | -             | 259                  | -             | 5                    |
| Total                                       | 7,447         | 7,706                | 3,140         | 3,145                |

**NOTE 14 TRADE AND OTHER PAYABLES****14(a) Analysis by type**

|  | 31 March 2013 |                      | 31 March 2012 |                      |
|--|---------------|----------------------|---------------|----------------------|
|  | Core<br>£000  | Consolidated<br>£000 | Core<br>£000  | Consolidated<br>£000 |
| <b>Current</b>   |               |                      |               |                      |
| Other taxation and social security                       | 254           | 351                  | 207           | 303                  |
| Trade payables   | 5,420         | 5,860                | 4,840         | 5,057                |
| Other payables   | 113           | 113                  | 1,900         | 1,900                |
| Accruals and deferred income                             | 4,095         | 5,201                | 3,138         | 4,168                |
| Current part of finance leases                           | 70            | 70                   | 89            | 89                   |
| Payments received on account                             | 281           | 756                  | 389           | 1,053                |
| Amounts issued from Defra vote but not spent at year end | 7,706         | 7,706                | 3,145         | 3,145                |
| <b>Total current</b>                                     | <b>17,939</b> | <b>20,057</b>        | <b>13,708</b> | <b>15,715</b>        |
| <b>Non current</b>                                       |               |                      |               |                      |
| Finance leases   | 106           | 106                  | 89            | 89                   |
| Payments received on account                             | 377           | 377                  | 397           | 397                  |
| Deferred income  | 2             | 2                    | 409           | 409                  |
| <b>Total non current</b>                                 | <b>485</b>    | <b>485</b>           | <b>895</b>    | <b>895</b>           |
| <b>Total payables</b>                                    | <b>18,424</b> | <b>20,542</b>        | <b>14,603</b> | <b>16,610</b>        |

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

The carrying amounts of trade and other payables are denominated in the following currencies:

|              | <u>31 March 2013</u> | <u>31 March 2012</u> |
|--------------|----------------------|----------------------|
|              | £000                 | £000                 |
| GBP Sterling | 20,272               | 16,283               |
| Euro         | 259                  | 304                  |
| US Dollar    | 11                   | 23                   |
|              | <u>20,542</u>        | <u>16,610</u>        |

Amounts held in Forest Research bank accounts on behalf of partners in European Commission projects at 31 March 2013 was £181,000 (2011-12: £94,000). This has subsequently all been transferred to the partners concerned. Refer to note 26.

#### 14(b) Intra-government balances

|   | Current              |                      | Non-current          |                      |
|---|----------------------|----------------------|----------------------|----------------------|
|   | <u>31 March 2013</u> | <u>31 March 2012</u> | <u>31 March 2013</u> | <u>31 March 2012</u> |
|   | £000                 | £000                 | £000                 | £000                 |
| Balances with other central government bodies       | 75                   | 3,416                | -                    | -                    |
| Balances with local authorities                     | 177                  | -                    | -                    | -                    |
| Balances with public corporations and trading funds | 2                    | -                    | -                    | -                    |
| <b>Intra-government balances</b>                    | <u>254</u>           | <u>3,416</u>         | <u>-</u>             | <u>-</u>             |
| Balances with bodies external to government         | 19,803               | 12,299               | 485                  | 895                  |
| <b>Total payables at 31 March</b>                   | <u>20,057</u>        | <u>15,715</u>        | <u>485</u>           | <u>895</u>           |



**NOTE 15 PROVISIONS FOR LIABILITIES AND CHARGES**

|                                      | Core                  |                  |              | Consolidated          |                  |              |
|--------------------------------------|-----------------------|------------------|--------------|-----------------------|------------------|--------------|
|                                      | Early departure costs | Other Provisions | Total        | Early departure costs | Other Provisions | Total        |
|                                      | £000                  | £000             | £000         | £000                  | £000             | £000         |
| <b>At 1 April 2011</b>               | <b>2,320</b>          | <b>50</b>        | <b>2,370</b> | <b>2,992</b>          | <b>617</b>       | <b>3,609</b> |
| Provided in year                     | 1,539                 | -                | 1,539        | 2,260                 | -                | 2,260        |
| Provisions not required written back | -                     | (50)             | (50)         | -                     | (50)             | (50)         |
| Utilised in the year                 | (1,383)               | -                | (1,383)      | (1,638)               | (40)             | (1,678)      |
| Unwinding of discount                | (58)                  | -                | (58)         | (53)                  | -                | (53)         |
| <b>At 1 April 2012</b>               | <b>2,418</b>          | <b>-</b>         | <b>2,418</b> | <b>3,561</b>          | <b>527</b>       | <b>4,088</b> |
| Provided in year                     | 62                    | -                | 62           | 128                   | -                | 128          |
| Provisions not required written back | (49)                  | -                | (49)         | (41)                  | (90)             | (131)        |
| Utilised in the year                 | (1,144)               | -                | (1,144)      | (1,883)               | (437)            | (2,320)      |
| Unwinding of discount                | 34                    | -                | 34           | 59                    | -                | 59           |
| <b>At 31 March 2013</b>              | <b>1,321</b>          | <b>-</b>         | <b>1,321</b> | <b>1,824</b>          | <b>-</b>         | <b>1,824</b> |

Analysis of expected timing of discounted cash flows:

|   | Core                  |                  |              | Consolidated          |                  |              |
|---|-----------------------|------------------|--------------|-----------------------|------------------|--------------|
|   | Early departure costs | Other Provisions | Total        | Early departure costs | Other Provisions | Total        |
|   | £000                  | £000             | £000         | £000                  | £000             | £000         |
| Not later than one year                           | 454                   | -                | 454          | 745                   | -                | 745          |
| Later than one year and not later than five years | 819                   | -                | 819          | 1,008                 | -                | 1,008        |
| Later than five years                             | 48                    | -                | 48           | 71                    | -                | 71           |
| <b>At 31 March 2013</b>                           | <b>1,321</b>          | <b>-</b>         | <b>1,321</b> | <b>1,824</b>          | <b>-</b>         | <b>1,824</b> |

**Early Departure Costs**

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

**NOTE 16 TAXPAYERS' EQUITY****16(a) General fund**

|   | 31 March 2013 |              | 31 March 2012 |              |
|---|---------------|--------------|---------------|--------------|
|   | Core          | Consolidated | Core          | Consolidated |
|   | £000          | £000         | £000          | £000         |
| At 1 April  | (656)         | 1,722        | 1,213         | 4,514        |
| Net operating cost for the year   | (50,213)      | (57,529)     | (40,839)      | (50,728)     |
| Internal charges adjustment   | (8,265)       | -            | (8,941)       | -            |
| Notional auditors remuneration  | 55            | 86           | 60            | 91           |
| Timing between accrual and cash VAT                                       | (1,803)       | (1,891)      | (348)         | (350)        |
| Non-cash inter-country transfers  | 3,776         | 3,776        | (586)         | (582)        |
| Transfer of property, plant and equipment from/to other forestry bodies   | 5             | 2            | (312)         | (312)        |
| Transfer from revaluation reserve   | 63            | 183          | 192           | 189          |
| Funding received from Defra vote  | 64,405        | 64,167       | 52,050        | 52,045       |
| Amounts issued from Defra vote but not yet received / (spent) at year end | (7,706)       | (7,706)      | (3,145)       | (3,145)      |
| <b>At 31 March</b>  | <b>(339)</b>  | <b>2,810</b> | <b>(656)</b>  | <b>1,722</b> |

**16(b) Revaluation reserve**

|   | 31 March 2013 |              | 31 March 2012 |              |
|---|---------------|--------------|---------------|--------------|
|   | Core          | Consolidated | Core          | Consolidated |
|   | £000          | £000         | £000          | £000         |
| <b>Balance at 31 March</b>  | <b>358</b>    | <b>6,412</b> | <b>634</b>    | <b>6,395</b> |
| Arising on revaluation during the year                                  | 418           | 1,073        | (29)          | 261          |
| Realised element of revaluation reserve                                 | (63)          | (183)        | (192)         | (189)        |
| Transfer of property, plant and equipment from/to other forestry bodies | (3)           | (5)          | (81)          | (81)         |
| Write-off   | -             | -            | 26            | 26           |
| <b>At 31 March</b>  | <b>710</b>    | <b>7,297</b> | <b>358</b>    | <b>6,412</b> |

**NOTE 17 FINANCIAL INSTRUMENTS****17(a) Financial instruments by category**

|  | 31 March 2013            |                       |               | 31 March 2012            |                       |              |
|--|--------------------------|-----------------------|---------------|--------------------------|-----------------------|--------------|
|  | Loans and<br>receivables | Available<br>for Sale | Total         | Loans and<br>receivables | Available<br>for Sale | Total        |
|  | £000                     | £000                  | £000          | £000                     | £000                  | £000         |
| <b>Assets as per the Statement of Financial Position</b> |                          |                       |               |                          |                       |              |
| Available for sale financial assets                      | -                        | 25                    | 25            | -                        | 14                    | 14           |
| Trade and other receivables                              | 3,739                    | -                     | 3,739         | 2,039                    | -                     | 2,039        |
| Cash and cash equivalents                                | 7,706                    | -                     | 7,706         | -                        | -                     | -            |
| <b>Total</b>   | <b>11,445</b>            | <b>25</b>             | <b>11,470</b> | <b>2,039</b>             | <b>14</b>             | <b>2,053</b> |

|   | 31 March 2013                     |               |  | 31 March 2012                     |               |  |
|---|-----------------------------------|---------------|--|-----------------------------------|---------------|--|
|   | Other<br>financial<br>liabilities | Total         |  | Other<br>financial<br>liabilities | Total         |  |
|   | £000                              | £000          |  | £000                              | £000          |  |
| <b>Liabilities as per the Statement of Financial Position</b> |                                   |               |  |                                   |               |  |
| Finance lease liabilities                                     | 178                               | 178           |  | 178                               | 178           |  |
| Cash and cash equivalents                                     |                                   |               |  |                                   |               |  |
| Trade and other payables<br>excluding statutory liabilities   | 13,531                            | 13,531        |  | 11,228                            | 11,228        |  |
| <b>Total</b>  | <b>13,709</b>                     | <b>13,709</b> |  | <b>11,406</b>                     | <b>11,406</b> |  |

**17(b) Exposure to risk**

The Forestry Commission's activities expose it to a variety of financial risks.

- Credit risk: the possibility that other parties might fail to pay amounts due;
- Liquidity risk: the possibility that Forestry Commission Great Britain/England might not have funds available to meet its commitments to make payments; and
- Market risk: the possibility that financial loss might arise as a result of changes in such measures as interest rates and stock market movements.

Due to the largely non-trading nature of its activities and the way in which government departments are financed, Forestry Commission Great Britain/England is not exposed to the degree of financial risk faced by business entities.

**i) Credit risk**

Credit risks arise from cash and cash equivalents, deposits with banks and other institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

Forestry Commission Great Britain/England's exposure to credit risk is limited to the risk on non-payment by customers, as minimal deposits are held with commercial banks.

Customers are assessed, taking into account their financial position, past experience and other factors with individual credit limits being set in accordance with internal ratings in accordance with parameters set by Forestry Commission Great Britain/England. The utilisation of credit limits is regularly monitored.

ii) Liquidity risk

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

The table below analyses the financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

|   | <u>Less than 1<br/>year</u><br>£000 | <u>Between 1<br/>and 5 years</u><br>£000 | <u>Over 5<br/>years</u><br>£000 |
|---|-------------------------------------|--|---------------------------------|
| <b>At 31 March 2013</b>                                     |                                     |  |                                 |
| Finance lease liabilities                                   | 74                                  | 107                                      | -                               |
| Trade and other payables<br>excluding statutory liabilities | 13,531                              | -  | -                               |
| <b>Total</b>  | <b>13,605</b>                       | <b>107</b>                               | <b>-</b>                        |

|   | <u>Less than 1<br/>year</u><br>£000 | <u>Between 1<br/>and 2 years</u><br>£000 | <u>Over 5<br/>years</u><br>£000 |
|---|-------------------------------------|--|---------------------------------|
| <b>At 31 March 2012</b>                                     |                                     |  |                                 |
| Finance lease liabilities                                   | 89                                  | 89                                       | -                               |
| Trade and other payables<br>excluding statutory liabilities | 11,228                              | -  | -                               |
| <b>Total</b>  | <b>11,317</b>                       | <b>89</b>                                | <b>-</b>                        |

iii) Market risk

Forestry Commission Great Britain/England has no powers to borrow or invest surplus funds. Financial assets and liabilities are generally generated by day-to-day operational activities and are not held to manage the risks facing Forestry Commission Great Britain/England in undertaking its activities. However, under the Regulatory Reform (Forestry) Order 2006, with Treasury approval, Forestry Commission Great Britain/England may form or participate in the forming of, a body corporate, invest in a body corporate and provide loans. Forestry Commission Great Britain/England may also exploit any intellectual property arising from research.

(1) Cash flow and fair value interest rate risk

Forestry Commission Great Britain/England has no significant interest bearing assets or liabilities and as such income and expenditure cashflows are substantially independent of market interest rates.

(2) Foreign Currency Risk

The Forest Research Agency is exposed to foreign exchange rates through a bank account denominated in Euros and through contracts which are denominated in Euros and US Dollars. However, contract income denominated in Euros and US Dollars forms only 3% of the Agency's total income. Therefore, fluctuations in exchange rates do not have a significant impact on financial position.

**17(c) Capital risk management**

Forestry Commission Great Britain/England's objectives when managing its capital structure are to maintain its ability to continue to provide benefits for stakeholders and to maintain an optimal capital structure to safeguard Taxpayers' Equity.

**17(d) Fair value estimation**

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair value.

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**NOTE 18 SEGMENTAL INFORMATION**

Management has determined that Forestry Commission Great Britain/England operates as one operating segment, with results reviewed by the chief operating decision maker for Forestry Commission Great Britain/England as a whole.

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**NOTE 19 CAPITAL COMMITMENTS**

There were no contracted capital commitments at 31 March 2013 (2011-12: £nil).

**NOTE 20 COMMITMENTS UNDER LEASES****Operating leases**

Operating lease rentals are charged on a straight-line basis over the term of the lease. Total future minimum lease payments under operating leases are given in the table below for each of the following periods:

|   | 31 March 2013 |                      | 31 March 2012 |                      |
|---|---------------|----------------------|---------------|----------------------|
|   | Core<br>£000  | Consolidated<br>£000 | Core<br>£000  | Consolidated<br>£000 |
| <b>Obligations under operating leases for the following periods comprise:</b> |               |                      |               |                      |
| <b>Land</b>   |               |                      |               |                      |
| Not later than one year   | -             | 2                    | -             | 2                    |
| Later than one year and not later than five years                             | -             | 7                    | -             | 8                    |
| More than five years  | -             | -                    | -             | -                    |
| <b>Total</b>  | <b>-</b>      | <b>9</b>             | <b>-</b>      | <b>10</b>            |
| <b>Buildings</b>  |               |                      |               |                      |
| Not later than one year   | 2,300         | 2,300                | 2,351         | 2,352                |
| Later than one year and not later than five years                             | 9,201         | 9,201                | 9,402         | 9,407                |
| More than five years  | 11,779        | 11,779               | 13,461        | 13,461               |
| <b>Total</b>  | <b>23,280</b> | <b>23,280</b>        | <b>25,214</b> | <b>25,220</b>        |
| <b>Other leases</b>   |               |                      |               |                      |
| Not later than one year   | 38            | 46                   | 38            | 46                   |
| Later than one year and not later than five years                             | 11            | 16                   | 26            | 39                   |
| More than five years  | -             | -                    | -             | -                    |
| <b>Total</b>  | <b>49</b>     | <b>62</b>            | <b>64</b>     | <b>85</b>            |

Building lease rentals include irrecoverable VAT.

**Finance Leases**

Total future minimum lease payments under finance leases are given in the table below for each of the following periods.

|   | 31 March 2013 |                      | 31 March 2012 |                      |
|---|---------------|----------------------|---------------|----------------------|
|   | Core<br>£000  | Consolidated<br>£000 | Core<br>£000  | Consolidated<br>£000 |
| <b>Obligations under finance leases for the following periods comprise:</b> |               |                      |               |                      |
| <b>Plant and Machinery</b>  |               |                      |               |                      |
| Not later than one year   | 81            | 81                   | 96            | 96                   |
| Later than one year and not later than five years                           | 113           | 113                  | 95            | 95                   |
| More than five years  | -             | -                    | -             | -                    |
|   | <b>194</b>    | <b>194</b>           | <b>191</b>    | <b>191</b>           |
| Less: interest element  | (18)          | (18)                 | (13)          | (13)                 |
| <b>Present value of obligations</b>   | <b>176</b>    | <b>176</b>           | <b>178</b>    | <b>178</b>           |

**NOTE 21 OTHER FINANCIAL COMMITMENTS****Planting and replanting grants**

At 31 March 2013 installments of planting and replanting grants amount to nil (2011-12: £0.0176 million).

**Existing woodlands**

Forestry Commission England was committed under draft and signed contracts to the payment of future installments of grants which support existing woodlands amounting to £2.124 million at 31 March 2013 (2011-12: £1.183 million).

The above payments analysed by the period during which the commitment expires are as follows:

|  | 2012-13      |                     | 2011-12      |                     |
|--|--------------|---------------------|--------------|---------------------|
|  | <u>Core</u>  | <u>Consolidated</u> | <u>Core</u>  | <u>Consolidated</u> |
|  | <u>£000</u>  | <u>£000</u>         | <u>£000</u>  | <u>£000</u>         |
| Not later than one year                              | 605          | 605                 | 395          | 395                 |
| Later than one year and<br>not later than five years | 1,519        | 1,519               | 806          | 806                 |
| More than five years                                 | -            | -                   | -            | -                   |
|  | <u>2,124</u> | <u>2,124</u>        | <u>1,201</u> | <u>1,201</u>        |

**NOTE 22 CONTINGENT LIABILITIES DISCLOSED UNDER IAS 37**

There were no contingent liabilities as at 31 March 2013 (2011-12: nil).

**NOTE 23 OPERATING LEASE RECEIVABLES**

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

|  | 31 March 2013 |                     | 31 March 2012 |                     |
|--|---------------|---------------------|---------------|---------------------|
|  | <u>Core</u>   | <u>Consolidated</u> | <u>Core</u>   | <u>Consolidated</u> |
|  | <u>£000</u>   | <u>£000</u>         | <u>£000</u>   | <u>£000</u>         |
| Not later than one year                              | 1,014         | 1,014               | 1,014         | 1,014               |
| Later than one year and<br>not later than five years | 1,473         | 1,473               | 2,119         | 2,119               |
| More than five years                                 | 1,223         | 1,223               | 1,591         | 1,591               |
|  | <u>3,710</u>  | <u>3,710</u>        | <u>4,724</u>  | <u>4,724</u>        |

The Forestry Commission sub-leased parts of two buildings to three 3rd parties under agreements which will terminate in March 2014, October 2020, and August 2022.

**NOTE 24 LOSSES AND SPECIAL PAYMENTS**

|                        | 2012-13   |           | 2011-12  |           |
|------------------------|-----------|-----------|----------|-----------|
|                        | Number    | £000      | Number   | £000      |
| Losses total           | 15        | 20        | 6        | 6         |
| Special Payments total | 3         | 3         | 3        | 36        |
|                        | <b>18</b> | <b>23</b> | <b>9</b> | <b>42</b> |

**NOTE 25 CONSOLIDATED RELATED PARTY TRANSACTIONS**

Forestry Commission England's Public Corporation Forest Enterprise England is regarded as a related party. During the year, Forestry Commission England provided an annual subsidy limit of £26,133,000 to Forest Enterprise England.

In addition, Forestry Commission Great Britain/England has had various material transactions with other government departments and other central government bodies. The main entities within government with which the Forestry Commission has had dealings are HM Treasury, UK Co-ordinating Body, HM Revenue and Customs, the Department for the Environment, Food and Rural Affairs, the Department for Communities and Local Government, Government Banking Service and the Greater London Authority.

In the year to 31 March 2013, Forest Enterprise England entered into material transactions involving Hamish Macleod, a non-executive Forestry Commissioner, which are disclosed in their Annual Report and Accounts for 2012-13.

The following additional transactions were carried out with related parties:

**25(a) Purchases of goods and services**

|                           | 2012-13  | 2011-12   |
|---------------------------|----------|-----------|
|                           | £000     | £000      |
| University of Reading     | 0        | 21        |
| University of Southampton | 1        | 1         |
|                           | <b>2</b> | <b>22</b> |

The above transactions, for course fees, student stipend, samples and amendments to an existing database, production of a new database, occurred on an arm's length basis. These transactions are disclosed as Andy Moffat holds a visiting professorship at the University of Reading and Peter Freer-Smith holds a visiting professorship at the University of Southampton. The outstanding balances at 31 March 2013 were nil in relation to the University of Reading (2011-12: £2,000) and £1,000 in relation to the University of Southampton (2011-12: £1,000).



**25(b) Transactions with C-Cure Solutions Ltd**

|                      | <b>2012-13</b>  | <b>2011-12</b>   |
|----------------------|-----------------|------------------|
|                      | <u>£000</u>     | <u>£000</u>      |
| C-Cure Solutions Ltd | 6               | 10               |
|                      | <u><b>6</b></u> | <u><b>10</b></u> |

The above value related to income received from the investment in C-Cure Solutions Ltd. James Pendlebury is the Forest Research Director of the company. The balance outstanding as at 31 March 2013 amounted to £435 (2011-12: £4,000). See note 10 for further details.

**25(c) Other**

|   | <b>2012-13</b>   | <b>2011-12</b>   |
|---|------------------|------------------|
|   | <u>£000</u>      | <u>£000</u>      |
| Farm Woodland Premium Scheme (FWPS) grant | 1                | 1                |
| Scottish Forestry Scheme (SFS) grant      | 5                | -                |
| Daughter employee salary package          | 9                | -                |
| Partner employee salary package           | -                | 39               |
|   | <u><b>15</b></u> | <u><b>40</b></u> |

Sir Harry Studholme, acting Chair and Commissioner for Forestry Commission England, received a Farm Woodland Premium Scheme grant of £700 during the year (2011-12: £700). There were no further payments due as at 31 March 2013.

Judith Webb, a member of the Great Britain Executive Board is also a Director and Trustee at the Deer Initiative which also received funding from the Forestry Commission. The funding received from the Forestry Commission for 2012-13 was £43,582.

The partner of Amanda Bryan, a member of the Great Britain Executive Board was involved in a receipt of a Community Grant for Aigas community forest. The grant received during 2012-13 was £4,500.

The daughter of a member of the Great Britain Executive Board, received salary payments of £9,000, and allowances of £50 as part of a student placement of one year from September 2012 at the Forestry Commission. There were no outstanding balances at 31 March 2013. The Great Britain Executive member played no role on the appointment, management or setting the remuneration of their daughter.

**25(d) Key management compensation**

Key management personnel are deemed to be the members of the Great Britain Executive Board, the National Committee for England, the England Executive Board and the Executive Board of Forest Research.

Refer to the Remuneration Report for further details of remuneration of the Great Britain Executive Board, the National Committee for England and the England Executive Board.

**NOTE 26 THIRD PARTY ASSETS**

Forestry Commission England is the lead partner for the Intelligent Energy Europe Woodheat project. The Forestry Commission provides 25% of the funding for this project, and acts as co-ordinator for the remaining 75% of funding received from the European Union. The duties of co-ordinator include receiving EU funds on behalf of partners for onward transmission once work programmes have been approved. The purpose of the project is to promote use of the woodfuel in SE England. As third party assets these sums are not recorded on the face of these accounts. At 31 March 2013 the amount held in Forestry Commission bank accounts on behalf of partners was £43,000 (2011-12: £43,000).

As a coordinator for a number of projects partially funded by the European Commission, Forest Research also receives funds on behalf of partners for onward transmission once work programmes have been approved. The third party assets are also not recognised in these accounts.

|              | <u>Gross<br/>Inflows</u> | <u>Gross<br/>Outflows</u> | <u>2012-13<br/>Closing<br/>Balance</u> | <u>2011-12<br/>Closing<br/>Balance</u> |
|--------------|--------------------------|---------------------------|--|--|
|              | £000                     | £000                      | £000                                   | £000                                   |
| Core         | -                        | -                         | -                                      | -                                      |
| Consolidated | 255                      | (168)                     | 181                                    | 94                                     |

**NOTE 27 EVENTS AFTER 31 MARCH 2013**

In accordance with the requirements of IAS 10, events after 31 March 2013 are considered up to the date on which the accounts are authorised for issue. These accounts were authorised for issue on 11 June 2013.

# **Forest Enterprise England**

## **Annual Report 2012-13**

## FINANCIAL COMMENTARY

### Basis of accounts

The Forest Enterprise England accounts have been prepared under a direction given by the Forestry Commission Great Britain / England in accordance with the framework document between the Forestry Commission England and Forest Enterprise England.

### Status

Forest Enterprise England is designated as a public corporation for national accounting purposes, by the Office of National Statistics, in accordance with European System of Accounts (ESA) 95.

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

### Financial review

The decision to suspend SR10 woodland sales in February 2011 had an immediate, and direct, impact on the baseline funding position. Additional budgetary cover of £6m was made available for 2012-13 following discussion of the financial implications with Defra.

In addition to the Woodland sales cover a further £7m of funding was provided by Defra. This funding was linked to the government's response to the Independent Panel on Forestry's Report and recognised the previous under utilisation of cover for the suspension of woodland sales in 2011-12.

Total government funding was £26.1m in 2012-13 (£14.6m 2011-12).

The operating position produced a £3.9m improvement against the 2012-13 planned target. This improved operating position and its retention or repayment will be discussed with the Forestry Commission in 2013-14. Any repayment of the £3.9m will increase the plan level of deficit for that year. The cash impact will be neutral as the £3.9m is held in the cash balance and has not been committed to any specific use, pending the outcome of the discussions.

### Operating performance

Forest Enterprise England incurred a reported operating deficit, before financing, of £60.5 million (2011-12 £28.1 million surplus).

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 valuation movements in 2012-13 have produced a reported deficit for the year.

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:

|  | 2012-13         | 2011-12         | 2010-11         |
|--|-----------------|-----------------|-----------------|
| <b>Operating surplus/(deficit)</b>           | <b>(£60.5m)</b> | <b>£28.1m</b>   | <b>(£19.7)</b>  |
| Add back impact of valuations                |                 |                 |                 |
| Loss / (Gain) on biological assets           | £28.0m          | (£67.0m)        | (£16.7m)        |
| Value of felled timber                       | £18.2m          | £19.7m          | £17.6m          |
| <b>Deficit excluding valuation movements</b> | <b>(£14.3m)</b> | <b>(£19.2m)</b> | <b>(£18.8m)</b> |

The operating deficit, before financing and government funding, for 2012-13 is lower than that of the previous year.

Performance for 2012-13 was:

|                                | Target        | Actual        | Variance       |
|--------------------------------|---------------|---------------|----------------|
| External income                | (£55.0m)      | (£57.3m)      | (£2.3m)        |
| Costs                          | £73.3m        | £71.7m        | (£1.6m)        |
| <b>Net cost before funding</b> | <b>£18.3m</b> | <b>£14.4m</b> | <b>(£3.9m)</b> |

### Capital

During the course of the year the Management Board approved capital schemes of £4.2m.

Two major schemes approved were the development of improved facilities at Alice Holt £0.9m and commencement of the development at Westonbirt Arboretum £1.1m. The remainder of the capital programme is for equipment replacement in Forestry and Nursery operations, with much needed smaller scale improvements at Gisburn, High Lodge and Jeskyns.

We are grateful to the Friends of Westonbirt Arboretum for their continued support in enabling the joint development project at the Arboretum. Funding will come from a variety of sources to enable this exciting development to take place.

The accounts show that minor property and equipment sales raised £0.4million and capital expenditure was £2.2m.

Approved schemes will carry over the financial year end and be financed from working capital. In the case of the Westonbirt development this scheme is managed by the Agency with funding coming from a variety of grants and donations.

### Forest Holidays

In May 2006, the Forestry Commission entered into a partnership with the Camping and Caravanning Club to take over management of its Forest Holidays' business. On 21 September 2012, Forest Holidays LLP restructured its business and created two new Limited Liability Partnerships (LLP's). The two new LLP's are the Camping in the Forest (CITF) LLP and Forest Holidays (LLP). Under IAS 32 and IAS 39 the arrangements are regarded as investments and accounted for as a financial asset.

## Other Disclosures

### Pensions

Information on pensions is contained in the Remuneration Report and accounting policy note 1.4.

### 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 10 days from the receipt of goods and services or the presentation of a valid invoice, whichever is the later. A sample analysis for 2012-13 indicates that 96.9% of invoices were paid within the due date. Arrangements for handling complaints on payment performance are notified to suppliers on contracts.

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

### Personal data related incidents

There were no protected personal data related incidents reported for Forest Enterprise England in 2012-13 or previous financial years. Forest Enterprise England will continue to monitor and assess its information risks in order 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.

### Auditors

These accounts are audited by the Comptroller and Auditor General. The audit fee was £106,000 (2011-12: £108,000). No fees were charged for other services (2011-12: nil).

### Disclosure of audit information to the auditors

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

*S Hodgson*  
Accounting Officer

5 June 2013

Forest Enterprise England  
England National Office  
620 Bristol Business Park  
Coldharbour Lane  
Bristol. BS16 1EJ

## REMUNERATION REPORT

### Remuneration policy

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

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

- Guidelines circulated by the Cabinet Office implementing Government decisions on the recommendations of the Senior Salaries Review Body (SSRB). The SSRB is responsible for monitoring the operation of the Senior Civil Service pay system and for making recommendations to the Government on the shape of the system, including the salary values for the minimum and maximum of each of the senior pay bands, the range of percentage increases to base salary and range of bonuses. Further information on the work of the SSRB can be found at [www.ome.uk.com](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 consider the recommendations, determines the allocation of senior staff to tranches, and decides the percentage increase to salary and any bonus to be awarded.

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

### Employment contracts

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

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

**Salary and pension entitlements (subject to audit)**

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

|                  | 2012-13            |                           |  | 2011-12            |                           |  |
|------------------|--------------------|---------------------------|--|--------------------|---------------------------|--|
|                  | Salary<br>£000     | Bonus<br>payments<br>£000 | Benefits in<br>kind<br>to nearest £100 | Salary<br>£000     | Bonus<br>payments<br>£000 | Benefits in<br>kind<br>to nearest £100 |
| Brian Mahony     | 75-80              | 10                        | -                                      | 75-80              | -                         | -                                      |
| Graeme Prest     | -                  | -                         | -                                      | 50-55              | -                         | 200                                    |
| Mark Thornycroft | 65-70              | -                         | -                                      | 65-70              | -                         | -                                      |
| James Swabey     | -                  | -                         | -                                      | 20-25 <sup>1</sup> | -                         | -                                      |
| David Hodson     | 50-55              | -                         | -                                      | 45-50              | -                         | -                                      |
| Paddy Harrop     | 50-55              | -                         | -                                      | 55-60              | -                         | -                                      |
| Jim Lyon         | 55-60              | -                         | -                                      | 25-30 <sup>3</sup> | -                         | -                                      |
| John Tewson      | 60-65              | -                         | -                                      | 30-35 <sup>2</sup> | -                         | -                                      |
| David Williamson | 60-65              | -                         | -                                      | 55-60 <sup>4</sup> | -                         | -                                      |
| Alan Corson      | 50-55              | -                         | -                                      | 55-60              | -                         | -                                      |
| Jonathan Spencer | 35-40 <sup>5</sup> | -                         | -                                      | -                  | -                         | -                                      |

<sup>1</sup> Figure quoted is for the period 1 April 2011 to 29 July 2011 whilst Head of Recreation and Public Affairs. The full year equivalent is 65-70.

<sup>2</sup> Figure quoted is for the period 19 September 2011 to 31 March 2012 whilst Head of Forest Management. The full year equivalent is 65-70.

<sup>3</sup> Figure quoted is for the period 1 October 2011 to 31 March 2012 whilst Forest Management Director, East District. The full year equivalent is 50-55.

<sup>4</sup> Figure quoted is for the period 1 October 2011 to 31 March 2012 whilst Head of Recreation, Development and External Affairs. The full year equivalent is 60-65.

<sup>5</sup> Figure quoted is for the period 6 June 2012 to 31 March 2013 whilst Senior Ecologist - Natural Resources. The full year equivalent is 45-50.

Following the departure of the Forestry Commission England Country Director in October 2010, transitional senior management arrangements were put in place to oversee and manage the organisation through the early years of SR10.

These transitional arrangements saw the creation of a temporary post of Director Forest Enterprise which was filled by Brian Mahony, who was responsible for the day-to-day operation of the agency. Given the transitional nature of the arrangements no changes were made to Accounting Officer responsibilities with the Director General remaining as Additional Accounting Officer, and Simon Hodgson as the Agency Accounting Officer for Forest Enterprise England.

Simon Hodgson resumed the role of Chief Executive Officer, Forest Enterprise England on 1 April 2013 following the retirement of Brian Mahony and the appointment of Ian Gambles as Director Forestry Commission England.

**Salary**

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



**Benefits in kind**

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

**Pension benefits (subject to audit)**

|                  | Accrued pension at pension age at 31 March 2013 and related lump sum<br>£000 | increase in pension and related lump sum at pension age<br>£000 | CETV at 31 March 2013<br>£000 | CETV at 31 March 2012*<br>£000 | Real increase in CETV<br>£000 | Employer contribution to partnership pension account to nearest £100 |
|------------------|--|---|-------------------------------|--------------------------------|-------------------------------|--|
| Brian Mahony     | 35-40 plus 65-70 LS  | 0-2.5 plus -2.5-0 LS  | 716                           | 664                            | 12                            | -  |
| Mark Thornycroft | 25-30 plus 75-80 LS  | 0-2.5 plus 2.5-5 LS   | 563                           | 532                            | 26                            | -  |
| David Hodson     | 0-5 plus 0-5 LS  | 0-2.5 - plus 0-2.5 LS   | 38                            | 22                             | 11                            | -  |
| Paddy Harrop     | 15-20 plus 45-50 LS  | 0-2.5 - plus 0-2.5 LS   | 235                           | 219                            | 4                             | -  |
| John Tewson      | 20-25 plus 70-75 LS  | 0-2.5 - plus 0-2.5 LS   | 497                           | 464                            | -                             | -  |
| Jim Lyon         | 25-30 plus 80-85 LS  | 0-2.5 plus 5-7.5 LS   | 581                           | 512                            | 40                            | -  |
| David Williamson | 20-25 plus 70-75 LS  | 0-2.5 plus 5-7.5 LS   | 509                           | 447                            | 34                            | -  |
| Alan Corson      | 25-30 plus 75-80 LS  | 0-2.5 plus 2.5-5 LS   | 526                           | 484                            | 16                            | -  |
| Jonathan Spencer | 20-25 plus 60-65 LS  | 0-2.5 - plus 0-2.5 LS   | 436                           | 409                            | 2                             | -  |

\*The figure may be different from the closing figure in last year's accounts. This is due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

**Civil Service Pensions**

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (**classic**, **premium** or **classic plus**); or a whole career scheme (**nuvos**). 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** and **nuvos** are increased annually in line with Pensions Increase legislation. 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 set at the rate of 1.5% of pensionable earnings for **classic** and 3.5% for **premium**, **classic plus** and **nuvos**. 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. 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 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three 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 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach 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** and 65 for members of **nuvos**.

Further details about the Civil Service pension arrangements can be found at the website <http://www.civilservice.gov.uk/my-civil-service/pensions/index.aspx>

### Cash Equivalent Transfer Values

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

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out within the guidelines and framework prescribed by the Institute and Faculty of Actuaries 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.

S. Hodgson  
Accounting Officer

5 June 2013

## STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Forestry Commission Great Britain/England has directed Forest Enterprise England to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Forest Enterprise England and of its income and expenditure, changes in taxpayers' equity, and cash flows for the financial year.

In preparing the accounts, Forest Enterprise England is required to comply with the requirements of the accounts direction issued by the Forestry Commission which states that the accounts should be prepared in compliance with:

- International Financial Reporting Standards as adopted by the European Union;
- the accounting and disclosure requirements of companies legislation currently in force;
- the accounts disclosure requirements of the Financial Services Authority listing rules sections 9.8.6 and 9.8.8; and
- any additional disclosure or accounting requirements that the Treasury may issue from time to time in respect of public corporations' accounts.

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

## Governance Statement

### 1. Scope of Responsibility

As Agency Accounting Officer for Forest Enterprise England (the Agency), I have 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.

In discharging this overall responsibility, I am responsible for putting in place appropriate arrangements for the governance of its affairs, 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.

This Governance Statement covers the full year and whilst there have been changes in Agency Accounting Officer during the year, I have received appropriate assurances from the previous Agency Accounting Officer.

### 2. The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the Agency is directed, controlled and led. It enables the Agency 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 the Agency'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 the Agency for the year ended 31 March 2013 and up to the date of approval of the annual report and accounts, and accords with HM Treasury and Forestry Commission guidance.

### 3. The Governance Framework

Forest Enterprise England is an executive agency of the Forestry Commission. The Agency's framework document sets out my responsibilities as Agency Accounting Officer. I am accountable to Parliament through the Additional Accounting Officer for the Forestry Commission. I am responsible to the National Committee for England for the management of the Agency. I have a right of direct access to the Forestry Commissioners and to the relevant Minister.

### Forest Enterprise England Management Board (FEEMB)

The FEEMB was established to manage the day-to day operations and performance of the Agency, within the policy framework set by Ministers and the National Committee for England, under the overall direction of England Executive Board.

During the year the Executive Board discussed a wide range of forestry and recreation issues, including:

- Climate change;
- Community woodland management;
- Retail issues;
- Cycling income;
- Live music income;
- Open habitats;
- Biodiversity; and,
- Production forecasts.
- Plant Health
- The Independent Panel on Forestry and the government response

At each meeting, the Board also discussed the Chair's Report, and Finance and Risk Management reports. They also reviewed reports on Sustainable Forest and Land Management, Recreation and Public Affairs, and Estates.

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

### Performance

The FEEMB has linkages through shared membership of other Forestry Commission governance committees. Director Forest Enterprise is a member of the England National Committee and Executive Board, and attends the Audit & Risk Committee. This ensures a breadth of knowledge and understanding of the organisation and forestry issues which enhances the effectiveness of all the committees.

### Register of interests

A register of interests of all Board Members is maintained by the Forestry Commission and published on our website, [www.forestry.gov.uk](http://www.forestry.gov.uk).

## **4. Review of Effectiveness**

As Agency Accounting Officer I have responsibility for conducting, at least annually, a review of the effectiveness of the governance framework. My review is informed by the work of Internal Audit and the executive managers across the Forestry Commission 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.

I receive Annual Assurance Statements from the each of the Head's of Shared Services for the Forestry Commission, based centrally in Edinburgh, providing me with assurance on the standard of governance and control within their area of responsibility.

The Head of Internal Audit has prepared an annual report and assurance statements to me as Agency Accounting Officer. The report includes an overall assessment of the adequacy and effectiveness of risk management, control and governance within Forest Enterprise.

The overall opinion is that internal control within Forest Enterprise continues to provide substantial assurance that material risks to the achievement of objectives are adequately managed.

Work to date has not identified any new control weaknesses and has supported findings from financial control visits and the work of internal and external auditors.

Plans to address weaknesses and ensure continuous improvement of the system are in place.

The Agency has continued to apply the principles of the 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.

## 5. Risk Management

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

The National Committee for England has established an Audit and Risk Committee (ARC) as a sub-committee to support them in their responsibilities for the effective management of risk, control and governance.

The Risk Management Policy is fully committed to effective risk management, adopting best practice in the identification, evaluation and control of risks, in order to:

- integrate and embed risk management into the culture of the Agency;
- 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 and;
- ensure that business continuity plans are in place and are effective.

The Agency 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 from 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 Great Britain/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, the Agency recognises Risk Management as a key function in helping to ensure it achieves its aims and objectives.

Further refinements of the organisation's risk registers were put into place during the year, following the formal review of FC England's risk management policy and practices in 2011-12.

## 6. Significant Governance Issues

### Bio security

Forest Enterprise have recognised the risk associated with the bio security threat, and the consequences of which are loss of revenue from crop damage, together with the cost of control and containing the spread of disease. Action plans and control measures are in place, including clearing and felling programmes.

### Organisational Change

New structures were introduced from 1 April 2012, underpinned by modernisation funding from Defra to support the cost of staff exits. The operation of the new structures has been closely monitored to ensure business continuity.

From 1 April 2012 responsibility for the management of Mechanical Engineering Services devolved to the three countries, and the management of Plant and Seed Supply Branch moved to Forest Enterprise England.

The government's response to the Independent Panel on Forestry included the establishment in the longer term of a new body to hold the Public Forest Estate in trust for the nation. Establishing such new body with greater independence from government, and greater freedom to manage its own resources, will require further significant structural reform and demand long term resourcing to manage the transition.

### Forest Enterprise Non-Forestry Development Projects

Forest Enterprise's long term financial plan is heavily 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, green burials and built commercial development. In order for these opportunities to come to fruition, the Agency will need to have the assurance that they will be acceptable to

Government, and to be able to sustain the confidence of business partners and stakeholders. Forest Enterprise 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.

### Woodland Sales

As part of the SR10 settlement, Forest Enterprise England was asked to progressively reduce its dependence on woodland sales to fund operational costs by the end of the SR10 period. This was based on the assumption that the public forest estate would reduce in size by 15% across the SR10 period.

The decision to suspend SR10 woodland sales in February 2011, and later confirmation to permanently stop the sales in January 2013, had an immediate, and direct, impact on our baseline funding position. Additional budgetary cover was made available for 2012-13 and 2013-14 following discussion of the financial implications with Defra.

The revised profile of budgetary cover will form a key element in the forthcoming settlement negotiations.

### Information Communication Technology (ICT) infrastructure

The ICT Infrastructure modernisation programme continues with further migration of key business applications to the new platform taking place over the next 18 months. The new disaster recovery facility is in place and step by step this programme is making significant inroads into the business risk posed by ICT infrastructure failure.

Whilst some risk to the business still remains as work continues, the overall risk position has substantially improved over the past three years.

The ICT Infrastructure modernisation programme continues with further migration of key business applications to the new platform taking place over the next 18 months. The new disaster recovery facility is in place and step by step this programme is making significant inroads into the business risk posed by ICT infrastructure failure.

Whilst some risk to the business still remains as work continues, the overall risk position has substantially improved over the past three years.

### Business continuity management

Within Forest Enterprise England, business continuity plans are embedded within each management unit.

The Agency is reliant on corporate systems and support from Central Shared Services. Significant progress has been made in developing business continuity management within Shared Services. A mirror IT site has been established at Northern Research Station and this has the operational capacity to restore major corporate systems within 5 working days. Completion of the facility significantly reduces the previous continuity requirement for manual processes.

In conjunction with the Forestry Commission, Forest Enterprise will be undertaking a review of its business continuity plans during 2013/14 following the introduction of the new SR10 organisational structures, working closely with Central Shared Services to learn from their experience.



### 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 we do not handle as much sensitive information as most other departments and our information holdings are relatively small.

Forestry Commission England has appointed a Senior Information Risk Owner who attends regular meetings of the Information Security Management Forum (ISMF), chaired by Director Finance Great Britain, which coordinates and controls the implementation of information security across the Forestry Commission. The work of the ISMF is supported on a day to day basis by the Departmental Security Officer and the Information Technology Security Officer.

A policy on protecting information from loss or disclosure outside the Forestry Commission has been published. A Security Culture Change Plan is also in place. Information Asset Owners (IAOs) are in place for those corporate systems holding business critical information, the loss or compromise of which would cause disruption to business operations. We have also identified local Information Asset Owners and will be working with them to assist in production of local asset registers. Online training on Information Assurance was available to all Forestry Commission staff up to the end of March 2012. This is now only available to major departments and we will be working with the ISMF to consider how best to keep up awareness. All laptops are now encrypted and memory sticks used to store or transfer personal or other sensitive information must be pre-encrypted.

Forestry Commission England has been working with one of the Forest Enterprise England District's to pilot the IAO process and in spring 2013 will roll this process out across FC England. A programme of Information Assurance training is accompanying this process for all nominated Information Asset Owners, their delegates, and those involved in the collection of information or design of information systems that involve personal or sensitive information.

Improvements to systems access controls continue to be implemented to ensure that only the appropriate staff have privileged access to systems and data.

Documentation of processes and procedures is continuing to make us less dependent on key staff.

This ongoing work, and our other actions, are reflected in an improved assessment against the Cabinet Office information assurance maturity model.

There were no lapses of data security during 2012-13.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

### Modelling and Quality Assurance

A sensible and proportionate approach to quality assurance has been adopted across the Agency in terms of business critical models and the associated risks are being managed properly.

## Communications

The Forestry Commission and forestry issues have never been more newsworthy, following Government proposals in 2011 to sell Public Forest Estate assets and recent tree health threats – particularly *chalara* Ash dieback. Much of our recent external communications have focused on building stronger relationships with stakeholders through change and informing the public about bio security issues, including the action they need to take. This work will continue.

Locally contentious issues are increasing in number and impact, as proposals come forward for non forestry developments – often requiring a national approach to the support of local teams. Issues include renewable energy schemes, access to woodlands, car parking proposals and other charging schemes,

Our staff have faced unprecedented change to the organisation over the last few years and will continue to do so, underlining the importance of clear and engaging internal communications to maintain morale and support business continuity.

## **7. Wider circumstances and future challenges**

The main challenges for Forest Enterprise England for 2013/14 and beyond are:

- managing the delivery of new commitments in line with the Government response to the Independent Panel on Forestry, including structural reform, agreement on funding for delivery of public services and growth of commercial revenue streams;
- handling the continued and increasing bio security threat;
- introducing revised stable and sustainable arrangements for the public forest estate as a result of the Government's policy statement on forests and woodlands;
- ensuring business continuity and maintenance of UKWAS certification as the efficiencies required under SR10 and SR14 are delivered;
- continuing to deliver agreed performance targets within a constrained financial environment.

In 2013/14 the Agency will remain focussed on managing these challenges, whilst continuing to maintain business continuity across the broad range of its operations and meeting stakeholder expectations in line with the Corporate Plan.

*S Hodgson*  
Accounting Officer

5 June 2013

**INDEPENDENT AUDITOR'S REPORT TO THE HOUSE OF COMMONS**

I have audited the financial statements of Forest Enterprise England for the year ended 31 March 2013. These 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 Report that is described in that report 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 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 Financial Commentary to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

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

**Opinion on regularity**

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

**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 2013 and of the operating deficit for the year then ended; and
- the financial statements have been properly prepared in accordance with directions issued by the Forestry Commission.

**Opinion on other matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury guidance and directions made by the Forestry Commission; and
- the information given in Financial Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

**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 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.

**Amyas C E Morse**  
**Comptroller and Auditor General**

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

11 June 2013

**STATEMENT OF COMPREHENSIVE INCOME**

for the year ended 31 March 2013

|  |      | 2012-13         | 2011-12         |
|--|------|-----------------|-----------------|
|  | Note | <u>£000</u>     | <u>£000</u>     |
| <b>Income</b>  | 5    | 57,331          | 60,613          |
| <b>Staff Costs</b>   | 4    | (24,577)        | (27,929)        |
| <b>Other Costs</b>   | 6    | (47,077)        | (51,871)        |
| <b>Value of Felled Timber</b>  | 8/10 | (18,165)        | (19,659)        |
| <b>Operating (deficit) before gain on revaluation of biological assets</b>                   |      | <u>(32,488)</u> | <u>(38,846)</u> |
| (Loss) / gain on revaluation of biological assets  | 10   | <u>(28,021)</u> | <u>66,953</u>   |
| <b>Operating (deficit) / surplus after (loss) / gain on revaluation of biological assets</b> |      | <u>(60,509)</u> | <u>28,107</u>   |
| Funding received from Forestry Commission Great Britain/England                              |      | 26,133          | 14,600          |
| Surplus on sale of properties  | 7    | <u>(906)</u>    | <u>1,326</u>    |
| <b>(Deficit) / surplus for the year</b>  |      | <u>(35,282)</u> | <u>44,033</u>   |
| Transferred to general fund  | 17   | <u>(35,282)</u> | <u>44,033</u>   |
| <b>Other comprehensive income</b>  |      |                 |                 |
| Net (loss) / gain on revaluation of Property Plant and Equipment                             |      | 34,325          | 438,166         |
| Net gain on revaluation of available for sale financial assets                               |      | 2,278           | -               |
| <b>Total other comprehensive income for the year</b>   |      | <u>36,603</u>   | <u>438,166</u>  |
| <b>Total comprehensive income</b>  |      | <u>1,321</u>    | <u>482,199</u>  |

There have been no acquisitions during the year.

All income and expenditure is derived from continuing operations.

The presentation of this statement has changed in 2012-13 to enhance understandability. The comparative figures for the previous year have been represented on the same basis although the actual underlying figures have not changed.

*The notes on pages 108 to 138 form part of these accounts*

**STATEMENT OF FINANCIAL POSITION**

as at 31 March 2013

|   |             | 31 March 2013    | 31 March 2012    |
|---|-------------|------------------|------------------|
|   |             | £000             | £000             |
| <b>Non current assets</b>                         | <b>Note</b> |                  |                  |
| Property, plant and equipment                     | 8           | 1,319,607        | 1,300,446        |
| Biological assets                                 | 10          | 117,163          | 151,798          |
| Financial assets                                  | 9           | 8,086            | 5,808            |
| Trade and other receivables                       | 13          | 4,592            | 9,119            |
| <b>Total non current assets</b>                   |             | <b>1,449,448</b> | <b>1,467,171</b> |
| <b>Current assets</b>                             |             |                  |                  |
| Non-current assets held for sale                  | 11          | -                | 74               |
| Inventories                                       | 12          | 1,079            | 1,172            |
| Trade and other receivables                       | 13          | 11,151           | 15,214           |
| Cash and cash equivalents                         | 14          | 20,639           | 3,667            |
| <b>Total current assets</b>                       |             | <b>32,869</b>    | <b>20,127</b>    |
| <b>Total assets</b>                               |             | <b>1,482,317</b> | <b>1,487,298</b> |
| <b>Current liabilities</b>                        |             |                  |                  |
| Provisions  | 16          | (594)            | (1,062)          |
| Trade and other payables                          | 15          | (14,328)         | (13,143)         |
| <b>Total current liabilities</b>                  |             | <b>(14,922)</b>  | <b>(14,205)</b>  |
| <b>Non current assets plus net current assets</b> |             | <b>1,467,395</b> | <b>1,473,093</b> |
| <b>Non current liabilities</b>                    |             |                  |                  |
| Provisions  | 16          | (133)            | (183)            |
| Trade and other payables                          | 15          | (16,135)         | (16,550)         |
| <b>Total non-current liabilities</b>              |             | <b>(16,268)</b>  | <b>(16,733)</b>  |
| <b>Assets less liabilities</b>                    |             | <b>1,451,127</b> | <b>1,456,360</b> |
| <b>Taxpayers' equity</b>                          |             |                  |                  |
| General fund                                      | 17          | 334,559          | 375,342          |
| Revaluation reserve                               | 17          | 1,116,568        | 1,081,018        |
| <b>Total taxpayers' equity</b>                    |             | <b>1,451,127</b> | <b>1,456,360</b> |

S. Hodgson  
Accounting Officer

5 June 2013

The notes on pages 108 to 138 form part of these accounts

**STATEMENT OF CASH FLOWS**

as at 31 March 2013

|  |        | 2012-13        | 2011-12      |
|--|--------|----------------|--------------|
|  | Notes  | £000           | £000         |
| <b>Cash flows from operating activities</b>  |        |                |              |
| Net (deficit) / surplus for the year   |        | (35,282)       | 44,033       |
| Adjustments for non-cash transactions:   |        |                |              |
| Depreciation   | 8      | 4,224          | 4,517        |
| Deferred income released   |        | (336)          | (392)        |
| Timing between accrual and cash VAT  | 17     | (1,879)        | 445          |
| Non-cash inter-country transfers   | 17     | 827            | 249          |
| Loss/ (profit) on disposal of property   | 7      | 793            | (1,547)      |
| Losses on disposal of other property, plant and equipment  |        | 8              | 73           |
| Impairment of property, plant and equipment and write off of revaluation reserve                     |        | 1,440          | 24           |
| Property, plant and equipment written off  | 8      | 1              | 177          |
| Movements in provisions  | 16     | 166            | 1,134        |
| Increase in plant and seed (biological assets)   | 10     | (420)          | 32           |
| Decrease / (Increase) in inventories   | 12     | 93             | 152          |
| (Increase) / decrease in trade and other receivables   | 13     | 8,591          | (2,941)      |
| Finance lease additions  |        | (618)          | (623)        |
| (Decrease)/increase in trade and other payables  | 15     | 1,106          | 1,568        |
| Movements in receivables relating to items not passing through the Statement of Comprehensive Income | 17     | (5,509)        | -            |
| Use of provisions  | 16     | (685)          | (506)        |
| Loss / (gain) on revaluation of biological assets  | 10     | 28,021         | (66,952)     |
| Value of fellings  | 8 / 10 | 18,165         | 19,659       |
|  |        | <hr/>          | <hr/>        |
| <b>Net cash inflow / (outflow) from operating activities</b>   |        | <b>18,706</b>  | <b>(898)</b> |
|  |        | <hr/>          | <hr/>        |
| <b>Cash flows from investing activities</b>  |        |                |              |
| Purchase of property, plant and equipment  | 8      | (2,148)        | (1,205)      |
| Proceeds of disposal of properties   | 7      | 414            | 5,620        |
| Proceeds of disposal of other property, plant and  |        | -              | 131          |
|  |        | <hr/>          | <hr/>        |
| <b>Net cash outflow / (inflow) from investing activities</b>   |        | <b>(1,734)</b> | <b>4,546</b> |
|  |        | <hr/>          | <hr/>        |
| <b>Net increase/(decrease) in cash and cash equivalents in the period</b>                            |        | <b>16,972</b>  | <b>3,648</b> |
|  |        | <hr/>          | <hr/>        |
| <b>Cash and cash equivalents at the beginning of the period</b>                                      |        | <b>3,667</b>   | <b>19</b>    |
| <b>Cash and cash equivalents at the end of the period</b>  |        | <b>20,639</b>  | <b>3,667</b> |
|  |        | <hr/>          | <hr/>        |

The notes on pages 108 to 138 form part of these accounts

**STATEMENT OF CHANGES IN TAXPAYERS' EQUITY**

as at 31 March 2013

|   |      | General<br>Fund | Revaluation<br>Reserve | Total            |
|---|------|-----------------|------------------------|------------------|
|   | Note | £000            | £000                   | £000             |
| <b>Balance at 31 March 2011</b>   |      | 330,146         | 642,925                | 973,071          |
| <b>Changes in taxpayers' equity for 2011-12</b>                         |      |                 |                        |                  |
| Net gain on revaluation of property, plant and equipment                | 17   | -               | 438,166                | 438,166          |
| Non-cash charges - timing between accrual and cash VAT                  | 17   | 445             | -                      | 445              |
| Non-cash charges - intercountry transfers                               | 17   | 249             | -                      | 249              |
| Realised element of revaluation reserve                                 | 17   | 327             | (327)                  | -                |
| Transfer of property, plant and equipment from/to other forestry bodies | 17   | 142             | 230                    | 372              |
| Release of reserves to the statement of comprehensive income            |      | -               | 24                     | 24               |
| Net surplus for the year  |      | 44,033          | -                      | 44,033           |
| <b>Total recognised income and expense for 2011-12</b>                  |      | <b>45,196</b>   | <b>438,093</b>         | <b>483,289</b>   |
| <b>Balance at 31 March 2012</b>   |      | <b>375,342</b>  | <b>1,081,018</b>       | <b>1,456,360</b> |
| <b>Balance at 1 April 2012</b>  |      | <b>375,342</b>  | <b>1,081,018</b>       | <b>1,456,360</b> |
| <b>Changes in taxpayers' equity for 2012-13</b>                         |      |                 |                        |                  |
| Net loss on revaluation of property, plant and equipment                | 17   | -               | 36,603                 | 36,603           |
| Non-cash charges - timing between accrual and cash VAT                  | 17   | (1,879)         | -                      | (1,879)          |
| Non-cash charges - intercountry transfers                               | 17   | 827             | -                      | 827              |
| Realised element of revaluation reserve                                 | 17   | 1,051           | (1,051)                | -                |
| Transfer of property, plant and equipment from/to other forestry bodies | 17   | 9               | (9)                    | -                |
| Capitalisation of Forest Holiday loan notes                             | 17   | (5,509)         | -                      | (5,509)          |
| Release of reserves to the statement of comprehensive income            |      | -               | 7                      | 7                |
| Net deficit for the year  |      | (35,282)        | -                      | (35,282)         |
| <b>Total recognised income and expense for 2012-13</b>                  |      | <b>(40,783)</b> | <b>35,550</b>          | <b>(5,233)</b>   |
| <b>Balance at 31 March 2013</b>   |      | <b>334,559</b>  | <b>1,116,568</b>       | <b>1,451,127</b> |

The notes on pages 108 to 138 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 Great Britain / England. The accounts have been prepared in compliance 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 Great Britain/England. 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 Great Britain/England, 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 0% 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% will apply.

#### 1.4 Employee benefits

##### Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit schemes are unfunded and are non-contributory except in respect of dependant's benefits. 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 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 General, Director Scotland, Director England and three other non-executive commissioners. 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

Liabilities and expenses are recognised for holiday entitlements earned to 31 March but not yet taken.

### 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. 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 Smiths Gore 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 Smiths Gore, 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 Smiths Gore who are contracted to undertake the work until 2017.

#### Other Land

Non-Forest Land is shown at fair value. Professionally qualified staff 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 Smiths Gore. 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 Smiths Gore, 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 key components which are listed below together with the associated valuation methodology.
  - (i) 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.
  - (ii) Landscaping and planting - custom indices provided by Smiths Gore, Chartered Surveyors
  - (iii) Infrastructure - consists mainly of paths and determined by internal Chartered Surveyors that 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 Smiths Gore, Chartered Surveyors, reviewed this.

During intervening years between the five yearly full valuations, indices provided by Smiths Gore are used to reflect the fair value of Dwellings and other buildings. The indices provided are Forest District specific and are based on Smiths Gore'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 so as 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 LLP 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        | - Investments within note 9                  |
| Partnership loan  | - Trade and other receivables within note 13 |
| Partnership lease | - Trade and other receivables within note 13 |

#### **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 Smiths Gore, 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 Smiths Gore 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%.

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 so as 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 so as 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 cashflows 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 registered for VAT. In order 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. Forest Enterprise England accounts for VAT on a Great Britain basis with any VAT due to or from HM Revenue and Customs at the year end included in Forestry Commission Great Britain/England accounts as a debtor or creditor 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 Segment 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.

#### 1.19 Foreign currency translation

##### (a) 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.

##### (b) 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.

#### (a) 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.

#### (b) 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.

#### (c) 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.

#### (a) 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.

#### (b) 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.

#### (c) 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 GB/England 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.

#### (a) 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.

#### (b) 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.

#### (a) 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.

#### (b) 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, Interpretations and Amendments effective at 31 March 2013 have been adopted in these statements.

### 1.25 Effective for future Financial Years

At the date of authorisation of these financial statements, the following standards relevant to Forest Enterprise England were issued but not yet effective:

- IAS 1 Presentation of Financial Statements (Other Comprehensive Income);
- IAS 19 Post-Employment Benefits (Pensions);
- IFRS 9 Financial Instruments, Classification and Measurement;
- IFRS 10 Consolidated Financial Statements;
- IFRS 11 Joint Arrangements;
- IFRS 12 Disclosure of Interests in Other Entities; and
- IFRS 13 Fair Value Measurement.

These standards have not been adopted by Forest Enterprise England ahead of their implementation date. The future impact of IFRS 10, 11 and 12 is not considered to be significant. Forest Enterprise England is reviewing the likely impact of the adoption of IFRS 9 and 13.

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## NOTE 2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

### Critical accounting judgements and key 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 Ha and 70 Ha was designated for Social and Environmental purposes then reasonable information can be derived from estimating that 70% (70 Ha / 100 Ha) of the district's trees were outwith IAS 41. The remaining 30% 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 2007-08 are based on the analysis of the agency's land records as at 31 March 2008. The next formal review will take place during 2013-14 following the full professional valuation of the Forest Estate as at 31 March 2013.

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 in order 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 2012-13 woodland disposals, the cost of sales percentage was calculated as 4.5% of the Fair Value. Management does not consider that the actual disposal costs in the final four months of the financial year would materially impact on the estimated cost of sales calculated.

The agency 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 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.

In order 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 key 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 key components of Other Land together with the source of the valuation.

**Dwellings and Other Buildings**

Other Buildings primarily includes 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 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.

In order 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 SEGMENTAL INFORMATION**

Management has determined that Forest Enterprise England operates as one operating segment, with results reviewed by the chief operating decision maker for Forest Enterprise England as a whole.

**NOTE 4 STAFF NUMBERS AND RELATED COSTS****4 (a) Employee benefit expense**

|                        |                               |            | 2012-13       | 2011-12       |
|------------------------|-------------------------------|------------|---------------|---------------|
|                        | Permanently<br>employed staff | Others     | Total         | Total         |
|                        | £000                          | £000       | £000          | £000          |
| Salaries               | 19,658                        | -          | 19,658        | 22,452        |
| Social security costs  | 1,422                         | -          | 1,422         | 1,573         |
| Other pension costs    | 3,373                         | -          | 3,373         | 3,808         |
| Agency/temporary staff | -                             | 124        | 124           | 96            |
|                        | <b>24,453</b>                 | <b>124</b> | <b>24,577</b> | <b>27,929</b> |

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but Forest Enterprise England is unable to identify its share of the underlying assets and liabilities. The scheme

actuary valued the scheme as at 31 March 2007. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice.gov.uk/my-civil-service/pensions](http://www.civilservice.gov.uk/my-civil-service/pensions)).

For 2012-13, employers' contributions of £3,216,000 were payable to the PCSPS (2011-12: £3,601,000) at one of four rates in the range 16.7% to 24.3% of pensionable pay, 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 2010-11 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 £43,000 were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £2,800 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

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

No individuals retired early on ill health grounds (2011-12: £6,926).

Staff had the opportunity to apply for a Voluntary Early Retirement scheme in 2012-13. As per EPN 296, the results of this scheme are incorporated into the Compensation for loss of office section below.

#### 4 (b) Average number of persons employed

Average number of whole-time equivalent persons employed:

|                   | <u>Permanently<br/>employed staff</u><br>Number | <u>Others</u><br>Number | <u>2012-13</u><br><u>Total</u><br>Number | <u>2011-12</u><br><u>Total</u><br>Number |
|-------------------|---|-------------------------|--|--|
| Directly employed | 702   | 39                      | 741                                      | 851                                      |
| Other             | -   | 50                      | 50                                       | 37                                       |
| <b>Total</b>      | <b>702</b>                                      | <b>89</b>               | <b>791</b>                               | <b>888</b>                               |

#### 4 (c) Benefits in kind are provided under the following schemes:

- Advances of salary for house purchase – available only for staff on relocation;
- Advances of salary for purchase of public transport and car park season tickets;
- Advances of salary for purchase of sports/health club membership;
- Advances of salary for purchase of IT and sports/health equipment, including bicycles; and
- Car provision for employees scheme.

Each scheme is subject to conditions and financial limits.

#### 4 (d) Compensation for loss of office

35 staff left under Voluntary Exit and Voluntary Redundancy terms in the year to 31 March 2013. They received a compensation payment of £728,060.

5 staff left under Compulsory Redundancy terms in the year to 31 March 2013. They received a compensation payment of £32,271.

| Exit package cost band               | Number of compulsory redundancies | Number of other departures agreed        | Total number of exit packages by cost band |
|--------------------------------------|-----------------------------------|--|--|
| <£10,000                             | 4 (2011-12: nil)                  | 10 (2011-12: 24)                         | 14 (2011-12: 24)                           |
| £10,000 - £25,000                    | 1 (2011-12: nil)                  | 15 (2011-12: 67)                         | 16 (2011-12: 67)                           |
| £25,000 - £50,000                    | - (2011-12: nil)                  | 9 (2011-12: 36)                          | 9 (2011-12: 36)                            |
| £50,000 - £100,000                   | - (2011-12: nil)                  | - (2011-12: 8)                           | - (2011-12: 8)                             |
| £100,000 - £150,000                  | - (2011-12: nil)                  | 1 (2011-12: nil)                         | 1 (2011-12: nil)                           |
| £150,000 - £200,000                  | - (2011-12: nil)                  | - (2011-12: nil)                         | - (2011-12: nil)                           |
| <b>Total number of exit packages</b> | <b>5 (2011-12: nil)</b>           | <b>35 (2011-12: 135)</b>                 | <b>40 (2011-12: 135)</b>                   |
| <b>Total resource cost / £</b>       | <b>£32,271</b><br>(2011-12: nil)  | <b>£728,060</b><br>(2011-12: £2,853,421) | <b>£760,331</b><br>(2011-12: £2,853,421)   |

## NOTE 5 INCOME

In accordance with IAS 18, operating revenue included in the Statement of Comprehensive Income has been disclosed below:

|                               | 2012-13       | 2011-12          |
|-------------------------------|---------------|------------------|
|                               | £000          | RESTATED<br>£000 |
| <b>Sale of Goods</b>          |               |                  |
| Timber                        | 31,341        | 33,392           |
| Retail and other goods        | 5,118         | 3,629            |
|                               | <u>36,459</u> | <u>37,021</u>    |
| <b>Services Rendered</b>      |               |                  |
| Sustainable forest management | 2,296         | 6,442            |
| Forest estate                 | 4,294         | 4,639            |
| Recreation and public affairs | 13,248        | 12,048           |
|                               | <u>19,838</u> | <u>23,129</u>    |
| <b>Royalties</b>              |               |                  |
| Mineral Income                | 1,034         | 463              |
|                               | <u>1,034</u>  | <u>463</u>       |
| <b>Total Income</b>           | <u>57,331</u> | <u>60,613</u>    |

**NOTE 6 OTHER COSTS**

|   | 2012-13       | 2011-12       |
|---|---------------|---------------|
|   | <u>£000</u>   | <u>£000</u>   |
| Staff Transfers                               | 457           | 283           |
| Computer Costs                                | 52            | 97            |
| Travel and Subsistence                        | 625           | 578           |
| Accommodation                                 | 872           | 848           |
| Communication                                 | 164           | 180           |
| Training                                      | 120           | 126           |
| Losses and Compensation                       | 86            | 115           |
| Legal Expenses                                | 487           | 265           |
| Auditors' remuneration - audit work           | 106           | 108           |
| Shared Central Services                       | 5,254         | 6,002         |
| Sustainable Forest Management                 | 19,628        | 21,904        |
| Forest Estate                                 | 1,698         | 1,391         |
| Recreation and Public Affairs                 | 11,827        | 12,968        |
|   | <u>41,376</u> | <u>44,865</u> |
| <b>Rentals Under Operating Leases:</b>        |               |               |
| Hire of plant and equipment                   | 1,127         | 1,050         |
| Operating lease rentals:                      |               |               |
| Land and buildings                            | 67            | 126           |
| Plant and machinery                           | 116           | 180           |
|   | <u>1,310</u>  | <u>1,356</u>  |
| <b>Non-cash costs:</b>                        |               |               |
| Depreciation of property, plant and equipment | 4,224         | 4,517         |
| Provisions –                                  |               |               |
| Provided in year                              | 492           | 1,311         |
| Provisions not required written back          | (328)         | (151)         |
| Unwinding of discount                         | 3             | (27)          |
|   | <u>4,391</u>  | <u>5,650</u>  |
| <b>Total</b>                                  | <u>47,077</u> | <u>51,871</u> |

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

- Finance and accounting services;
- Information services;
- Human Resources, including Learning and Development;
- Communications;
- Inventory forecasting and operational support services;
- Internal audit; and
- Business sustainability.

For each of the shared services, a service board was formed composed of "intelligent buyers" from the countries and Forest Research together with the service provider. The boards have joint accountability for the operation of these services to ensure the needs of the customer and the wider organisation are met. Charges were made at regular intervals during the year.

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

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

## NOTE 7 (DEFICIT) / SURPLUS ON SALE OF PROPERTIES

|  | 2012-13             | 2011-12             |
|--|---------------------|---------------------|
|  | £000                | £000                |
| Income   | 414                 | 5,620               |
| Book value                                       | <u>(1,207)</u>      | <u>(4,073)</u>      |
|  | <u>(793)</u>        | <u>1,547</u>        |
| Disposal costs:                                  |                     |                     |
| External costs                                   | (10)                | (120)               |
| Administrative expenses                          | <u>(103)</u>        | <u>(101)</u>        |
|  | <u>(113)</u>        | <u>(221)</u>        |
| <b>(Deficit) / surplus on sale of properties</b> | <b><u>(906)</u></b> | <b><u>1,326</u></b> |

## NOTE 8 PROPERTY PLANT AND EQUIPMENT

|                         | Forest Estate           | Other Land            | CITF and<br>Forest<br>Holidays Land | Dwellings and<br>Other<br>Buildings | VME                  | OME               | AUC                 | Total                   |
|-------------------------|-------------------------|-----------------------|-------------------------------------|-------------------------------------|----------------------|-------------------|---------------------|-------------------------|
|                         | £000                    | £000                  | £000                                | £000                                | £000                 | £000              | £000                | £000                    |
| <b>Valuation :</b>      |                         |                       |                                     |                                     |                      |                   |                     |                         |
| At 31 March 2012        | 1,074,725               | 154,377               | 1,438                               | 82,048                              | 13,543               | 154               | 120                 | 1,326,405               |
| Additions               | 30                      | -                     | -                                   | 47                                  | 1,229                | 13                | 1,447               | 2,766                   |
| Transfers               | -                       | -                     | -                                   | 288                                 | -                    | -                 | (288)               | -                       |
| Transfer to NCAHFS      | -                       | -                     | -                                   | (35)                                | -                    | -                 | -                   | (35)                    |
| Transfer in from NCAHFS | -                       | -                     | -                                   | -                                   | -                    | -                 | -                   | -                       |
| Disposals               | -                       | -                     | -                                   | (2,290)                             | (643)                | (61)              | -                   | (2,994)                 |
| Fellings                | (11,132)                | -                     | -                                   | -                                   | -                    | -                 | -                   | (11,132)                |
| Write-off               | -                       | -                     | -                                   | -                                   | (1)                  | -                 | -                   | (1)                     |
| Revaluation             | (31,801)                | 45,160                | 1,713                               | 8,748                               | 851                  | 15                | -                   | 24,686                  |
| Impairment              | -                       | -                     | -                                   | (1,433)                             | -                    | -                 | -                   | (1,433)                 |
| <b>At 31 March 2013</b> | <b><u>1,031,822</u></b> | <b><u>199,537</u></b> | <b><u>3,151</u></b>                 | <b><u>87,373</u></b>                | <b><u>14,979</u></b> | <b><u>121</u></b> | <b><u>1,279</u></b> | <b><u>1,338,262</u></b> |
| <b>Depreciation :</b>   |                         |                       |                                     |                                     |                      |                   |                     |                         |
| At 31 March 2012        | -                       | -                     | -                                   | 18,246                              | 7,605                | 108               | -                   | 25,959                  |
| Provided during year    | -                       | -                     | -                                   | 2,104                               | 2,094                | 26                | -                   | 4,224                   |
| Transfers               | -                       | -                     | -                                   | -                                   | -                    | -                 | -                   | -                       |
| Transfer to NCAHFS      | -                       | -                     | -                                   | (20)                                | -                    | -                 | -                   | (20)                    |
| Disposals               | -                       | -                     | -                                   | (1,247)                             | (561)                | (60)              | -                   | (1,868)                 |
| Write-off               | -                       | -                     | -                                   | -                                   | -                    | -                 | -                   | -                       |
| Revaluation             | -                       | -                     | -                                   | (9,981)                             | 334                  | 7                 | -                   | (9,640)                 |
| Impairment              | -                       | -                     | -                                   | -                                   | -                    | -                 | -                   | -                       |
| <b>At 31 March 2013</b> | <b><u>-</u></b>         | <b><u>-</u></b>       | <b><u>-</u></b>                     | <b><u>9,102</u></b>                 | <b><u>9,472</u></b>  | <b><u>81</u></b>  | <b><u>-</u></b>     | <b><u>18,655</u></b>    |
| <b>Net Book Value :</b> |                         |                       |                                     |                                     |                      |                   |                     |                         |
| At 31 March 2013        | <b><u>1,031,822</u></b> | <b><u>199,537</u></b> | <b><u>3,151</u></b>                 | <b><u>78,271</u></b>                | <b><u>5,507</u></b>  | <b><u>40</u></b>  | <b><u>1,279</u></b> | <b><u>1,319,607</u></b> |
| At 31 March 2012        | <u>1,074,725</u>        | <u>154,377</u>        | <u>1,438</u>                        | <u>63,802</u>                       | <u>5,938</u>         | <u>46</u>         | <u>120</u>          | <u>1,300,446</u>        |
| Owned                   | 964,900                 | 199,537               | 3,151                               | 78,271                              | 1,822                | 40                | 1,279               | 1,249,000               |
| Finance Leased          | 66,922                  | -                     | -                                   | -                                   | 3,685                | -                 | -                   | 70,607                  |
| <b>Total</b>            | <b><u>1,031,822</u></b> | <b><u>199,537</u></b> | <b><u>3,151</u></b>                 | <b><u>78,271</u></b>                | <b><u>5,507</u></b>  | <b><u>40</u></b>  | <b><u>1,279</u></b> | <b><u>1,319,607</u></b> |



|                         | Dwellings and    |                |                         |                    | VME           | OME        | AUC        | Total            |
|-------------------------|------------------|----------------|-------------------------|--------------------|---------------|------------|------------|------------------|
|                         | Forest Estate    | Other Land     | Forest<br>Holidays Land | Other<br>Buildings |               |            |            |                  |
|                         | £000             | £000           | £000                    | £000               | £000          | £000       | £000       | £000             |
| <b>Valuation :</b>      |                  |                |                         |                    |               |            |            |                  |
| At 31 March 2011        | 688,134          | 113,788        | 1,438                   | 81,340             | 14,438        | 206        | 760        | 900,104          |
| Additions               | 256              | 30             | -                       | 325                | 892           | 9          | 351        | 1,863            |
| Transfers               | (3,024)          | 3,024          | -                       | 1,187              | 338           | -          | (814)      | 711              |
| Transfer to NCAHFS      | -                | -              | -                       | (87)               | -             | -          | -          | (87)             |
| Transfer in from NCAHFS | 50               | -              | -                       | -                  | -             | -          | -          | 50               |
| Disposals               | (296)            | (4)            | -                       | (684)              | (2,272)       | (61)       | -          | (3,317)          |
| Fellings                | (10,919)         | -              | -                       | -                  | -             | -          | -          | (10,919)         |
| Write-off               | -                | -              | -                       | -                  | -             | -          | (177)      | (177)            |
| Revaluation             | 400,524          | 37,539         | -                       | (33)               | 147           | -          | -          | 438,177          |
| Impairment              | -                | -              | -                       | -                  | -             | -          | -          | -                |
| At 31 March 2012        | <b>1,074,725</b> | <b>154,377</b> | <b>1,438</b>            | <b>82,048</b>      | <b>13,543</b> | <b>154</b> | <b>120</b> | <b>1,326,405</b> |
| <b>Depreciation :</b>   |                  |                |                         |                    |               |            |            |                  |
| At 31 March 2011        | -                | -              | -                       | 16,180             | 7,203         | 136        | -          | 23,519           |
| Provided during year    | -                | -              | -                       | 2,227              | 2,257         | 33         | -          | 4,517            |
| Transfers               | -                | -              | -                       | 182                | 185           | -          | -          | 367              |
| Transfer to NCAHFS      | -                | -              | -                       | (13)               | -             | -          | -          | (13)             |
| Disposals               | -                | -              | -                       | (277)              | (2,103)       | (61)       | -          | (2,441)          |
| Write-off               | -                | -              | -                       | -                  | -             | -          | -          | -                |
| Revaluation             | -                | -              | -                       | (53)               | 63            | -          | -          | 10               |
| Impairment              | -                | -              | -                       | -                  | -             | -          | -          | -                |
| At 31 March 2012        | -                | -              | -                       | <b>18,246</b>      | <b>7,605</b>  | <b>108</b> | -          | <b>25,959</b>    |
| <b>Net Book Value :</b> |                  |                |                         |                    |               |            |            |                  |
| At 31 March 2012        | <b>1,074,725</b> | <b>154,377</b> | <b>1,438</b>            | <b>63,802</b>      | <b>5,938</b>  | <b>46</b>  | <b>120</b> | <b>1,300,446</b> |
| At 31 March 2011        | 688,134          | 113,788        | 1,438                   | 65,160             | 7,235         | 70         | 760        | 876,585          |
| <b>Owned</b>            | <b>1,031,627</b> | <b>154,377</b> | <b>1,438</b>            | <b>63,802</b>      | <b>1,415</b>  | <b>46</b>  | <b>120</b> | <b>1,252,825</b> |
| Finance Leased          | 43,098           | -              | -                       | -                  | 4,523         | -          | -          | 47,621           |
| Total                   | <b>1,074,725</b> | <b>154,377</b> | <b>1,438</b>            | <b>63,802</b>      | <b>5,938</b>  | <b>46</b>  | <b>120</b> | <b>1,300,446</b> |

Smiths Gore, Chartered Surveyors carried out a professional valuation of the Forest Estate and Biological Assets 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 Smiths Gore.

Other Land, Dwellings and Other Buildings were valued as at 31 March 2013 by professionally qualified staff employed by Forest Enterprise England and approved by Mr Mark Thornycroft, FRICS who is Head of Estates. The results of this valuation were also subject to professional review by Smiths Gore. 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 are valued at five-year intervals. A professional valuation took place on 31 March 2011. Professionally qualified staff employed by the Forestry Commission undertook the valuation which was approved by Jeffrey Livingston, CEng., Head of Mechanical Engineering Services. In the intervening years, revaluations are on the basis of indices provided by the Office of National Statistics or internal professional staff as appropriate.

Office machinery and equipment (OME) was restated to a current value of £81,000 at 31 March 2013 using an index provided by the ONS.

Depreciation expense of £4,224,000 (2011-12: £4,517,000) has been charged in the Statement of Comprehensive Income.

**NOTE 9 FINANCIAL ASSETS**

|                               | <b>CITF and<br/>Forest Holidays<br/>Investment</b> |                      |
|-------------------------------|--|----------------------|
|                               | <b>31 March 2013</b>                               | <b>31 March 2012</b> |
|                               | <u>£000</u>  | <u>£000</u>          |
| At 1 April                    | 5,808  | 5,808                |
| Revaluation to current prices | 2,278  | -                    |
| <b>At 31 March</b>            | <b><u>8,086</u></b>                                | <b><u>5,808</u></b>  |

The investments represent Forest Enterprise England's share in the limited liability partnerships between the Forestry Commissioners, the Camping and Caravanning Club and Forest Holidays to operate holiday facilities within the Forestry Commission's land holdings.

On 21 September 2012, Forest Holidays LLP restructured its business and created two new Limited Liability Partnerships (LLP's). The two new LLP's are the Camping in the Forest (CITF) LLP and Forest Holidays (LLP). The fair value of Forest Enterprise England's investments in CITF LLP and Forest Holidays LLP were £3,290,000 and £4,796,000 at 31 March 2013 respectively. The fair values were determined by Barrs & Co, specialist leisure consultants and chartered surveyors. The investment values as at 31 March 2012 represent Forest Enterprise England's investment in the former Forest Holidays business and were derived through an internal apportionment of the Forestry Commission's overall investment.

**NOTE 10 BIOLOGICAL ASSETS**

Non-current biological assets comprise of plant and seed and timber.

Timber growing on Forest Estate Land is categorised as Biological Asset Timber or Other Timber depending on the strategic objective the land is held to meet. Other trees are classed as Other Timber and are out-with the scope of IAS 41.

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

| <b>Forest District</b>  | <b>Area</b>          |
|-------------------------|----------------------|
|                         | <b>Ha</b>            |
| North                   | 33,367               |
| Yorkshire               | 1,515                |
| Central                 | 3,107                |
| East                    | 2,077                |
| West                    | 1,677                |
| South                   | 4,628                |
| <b>At 31 March 2013</b> | <b><u>46,371</u></b> |

The carrying value of total biological assets was £117,163,000 at 31 March 2013 (2011-12: £151,798,000) comprising:

- Plant and seed £2,866,000 (2011-12: £2,447,000).
- Timber £114,297,000 (2011-12: £149,351,000).

|  | <u>31 March 2013</u>  | <u>31 March 2012</u>  |
|--|-----------------------|-----------------------|
|  | £000                  | £000                  |
| Balance at 1 April                                   | 151,798               | 93,622                |
| Fellings   | (7,034)               | (8,740)               |
| Movement on plant and seed                           | 420                   | (32)                  |
| Transferred in from NCAHFS                           | -                     | 3                     |
| Disposals  | -                     | (8)                   |
| Gains and losses arising from changes in fair values | (28,021)              | 66,953                |
| <b>Balance at 31 March</b>                           | <u><b>117,163</b></u> | <u><b>151,798</b></u> |

Smiths Gore Chartered Surveyors revalued the forest estate including biological assets. The next full revaluation is due as at 31 March 2018. Apportionment of biological assets was carried out by Forest Enterprise England staff using the judgements and estimates outlined at 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 dialogue with its valuers to gauge market movements during the year.

#### NOTE 11 Non-current assets held for sale

The following assets related to surplus properties have been presented as held for sale following the approval for sale by the management of Forest Enterprise England. The completion dates for sale are expected to be within the 12 months to 31 March 2013:-

|                                 | Land         | Buildings | Total        |
|---------------------------------|--------------|-----------|--------------|
|                                 | £000         | £000      | £000         |
| <b>Balance at 1 April 2011</b>  | <b>3,456</b> | -         | <b>3,456</b> |
| Transfers in                    | -            | 74        | 74           |
| Transfers out                   | (54)         | -         | (54)         |
| Disposals                       | (3,402)      | -         | (3,402)      |
| Revaluation                     | -            | -         | -            |
| <b>Balance at 1 April 2012</b>  | <b>-</b>     | <b>74</b> | <b>74</b>    |
| Transfers in                    | -            | 16        | 16           |
| Transfers out                   | -            | -         | -            |
| Disposals                       | -            | (90)      | (90)         |
| Revaluation                     | -            | -         | -            |
| <b>Balance at 31 March 2013</b> | <b>-</b>     | <b>-</b>  | <b>-</b>     |

**NOTE 12 INVENTORIES**

|  | <u>31 March 2013</u> | <u>31 March 2012</u> |
|--|----------------------|----------------------|
|  | £000                 | £000                 |
| Timber                                       | 684                  | 695                  |
| Consumable materials, supplies and livestock | 395                  | 477                  |
|  | <u>1,079</u>         | <u>1,172</u>         |

**NOTE 13 TRADE AND OTHER RECEIVABLES****13(a) Analysis by type**

|  | <u>31 March 2013</u> | <u>31 March 2012</u> |
|--|----------------------|----------------------|
|  | £000                 | £000                 |
| <b>Current</b>                                     |                      |                      |
| Trade receivables                                  | 8,823                | 12,658               |
| less provision for impairment of trade receivables | (12)                 | (2)                  |
| Trade receivables - net                            | <u>8,811</u>         | <u>12,656</u>        |
| Other receivables                                  | 38                   | -                    |
| House purchase loans to employees                  | 22                   | 20                   |
| Partnership lease                                  | 362                  | 345                  |
| Prepayments and accrued income                     | 1,918                | 2,193                |
|  | <u>11,151</u>        | <u>15,214</u>        |
| <b>Non current</b>                                 |                      |                      |
| Partnership loan                                   | 679                  | 5,195                |
| Partnership Lease                                  | 3,794                | 3,805                |
| House purchase loans to employees                  | 100                  | 84                   |
| Prepayments and accrued income                     | 19                   | 35                   |
|  | <u>4,592</u>         | <u>9,119</u>         |
| <b>Total receivables</b>                           | <u>15,743</u>        | <u>24,333</u>        |

The Advances of Salary for House Purchase scheme had loans with an outstanding balance of £2,500 or more to 9 members of staff at 31 March 2013 (2011-12: £2,500 or more, relating to 9 employees). The total outstanding value of all loans was £122,000 (2011-12: £103,000). Such loans are unsecured, interest free and typically repayable over 10 years, with an optional 2 year deferral period.

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

As at 31 March 2013, trade receivables of £6,864,000 (2011-12: £10,432,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default.

Following the restructure of Forest Holidays LLP on 21 September 2012, Forest Enterprise England's partnership loan of £5,195,000 as at 31 March 2012 was reinvested into the Forestry Commission's new equity shareholdings in the new structure. The new partnership loan of £679,000 at 31 March 2013 represents Forest Enterprise England's investment into new Forest Holidays sites during 2012-13.

**13(b) Intra-Government Balances**

|   | <u>31 March 2013</u> | <u>31 March 2012</u> | <u>31 March 2013</u> | <u>31 March 2012</u> |
|---|----------------------|----------------------|----------------------|----------------------|
|   | £000                 | £000                 | £000                 | £000                 |
| Balances with other central government      | 644                  | 300                  | -                    | -                    |
| Balances with local authorities             | 57                   | 90                   | -                    | -                    |
| <b>Intra-government balances</b>            | <b>701</b>           | <b>390</b>           | <b>-</b>             | <b>-</b>             |
| Balances with bodies external to government | 10,450               | 14,824               | 4,592                | 9,119                |
| <b>Total receivables</b>                    | <b>11,151</b>        | <b>15,214</b>        | <b>4,592</b>         | <b>9,119</b>         |

**NOTE 14 CASH AND CASH EQUIVALENTS**

|                            | <u>31 March 2013</u> | <u>31 March 2012</u> |
|----------------------------|----------------------|----------------------|
|                            | £000                 | £000                 |
| Balance at 1 April         | 3,667                | 19                   |
| Net change in balances     | 16,972               | 3,648                |
| <b>Balance at 31 March</b> | <b>20,639</b>        | <b>3,667</b>         |

The following balances were held at:-

|                            | <u>31 March 2013</u> | <u>31 March 2012</u> |
|----------------------------|----------------------|----------------------|
|                            | £000                 | £000                 |
| Government Banking Service | 20,639               | 3,667                |
| <b>Total</b>               | <b>20,639</b>        | <b>3,667</b>         |

**NOTE 15 TRADE AND OTHER PAYABLES****15(a) Analysis by type**

|                                    | <u>31 March 2013</u> | <u>31 March 2012</u> |
|------------------------------------|----------------------|----------------------|
|                                    | £000                 | £000                 |
| <b>Current</b>                     |                      |                      |
| Trade payables                     | 5,562                | 2,885                |
| Other payables                     | 315                  | 1,905                |
| Taxation and social security costs | 217                  | 287                  |
| Accruals and deferred income       | 6,916                | 6,594                |
| Current part of finance leases     | 1,278                | 1,455                |
| Payments received on account       | 40                   | 17                   |
|                                    | <u>14,328</u>        | <u>13,143</u>        |
| <b>Non current</b>                 |                      |                      |
| Accruals and deferred Income       | 12,867               | 12,618               |
| Other Payables                     | -                    | 87                   |
| Payments received on account       | 6                    | 17                   |
| Finance leases                     | 3,262                | 3,828                |
|                                    | <u>16,135</u>        | <u>16,550</u>        |
| <b>Total payables</b>              | <u>30,463</u>        | <u>29,693</u>        |

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

The carrying amounts of trade and other payables are denominated in the following currency:

|              | <u>31 March 2013</u> | <u>31 March 2012</u> |
|--------------|----------------------|----------------------|
|              | £000                 | £000                 |
| GBP Sterling | 30,463               | 29,693               |
|              | <u>30,463</u>        | <u>29,693</u>        |

**15(b) Intra-Government Balances**

|   | <b>Current</b>       |                      | <b>Non-current</b>   |                      |
|---|----------------------|----------------------|----------------------|----------------------|
|   | <u>31 March 2013</u> | <u>31 March 2012</u> | <u>31 March 2013</u> | <u>31 March 2012</u> |
|   | £000                 | £000                 | £000                 | £000                 |
| Balances with other central government bodies       | 9                    | -                    | -                    | -                    |
| Balances with local authorities                     | 134                  | 7                    | -                    | -                    |
| Balances with public corporations and trading funds | 1                    | -                    | -                    | -                    |
| <b>Intra-government balances</b>                    | <u>144</u>           | <u>7</u>             | <u>-</u>             | <u>-</u>             |
| Balances with bodies external to government         | 14,184               | 13,136               | 16,135               | 16,550               |
| <b>Total payables</b>                               | <u>14,328</u>        | <u>13,143</u>        | <u>16,135</u>        | <u>16,550</u>        |

**NOTE 16 PROVISIONS FOR LIABILITIES AND CHARGES**

|                                      | Early<br>departure<br>costs<br>£000 | Public legal<br>claims<br>£000 | Other legal<br>claims<br>£000 | Other<br>provisions<br>£000 | Total<br>£000 |
|--------------------------------------|-------------------------------------|--------------------------------|-------------------------------|-----------------------------|---------------|
| <b>At 31 March 2011</b>              | <b>248</b>                          | <b>85</b>                      | <b>285</b>                    | <b>-</b>                    | <b>618</b>    |
| Provided in the year                 | 1,086                               | 103                            | 122                           | -                           | 1,311         |
| Provisions not required written back | -                                   | (81)                           | (70)                          | -                           | (151)         |
| Provisions utilised in the year      | (209)                               | (79)                           | (218)                         | -                           | (506)         |
| Unwinding of discount                | (27)                                | -                              | -                             | -                           | (27)          |
| <b>At 31 March 2012</b>              | <b>1,098</b>                        | <b>28</b>                      | <b>119</b>                    | <b>-</b>                    | <b>1,245</b>  |
| Provided in the year                 | 60                                  | 30                             | 32                            | 370                         | 492           |
| Provisions not required written back | (286)                               | (7)                            | (35)                          | -                           | (328)         |
| Provisions utilised in the year      | (685)                               | -                              | -                             | -                           | (685)         |
| Unwinding of discount                | 3                                   | -                              | -                             | -                           | 3             |
| <b>At 31 March 2013</b>              | <b>190</b>                          | <b>51</b>                      | <b>116</b>                    | <b>370</b>                  | <b>727</b>    |

Analysis of expected timing of discounted cash flows:

|   | Early<br>departure<br>costs<br>£000 | Public legal<br>claims<br>£000 | Other legal<br>claims<br>£000 | Other<br>provisions<br>£000 | Total<br>£000 |
|---|-------------------------------------|--------------------------------|-------------------------------|-----------------------------|---------------|
| Not later than one year                           | 57                                  | 51                             | 116                           | 370                         | 594           |
| Later than one year and not later than five years | 104                                 | -                              | -                             | -                           | 104           |
| Later than five years                             | 29                                  | -                              | -                             | -                           | 29            |
| <b>At 31 March 2013</b>                           | <b>190</b>                          | <b>51</b>                      | <b>116</b>                    | <b>370</b>                  | <b>727</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 the agency by establishing a provision for the estimated payments.

*Public and other legal claims*

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

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

**NOTE 17 TAXPAYER'S EQUITY****17 (a) General Fund**

|   | <u>31 March 2013</u> | <u>31 March 2012</u> |
|---|----------------------|----------------------|
|   | £000                 | £000                 |
| <b>Balance at 1 April</b>   | <b>375,342</b>       | <b>330,146</b>       |
| <b>Movement in year:</b>  |                      |                      |
| Net (deficit)/ surplus for year   | (35,282)             | 44,033               |
| Transfers of property, plant and equipment from/to other Forestry Bodies  | 9                    | 142                  |
| Transferred to the General Fund (realised element of revaluation reserve) | 1,051                | 327                  |
| Capitalisation of Forest Holiday loan notes                               | (5,509)              | -                    |
| Timing between accrual and cash VAT                                       | (1,879)              | 445                  |
| Non-cash inter-country transfers  | 827                  | 249                  |
|   | <u>(40,783)</u>      | <u>45,196</u>        |
| <b>Balance at 31 March</b>  | <b>334,559</b>       | <b>375,342</b>       |

**17 (b) Revaluation reserve**

|   | <u>31 March 2013</u> | <u>31 March 2012</u> |
|---|----------------------|----------------------|
|   | £000                 | £000                 |
| <b>Balance at 1 April</b>   | <b>1,081,018</b>     | <b>642,925</b>       |
| <b>Arising on revaluation during the year:</b>                            |                      |                      |
| Forest estate   | (31,801)             | 400,524              |
| Land  | 45,160               | 37,539               |
| Forest Holidays land  | 1,713                | -                    |
| Dwellings and other buildings   | 18,729               | 19                   |
| VME   | 517                  | 84                   |
| OME   | 7                    | -                    |
| Investment in Forest Holidays   | 2,278                | -                    |
|   | <u>36,603</u>        | <u>438,166</u>       |
| Transferred to the General Fund (realised element of revaluation reserve) | (1,051)              | (327)                |
| Transfers of property, plant and equipment from/to other Forestry Bodies  | (9)                  | 230                  |
| Write-off of revaluation reserve  | 7                    | 24                   |
| <b>Balance at 31 March</b>  | <b>1,116,568</b>     | <b>1,081,018</b>     |



**NOTE 18 FINANCIAL INSTRUMENTS****18(a) Investments in non-public sector bodies (Available for sale financial assets)**

|                             | <u>31 March 2013</u> | <u>31 March 2012</u> |
|-----------------------------|----------------------|----------------------|
|                             | £000                 | £000                 |
| Balance at 1 April          | 5,808                | 5,808                |
| Net gain transfer to equity | 2,278                | -                    |
| <b>Balance at 31 March</b>  | <b>8,086</b>         | <b>5,808</b>         |

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

**18(b) Financial Instruments by category**

|  | 31 March 2013            |                       |               | 31 March 2012            |                       |               |
|--|--------------------------|-----------------------|---------------|--------------------------|-----------------------|---------------|
|  | Loans and<br>receivables | Available for<br>Sale | Total         | Loans and<br>receivables | Available<br>for Sale | Total         |
|  | £000                     | £000                  | £000          | £000                     | £000                  | £000          |
| <b>Assets as per SFP</b>                               |                          |                       |               |                          |                       |               |
| Available-for-sale financial assets                    | -                        | 8,086                 | 8,086         | -                        | 5,808                 | 5,808         |
| Trade and other receivables<br>(excluding prepayments) | 14,731                   | -                     | 14,731        | 23,653                   | -                     | 23,653        |
| Cash and cash equivalents                              | 20,639                   | -                     | 20,639        | 3,667                    | -                     | 3,667         |
| <b>Total</b>   | <b>35,370</b>            | <b>8,086</b>          | <b>43,456</b> | <b>27,320</b>            | <b>5,808</b>          | <b>33,128</b> |

|   | 31 March 2013   |                                |               | 31 March 2012   |                                   |               |
|---|---|--------------------------------|---------------|---|-----------------------------------|---------------|
|   | Liabilities at fair<br>value through the<br>profit and loss | Other financial<br>liabilities | Total         | Liabilities<br>at fair value<br>through the<br>profit and<br>loss | Other<br>financial<br>liabilities | Total         |
|   | £000  | £000                           | £000          | £000  | £000                              | £000          |
| <b>Liabilities as per the SFP</b>                           |   |                                |               |   |                                   |               |
| Finance lease liabilities                                   | -   | 4,540                          | 4,540         | -   | 5,283                             | 5,283         |
| Trade and other payables excluding<br>statutory liabilities | -   | 23,844                         | 23,844        | -   | 22,083                            | 22,083        |
| <b>Total</b>  | <b>-</b>  | <b>28,384</b>                  | <b>28,384</b> | <b>-</b>  | <b>27,366</b>                     | <b>27,366</b> |

**18 (c) Exposure to risk**

Forest Enterprise England's activities expose it to a variety of financial risks.

- Credit risk: the possibility that other parties might fail to pay amounts due;
- Liquidity risk: the possibility that Forest Enterprise England might not have funds available to meet its commitments to make payments; and
- Market risk: the possibility that financial loss might arise as a result of changes in such measures as interest rates and stock market movements.

Due to the way in which government departments are financed, Forest Enterprise England is not exposed to the degree of financial risk faced by business entities.

**(i) Credit risk**

Credit risks arise from cash and cash equivalents, deposits with banks and other institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

Customers are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings and parameters set by Forest Enterprise England.

Refer to Note 13 for further analysis of credit risk.

#### (ii) Liquidity risk

Forestry Commission Great Britain/England makes provision for the use of resources by Forest Enterprise England for revenue and capital purposes each financial year. The Westminster Government makes provision for the Forestry Commission Great Britain/England's use of resources in a Consolidated Fund Act for each financial year. Resources and accruing resources may be used only for the purposes specified and up to the amounts specified in the Consolidated Fund Act. The Act also specifies an overall cash authorisation to operate for the financial year. Forest Enterprise England is not therefore exposed to significant liquidity risks.

The table below analyses the financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

|  | Less than 1 year | Between 1 and<br>5 years | Over 5<br>years |
|--|------------------|--------------------------|-----------------|
|  | £000             | £000                     | £000            |
| <b>31 March 2013</b>                                     |                  |                          |                 |
| Finance lease liabilities                                | 1,278            | 1,882                    | 3,265           |
| Trade and other payables excluding statutory liabilities | 10,972           | 12,872                   | -               |
| <b>Total</b>   | <b>12,250</b>    | <b>14,754</b>            | <b>3,265</b>    |

|  | Less than 1 year | Between 1 and<br>5 years | Over 5<br>years |
|--|------------------|--------------------------|-----------------|
|  | £000             | £000                     | £000            |
| <b>31 March 2012</b>                                     |                  |                          |                 |
| Finance lease liabilities                                | 1,455            | 2,211                    | 1,617           |
| Trade and other payables excluding statutory liabilities | 5,531            | 3,859                    | 12,693          |
| <b>Total</b>   | <b>6,986</b>     | <b>6,070</b>             | <b>14,310</b>   |

#### (iii) Market risk

The Agency has no powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the Agency in undertaking its activities. However, under the Regulatory Reform (Forestry) Order 2006, with Treasury approval, the Agency may form or participate in the forming of a body corporate, invest in a body corporate and provide loans.

##### (1) Cash flow and fair value interest rate risk

Forest Enterprise England has no significant interest bearing assets or liabilities and as such income and expenditure cash flows are substantially independent of market interest rates.

##### (2) Foreign Currency Risk

Forest Enterprise England does not generally undertake transactions in foreign currency, therefore its exposure to foreign currency risk is minimal.

**18 (d) Capital risk management**

Forest Enterprise England's objectives when managing its capital structure are to maintain its ability to continue to provide benefits for stakeholders and to maintain an optimal capital structure to safeguard Taxpayers' Equity.

**18 (e) Fair Value Estimation**

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair value.

**NOTE 19 CAPITAL COMMITMENTS**

Amounts contracted for but not provided in the accounts amounted to £1,224,000 and relate to the Westonbirt Project and commitments to purchase plant and machinery (31 March 2012: £nil).

|                             | <u>31 March 2013</u> | <u>31 March 2012</u> |
|-----------------------------|----------------------|----------------------|
|                             | £000                 | £000                 |
| Property, plant & equipment | 1,224                | -                    |

**NOTE 20 COMMITMENTS UNDER LEASES****20(a) Operating leases**

Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

|   | <u>31 March 2013</u> | <u>31 March 2012</u> |
|---|----------------------|----------------------|
|   | £000                 | £000                 |
| <b>Land</b>                                       |                      |                      |
| Not later than one year                           | 2                    | 3                    |
| Later than one year and not later than five years | 7                    | 12                   |
| More than five years                              | 86                   | 1,120                |
| <b>Total</b>                                      | <u>95</u>            | <u>1,135</u>         |
| <b>Buildings</b>                                  |                      |                      |
| Not later than one year                           | 66                   | 123                  |
| Later than one year and not later than five years | 176                  | 168                  |
| More than five years                              | 353                  | 48                   |
| <b>Total</b>                                      | <u>595</u>           | <u>339</u>           |
| <b>Plant and Machinery</b>                        |                      |                      |
| Not later than one year                           | 116                  | 180                  |
| Later than one year and not later than five years | 47                   | 84                   |
| More than five years                              | -                    | -                    |
| <b>Total</b>                                      | <u>163</u>           | <u>264</u>           |

**20(b) Finance leases**

Total future minimum lease payments under finance leases are given in the table below for each of the following periods.

|   | 31 March 2013 | 31 March 2012 |
|---|---------------|---------------|
|   | £000          | £000          |
| <b>Land</b>                                       |               |               |
| Not later than one year                           | 142           | 137           |
| Later than one year and not later than five years | 517           | 499           |
| More than five years                              | 3,223         | 3,108         |
|   | <u>3,882</u>  | <u>3,744</u>  |
| Less: interest element                            | (1,872)       | (1,805)       |
| <b>Present value of obligations</b>               | <u>2,010</u>  | <u>1,939</u>  |
| <b>Plant and Machinery</b>                        |               |               |
| Not later than one year                           | 1,360         | 1,517         |
| Later than one year and not later than five years | 1,365         | 2,146         |
| More than five years                              | 45            | -             |
|   | <u>2,770</u>  | <u>3,663</u>  |
| Less: interest element                            | (240)         | (316)         |
| <b>Present value of obligations</b>               | <u>2,530</u>  | <u>3,347</u>  |

**NOTE 21 OTHER FINANCIAL COMMITMENTS**

Forest Enterprise England has entered into non-cancellable contracts for artist fees and stage rental for the 'Forest Concert Tour 2013' at various venues throughout England. The payments to which the agency is committed are analysed by the period during which the commitment expires are as follows:

|   | 31 March 2013 | 31 March 2012 |
|---|---------------|---------------|
|   | £000          | £000          |
| Not later than one year                           | 2,827         | 2,474         |
| Later than one year and not later than five years | -             | -             |
|   | <u>2,827</u>  | <u>2,474</u>  |

**NOTE 22 LEASE RECEIVABLES****22(a) Operating leases**

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

|   | <u>31 March 2013</u> | <u>31 March 2012</u> |
|---|----------------------|----------------------|
|   | £000                 | RESTATED<br>£000     |
| Not later than one year                           | 3,322                | 2,963                |
| Later than one year and not later than five years | 10,927               | 10,370               |
| More than five years                              | 46,730               | 12,998               |
|   | <u>60,979</u>        | <u>26,331</u>        |

Forest Enterprise England leases land and buildings under agreements that terminate between June 2011 and March 2030.

The values of lease receivables as at 31 March 2012 have been restated to now incorporate lease receivables relating to the Adventure Forest scheme, Go-Ape.

**22(b) Finance leases**

Total future minimum lease receivables under the Forest Holidays partnership buildings lease are given in the table below for each of the following periods:

|   | <u>31 March 2013</u> | <u>31 March 2012</u> |
|---|----------------------|----------------------|
|   | £000                 | £000                 |
| Not later than one year                           | 362                  | 345                  |
| Later than one year and not later than five years | 1,449                | 1,380                |
| More than five years                              | 25,350               | 24,155               |
|   | <u>27,161</u>        | <u>25,880</u>        |
| Less: interest element                            | (23,005)             | (21,733)             |
| <b>Present value of receivables</b>               | <u>4,156</u>         | <u>4,147</u>         |

**NOTE 23 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 FEE 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 as a result of the industrial development and other operational practices undertaken on the land prior to its acquisition by FEE.

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.

**NOTE 24 LOSSES AND SPECIAL PAYMENTS**

|                        | Number    | 2012-13<br>£000 | Number     | 2011-12<br>£000 |
|------------------------|-----------|-----------------|------------|-----------------|
| Losses total           | 23        | 17              | 37         | 284             |
| Special payments total | 16        | 17              | 115        | 378             |
|                        | <b>39</b> | <b>34</b>       | <b>152</b> | <b>662</b>      |

**NOTE 25 RELATED PARTY TRANSACTIONS**

The Forestry Commission Great Britain/England is regarded as a related party. During the year, Forest Enterprise England received annual subsidy funding of £26,133,000 from Forestry Commission Great Britain/England.

In addition, Forestry Commission Great Britain/England has had various material transactions with other government departments and other central government bodies. The main entities within government with which the Forestry Commission has had dealings are HM Treasury, UK Co-ordinating Body, the Paymaster General's Office, HM Revenue and Customs, the Department for the Environment, Food and Rural Affairs, Communities and Local Government and Yorkshire Forward.

The following additional transactions were carried out with related parties:

| 2012-13                            | Services<br>Rendered to<br>related party | Purchases<br>from related<br>party | Amounts<br>owed (to) by<br>related party |
|------------------------------------|--|------------------------------------|--|
|                                    | £000                                     | £000                               | £000                                     |
| Entities Sponsored by Defra        | 1,643                                    | 22                                 | 1,071                                    |
| Forest Holidays / CITF             | 358                                      | 667                                | 617                                      |
| Entities with directors in common: |  |                                    |  |
| BSW Timber PLC                     | 2,396                                    | -                                  | 462                                      |
| Howie Forest Products              | 192                                      | -                                  | 1  |
|                                    | <b>4,589</b>                             | <b>689</b>                         | <b>2,151</b>                             |

| 2011-12                            | Services<br>Rendered to<br>related party | Purchases<br>from related<br>party | Amounts<br>owed (to) by<br>related party |
|------------------------------------|--|------------------------------------|--|
|                                    | £000                                     | £000                               | £000                                     |
| Entities Sponsored by Defra        | 347                                      | 217                                | 160                                      |
| Forest Holidays                    | 748                                      | 198                                | 23                                       |
| Entities with directors in common: |  |                                    |  |
| BSW Timber PLC                     | 2,580                                    | -                                  | 508                                      |
| Howie Forest Products              | 98                                       | -                                  | 141                                      |
|                                    | <b>3,773</b>                             | <b>415</b>                         | <b>832</b>                               |

All balances are unsecured and were incurred on an arms length basis.

The above transactions for timber sale with BSW Timber PLC and Howie Forest Products occurred on an arms length basis and are disclosed because Hamish Macleod, a non-executive Forestry Commissioner, is Joint Managing Director of Howie Forest Products Ltd. BSW acquired Howie Forest Products Ltd in November 2009, therefore transactions with BSW have also been disclosed from this date.

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**NOTE 26    THIRD PARTY ASSETS**

Forest Enterprise England held a security deposit relating to a third party property lease in respect of mineral workings at Broadmoor Brickworks. The security deposit is due to be repaid in 2020-21. As third party assets these sums are not recorded on the face of these accounts. At 31 March 2013 the amount held in Forest Enterprise England's bank accounts on behalf of the lessee was £11,725 (2011-12: £11,704).

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**NOTE 27    EVENTS AFTER 31 MARCH 2013**

In accordance with the requirements of IAS 10, events after 31 March 2013 are considered up to the date on which the accounts are authorised for issue. These accounts were authorised for issue on 11 June 2013.

## **Annex: Sustainability Report**



## ANNEX1: SUSTAINABILITY REPORT

The Forestry Commission is the largest land manager in England. We enable the protection, improvement and expansion of the woodland resource through the management of the public forest estate and the provision of advice, support and grants to private woodland owners, forest businesses and the through engagement with the wider community.

The Forestry Commission England carries out sustainability reporting in line with the Greening Government Commitments and the FReM reporting requirements. The environmental impacts of the organisation's activity are managed through our Environmental Management System (EMS) which is designed to deliver our environmental policy and which meets the requirements of the internationally recognised standard for EMS, BS EN ISO 14001 2004. The EMS is independently assessed for certification by accredited 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 criteria for sustainable forest management by accredited certification assessors.

### Summary of Performance

- In November 2012 our environmental management system was successfully certified against the EMS, BS EN ISO 14001 2004 standard.
- During 2012-13 we have continued to improve our data capture and monitoring capabilities for our environmental impacts. We now have data of sufficient quality for planning performance improvement strategies to meet stated policy objectives.
- Water usage per staff (FTE) is very high compared to other agencies in DEFRA though this is due to consumption by visitors and some vegetative propagation operations.
- Waste to landfill levels are projected to decrease this year by about 6%. Recycling is increasing across the estate through better procurement of services and local initiatives.
- Air Travel reduction is on track to meet DEFRA target by 2015.
- Renewable energy makes a significant contribution to policy aims and again there is some potential to increase renewable energy further.
- Two new building projects at Westonbirt and South (Buck Horn Oak) are going for BREEAM excellence award.

| Performance Measurement                  |                           | 2012-13   | 2011-12   |
|--|---------------------------|-----------|-----------|
| Business Travel                          | Total miles               | 7,072,310 | 7,407,584 |
|  | tonnes CO <sub>2</sub> e↑ | 1,822     | 1,964     |
|  | Cost (£)                  | 3,269,152 | 3,379,597 |
| Electricity, Gas and other heating fuels | Consumption (KwH)         | 5,365,415 | 6,132,031 |
|  | Expenditure (£)           | 342,857   | 421,924   |
|  | % Renewable               | 41        | 36        |
| Total Energy (Scopes 1, 2 & 3)           | tonnes CO <sub>2</sub> e↑ | 3,728     | 4,144     |
|  | Expenditure (£)           | 3,612,009 | 3,801,521 |
| Estate and office Waste                  | Amount (Tonnes)           | 4,239     | 2,0571    |
|  | Expenditure (£)           | 339,120   | 164,5601  |

|                             |                 |         |         |
|-----------------------------|-----------------|---------|---------|
| Estate and Office<br>Water  | Quantity (m3)   | 74,149  | 88,914  |
|                             | Expenditure (£) | 118,638 | 142,262 |
| 1 Based in incomplete data. |                 |         |         |

A number of on-going initiatives have continued to contribute towards our environmental performance during 2012-13:

- Successful independent certification to BS EN ISO 14001-2004 for all of England
- The On-going development of travel plans and the procurement of low carbon vehicles.
- Local initiatives for rain water harvesting and reed-bed sewage treatment systems waterless Urinals
- Improved waste storage and recycling facilities and waste minimisation planning.
- Piloting of a large waste management contract for West District to improve performance and legal compliance
- Nationwide discharge condition monitoring contract – estates resumption system to improve legal compliance evaluation.
- Water use and Waste both now have baseline established for improvement targets next year.
- Establishment of KPIs at the business plan level

### Summary of Future Strategy

The Executive Board have approved a set of key performance indicators, which combined with our improved data monitoring capabilities will form the basis of our future internal performance monitoring through the EMS. In 2011-12 we introduced local business sustainability actions (based around the agreed indicators) as part of our normal business planning processes. From 2012-13 the Executive Board is using the existing baseline data, local action plans and agreed indicators to monitor our business sustainability performance and to establish realistic but challenging targets for cost centre managers for 2013-14. Central information will be processed to inform local managers of their KPI details to guide local agreement and decision making, prioritisation and resource allocation.

During 2013-14 our main priorities will be:

- Process collected data, providing managers with information to plan performance improvement.
- Providing system support to local managers – Resumption requirements and Data input
- Reviewing and improving the management system so that it adds value to the operational objectives. Review the operational guidance booklet that outlines our EMS (OGB43)
- Scope out improvement programmes and record projects for future funding and implementation; create a small number of "shovel ready" projects that can take advantage of end of year funding.
- Review energy needs and options for further improvements across the estate
- Review the fossil fuel types used to see if further alternatives for renewable energy options are feasible

### GHG Emissions

The Forestry Commission England has a number of offices across the country, strategically located to both manage the public forest estate and to engage with private landowners. The built estate is actively managed to optimise occupancy and minimise CO2 emissions. A number of opportunities to co-locate offices with other government departments have already been taken and any further opportunities will be taken where it is practical and beneficial to do so. Many districts have installed wood fuel boilers and other green technology measures to reduce energy use from fossil fuel generated sources. CO2 emissions from business travel are

managed through ongoing support for remote working, the provision of audio-conferencing facilities and the procurement of low emission vehicles for which there are also tax incentives.

## **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 to meet legal waste storage and segregation requirements. FC office waste has a good recycling rate of approximately 62%. There is a need to address treated timber as a hazardous waste stream. Sewage and waste water will be reduced by introducing a pilot waterless urinal project and rainwater harvesting project where funding is available. Use of reed bed systems is being considered at a number of sites where this option is viable.

Approximately 53% of our reported waste is from Fly-tipping. Following FC dialogue with the regulator, the EA issued a regulatory position statement allowing the moving of waste from fly-tipping activity within the Forest District without the need for the completion of consignment notes until it leaves the district and is taken to the storage or disposal facility.

## **Use of Resources**

The uses of natural resources for FC activity are being monitored. Water use and timber procurement are recorded and reported on. Most water use is being monitored through meters. Local initiatives, such as rainwater harvesting and reed-bed sewage treatment, are already used at some forest districts. Many water saving devices have been put in place and this work continues as a high priority for DEFRA. All timber used by the organisation must be certified as coming from legal and certified sustainable sources including all construction projects and temporary works. All treated timber used within FC must specify non-hazardous treatment processes. The government is considering closed loop supply for paper in 2014-15, from audit results to date, FCE already procure paper that is FSC, PEFC or FLEGT compliant or of 100% recycled origin.

## **Climate Change Adaptation and Mitigation**

Forestry Commission England are implementing actions outlined in its Adaptation Reporting Power report, published in March 2012, including enhanced sector outreach and guidance, adaptation supported by enhanced English Woodland Grant Scheme (EWGS) payments and ongoing delivery of the Climate Change Action Plan for the Public Forest Estate. Our work on climate change mitigation is focussed on (a) increasing woodland cover through the EWGS Woodland Creation Grant, (b) increasing our contribution to renewable energy through the Wood fuel Implementation Plan and (c) encouraging the sector's contribution through the work of the Woodland Carbon Task Force.

## **Biodiversity and Natural Environment**

As of April 2012 some 99% of SSSI on the Public Forest Estate remains in Favourable or Favourable recovering condition. This exceeded the initial programme target of 95% and remains ahead of the current policy intent to maintain 95% of all SSSI in target condition.

## **Sustainable Procurement including Food**

This year we have produced a matrix of Government Buying Standards applicable to goods and services procured by the Forestry Commission. This has been made available as part of our suite of Procurement guidance for staff.

We have continued to promote environmental standards for goods and services procured through a variety of existing policies and tools. These include using relevant sustainability objectives in specifications and award criteria. Specific examples include seeking low impact vehicles or tyre pressure control systems for haulage of timber and seeking waste management services to help us improve recycling and reducing fly-tipping rates.

In England food outlets providing a catering service to the general public and leased to third party providers are encouraged to follow sustainable food sourcing principles. Guidelines are provided to them at the Lease tender stage and this year a system of assessing success in meeting these guidelines was introduced.

## Sustainable Construction

There are two new construction projects, one now complete at Bucks Horn Oak and one at Westonbirt which are aiming to be BREEAM compliant. The Westonbirt project is still at the planning stage. Whilst achieving BREEAM compliance is current government policy, achieving even bespoke BREEAM compliance in a rural setting is challenging for us. Other sustainable building schemes are developing in the EU and these schemes may be adopted along with BREEAM.

## Environmental Management System (EMS)

The Forestry Commission operates an integrated 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 and improved awareness of environmental impacts and legal compliance with regards 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. It should be recognised that the achievement of certification represents a significant effort on the part of staff and the investment in time and effort represents a significant cultural shift and change to the way we work, maintaining strong public support by demonstrating our care of the environment across all our activities.

## Governance

Business Sustainability is lead by a programme board consisting of board-level accounting officers from each part of the Forestry Commission. The programme board is responsible for formulating the Forestry Commission's Environmental Policy and delivery through our integrated management system, ISO14001 EMS. Agreed terms of reference for the PB are as follows:

Be responsible to the Forestry Commission Executive Board for the efficient operation of the Business Sustainability Programme, reporting back at least once per annum.

Set priorities and objectives for the Business Sustainability Programme and ensure that these are achieved.

Ensure that Government targets for sustainability within the remit of the programme are communicated to stakeholders and that mechanisms are put in place to record and monitor progress against agreed targets.

Ensure that objectives set for the Forestry Commission as a whole also meet the requirements of Country, Research and central services and that jointly agreed targets are adopted as policy by managers within these units.

Top management (including the programme board) will review the EMS at planned intervals to ensure its continuing suitability, adequacy, and effectiveness.

Ensure that the Forestry Commission achieves its target of maintaining ISO 14001 certification.

The programme board establishes agreed corporate level performance targets for the organisation and receives an annual report of performance from the programme manager.

Following the development and implementation of the Environmental Management System and successful certification of the EMS to ISO 14001:2004 across the whole FC; this now requires Commission-wide management and reporting of performance similar to UKWAS and the status of any non conformance, to ensure identification of root cause and effective remedial action. It also provides a vehicle for regular monitoring of changes to environmental legislation, ensuring that the Forestry Commission can discharge its duties fully within the requirements of the law. This is particularly important in the context of waste management. The central governance also ensures that the EMS and the Forestry Commission's Environmental Policy can be regularly updated as required to reflect changing requirements across three countries and provides opportunities for networking of best practice and integration and improvement of management systems across the organisation.





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