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FORESTRY COMMISSION GREAT BRITAIN/ENGLAND

ANNUAL REPORT 2009-10

Incorporating:

Forestry Commission Great Britain/England Accounts

and

Forest Enterprise England Agency Accounts

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(For the year ended 31 March 2010)

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CONTENTS

	Page
Foreword by the Chair	4
Annual Report	5
Great Britain	5
Corporate governance	15
Forestry Commission England	20
Management commentary	21
Forestry Commission Great Britain / England Accounts	29
Financial commentary	30
Remuneration report	34
Statement of accounting officer's responsibilities	40
Statement on internal control	41
Certificate and report of Comptroller and Auditor General	46
Financial statements	48
Forest Enterprise England Agency Accounts	91
Financial commentary	92
Remuneration report	95
Statement of accounting officer's responsibilities	99
Statement on internal control	100
Certificate and report of Comptroller and Auditor General	104
Financial statements	106

FOREWORD by Pamela Warhurst CBE, Chair

I am delighted to introduce my first annual report as Chair of the Forestry Commission. I am honoured, also, to have joined the organisation at such a pivotal time when there are so many challenges and opportunities to consider. I believe passionately that the Forestry Commission and the forestry sector, of which the Commission is a core part, have a major role to play in meeting society's diverse needs and offering practical solutions to national and global problems, such as climate change.

There is no denying that these are challenging times. The Forestry Commission, like all public bodies, is subject to stringent spending constraints whose roots lie in the severity and extent of the global economic downturn. We in this sector have to deal with what seems like a plague of tree diseases and pests, from 'sudden oak death', and 'acute oak decline' to 'bleeding canker'. These threaten the health and commercial viability of some key British tree species. Climate Change and the relatively large variations in temperature and moisture availability predicted by scientists, seems likely only to add to the challenges facing present and future foresters.

One of the reasons I wanted to become Chair of the Forestry Commission is the wonderful reputation the organisation has for making an impact, allied with its no-nonsense approach to dealing with the important issues. As the new Chair, I am able to commend the organisation without any danger of self-congratulation on the pioneering work the Commission has undertaken to set out the case for our trees, woods and forests, in helping mitigate and adapt to climate change.

Last year's independent research led by Professor Sir David Read established a powerful, indicative target for the Forestry Commission, together with its many potential partners across the forestry sector and civic society, to aim at. This research built on the film 'A Convenient Truth', which with elegant simplicity underpinned by sound science reminded people that trees are the original and most easily deployable 'carbon-eating machines'.

The Read report recommends the creation of 23,000 hectares of new woodland across Britain each year for the next 40 years. If achieved, this would absorb some 10% of our current annual greenhouse gas emissions. Given that represents a 200% increase on current annual planting rates, that's some challenge; but not beyond that we've risen to before.

In England, the Forestry Commission supported by government, has taken the first steps to galvanizing such effort through the newly formed, 'Woodland Carbon Task Force'. This will focus on attracting private finance for woodland creation through establishing long-term carbon markets, as well as developing the burgeoning woodfuel market to displace fossil-fuels and enable economic management of neglected ancient woodland.

Forestry already helps to address some of our serious problems but it can do so much more. The vital components – the standards, skills, science – required to do these things sustainably and cost-effectively, are all in place. We have an international reputation as an exemplar of sustainable, multi-purpose forestry; or as I prefer to put it more plainly, we have the ability to unlock the full potential of every tree, wood and forest for people and the planet.

This Annual Report will provide many examples of the work that we do that contributes to our overall strategic aims. Throughout the Report, you will see other examples of the progress we have made during the last year, both at Great Britain and England levels.

Finally, I look forward to building on the achievements of my predecessor Lord Clark, whose passion for the natural environment I share, and who brought such strong leadership to the organisation during some challenging times.

GREAT BRITAIN

Forests and climate change

Climate change remains a core part of our activities, and the forestry sector has a key role to play in delivering the Government's targets for emissions reductions. During the year, we published "Combating Climate Change - a role for UK forests". This independent assessment, led by Professor Sir David Read, aims to provide a better understanding of how UK forestry can adapt to and improve its contribution to mitigation of climate change. The Read Report is considered to be the first national assessment of its kind in the world and is already attracting interest from other countries keen to form their own climate change plans and policies. We are now incorporating the most important recommendations into our climate change action plan for the future.

We completed the public consultation on the Woodland Carbon Code, and have been working with an expert group of stakeholders to road-test the proposals. We plan to launch the Code in summer 2009, and then pilot the accreditation and verification procedures with a view to a full launch of the Code in spring 2011. We have commissioned the UK Accreditation Service to put in place procedures for verifying projects. The Code will support market confidence in forest carbon in the UK, and help to stimulate investment in woodland creation as a means of abatement of carbon dioxide. This will contribute to the Government's Low Carbon Transition Plan published in 2009.

In addition, we have been exploring some additional innovative financial mechanisms to stimulate woodland creation and management. We believe that new mechanisms are needed to encourage investment in woodlands for both mitigation and/or adaptation purposes.

Ensuring the continued health of our trees and forests

The incidence of pests and diseases affecting Britain's trees has remained a strong focus during the year. The emergence of these threats has been very rapid over the last few years, and during the year, we established a Great Britain Biosecurity Programme Board to take a strategic overview. The Board comprises public and private sector representatives, and will oversee the development of a plant health strategy, and a new biosecurity protocol.

Our work on *Phytophthora ramorum* moved into a new stage in south west England, with the discovery of the pathogen on Japanese larch, which required us to instigate felling measures. In London, Oak Processionary Moth numbers have continued to increase, despite a concerted eradication campaign. Encouragingly, the affected area has not increased significantly. We have made a case for Oak Processionary Moth to be listed as a quarantine pest and made subject to measures under the European Union (EU) Plant Health Directive. The European Food Safety Authority, which is the EU body responsible for assessing and advising the European Commission on pest risk, has agreed our assessment, and we await the Commission's response. We will continue the eradication programme next year. Red Band Needle Blight remains a concern, and we are considering options for creating non-regulated quarantine zones to try to protect areas which have not yet been affected.

In Scotland, we moved quickly to address the discovery of Pine-tree Lappet moths in a pinewood near Inverness. So far, around 20 larvae have been recovered, and an old pupal cocoon found, thus providing evidence of a breeding population. Initial climate modelling data suggests that Pine-tree Lappet has the potential to develop and cause damage, perhaps by as early as 2020. We are continuing to research, using molecular DNA analysis, whether the moth is an overlooked native species or, as is more likely, a recent introduction. We are also modelling its potential to cause damage, which will help inform pest management decisions.

In the Midlands, a new form of pathogen attacking oak trees has been described. The disorder is being termed Acute Oak Decline, as trees once infected die quite quickly thereafter. We have initiated a research programme, with support from industry, and are investigating the most effective way of preventing the spread of the pathogen.

Setting the sustainability standards for forestry in the UK

Between July and October 2009, we conducted a public consultation exercise to review the UK Forestry Standard (UKFS). This was well supported and a wide range of comprehensive and detailed responses was received. The consultation was done together with all the associated guidelines except for the new "Water Guidelines", which will be complete in April. Reviewing the UKFS has been a long and complex process, but we

have benefited from the enthusiastic input and experience of a large number of our key stakeholders, and we are confident that the final result will be a significant improvement on the previous version. Over the summer, we will be working on the final editing and design with a view to publication and launch before the end of the year.

Our work on sustainability standards also needs to link to wider Government and EU initiatives aimed at ensuring that wood comes from well managed forests. During the year, we have been considering the practical implications of implementing the new UKFS and Guidelines, to ensure that they are robust enough to provide evidence of sustainable forest management sufficient for both UK Government procurement, and meeting the requirements of the EU Due Diligence regulation. We have been working closely with the Department for the Environment, Food and Rural Affairs (Defra) and the Centre for Procurement Expertise in Timber (CPET) to ensure that as much home grown timber as possible has the opportunity to compete for government contracts.

The EU Due Diligence regulation is nearing agreement, and we have been involved with Defra colleagues throughout the process to ensure that our existing regulatory mechanisms can be employed to meet the requirements of the new regulation as effectively as possible. We are keen to support the aims of the regulation, to reduce the sale of illegally sourced timber in Europe, but believe we can find ways to achieve this without imposing additional regulatory burdens on the Great Britain forestry sector.

Dual certification (FSC and PEFC)

In March this year, the Forestry Commission extended its forest certification to include a second scheme, the Programme for the Endorsement of Forest Certification (PEFC), for the management of its 750,000 hectares of forests and woodland in Great Britain. PEFC certification now sits alongside our existing Forest Stewardship Council (FSC) certification for the Public Forest Estate. The change enables sellers of timber and other forest products from Forestry Commission forests to display the PEFC logo as well as the logo of the FSC.

Both schemes use the UK Woodland Assurance Standard (UKWAS) as the basis for certification in the UK and both are recognised by the Government's CPET as providing suitable evidence of legality and sustainability for public-sector timber procurement purposes. The current certification body (SGS) will only undertake one audit against UKWAS, and so the extra costs will be marginal.

Since 1999 the Forestry Commission has used the FSC certification for its timber, and was the first state forest service in the world to achieve certification of its entire forest holding. However, in common with other enterprises selling timber across Europe, we became aware that a number of buyers of timber and other forest products were looking for PEFC certification and, in some cases, both PEFC and FSC certification. This was particularly so in the case of overseas buyers of UK timber. Dual certification gives the Forestry Commission the flexibility to meet the needs of all of our customers. A number of the other major UK producers of timber have also gone down this route for the same reasons.

Providing the underpinning evidence and supporting delivery

During the year, we completed a refresh of our Science and Innovation Strategy, which will be published next spring. We commissioned a wide range of research during the year from our Forest Research Agency, which is detailed in its own report to Parliament. Much of this research was used to inform policy and operational decisions, and we have been developing more effective ways of disseminating the results. We continue to work in partnership with organisations in the UK, and from wider afield, to ensure that we gain leverage from our resources, and introduce new thinking and expertise to the research and policy development process. One major project we undertook during the year, together with Defra, was to develop surveillance methods to monitor density and abundance of feral wild boar and to detect range expansion.

During the year, we began work on field surveying for a new National Forest Inventory, and surveyors will be visiting 15,000 1-hectare plots of woodland across England, Scotland and Wales between 2009 and 2014. Accurate, up-to-date information about the size, distribution, composition and condition of Britain's woodlands is essential for developing and monitoring policies and guidance for their sustainable management. Further details are given in the Inventory Forecasting and Operational Support Section below.

Promoting the sustainability of forests globally

Global Partnership on Forest Landscape Restoration

The Forestry Commission supported the production of a global assessment of degraded landscapes, which was launched at a high level roundtable event in November co-chaired by Hilary Benn, Secretary of State for Environment Food and Rural Affairs and Ashok Khosla, President of the International Union for Conservation of Nature (IUCN).

Ministerial Conference on the Protection of Forests in Europe (MCPFE) and Large-scale Biosphere-Atmosphere Experiment in Amazonia (LBA)

The Forestry Commission remains actively involved with key players in the Forest Europe/MCPFE Working Group to produce a paper in preparation for a ministerial decision at the 6th Ministerial Conference in 2011 on whether or not to negotiate a legally binding agreement on forests.

Review of EU Forest Action Plan (EUFAP)

The UK contributed to the final Report of the EUFAP mid-term evaluation, which provides a sound basis for developing future actions for the post 2011 period. Implementation remains on track to meet objectives and to contribute to a more co-ordinated approach to forest related actions in the EU.

Mid term evaluation of Rural Development Regulation

In the course of the mid-term evaluation of the rural development programmes the Commission initiated a review of its experience of the current Rural Development Regulation in order to identify ways in which forestry can contribute effectively to future rural development.

UK reporting to FAO Global Forest Resources Assessment (FRA)

Global Forest Resources Assessment (FRA) country reports were submitted in 2009 for the UK, crown dependencies and overseas territories. Global and regional FRA results will be launched by the UN Food & Agriculture Organisation (FAO) in 2010.

Sustainable Development Dialogues

As part of the UK's Sustainable Development Dialogue with China, the Forestry Commission hosted the 2nd meeting of the China-UK Forestry Working Group. The UK and Chinese Minister approved the revised Action Plan that sets out the programme of work for the next two years, which include workshops, professional exchanges and research collaboration. It was agreed that the new topics of forest biodiversity and climate change would be included in the Action Plan.

Commonwealth Forestry Conference

Preparations for the 18th Commonwealth Forestry Conference in Edinburgh in 2010 are progressing well. The conference will address "Restoring the Commonwealth's forests and tackling climate change". It will focus on exploring what Commonwealth countries can do by working together to help tackle the problem of climate change and to look at the role of forests in helping Commonwealth citizens to adapt to a changing climate. The organisers are preparing a programme that will include invited country and regional case studies, workshops, voluntary papers and field trips.

Corporate governance

The Chairman's, Rt Hon Lord Clark, term of office came to an end on 9 December 2010. Pamela Warhurst CBE was appointed as his successor from 1 January 2010. She was previously a Member of the Board of Natural England, where she was the lead non-executive member working on the Countryside & Rights of Way Bill. She is a Fellow of the Royal Society of Arts & Manufacturing, and chairs Pennine Prospects, a regeneration company for the South Pennines, and Incredible Edible Todmorden, a local food partnership.

Dr Calum MacDonald, Commissioner for Scotland stepped down from his post on 11 April 2009. A recruitment exercise is underway to appoint a successor.

Better regulation

The Forestry Commission is playing a full part in the Westminster Government's initiative to ease the burden that government regulation imposes on business. Although we exceeded the five-year target set for us in year one, we have continued to look at what we might do for our stakeholders. Our fourth Simplification Plan, *'Making Regulation Work for Everyone'*¹ was published in December 2009. This sets out additional measures that will potentially save timber hauliers and contractors an additional £60,000 each year through further developments in e-business. Although this is a relatively small sum, it is significant to the small businesses affected and brings the total savings to our stakeholders since this work began to around 30 per cent.

We are committed to good enforcement policies and procedures in line with the Legislative and Regulatory Reform Act 2006. In line with this, in January 2010 we published our Enforcement Policy Statement, which is available on our website www.forestry.gov.uk. We are also committed to the principles of the Cabinet Office's Enforcement Concordat.

In October 2009, the Government announced a target to reduce the regulatory burden on business by a further £6.5 billion annually by 2015. In line with this ambition, consideration is being given to simplification by themes, rather than on a department-by-department basis. The Forestry Commission will be part of the Natural Environment theme, which will consider the full range of environmental regulation. In addition we would wish to work with colleagues in other Departments to reduce the overall burden of regulations on the forest sector.

Our regulatory functions (plant health & forest reproductive material)

During the year we underwent a Hampton review to assess the quality of our regulatory service. Regulators should carry out their activities in a way that is transparent, accountable, proportionate and consistent and should target their activities only at cases where they consider that action is needed. This review concluded that the service was well managed, and provided the right level of scrutiny with the minimum level of regulatory burden on businesses. This is evidence of our commitment to implement Making Regulation Work for Everyone.

As a result of the recession, timber imports reduced significantly. This meant that we have had to make a case for increasing our fee regime to comply with EU requirements. We have now gained agreement from the Better Regulation Executive that our proposed approach is correct, and have launched a public consultation, with the aim of introducing the new regime in 2010.

In the plant health area, we amended the Plant Health (Forestry) Order 2005 to implement new EU controls against Emerald Ash Borer, emergency measures against Citrus Longhorn Beetle, revised requirements for wood packaging material, and amended our emergency measures against Oak Processionary Moth. Additionally, in the Forest Reproductive Material area we decided to consult stakeholders on the options we identified prior to issuing seed testing guidance, and that consultation will now take place early in 2010-11.

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

People

Work continued on the implementation of our People Strategy. We introduced an online recruitment system as part of modernising our systems, and roll out began in November 2009 with full implementation across the whole organisation being achieved by March 2010. We have also undertaken efficiency reviews of our job evaluation and welfare provision.

The new grievance and discipline policies and procedures were implemented in line with the statutory changes and a review of the non-pay benefits resulted in a much more targeted scheme, delivering what staff told us they value. Extensive engagement with the business took place looking at the strategic implications of having a 'no mandatory retirement age' policy. The new policy was published in March 2010. A new Partnership Agreement between the Forestry Commission and the Forestry Commission Trade Unions was signed and launched.

Equality and Diversity

As reported last year, the Forestry Commissioners and Executive Board have continued to regard the Forestry Commission's Equality and Diversity agenda a high priority for the organisation, in particular, diversification of

¹ <http://www.forestry.gov.uk/website/forestry.nsf/byunique/infd-6gaeqa>

the workforce and provision of services to diverse communities. Progress was frequently discussed at their meetings throughout the year.

Areas of specific focus this year:

- monitoring the progress of the new Single Equality Bill. This will have a considerable impact on how the Forestry Commission delivers its Equality and Diversity responsibilities. The Forestry Commission has participated in consultations on the content of the Bill as appropriate;
- the Forestry Commission's second Disability Equality Scheme (DES) was published at the end of November. The DES was prepared after engagement with a range of disabled individuals and groups representing the interests of disabled people. The feedback helped inform our Action Plan within the DES; and
- the three legally required annual monitoring reports (Disability, Race and Gender) were published by the required deadlines. These reports focussed mainly on the Forestry Commission's workforce. We were able to report slight increases in our workforce diversity: 33 percent of Forestry Commission staff are female; 0.6 percent Black, Asian and Minority Ethnic (BAME) and 2.2 percent have declared a disability (last year the figures were 32 percent, 0.4 percent and 2.1 percent respectively).

The monitoring reports do not indicate anything discriminatory in the Commission's processes and procedures. Rather, the lack of diversity occurs at application stage, i.e. the Commission does not attract diverse applicants. To that end, we have started to raise the profile of the Commission with the lifestyle press targeted at diverse communities (e.g. Able and Roots magazines) and at events (e.g. Black History Month, Stonewall, Diversity Jobs and Opportunities Fair, Forestry Commission's Graduate Recruitment). More use of images of diverse customers is being encouraged on the Forestry Commission's website and within our publications.

Much of the work to mainstream the diversity agenda is carried out at the front-line of the Forestry Commission's business i.e. customer service initiatives developed with the needs of diverse communities in mind.

This year we were able to submit entries for the Civil Service Equality and Diversity Awards 2009 to highlight the excellent work completed by Sherwood Forest District and Central Scotland Conservancy. The Sherwood entry reached the final shortlist of three from over 500 entries, and just narrowly missed out on the award. The key factors for this success were the sheer scale of the initiatives across all six strands and the innovative approach of the team, who must be commended for their effort.

The Commission has a programme of four levels of diversity training for all staff. All staff received this training by the end of March 2010.

Diversity Champions have been appointed which ensures that Diversity is discussed at Board level. We also appointed staff with specific diversity responsibilities (mainly to support the Equality Impact Assessment process). In addition, the Director General has set personal and corporate diversity targets for the Forestry Commission's senior staff group via their forward job plans.

In relation to working towards attracting more diverse candidates, we carried out a social marketing study to understand the employment market in Bristol and whether there are any useful 'interventions' that the Forestry Commission can make to increase the range of diversity of job applicants in that area.

Many of our Districts and Conservancies are delivering a wide range of services and facilities to diverse communities. This is being encouraged and supported and best practice shared further. Examples of these are: hosted visits for Muslim communities to all access trails; mountain-biking facilities for people with a disability and providing facilities for weddings and civil ceremonies etc.

Learning & development

We have continued with the implementation of the People Strategy. This has included:

- equality & diversity training for over 3,000 staff;
- introduction of management development for operational (frontline) managers in England, Wales, Forest Research, Business Units and Shared Services along with continued roll out of the tactical (middle) manager programme across the whole of Great Britain;

- Future Leaders competency framework developed as part of our Leadership Development Strategy;
- completion of the 2009 staff survey; and
- support for each part of the business in preparation for our Investors in People review in June 2010.

Technical training has continued to face high demand and trainers have successfully met new delivery targets which saw a 20 per cent increase in face to face delivery. The team continue to support over 180 different technical courses along with developing new courses for:

- business sustainability;
- continuous cover forestry; and
- hylobious management and control.

We have also undertaken a review of technical training and are introducing a more robust system of identifying training needs and managing delivery of training to meet those needs.

Health, Safety and Environment

Policy

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

Programmes

During the year Safety, Health & Environment introduced systems to improve the management of chainsaw use in the Forestry Commission. We also audited our management of Hand Arm Vibration.

Accidents

The following figures set out the incidence of reportable accidents (those causing incapacity for more than three days) for all staff in 2009-10 and the preceding years.

Year	No of accidents per 100 employees
2009-10	0.76
2008-09	0.57
2007-08	1.03
2006-07	0.63
2005-06	0.76

Sickness absence

Year	Working days lost per staff year	
	Great Britain	England
2009-10	6.6	6.2
2008-09	7.1	6.8

Note: The England analysis does not include the Business Units.

Honours

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

Brian Keith Jones OBE. Conservator, North West England Conservancy. For services to forestry, the environment and regeneration in north west England.

Ronald Clunie Melville MBE. Conservator, London Conservancy. For public and voluntary service.

Esmond Havelock Melville Harris MBE. Former Royal Forestry Society Director. For services to forestry and conservation in south west England.

Awards

Lewisburn bridge

An innovative bridge designed to provide safe but enjoyable passage across a river for horses, walkers and cyclists alike won honours for the Forestry Commission in the British Construction Industry Awards 2009. The new Lewisburn Bridge in Northumberland's Kielder Forest, designed by the Forestry Commission's Forestry Civil Engineering business unit, was highly commended in the Small Civil Engineering Project category, as well as being shortlisted for the Prime Minister's Award and the Environmental Award. The judges' citation described the 50-metre bridge as "another imaginative project for the Forestry Commission, a lot of bridge for the money, and an attractive and appropriate solution to a proactive tourism initiative".

Cannock and Wyre visitor centres

The Forestry Commission's Birches Valley Forest Centre at Cannock Chase, near Rugeley, and Wyre Forest Visitor & Discovery Centre at Callow Hill, near Bewdley have joined the UK's top attractions list after achieving "Visitor Attraction Quality Assurance Scheme" (VAQAS) accreditation from VisitBritain. VAQAS is VisitBritain's quality assessment service for all types of visitor attractions throughout England. Participants include British Airways, London Eye, Historic Royal Palaces, the Imperial War Museums, RSPB, English Heritage and National Trust properties.

New Forest

The New Forest was awarded a Hampshire Fire and Rescue Service Celebrating Success Award for a project that led to a significant reduction in fire instance on the forest estate.

Taunton horse trail

Our Neroche Scheme Access and Interpretation officer, James Maben, received a Route Creation Award from the British Horse Society for his work on the Staple Fitzpaine Herepath trail. James was given the award for his outstanding work developing the 13.7-mile circular trail, which passes through Forestry Commission woodlands on the Blackdown Hills near Taunton. The development of the trail is one of a number of projects that has been developed by the Heritage Lottery funded Neroche Scheme, which aims to "liberate the landscape" of the Blackdown Hills.

Finance and accounting

During a year of significant change, Finance and Accounting Services (FAS) continued to work closely with its internal and external customers to deliver an efficient and effective service meeting the needs of its customers.

2009-10

Main achievements were:

- providing expert advice and guidance on the restatement of the 2008-09 financial accounts under International Financial Reporting Standards. IAS41, in respect of Agriculture, was the standard which had the most significant effect on the Forestry Commission. Extensive analysis of the effects of IAS41 was carried out over four years, which identified significant technical complexities and budgetary implications.

FAS led on agreeing appropriate accounting policies and estimation techniques with both HM Treasury and our three external audit bodies;

- expanding the e-Business for Forestry Initiative which covered the internet-based sales system eSales used by Forestry Commission customers; the mobile technology solutions provided externally to timber hauliers; and the electronic data exchange modules developed to support e-business. All of these initiatives continued to produce efficiencies at the front line and in support services;
- enhancing our business planning and monitoring systems to deliver the Accounting by Objectives project designed to link the allocation of resources to wider government objectives;
- continuing our development of a revised procurement strategy and manual for the Forestry Commission. Our central professional procurement team also established improved links with other government procurement functions to maximise opportunities for co-operation and value for money;
- improving automated processes for transaction based services to obtain efficiencies, enabling us to re-direct resources to other priority developments;
- supporting outward facing managers at country level in the management and development of customer relationships to minimise our exposure to credit risk in difficult market conditions;
- co-ordinating the transfer of specific grants and regulation functions from the central service to the countries whilst continuing to provide a development programme and live support service; and
- implementing the Chartered Institute of Public Finance and Accountancy's Financial Management Model and benchmarking the finance function utilising the central models prepared by the UK Public Sector Audit Agencies.

2010-11

FAS has agreed a work programme for 2010-11 with its Service Board, comprising internal customer representatives, and received approval for the funding required to deliver the service. Areas requiring particular attention during 2010-11 will be the development of improved systems to provide better information for sustainability reporting, including that required for the Carbon Reduction Commitment Energy Efficiency Scheme.

Information services (IS)

The IS organisation is responsible for the development and delivery of information technology solutions to the Forestry Commission. The IS organisation has developed the following priorities to improve the performance of the division:

Focus on customer service

The IS organisation has been restructured to focus on delivering excellent customer service to all Forestry Commission staff who use IT systems to do their jobs. A key feature of the new IS organisation is the creation of a Service Improvement team who will implement new process-based working practices.

Establish clear IS governance

The IS organisation will further develop a clear governance structure to ensure that IS decision-making is fully aligned with the business priorities and to ensure clarity for the authority and responsibility of IS decisions.

Develop the IS strategy

The future development of the IT systems and infrastructure will be guided by a new information systems strategy. This strategy will establish a five-year vision for information systems across the organisation and become the basis for new systems development and IT infrastructure projects.

Manage business and IT risks

Like any modern business the Forestry Commission is highly dependent on the IT systems and infrastructure in its day-to-day activities. The IS organisation will restructure the provision of these key systems to minimise the risk of business disruption in the event of a potentially damaging incident.

Actions in 2009-10

- publish the Information Systems Strategy;
- implement the ISO27001 standard to further reduce security & data handling risks;
- start to introduce video & enhanced voice solutions to help reduce business travel;
- continue to modernise end-user computing facilities; and
- further rationalise the IT infrastructure to reduce costs and improve service reliability.

Forestry business units (FBU)

Actions in 2009-10

- maintain progress on year two of FBU Operational Efficiency Plan (three-year target £2 million);
- complete a review of Mechanical Engineering in Scotland;
- develop the potential of Civil Engineering's knowledge of sustainable timber bridge design; and
- build on Health & Safety focus, particularly in Civil Engineering.

Renewable energy

- conclude a deal with Partnerships for Renewables in England and Scotland (wind power development); and
- design and launch a negotiation process for the remaining wind and hydro resource in Scotland.

Business Continuity

An independent business continuity management specialist is preparing a business impact analysis report to highlight the Forestry Commission's critical business activities across the central shared services, the recovery periods within which they should be returned to operation following a disruption and the minimum resource requirements needed to support these activities. Phase 2 of the project will lead to development of a full set of business continuity plans, an appropriate test schedule and a suitable maintenance procedure.

Business sustainability

During the year we have made progress in meeting the aims of our environmental policy. We have completed the development of our Environmental Management System (EMS) and this will be assessed against ISO 14001:2004 by external auditors during the next year. We will carry out audits to check for compliance against our EMS and the ISO, and put in place plans to further improve our environmental performance.

We have reviewed our systems for the collection and management of sustainability data to enable data collection to become embedded within existing systems and help to provide information for the increasing number of reports required.

Inventory, forecasting and operational support

The National Forest Inventory (NFI) programme is now well established. Its importance to future policy development and evaluation is widely recognised including, for example, use in the Department of Energy and

Climate Change's (DECC) Renewable and Low-carbon Energy Capacity Methodology and planned use in Land Use, Land Use Change and Forestry (LULUCF) reporting.

The NFI programme has strong support from private sector forestry organisations and the business model of a core inventory with 'Top up' options is proving to be a success. The earliest 'Top up' output (in south west England) has been well received, providing the evidence to change a number of preconceptions on the nature of existing woodlands.

Development work with Forest Research to link NFI measurements with their internationally recognised growth, yield and carbon models has progressed well. We are on track to have the planned scenario evaluation capacity for timber, biomass and carbon stock changes in place and working during 2011.

Development, maintenance and support of our corporate forest management information systems, data and guidance is ongoing. A stock-take of these products and services has confirmed that they are well received and core to effective front line delivery in all three countries.

Across all areas of work there remains a clear focus on securing best value from the resources made available. In this context we are increasingly benefiting from clear strategic direction, the modular and reusable nature of our GIS software and effective collaboration with colleagues and partners.

Seeds for schools

We partnered the News of the World (the UK's top selling newspaper) and other partners in an ambitious climate change communications project aimed at the newspaper's 7.5 million readers and schoolchildren throughout the UK. The Forestry Commission contributed:

- packets of 400 tree seeds for every school;
- seed planting and care instructions;
- three special teaching focused versions of our DVD "Trees and climate change – A convenient truth?";
- teachers' notes to link all the items to the curriculum for 6-14 year olds; and
- copy for the website.

Royal Mail produced a special edition of "Teachers' Post" their regular education resource newsletter. This was mailed, along with the other materials, to every school in the UK. Tesco contributed £10,000 worth of equipment for schools as prizes. News of the World created a stand-alone website for the project and mounted a sustained publicity campaign in the paper, enlisting a large line-up of supporters including the Prime Minister, education and environment Ministers and a long string of sports stars, celebrities and business leaders. The campaign has helped us communicate the importance of trees to an enormous audience and has sparked interest from forestry interests in other countries keen to run similar campaigns.

CORPORATE GOVERNANCE

Status

The Forestry Commission is the Government department responsible for advising Forestry Ministers within the Westminster Parliament, Scottish Parliament and National Assembly for Wales on forestry policy and for implementing the three separate forestry policy strategies across England, Scotland and Wales. It has a Chair and Board of Commissioners. The legislative framework for forestry is principally the Forestry Acts 1967, 1979 and 1981, the Plant Health Act 1967, the Countryside Act (Scotland) 1967 and the Countryside Act 1958.

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

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

Forestry Commission Great Britain

In the Great Britain role, the Forestry Commission provides advice and support to the UK Government and to the devolved administrations in Scotland and Wales. We set the standards for sustainable forest management and encourage good forestry practice. We conduct forestry research, provide information and we have statutory duties for some regulations that, by agreement with Ministers, are Great Britain-wide. Working with other departments, it formulates UK policy in international negotiations, develops the UK's national forest programme and advises on implementation of international and European obligations.

Our values – how we behave in fulfilling our objectives

Teamwork – Working as teams with colleagues and others to ensure that trees, woods and forests meet the needs of people in each part of the country.

Professionalism – Enjoying and taking pride in our work, achieving high standards of quality, efficiency and sustainability.

Respect – Treating one another with consideration and trust, recognising each person's contribution.

Communication – Being open, honest and straightforward with colleagues and others, as willing to listen as to tell.

Learning – Always learning, from outside the Forestry Commission as well as from within.

Creativity – Not being afraid to try new ways of doing things.

Ministers

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

Rt Hon Hilary Benn MP, Secretary of State for Environment, Food and Rural Affairs
Huw Irranca-Davies MP, Parliamentary Under-Secretary (Commons) Department for Environment, Food and Rural Affairs

Forestry Commissioners and Permanent Head of the Department

The Board of Commissioners gives strategic direction to the Commission and takes decisions on not-devolved or co-ordinated functions. It has a Chair, Pamela Warhurst CBE. The Director General, Tim Rollinson, as Permanent Head of the Department, acts as Deputy Chair.

Commissioners who served during the year were:

Chair

Rt Hon Lord Clark of Windermere (until 9 December 2009)
Pamela Warhurst CBE (from 1 January 2010)

Forestry Commissioners

Tim Rollinson, Director General and Deputy Chairman
Dr Bob McIntosh, Director, Forestry Commission Scotland
Trefor Owen, Director, Forestry Commission Wales
Paul Hill-Tout, Director, Forestry Commission England
Jon Owen Jones, Commissioner Wales
Judith Webb, Commissioner Wales
Hamish Macleod, Commissioner Scotland
Dr Calum MacDonald, Commissioner Scotland (until 11 April 2009)
Dr Olutayo Adebawale, Commissioner England (Acting Chair from Lord Clark's departure until Pamela Warhurst's appointment)
Sir Harry Studholme, Commissioner England

The Board of Forestry Commissioners met in June, September and December 2009, and March 2010. They discussed a wide range of Great Britain and international forestry issues, including:

- Forest Biosecurity
- Corporate Governance

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

The Executive Board

The Executive Board is responsible for:

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

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

Tim Rollinson, Director General
Dr Bob McIntosh, Director, Scotland
Trefor Owen, Director, Wales
Paul Hill-Tout, Director, England
Dr James Pendlebury, Chief Executive, Forest Research Agency
Michael Ansell, Director, Forestry Business Units
Jean Lindsay, Director, Human Resources
Keith Gliddon, Director, Finance
Wilma Harper, Secretary to the Commissioners and Head of Corporate and Forestry Support

The Executive Board met in April, June, September, November and December 2009 and February 2010. As well as engaging with the Shared Service Boards, the Executive Board addressed a wide range of issues during the year including:

- Forest Biosecurity

- Equality and Diversity
- International Forestry
- Web Review Group
- Leadership Programme
- IS Strategy and Governing Principles
- Reward for Inventors Scheme
- Science and Innovation Strategy
- Instruments for Woodland Creation and Management

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

National Committee for England

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

Rt. Hon. Lord Clark of Windermere, Chair and Forestry Commission Chair (until December 2009)
 Pamela Warhurst CBE, Chair and Forestry Commission Chair (from January 2010)
 Sir Harry Studholme, Commissioner England
 Dr Olutayo Adebawale, Commissioner England (Acting Chair from Lord Clark's departure until Pamela Warhurst's appointment)
 Keith Oates, Non-executive member
 William Weston, Non-executive member
 Robin Mortimer, Non-executive member (Defra)
 Paul Hill-Tout, Director England and Commissioner
 Simon Hodgson, Chief Executive, Forest Enterprise England
 Charlotte Cane, Finance Director, Forestry Commission England (until 30 June 2009)
 Steve Meeks, Finance Director, Forestry Commission England (from 1 May 2009)
 Laura Jones, Head of Policy and Programmes

The Committee met in May, July, November and December 2009 and in January and March 2010. There was also an extraordinary meeting in June 2009 to discuss the Public Forest Estate study consultation. During the year the Committee discussed a wide range of issues including:

- finance;
- asset sales and reinvestment;
- Public Forest Estate Study;
- Operational Efficiency Programme;
- open habitats policy; and
- biosecurity.

At each meeting the Committee also discussed the Director's report. Papers for these meetings and further information on the National Committee are available on our website, www.forestry.gov.uk

England Executive Board

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

Paul Hill-Tout, Chair, Director and Commissioner England
 Simon Hodgson, Chief Executive, Forest Enterprise England
 Richard Britton, Head of Forestry Authority and Regions, England
 Laura Jones, Head of Policy and Programmes, Forestry Commission England

Mark Pritchard, Head of Communications and Secretariat, Forestry Commission England
Charlotte Cane, Finance Director, Forestry Commission England (until 30 June 2009)
Steve Meeks, Finance Director, Forestry Commission England (from 1 May 2009)
Sarah England, Human Resources Business Partner, Forestry Commission England

The England Executive Board met on ten occasions during the year and addressed a wide range of issues including:

- finance;
- performance targets;
- health and safety;
- risk management;
- biosecurity;
- open habitats;
- human resources and diversity.

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.

England Audit and Risk Committee

In England, the National Committee and Accounting Officers are supported by a sub committee known as the Audit and Risk Committee (ARC). Its purpose is to help them in their responsibilities for the effective management of risk control and governance across the organisation in England. Through its work the 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. The members of the ARC for England are:

Sir Harry Studholme, Chair and Commissioner for England
Olutayo Adebawale, Commissioner for England
Keith Oates, non-executive member England National Committee

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

Corporate governance

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

Principal risks, uncertainties and opportunities

Forestry Commission Great Britain/England has identified the following principal areas of risk, uncertainty and opportunity 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. The key risks looking forward into 2010-11 are detailed in the SIC.

Risk management policy

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

- integrate risk management into the culture of Forestry Commission Great Britain/England;
- eliminate or reduce risks to an acceptable level;
- anticipate and respond to changing social, environmental and legislative requirements;
- prevent injury and damage and reduce the cost of risk;
- raise awareness of the need for risk management and;
- ensure that Business Continuity Plans are prepared for each Region and each of the services needed to deliver the Forestry Commission's business (Finance, IT, HR, Grants and Regulations and Communications).

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

FORESTRY COMMISSION ENGLAND

Strategy

The Forestry Commission has a lead role in the delivery of the Government's forestry strategy 'A Strategy for England's Trees, Woods and Forests'. This work is guided by the 'Delivery Plan 2008-2012 England's Trees Woods and Forests'.

Aims and objectives

The aims and objectives of Forestry Commission England set out in the Corporate Plan 2009-2012 flow from the Strategy for England's Trees, Woodlands and Forests (ETWF) and from the wider objectives of Ministers. Our shared Aims with ETWF are to:

- provide a resource of trees, woods and forests in places where they can contribute most in terms of environmental, economic and social benefits [**Protect and Enhance the Resource**];
- ensure that existing and newly-planted trees, woods and forests are resilient to the impacts of climate change, play a role in adapting rural and urban environments to climate change and contribute to its mitigation [**Climate Change**];
- protect and enhance the environmental resources of water, soil, air, biodiversity and landscapes [**Land and Natural Environment**];
- increase the contribution that trees, woods and forests make to the quality of life [**Quality of Life – Communities and Places**];
- improve the competitiveness of woodland businesses and promote the development of new or improved markets for sustainable woodland products [**Working Woodlands**]; and in addition
- be an effective, efficient, respected, high-profile and sustainable delivery body where equality and diversity is embraced, embedded and mainstreamed in all that we do as a service provider and practice as an employer [**Modernising Our Delivery and Managing Our Resources**].

MANAGEMENT COMMENTARY

Events

In August, Secretary of State, Hilary Benn, visited Haldon Forest Park as part of a two-day visit to the South West. He was briefed on Forestry Commission work on *Phytophthora ramorum* and had a chance to see the recent developments, including a range of walking and cycling trails, Forest Cycle Hire, the Centre for Contemporary Art and the Natural World and Go Ape. Haldon has been significantly developed over the last three years and now attracts around 300,000 visits each year.

At the end of July, Defra Minister Huw Irranca-Davies visited Grizedale Forest in the Lake District National Park during a three-day tour celebrating 60 years of England's National Parks. Forestry Commission Chairman, Lord Clark joined him for a cycle ride through the forest, ending at the new Visitor Centre.

In September, Lord Clark and Steven Broomhead, Chief Executive of the North West Development Agency, were joined by rock climber Leo Houlding to officially open the £6 million visitor facilities at Grizedale Forest. This is part of a programme designed to improve the quality of the visitor experience and help rural businesses achieve long-term financial sustainability. The Grizedale Project was made possible by grants from the Northwest Regional Development Agency (NWDA), Cumbria Vision, the European Union through the European Regional Development Fund, the Lake District National Park Authority Sustainable Development Fund and Defra Rural Enterprise Scheme.

In April, Lord Clark and other members of the 'Wild Ennerdale' partnership visited the Ennerdale valley in West Cumbria. They were there to see the latest work on a visionary project to make the valley a wilder place and how the partnership is working with the local community to develop opportunities for local businesses to benefit from the initiative.

In November Lord Clark officially launched the Town Lane site in Sefton, part of the Newlands programme. This is a 26 hectare former landfill site owned by Sefton Council and leased to the Forestry Commission on a 99 year 'pie-crust' lease. The Northwest Regional Development Agency (NWDA) gave £1.78 million to the project, which will create a community woodland.

Local MP and Shadow Minister for Disabled People, Mark Harper, reopened Symonds Yat Rock to the public during April. Despite being a tourist attraction for over a century, access has been poor for the less able and has resulted in erosion of the site, which is a scheduled ancient monument. The new development has upgraded the access so it is now accessible by wheelchair users and other disabled people. The work was supported financially by the Heritage Lottery Fund 'Overlooking the Wye' scheme.

During November, TV presenter and botanist David Bellamy helped us to launch the Discovery Pass at Hamsterley Forest. The 'Discovery Pass' scheme enables members of the public to buy an annual pass for a specific Forestry Commission site. Benefits of the pass include free car parking, information in the form of an e-newsletter as well as site specific discounts or special offers. The cost of the pass varies for each of the 17 sites, ranging from £20 to £50 per year.

One of the leading organisers of the London Olympic Games visited North Yorkshire in October to find out how the region is preparing for 2012. Charles Allen, the chairman of the London Organising Committee of the Olympic Games, Nations and Regions Group, attended an event in Dalby Forest to discuss tourism opportunities and how to get young people involved in sport. One of the primary reasons for his visit was to view the new purpose-built mountain biking course in Dalby Forest, which will host a stage of the Mountain Bike World Cup.

The South Downs became a designated National Park in March 2010. It includes over 5,800 hectares of woodland and open landscape managed by the Forestry Commission.

PROTECT AND ENHANCE THE RESOURCE

Grants and regulation

The Rural Development Programme for England (RDPE) is England's mechanism for delivering European agricultural and rural development funding allocated to England, combined with related Exchequer funding for agri-environment, forestry and rural socio-economic support. The RDPE has a total budget of £3.9 billion for

2007-13, of which £231 million is in the indicative planned expenditure for forestry. The English Woodland Grant Scheme (EWGS) is the Forestry Commission's mechanism for delivering grant aid in England.

All RDPE grant schemes were transferred to Defra's accounts from 1 April 2008. Forestry Commission England continues to administer and pay these grants on behalf of Defra. But the cost of the grants, and the associated income from the EU, show in Defra's accounts rather than in the Forestry Commission's accounts.

The total area of woodland creation paid in 2009-10 was 1,499 hectares; this is below the seven-year RDPE target of an average of 2,200 hectares per year. However, a regulatory change introduced as part of the Common Agricultural Policy 'Health Check' in February 2009 meant that from 2009 landowners were able to continue claiming their Single Payment Scheme entitlements after planting trees on eligible land. This should make woodland planting a more attractive financial proposition in future. However, adjusted payment rates were not approved by EU until January 2010 which, coupled with unusually severe winter weather, resulted in some planting schemes being deferred. Total woodland regeneration was 1,116 hectares. Regeneration payments under EWGS were well aligned with the 'Keepers of Time Policy' with over 50 per cent of the area relating to activity on ancient woodland sites or the conversion of conifers to native species.

The controls on tree felling resulted in the Forestry Commission issuing 1,688 felling licences that were not linked to EWGS. We received 168 reports of illegal felling and investigated 23 in more detail. There were 8 restocking notices issued under powers granted under the Regulatory Reform Order (RRO). This allows us to issue a restocking notice without first securing a prosecution. There are no new cases under investigation with a view to prosecution, although in one jointly investigated case, a Local Authority is proceeding with a prosecution under the Tree Preservation Order (TPO) regulations. We had one prosecution carried forward from the previous year, which was successfully proved at year end. This resulted in the owner and contractor being fined, and uniquely the defending solicitor being given a 'wasted costs order'. This case will now proceed to a restocking notice. A further eight cases are in progress for notices to be issued under the RRO. We issued three formal warnings. There were no cases where we agreed no further action was appropriate. There are three cases still pending.

CLIMATE CHANGE

As part of the build up to the publication of Defra's Climate Change Plan on 31 March, the Forestry Commission announced the intention to develop a Woodland Carbon Task Force. This group is charged with kick-starting a major increase in new woodland planting to help the UK curb and adapt to climate change. The Task Force will make a key contribution to delivering Defra's Climate Change plan.

The Renewable Energy Business Units secured funding from the Department of Energy and Climate Change (DECC), to enable work to begin on delivering a £1.5 million programme of energy efficiency and micro-energy generation measures on Forestry Commission buildings. The programme includes 15 new woodfuel systems, significant investment in solar photovoltaic systems as well as a range of locally significant issues such as rainwater harvesting.

The Forestry Commission is managing a three year, £1.5 million, research project on behalf of DECC, to examine the feasibility of Short Rotation Forestry (SRF) as a viable renewable energy source. The project will provide scientific data on hydrology, carbon balance, economic viability and possible environmental risks, such as the impact of SRF on landscape and biodiversity. Tree planting has started in South Lincolnshire – the first in a series of trials to evaluate the potential for fast growing trees species to provide green energy and the impacts this may have on the environment.

In Yorkshire and the Humber, the Forestry Commission is leading the UK input to an EU project for the promotion of energy efficiency and renewable energy, in partnership with South Yorkshire Forest Partnership. The programme, called Intelligent Energy Europe, aims to produce and use energy in more intelligent ways and to increase the use of renewables. This includes bringing more woodlands into active management in order to support the development of the woodfuel market. This project involves project partners from Finland, Austria, Slovenia, Latvia, UK and France.

LAND AND NATURAL ENVIRONMENT

The Forestry Commission was instrumental in the production of the Government's policy about when to restore woods and forests to open habitats in England, which was published in March. The policy aspires to see the

restoration of 1,000 hectares of open habitat, with the creation of more woodland from greenfield sites to replace that which is restored to open habitat, and no net loss in the overall area of productive forest.

New Forest

The 20,000 hectare Open Forest of the New Forest has been signed into Higher Level Stewardship (HLS). Over the ten year life of the project this HLS scheme will receive around £16 million in payments. A significant part of this will directly support grazing on the Open Forest. It is the biggest such scheme in England and is thought to be one of the biggest agri-environment agreements in Europe. The New Forest HLS partnership formed in 2009 and comprises the Forestry Commission, New Forest National Park Authority and Verderers of the New Forest.

Red squirrels

A report published in September, "A review of Red Squirrel Conservation Activity in Northern England", evaluated the work of organisations involved in red squirrel conservation in northern England. The study was carried out by Central Science Laboratory and involved the UK's leading squirrel experts. The report includes a series of recommendations that the authors believe will improve red squirrel conservation for the future and also suggests a number of areas for improvement, including the need for closer co-operation between the various groups and the need for additional funding for priority work. Natural England, Forestry Commission, Save Our Squirrels and the European Squirrel Initiative, funded the work.

The Forestry Commission awarded a £153,000 grant for vital work to help safeguard the future of the Yorkshire Dales red squirrel population. The funding was received by UPM Tilhill to help stem the incursion of grey squirrels into 1,000 hectare Greenfield Forest, near Hawes, Langstrothdale.

The vital red squirrel buffer zone in Cumbria has been extended to slow down the migration of greys from England towards the Scottish border. The zone has been extended west from Kielder Forest - the largest red squirrel reserve in the country - to cut off the land gap between the forest and the Solway Firth. For the first time Forestry Commission grants are available in the extended area covering 50 square miles to support land managers in tackling the spread of the greys.

In October the Red Squirrel Survival Trust, Natural England and the Forestry Commission also announced a new initiative to map grey squirrel control efforts in northern England, taking account of work by landowners, institutions, volunteers and local groups. This work will also help in co-ordinating future strategy.

Butterflies

The Wyre Forest in Worcestershire, is home to some of the most vulnerable species of butterfly in the UK. Through effective partnership working with organisations including Butterfly Conservation, the Back to Orange project aims to conserve these Biodiversity Action Plan (BAP) priority species. Match funding of £74,000 has been given by the SITA Trust allowing vital habitat management work to begin at six sites in Wyre, which will help secure the long-term future of rare butterflies in this area.

The Forestry Commission and Butterfly Conservation are also working together in the Morecambe Bay and South Cumbria Low Fells areas to help conserve the High Brown Fritillary, in the last national stronghold for this species. The project has received £240,000 funding from GrantScape. By targeting Woodland Improvement Grants in the area the Forestry Commission has given comparable financial support. These funds are helping pay for activities such as coppice cutting, ride creation, fencing, scrub cutting and restoration of woodland SSSIs. Butterfly Conservation and Forestry Commission England were awarded £45,000 from Biffa, to fund practical work in the Denge and Eggringe Woods to benefit the declining Duke of Burgundy butterfly. This project forms a part of the larger South East Woodlands project, which represents a partnership between many landowners to bring woodland into management for the benefit of wildlife.

A hoverfly once listed as extinct and now classified as an endangered species, was discovered by a local naturalist at the Forestry Commission's Welshbury Wood in the Forest of Dean. The Western Wood-vase Hoverfly (*Myolepta potens*), breeds in wet rot holes of mature deciduous trees.

Bechstein's and Barbastelle are two of the rarest woodland bats in England. Recent surveys have found populations of both these bats thriving in woodlands managed by the Forestry Commission on the Isle of Wight. Within one ancient oak in Parkhurst Forest there the world's largest single maternity roost for Barbastelle bats

can be found, with over 115 individuals. As a result of this study the island has been identified as the most important area for woodland bats in Europe.

Ospreys returned to Kielder Water and Forest Park in 2009, nesting on a platform specially erected by the Forestry Commission. The pair successfully raised 3 chicks, the first in north east England for over 200 years. Ospreys were also successful in breeding at Bassenthwaite Lake in Cumbria, the ninth year since their return to the region.

A survey to determine the distribution of Long Eared Owls in south west England was undertaken by the Forestry Commission and Hawk and Owl Trust. The results showed a wider than anticipated distribution and larger population size. Staff and volunteers contributed to the success of the surveys, highlighting the biodiversity value of coniferous plantations.

QUALITY OF LIFE – COMMUNITIES AND PLACES

Newlands

The three year Newlands 1 land regeneration programme, developed by the Forestry Commission and North West Development Agency (NWDA), reached its conclusion at the end of this year. The programme has seen 362 ha of brownfield land transformed into 'economically edged' community woodland and strategic green space. The Lower Irwell Valley Improvement Area (LIVIA) project in Salford, Town Lane in Sefton and Belfield project in Rochdale have all been finished this year. Alongside this, the Newlands programme has delivered a pilot Green Streets programme in the Red Rose and Mersey Forests.

Work continues with Newlands 2; Brockholes Quarry, Preston has reclaimed 94 hectares of land with construction of a new Visitor Centre underway, as well as approval being given by NWDA for the 'Setting the Scene for Growth' project. During the year, funding of £4.7 million has been approved for this green street and small sites programme of work.

Work has been carried out to transform Waterdale and Drinkwater Parks in Bury. A team of specialists from the Forestry Commission is working on former industrial land to improve the local environment for nearby communities. A newly created community woodland will include 12 kilometres of multi-purpose leisure trails, wetland wildlife habitats and fishing ponds. Over £3.8 million worth of funding is being injected into the 71 hectare Bury woodland over the next 20 years via the Forestry Commission and the NWDA partnership programme.

The Forestry Commission in Sherwood was short-listed in the 2009 Civil Service Diversity & Equality Awards. The district was in the top three of 500 entries for the "Delivery of Customer Service" category. Entries were judged on understanding and responding to a diverse range of customers and changing methods of work to provide better or more accessible services. Sherwood's entry outlined the district's community engagement work with a diverse range of people.

The Forestry Commission has entered into a two-year strategic partnership with youth charity, Young Pioneers. Their aim is to empower young people to take an active role in decision making regarding their local environment, through accredited learning packages. This is the first time young people have been engaged in wider policy development. To date the Young Pioneers have been involved in consultations about the restoration of open habitats from woods and forests and the study of the long-term role of the public forest estate.

Diversity Small Grant Fund

There were 27 recipients of the Forestry Commission's Diversity Small Grant Fund in 2009-10, who were given grants totalling almost £13,000. Each grant was to a maximum of £500, with successful applications received from local community groups, Parish and District councils and four Forestry Commission districts. The aim of the grant was to stimulate local activity focussed at encouraging people from a black, minority or ethnic background or people with disabilities to benefit from activities and events organised in local woodland for their general health and well-being.

WORKING WOODLANDS

Forestry apprenticeships

The Forestry Commission recruited five apprentices in South West England, as part of a pilot scheme developed to improve take up of forestry apprenticeships. The scheme represents a partnership between the Forestry Commission, the Silvanus Trust, Bicton College and private employers. The South West pilot has secured RDPE funding of £145,000 to match the Forestry Commission contribution.

Four forestry apprenticeships were also available in the West Midlands as a part of the wider 'Grow with Wyre' project. The Forestry Commission and Small Woods Association appointed the apprentices who will study for an NVQ Level 2 in Forestry.

Interest from learners in forestry apprenticeships was significant, with over 180 people applying for the nine apprenticeship positions made available as part of these pilots.

Barnsley Youth Service and the Forestry Commission are working in partnership to deliver a project for the Dearne Net Group which provides an alternative to formal academic education for young people, and enables the participants to work towards gaining alternative qualifications to GCSEs as well as improving confidence, self-esteem, practical skills and knowledge.

MODERNISING OUR DELIVERY AND MANAGING OUR RESOURCE

Study of the Public Forest Estate

The study of the long-term role of the Public Forest Estate (PFE) in England was announced by Secretary of State Hilary Benn in 2008. The remit of the study is 'to consider the future long-term role for the PFE and make recommendations about any necessary changes to improve its ability to deliver relevant priorities in the Strategy for England's Trees, Woods and Forests and contribute to other government objectives'.

The study has gathered evidence via economics research, social research, consideration of landscape issues, an environmental status report, a short questionnaire for visitors and a public consultation. A draft working group report has been produced for the consideration of the England National Committee.

Operational Efficiency Programme

The Operational Efficiency Programme (OEP) is an HM Treasury led process looking at the scope for further efficiency measures across government. In the April 2009 Budget it was announced that the Public Forest Estate would be included in the 'asset management' strand of the OEP. The aim being 'to consider how the Public Forest Estate in England can generate greater commercial benefit while respecting the Government's continuing commitment to public sector ownership of and involvement in the management of England's woodlands and continuing to deliver environmental and social benefits'. The Phase one report, published in December 2009, looked at timber & woodland management, leisure & recreation, renewable energy and sustainable business models.

PERFORMANCE AGAINST SPENDING REVIEW 2007 TARGET FOR 2008-11

Aim	Target 2008 - 11	Performance in Year to 31 March 2010
Delivering the Strategy for England's Trees, Woods and Forests		
Aim 1 Protect & Enhance the Resource	Target: Maintain the area of certified woodland at or above 332,000 ha - as an indicator of wider sustainable forest management.	On target. The area of certified woodland is at 343,000ha. Target revised in-year to reflect newly available improved data on the 2008 baseline position.
Aim 2 Climate Change	Target: Increase the number of boilers that use wood for heat generation (with a total installed capacity of 10 MWth) -- as an indicator of the uptake of woodfuel as a renewable source of energy.	Target exceeded-- total installed capacity has increased by at least 39MWth since April 2008.
Aim 3 Land & Natural Environment	<p>Target 1: A net increase of 7,200 ha (provisional) in the area of native woodland and other semi-natural habitats restored from forest (for which a target will be set during 2008–09) through:</p> <ul style="list-style-type: none"> • minimising losses of native woodland; • restoring PAWS to native woodland; • converting other plantations to native species; • creating new woodland of native species; and • restoring open habitats through reduction or removal of plantations, woodland or scrub. 	Target adjusted. As a result of re-surveying of the baseline resource it has not been possible to isolate and measure the impact of on-going work on restoration, conversion and loss on the Forestry Commission Public Forest Estate (PFE). The target has therefore been adjusted to only reflect Grants and Regulations work. The net increase of 2,222ha in year is approaching the rate required to ensure achievement of the adjusted target of 7,200ha. The policy on when to convert woodland to open habitat in England has been published at www.forestry.gov.uk/england-openhabitats . It does not set a target but states that 1,000ha per year of conversion would be appropriate if the rate of woodland creation also increases. A strategy for open habitats on the PFE will be developed in accordance with the policy, taking into account costs, current commitments, and conclusions from the study of the long-term role of the estate.
	Target 2: Increase the area of all Sites of Special Scientific Interest (SSSIs) where FC has statutory responsibilities which are in favourable or recovering condition to 95% by December 2010. (These include all SSSIs on the Public Forest Estate and woodland SSSIs on other land)	On target. There has been an increase to 92.2% of the area of relevant SSSIs in favourable or recovering condition. Good progress in the past year in relation to non-woodland SSSIs on the Public Forest Estate means that overall 98.5% of all SSSIs on the estate are in target condition.
	Target 3: Reverse the long-term decline in the number of woodland birds by 2015 as measured annually against underlying trends using the Woodland Birds Index – as a proxy for wider biodiversity.	Partial progress. Populations for woodland 'generalists' have increased whilst populations of woodland 'specialists' have declined marginally. Overall the number of woodland birds has remained stable (2008 data).
Aim 4 Quality of Life – Communities & Places	Target 1: Increase the percentage of the population in priority areas with access to woodland according to access standards from 62% to 66% (relating to an additional 750,000 people having access)-- as an indicator of woodlands' contribution to Quality of Place .	On target. Increased to 64.6% (relating to an additional 490,000 people having access).

Aim	Target 2008 - 11	Performance in Year to 31 March 2010
Aim 4 Quality of Life – Communities & Places	Target 2: Develop a methodology, set a target, then measure an increase in: * visits to and engagement with local woodland ; * quality of experience; and * personal and social benefit for a series of selected sites, as an indicator of woodlands' contribution to Quality of Life .	On target. On-site surveys have taken place again at three selected sites. On track to set a target and measure progress by March 2011. A public opinion survey carried out in 2009 provided complementary data.
Aim 5 Working Woodlands	Target: Develop and implement a regular business confidence survey from which will be set future targets for improvement – to improve the quality and quantity of sector information.	Business case for the survey being re-evaluated. Research is being conducted into existing business confidence surveys and available good practice.
Improving How We Work		
Customer Service	Target 1: Provide excellent service to the customers of our Grants and Regulations to be measured by achieving 85% of transactions within standard times .	Some slippage. 75% due to absorption of Farm Woodland schemes.
	Target 2: Achieve a recommendation standard of at least 75% at all of the visitor centres surveyed – demonstrating our customers readily recommend our sites to their friends – as an indicator of excellent customer service.	Missed target in year. Of the three sites surveyed two scored well with 89% each. One site, despite reasonable customer support, fell below the minimum required with 65%. Three further surveys due to be carried out during 2010.
Developing Our People	Target 1: Deliver Diversity training to 'all' staff – as an indicator of our objective to embed diversity across the organisation.	Target exceeded. 95% of staff has been trained. The target is 88% of 'all' staff and includes an allowance for staff turnover and staff away for prolonged periods of time, e.g. on maternity leave.
	Target 2: Continue our good record by maintaining working days absence per staff year at or below 6.2 – in recognition of the strong connection between sickness absence, promoting the health and well-being of staff and delivering an engaged and motivated workforce.	On target. 6.2 days for the 2009-10 year.
Delivering Sustainability	Target: Attain Environmental Management System accreditation ISO14001 – or similar (subject to business requirements) – as an indicator of our movement towards greater corporate sustainability .	On target. Work has progressed towards completing development of an Environmental Management System (EMS). External assessors have been appointed and a Stage 1 assessment completed. Training of internal assessors and auditors due in 2010. Full accreditation to ISO 14001 expected in 2011.
Delivering Value for Money	Target 1: Develop a system, measure and a target, then increase the proportion of grants and regulation transactions carried out on-line – as an indicator of efficiency.	Some slippage. Due to competing priorities and uncertainty about the delivery platform, analysis of further e-business opportunities has been moved into 2010-11. All England Woodland Grant Scheme, Woodland Grant Scheme, and Farm Woodlands payments are now made via BACS.
	Target 2: Manage the public forest estate within an agreed net cost per hectare - as an indicator of efficiency. The target for 2009-10 is £88.52 per hectare and will be re-set for the subsequent financial year.	Target achieved. £86.27 is within the +/-5% limits specified within the target description.

FOREST ENTERPRISE SUMMARY OF KEY PERFORMANCE MEASURES 2009-10

Target Area	Measure	Target for 2008-09	Achieved
Sustainable Forest Management	Percentage of forest estate certified as sustainably managed.	100%	100%
Social	Percentage of the population in priority areas with access to woodland according to access standards – as an indicator of woodlands contribution to Quality of Place.	N/A	Contributes to the overall FCE figure reported separately
	Engagement with local woodland for a series of selected sites, as an indicator of woodlands contribution to Quality of Life.	N/A	Contributes to the overall FCE figure reported separately
Economic	Volume of wood harvested in relation to the production programme.	100%	108%
	Number of visitors to regional forest centres.	N/A	4,615,905 visits to regional centres.
Environmental	Percentage of SSSIs in favourable or recovering condition.	95%	98%
	Area of native woodland and other semi-natural habitats.	300 hectares per annum	Data not available.
Efficiency	Net cost of management for the public forest estate.	£88.52 per hectare	£86.27 per hectare
	Customer satisfaction when using recreation facilities.	75%	Of the three sites surveyed two scored well at 89%. However despite strong local customer support a third site fell below the target at 65%. A further three sites will be surveyed during 2010.
	Number of reportable accidents for employees.	1.8 per 100 employees	0.9 per 100 employees

**FORESTRY COMMISSION
GREAT BRITAIN/ENGLAND**

ANNUAL ACCOUNTS 2009-10

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 2008, Parliament has approved Defra's revised resource Estimate structure which incorporates Forestry Commission Great Britain/England's estimate as a separate Request for Resource (RfR) defined as:

RfR2 – Direction of the delivery of the Government's Strategy for Trees, Woods and Forests in England and taking the lead in development and promotion of sustainable forest management across Great Britain.

Sub-head A of RfR2 includes the operation of the Forestry Commission estate in England by its agency, Forest Enterprise England. The Agency is a public corporation for national accounting purposes and accordingly is outside the departmental boundary for the Forestry Commission Great Britain/England accounts. Its net funding is, therefore, reflected wholly in the programme costs for England-wide activities.

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

Financial Review

Resources to fund our activities in England and our Great Britain functions come from Defra, from Regional Development 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 the Government's 2007 Comprehensive Spending Review. The planned sources of income and expenditure up to 2011-12 are shown in the latest Corporate Plans for England and for Great Britain activities.

Resources in England are used to increase the contribution that trees, woods and forests make to the quality of life; protect and enhance the natural environment, including mitigation of and adapting to climate change; and improve the competitiveness of woodland businesses and promote the development of new or improved markets for sustainable woodland products in accordance with the 'Strategy for England's Trees, Woods and Forests'.

Timber sales represent the largest single source of income for Forest Enterprise and its financial strength is closely linked to the strength of the UK timber market. Levels and prices for sawn timber products declined in summer/autumn 2008 as construction activity dropped rapidly and manufacturing industry slowed. However UK demand increased from December 2008 largely as a result of the weakness of £sterling against the Euro; the end of a period of de-stocking throughout the supply chain; and the lack of supply from private woodland owners in the UK. That position held through 2009-10. Every attempt is also made to maximise income from the wider Estate assets.

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 £21.3m (2008-09 £20.6m) of public funds that are administered by Forestry Commission Great Britain/England staff.

Significant variances against estimate

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

	Estimate £'000	Outturn £'000	Difference £'000
England-wide activities	72,578	56,177	16,401
Great Britain-wide activities	19,936	16,328	3,608
Total resource Great Britain/England	92,514	72,505	20,009
Net cash requirement	64,656	50,838	13,818

For the England activities the net resource underspend of £16.4m is 22.6% less than estimate. The main reasons are:

- A net gain of £6.8m linked to the movement on IAS41 'Biological Assets' and fellings, against a net £6.6m cost Estimate provision. These movements are demand-led and exceptionally volatile in a way that cannot be controlled by the Forestry Commission. This has been recognised by the decision to treat the movements as Annually Managed Expenditure (AME) from 2010-11 onwards.
- Cost of capital was under estimate by £2.8m because the value of the Estate was less than anticipated.
- Take up on non-RDPE grants was lower than we had anticipated due primarily to the adverse winter weather.

For the Great Britain-wide activities the net resource underspend of £3.6m is 18.1% less than estimate. The main reasons for this are:

- £0.8 million of resource estimate was allocated to capital spend resulting in a corresponding overspend on the capital estimate. This was for the re-categorisation of vehicle operational leases to finance leases and for the purchase of computer hardware as part of an investment programme in the ICT infrastructure to reduce the risk of systems failure.
- Depreciation on capitalised software development costs was £0.6m below estimate.
- An underspend on Great Britain core and shared services activities of some £0.7m arising from savings achieved on biosecurity contingency funds and Silvan House infrastructure costs.
- Early retirement compensation of £0.7m, paid as part of the restructuring programme at the Forest Research Agency, impacted in near-cash terms only whereas it was treated as full resource in the estimate.
- A further £0.5m can be attributed to reduced running costs and additional income achieved during the year.

The cash underspend of £13.8m is 21.4% less than forecast. Since Forestry Commission Great Britain/England's estimate became a separate RfR within the Defra Vote, it does not have a separate net cash requirement voted. Instead, Forestry Commission Great Britain/England obtains its cash funding from Defra via monthly draw down requests based on claiming a fixed amount each month to cater for fluctuating expenditure and income streams. This resulted in the draw down of more cash than was required and the Forestry Commission agreed with Defra it will be repaid by normal means in 2010-11. Forestry Commission Great Britain/England has introduced improved processes during 2010-11 for monthly forecasting of its net cash requirement.

Reconciliation of resource expenditure between Estimates, Accounts and Budgets

	<u>2009-10</u>	<u>2008-09</u>
	£000	£000
Net Resource Outturn (Estimates)	92,514	84,729
<i>Other adjustments</i>	(17,004)	(239)
Net Operating Cost (Accounts)	75,510	84,490
<i>Adjustments to additionally include:-</i>		
Other Consolidated Fund extra receipts	-	701
Resource Budget Outturn (Budget)	92,514	84,729
of which		
Departmental Expenditure Limits (DEL)	92,514	84,729

Market stability

Whilst overall demand for timber in the UK was significantly reduced as a result of the downturn in the economy, processors of home-grown timber found themselves in a strong position and were able to increase their share of the diminished overall market. The reduced value of Sterling against the Euro was the key factor, both in rendering imported timber more expensive, and in encouraging exporting countries to divert products to other more financially attractive markets.

Round timber values stabilised in the early part of the year and remained at this level through to the final quarter when increased competition for supplies saw them begin to increase. The special measures put in place by the Forestry Commission to provide additional support to the timber harvesting and processing sector through the difficulties of late 2008 and early 2009 proved successful and were able to be wound down following a meeting with Trade Associations in July.

The woodland sale market has been very strong in recent years, to some extent riding on the back of agricultural land prices. This is particularly so in the South of England where there is very strong demand for "hobby woodlands" and environmental ownership. Woodland sale values across the country have remained steady through a fluctuating timber market, and remained a solid choice of investment in the turbulent financial market. Price gains have comfortably exceeded inflation.

Other Disclosures

Supplier Payment Policy

Forestry Commission Great Britain/England complies with the Government's Better Payment Practice Code. Unless otherwise stated in the contract, we aim to pay within 30 days from the receipt of goods and services or the presentation of a valid invoice, whichever is the later. A sample analysis for 2009-10 indicates that 99.4% of invoices paid by Forestry Commission Great Britain, 99.0% of invoices paid by Forestry Commission England and 100.0% 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.

In October 2008, the Prime Minister committed Government organisations to improving the cash flow position of its suppliers by settling their accounts within 10 days wherever possible. Forestry Commission Great Britain/England recognised its role in supporting local, rural economies and has a proven record of meeting its contractual payment terms. It also works closely with its local suppliers to ensure prompt payment of debt. Management recognised that the general economic climate could potentially have a detrimental effect on small and medium enterprises and considered whether further action could be taken to improve cash flows.

Forestry Commission Great Britain/England concluded that no special systems solutions would be required as local offices have a very close working relationship with their suppliers. For the most part, local suppliers have ongoing dialogues with their Forestry Commission contract managers about business issues including cash flows. Through these, small/medium suppliers who faced hardship would discuss the matter with contract managers and agreed solutions developed. Whilst the above would not apply directly to large companies, Forestry Commission Great Britain/England believed that special measures would not be required because of existing levels of prompt payment.

Pensions

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

Personal data related incidents

There were no protected personal data related incidents reported for Forestry Commission Great Britain/England in 2009-10 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 Statement on Internal Control.

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 £77,000 (2008-09: £85,000). No fees were charged for other services (2008-09: £10,000 relating to preparation for IFRS).

Disclosure of audit information to the auditors

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

T J D Rollinson
Additional Accounting Officer
15 July 2010

REMUNERATION REPORT

Remuneration Policy

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

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

- Guidelines circulated by the Cabinet Office implementing Government decisions on the recommendations of the Senior Salaries Review Body (SSRB). The SSRB is responsible for monitoring the operation of the Senior Civil Service pay system and for making recommendations to the Government on the shape of the system, including the salary values for the minimum and maximum of each of the senior pay bands, the range of percentage increases to base salary and range of bonuses. Further information on the work of the SSRB can be found at www.ome.uk.com.
- Reporting Officers' recommendations on the relative performance of each of their senior staff, whether a bonus should be paid, and if so, whether low or high. The Senior Pay Committee consider the recommendations, 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 Monitoring 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. No bonuses were paid for 2009-10.

Employment contracts

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

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

	Date of current contract/letter	Unexpired term (months*)
Rt Hon Lord Clark of Windermere	10/06/2009	-
Pamela Warhurst CBE	01/01/2010	33
Dr Calum MacDonald	01/04/2009	n/a (resigned)
Hamish Macleod	01/04/2009	24
Dr Olutayo Adebawale	01/04/2009	24
Jon Owen Jones	18/01/2010	33
Judith Webb	18/01/2010	45
Sir Harry Studholme	18/01/2010	10
Robin Mortimer	07/10/2008	n/a**

*months remaining from 31 March 2010

**Robin Mortimer, Director Defra, a member of the National Committee for England during 2009-10, is employed by Defra and does not receive any additional remuneration from Forestry Commission England.

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:

	2009-10		2008-09	
	Salary	Benefits in kind	Salary	Benefits in kind
	£000	To the nearest £100	£000	To the nearest £100
Tim Rollinson	135-140	-	140-145	-
Paul Hill-Tout	90-95	-	90-95	-
Jean Lindsay	75-80	-	65-70	-
Sarah England	55-60	2,000	55-60	2,000
Laura Jones	65-70	1,500	5-10 ²	1,600
Keith Gliddon	80-85	-	85-90	-
Wilma Harper	70-75	-	70-75	-
Mark Pritchard	50-55	1,600	50-55	1,600
David Felstead	75-80	-	65-70 ³	-
Michael Ansell	75-80	-	70-75	-
Charlotte Cane	10-15 ⁴	-	55-60	-
Steve Meeks	40-45 ⁵	-	n/a	n/a
Steve Meeks	10-15 ⁶	-	n/a	n/a
Andrew Smith	60-65	-	n/a	n/a
Richard Britton	60-65	2,300	60-65	2,200

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 2009-10 as he is Director, Forestry Commission Scotland.

² Figure quoted is for the period 9 February 2009 to 31 March 2009. The full year equivalent is 50-55.

³ Figure quoted is for the period 14 April 2008 to 31 March 2009. The full year equivalent is 65-70.

⁴ Figure quoted is for the period 1 April 2009 to 19 June 2009. The full year equivalent is 55-60.

⁵ Figure quoted is for the period 1 May 2009 to 2 February 2010 whilst Acting Finance Director, FC England. The full year equivalent is 55-60.

⁶ Figure quoted is for the period 3 February 2010 to 31 March 2010 whilst Finance Director, FC England. The full year equivalent is 60-65.

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 2009-10.

The salary and pension entitlements of Simon Hodgson, Chief Executive Forest Enterprise England, a member of the National Committee for England during the year are borne and disclosed in the Forest Enterprise England Annual Report and Accounts 2009-10.

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 2009-10.

Salary

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

Benefits in kind

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

Pension benefits (information subject to audit)

	Accrued pension at pension age at 31 March 2010 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2010	CETV at 31 March 2009*	Real increase in CETV	Employer contribution to partnership pension account
	£000	£000	£000	£000	£000	Nearest £100
Tim Rollinson	50-55 plus LS of 160-165	2.5-5 plus LS of 10-12.5	1,185	1,046	72	-
Paul Hill-Tout	30-35 plus LS of 95-100	0-2.5 plus LS of 5-7.5	637	565	35	-
Jean Lindsay	20-25 plus LS of 65-70	0-2.5 plus LS of 2.5-5	399	348	28	-
Sarah England	15-20 plus LS of 50-55	0-2.5 plus LS of 2.5-5	237	209	14	-
Laura Jones	10-15 plus LS of 40-45	2.5-5 plus LS of 10-12.5	197	135	53	-
Keith Gliddon	35-40 plus LS of 105-110	0-2.5 plus LS of 5-7.5	851	768	42	-
Wilma Harper	30-35 plus LS of 0-5	2.5-5 plus LS of 0-2.5	557	483	42	-
Mark Pritchard	20-25 plus LS of 60-65	0-2.5 plus LS of 2.5-5	416	373	22	-
David Felstead	0-5 plus LS of 0-5	0-2.5 plus LS of 0-2.5	37	17	17	-
Michael Ansell	0-5 plus LS of 0-5	0-2.5 plus LS of 0-2.5	59	38	16	-
Charlotte Cane	15-20 plus LS of 45-50	0-2.5 plus LS of 0-2.5	277	256	7	-
Steve Meeks	20-25 plus LS of 65-70	2.5-5 plus LS of 12.5-15	399	306	72	-
Andrew Smith	10-15 plus LS of 35-40	2.5-5 plus LS of 7.5-10	183	137	36	-
Richard Britton	20-25 plus LS of 40-45	0-2.5 plus LS of 2.5-5	369	312	35	-

*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 changes in the Retail Prices Index (RPI). 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. The **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 RPI. 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 www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values

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

The 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 2010.

	£000
Rt Hon Lord Clark of Windermere	35
Pamela Warhurst CBE	7
Sir Harry Studholme	11
Dr Olutayo Adebawale	20
Hamish Macleod	11
Dr Calum MacDonald	<1
Jon Owen Jones	14
Judith Webb	11
Keith Oates	5
William Weston	5

T J D Rollinson
Additional Accounting Officer
15 July 2010

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

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.

With effect from 1 April 2008, Parliament has approved Defra's revised resource Estimate structure which now incorporates the Forestry Commission's estimate as a separate Request for Resource (RfR). HM Treasury remains responsible for appointing the permanent head of the Forestry Commission, the Director General, as the Accounting Officer for the Forestry Commission. A Memorandum of Agreement exists between the Accounting Officers for the Forestry Commission and Defra.

Director, Forestry Commission England has been designated an additional Accounting Officer for that part of the department's accounts covering England-wide activities. In turn, he has designated the Chief Executive, Forest Enterprise England as an additional 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 has designated the Chief Executive, Forest Research Agency as an additional 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 General'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 Accounting Officer is required to comply with the requirements of the Government *Financial Reporting Manual* and in particular to:

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

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.

STATEMENT ON INTERNAL CONTROL

1. Scope of responsibility

Forestry Commission

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

The Forestry Commission is a Great Britain cross-border department responsible for forestry matters which has a Board of Commissioners with duties and powers prescribed by statute. Forestry is a devolved matter. The Secretary of State for Environment, Food and Rural Affairs has responsibility for forestry in England as well as certain activities such as international affairs, plant health and forest research that remain reserved and funded by Westminster.

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

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

My appointment as Accounting Officer for the Forestry Commission, by the Treasury, is in accordance with Section 5, subsection 6 of the Government Resources and Accounts Act (GRAA) 2000. My appointment under the GRAA carries with it the responsibility for ensuring that resources authorised by Parliament and sums to be paid out of the Consolidated Fund, in respect of the Forestry Commission, are used for the purposes intended by Parliament.

Forestry Commission England

The National Committee in England is chaired by a non-executive Forestry Commissioner and its members include four non-executives, including two further Commissioners, Director Forestry Commission England, Chief Executive Forest Enterprise England and a member from the Department for Environment, Food and Rural Affairs.

Director Forestry Commission England is the executive Forestry Commissioner responsible to the Forestry Minister and to me for the work of the Forestry Commission in England. The exact responsibilities between us are set out in a separate Letter of Understanding. The Chief Executive of the Forest Enterprise England Agency is responsible, normally through Director, Forestry Commission England, to the National Committee for England for the management of the Agency. The Chief Executive has a right of direct access to the Commissioners, and to the relevant Minister, and a right to meet them at least once a year.

Forest Research Agency

The Chief Executive of the Forest Research Agency, funded from the Westminster vote, is responsible, normally through the Director General, to the Forestry Commissioners for the management of the Agency. The Chief Executive is a member of the Forestry Commission's Executive Board. The Chief Executive has a right of direct access to the Commissioners, and to the relevant Minister, and a right to meet them at least once a year.

Public Accounts Committee

As part of their responsibilities, one or more of the Accounting Officers are liable to be invited to appear before the Committee of Public Accounts (PAC). It will be for Ministers to decide who should represent them at other Parliamentary Committee hearings.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Forestry Commission Great Britain/England's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Forestry Commission Great Britain/England for the year ended 31 March 2010 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3. Capacity to handle risk

The Forestry Commission's risk management policy statement sets out why risk management is important; the procedures in place to enable the Forestry Commission to manage risk; and the roles and responsibilities individuals have to ensure risks are managed effectively. The policy was updated in March 2009 and is available to all staff via the intranet.

Risk is embedded in policymaking, planning and delivery across Forestry Commission Great Britain/England. Each discrete area of the business is responsible for ensuring the proper management of risks within their own area.

4. The risk and control framework

The system of internal control incorporates risk management. It encompasses a number of elements that together facilitate an effective and efficient operation, including regular reporting to the Board of Commissioners, National Committee, Executive Boards and Agency Management Boards.

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. Through its work the ARC provides independent assurance to the National Committee on those key activities within the direct control of England which support the achievement of England objectives.

Assurance is also provided on the Great Britain element of Forestry Commission work through the review of the annual accounts and the findings from work carried out by Internal and External Audit.

The ARC operates in accordance with the principles contained in the Treasury's Audit Committee Handbook.

The ARC advises the National Committee and Accounting Officers on:

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

The Committee met three times in July and November 2009 and March 2010. In all cases they considered a range of reports from management, and from internal and external audit.

The Forest Research Agency has its own Audit and Risk Committee as detailed in the Statement on Internal Control forming part of the Agency's annual report and accounts which is published separately.

At the Great Britain Risk Management Group (RMG) meeting in August 2009, country and Forest Research representatives confirmed that they had taken the Great Britain Risk Policy and were tailoring it to meet the needs of each country, and it was agreed that this was the best approach. Members agreed that risk management was firmly embedded now in each country and that the Great Britain RMG had served its purpose.

The ownership of risk policy and associated management now sits more formally with countries, although there will be a continuing need to share best practice and developments in risk management across Great Britain. This will be taken forward through the regular finance meetings organised by Director Finance Great Britain.

In the year to 31 March 2010, Forestry Commission England has further embedded risk register reviews into its business and governance structures and had completed all of its Business Continuity Plans (BCPs). These plans will be tested during 2010-11.

By the end of the year, the central shared services had all reviewed their risk registers at service board meetings. The Great Britain core area had also reviewed their risk register. A composite list of key risks for both the Great Britain and central shared services was agreed for consideration at the meeting of the Audit and Risk Committee chairs and the Director General in June 2010. The ARC Chairs accepted a proposal from the Board of Commissioners that the Great Britain risk register be reviewed by the ARC Chairs at their twice yearly meetings and that an annual report would be submitted to the Board of Commissioners each June. This will take effect in 2011.

The HR central shared service has a BCP in place and has tested some elements of the plan during 2009-10. Framework BCPs exist for the Finance and Accounting Services, Information Services, Inventory Forecasting and Operational support and other shared service functions but more work is needed to turn them into plans that can be properly tested. An independent business continuity management specialist is now preparing a business impact analysis report to highlight the Forestry Commission's critical business activities across the central shared services, the recovery periods within which they should be returned to operation following a disruption and the minimum resource requirements needed to support these activities. Phase 2 of the project will lead to development of a full set of business continuity plans, an appropriate test schedule and a suitable maintenance procedure.

5. Protecting Information in Government (Information Assurance)

The Data Handling Review (DHR) published in June 2008 identified the areas where government needed to improve its data handling capability and put in place a firm set of rules for departments to follow. In determining the Forestry Commission approach to information assurance, we have taken the view that our information systems hold a relatively small number of records and that the volume of information requiring a protective marking is relatively low.

Director Finance Great Britain acts as the Senior Information Risk Owner (SIRO) on behalf of the Forestry Commission Executive Board. He chairs the Information Security Management Forum (ISMF) which co-ordinates and controls the implementation of information security across the Forestry Commission. The ISMF met on 10 occasions during 2009-10. The work of the ISMF is supported on a day to day basis by the Departmental Security Officer and the IT Security Officer.

We have strengthened governance arrangements by the appointment of SIROs in each country and in the Forest Research Agency. In future, all SIROs will attend the ISMF and provide an important link between the ISMF, the country and agency boards and their respective Audit & Risk Committees.

The ISMF has used the SIRO aide memoir, produced by the Cabinet Office, to identify and monitor the key actions needed to implement the 21 mandatory measures as defined by the DHR. Regular progress reports are provided to management and the Audit & Risk Committees during the year and the SIRO's Annual Report summarises progress over the year. The report for 2009-10 contains an annex which compares our progress with the 33 Minimum Mandatory Measures (MMMs) in the "*Protecting Information in Government*" report published by the Cabinet Office in January 2010.

One of the key mandatory actions required is information risk awareness training for those staff handling personal information. In line with most other departments, the Forestry Commission chose to utilise the on-line training module developed by the National School for Government. By the end of April 2010, some 1,866 staff in England, Forest Research, Forestry Business Units, Corporate and Forestry Support and central shared services had successfully completed the training. This leaves a small number of staff, to complete the exercise. The ISMF is now working on plans for further, more advanced, training for those staff with specific information handling responsibilities.

In order to sustain and develop the progress made by the DHR, Cabinet Office has introduced the Information Assurance maturity Model (IAMM) as a way of helping organisations understand their strengths and weaknesses in information handling, and to set out the path to improvement over the longer term. The Forestry Commission undertook a self-assessment against the IAMM which confirmed the long suspected areas of risk to be addressed were:

- improvements to business continuity and disaster recovery systems within central shared services;
- improvements to systems access controls;
- further documentation of processes and procedures leading to less dependency on key staff.

Although this is of concern, in recent times we have suffered only one major systems failure. While our Information Services (IS) took immediate action to prevent a re-occurrence, further work is still required to address key areas of vulnerability. IS has now developed a longer term strategy to re-establish quality information services and technology. By the end of the financial year, we had made funds available to IS to start a significant investment programme in the ICT infrastructure to reduce the business risk from system failure. The work is described in the IS Infrastructure Proposal document, which overall has a 2-3 year incremental delivery timescale, subject to sufficient resources being available. New equipment recently purchased will allow IS to improve some of the more critical back-up and recovery arrangements as quickly as possible.

Further work is still required to establish an overall project plan encompassing all three of the key risk areas. This will be taken forward under the lead of Director Finance Great Britain in his role as SIRO and as a member of the ICT Service Board.

6. Review of effectiveness

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

The main risk for Forestry Commission Great Britain/England is managing the consequences of current and expected reductions in public expenditure.

The Forestry Commission has strived to meet the Treasury Trigger Points for 2009-10 to meet the timetable for the introduction of International Financial Reporting Standards (IFRS). For Trigger Point 3, Forestry Commission Great Britain/England was required to prepare a complete set of IFRS shadow accounts by 10 September 2009. Trigger Point 4 required the NAO to complete its audit of the IFRS shadow accounts for 2008-09 and report its opinion by 31 December 2009. Forest Enterprise England received a qualified opinion due to a limitation of scope arising from insufficient evidence to support the application of IAS 41: Agriculture. The significant issue relates to the estimation technique for determining costs to the point of sale in respect of biological assets. Further evidence supporting the cost of sales, together with additional evidence on other issues, was subsequently provided to NAO and accepted.

The Head of Internal Audit has prepared a suite of annual reports and assurance statements to Forestry Commission Directors and Agency Chief Executives in their capacities as Additional and Agency Accounting Officers. The reports include an overall assessment of the adequacy and effectiveness of risk management,

control and governance within each entity. As the Accounting Officer, I have received a similar report and assurance statement including any comments specific to the Great Britain core responsibilities.

The overall opinion is that internal control within Forestry Commission Great Britain/England continues to provide substantial assurance that material risks to the achievement of objectives are adequately managed. However, the Head of Internal Audit has highlighted that insufficient progress on some key business continuity planning and information assurance work has led to a limited opinion in respect of these items. Our action for dealing with this is covered under the paragraphs above headed Protecting Information in Government.

7. Significant internal control problems

There were no significant problems to report.

T J D Rollinson
Additional Accounting Officer
15 July 2010

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

I certify that I have audited the financial statements of Forestry Commission Great Britain / England for the year ended 31 March 2010 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement, the Statement of Financial Position, the Consolidated Statement of Cash Flows, the Statement of 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 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 the financial statements in accordance with applicable law and 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 Forestry Commission Great Britain/England's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Forestry Great Britain/England; and the overall presentation of the financial statements.

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

OPINION ON REGULARITY

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

OPINION ON FINANCIAL STATEMENTS

In my opinion:

- the financial statements give a true and fair view of the state of Forestry Commission Great Britain/England affairs as at 31 March 2010 and of its net operating cost, changes in taxpayers' equity and cash flows 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 issued under the Government Resources and Accounts Act 2000; and
- the information given in the Management Commentary and Financial Commentary and the unaudited part of the Remuneration Report 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
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control 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

16 July 2010

National Audit Office
157-197 Buckingham Palace Road
Victoria
London

OPERATING COST STATEMENT

for the year ended 31 March 2010

	Note	2009-10					2008-09 RESTATED		
		Core			Consolidated			Core	Consolidated
		Staff Costs	Other Costs	Income	Staff Costs	Other Costs	Income	£000	£000
		£000	£000	£000	£000	£000	£000	£000	
Administration costs:									
Staff costs	8	20,408			30,047		19,155	29,006	
Other administration costs:									
- excluding exceptional restructuring costs	9		18,149			21,262	17,580	20,803	
- exceptional restructuring costs	9		-			-	1,273	2,493	
Total other administration costs			18,149			21,262	18,853	23,296	
Operating income	10			(17,742)		(17,742)	(17,045)	(17,045)	
Programme costs:									
England-wide activities:									
Programme costs	11		52,122			52,122	55,631	55,631	
Other income	12			(7,530)		(7,530)	(2,943)	(2,943)	
GB-wide activities:									
Programme costs	11		500			2,404	692	2,758	
EU receipts	12			-		(420)	-	(450)	
Other income	12			(229)		(4,633)	(266)	(4,310)	
Totals		20,408	70,771	(25,501)	30,047	75,788	(30,325)	74,077	85,943
Net Operating Cost				65,678		75,510	74,077	85,943	

All income and expenditure are derived from continuing operations.

The notes on pages 53 to 90 form part of these accounts.

STATEMENT OF FINANCIAL POSITION

As at 31 March 2010

	Note	31 March 2010		1 April 2009		1 April 2008	
		Core	Consolidated	Core	Consolidated	Core	Consolidated
		£000	£000	£000	£000	£000	£000
Non-current assets							
Property, plant and equipment	14	2,607	16,106	1,647	13,815	2,117	16,269
Intangible assets	15	6,641	6,762	6,805	6,947	6,411	6,570
Financial assets	16	-	25	-	-	-	-
Trade and other receivables	18	99	150	96	154	58	102
Total non-current assets		9,347	23,043	8,548	20,916	8,586	22,941
Current assets							
Inventories	17	157	160	159	163	170	173
Trade and other receivables	18	6,626	7,531	4,355	5,654	4,548	6,420
Cash and cash equivalents	19	13,796	13,818	6,084	6,538	4,968	5,243
Total current assets		20,579	21,509	10,598	12,355	9,686	11,836
Total assets		29,926	44,552	19,146	33,271	18,272	34,777
Current liabilities							
Provisions	21	(549)	(713)	(473)	(1,192)	(323)	(355)
Trade and other payables	20	(24,671)	(26,382)	(14,764)	(16,455)	(13,455)	(15,265)
Total current liabilities		(25,220)	(27,095)	(15,237)	(17,647)	(13,778)	(15,620)
Non-current assets less net current liabilities		4,706	17,457	3,909	15,624	4,494	19,157
Non-current liabilities							
Provisions	21	(823)	(1,254)	(1,534)	(2,113)	(614)	(685)
Trade and other payables	20	(1,302)	(1,302)	(990)	(990)	(658)	(658)
Total non-current liabilities		(2,125)	(2,556)	(2,524)	(3,103)	(1,272)	(1,343)
Assets less liabilities		2,581	14,901	1,385	12,521	3,222	17,814
Taxpayers' equity							
General fund	22	1,951	5,865	994	5,389	2,511	8,972
Revaluation reserve	22	626	8,903	386	7,127	711	8,842
Donated asset reserve	22	4	4	5	5	-	-
Government grant reserve	22	-	129	-	-	-	-
Total taxpayers' equity		2,581	14,901	1,385	12,521	3,222	17,814

T J D Rollinson
 Additional Accounting Officer
 15 July 2010

The notes on pages 53 to 90 form part of these accounts.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 March 2010

	2009-10	2008-09
		RESTATED
Note	£000	£000
Cash flows from operating activities		
Net operating cost	(75,510)	(85,943)
Adjustments for non-cash transactions	9 3,871	6,208
Transfer of costs	21 (686)	-
Adjustments for CFER	701	(701)
Forest Enterprise England non-cash adjustments	11 25,823	28,231
Timing between accrual and cash VAT	22 (826)	(60)
Non-cash inter-country transfers	22 (485)	(454)
Decrease in inventories	17 3	10
(Increase) / decrease in trade and other receivables	18 (1,873)	714
Movements in trade and other receivables relating to items not passing through the Operating Cost Statement	16 (25)	-
Increase in trade and other payables	20 10,239	1,522
Movements in trade and other payables relating to items not passing through operating cost statement	(7,977)	(1,297)
Use of provisions	21 (1,279)	(385)
Net cash outflow from operating activities	(48,024)	(52,155)
Cash flows from investing activities		
Purchase of property, plant and equipment	14 (1,503)	(431)
Purchase of intangible assets	15 (1,440)	(2,248)
Net cash outflow from investing activities	(2,943)	(2,679)
Cash flows from financing activities		
From the Defra vote (RfR2)	4 64,656	60,666
Donations towards capital expenditure	22 -	5
Government grants towards capital expenditure	22 129	-
Net financing	64,785	60,671
Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund	13,818	5,837
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities	-	701
Payments of amounts due to the Consolidated Fund	(701)	(5,243)
Payments of amounts due to Defra	(5,837)	-
Net increase in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund	7,280	1,295
Cash and cash equivalents at the beginning of the period	6,538	5,243
Cash and cash equivalents at the end of the period	13,818	6,538

The notes on pages 53 to 90 form part of these accounts.

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

for the year ended 31 March 2010

Note	Core				Consolidated				
	General Fund	Revaluation Reserve	Donated Asset Reserve	Total	General Fund	Revaluation Reserve	Donated Asset Reserve	Government Grant Reserve	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2009	994	386	5	1,385	5,389	7,127	5	-	12,521
Changes in accounting policy	-	-	-	-	-	-	-	-	-
Restated balance at 1 April 2009	994	386	5	1,385	5,389	7,127	5	-	12,521
Changes in taxpayers' equity for 2009-10:									
- Net operating cost for the year	(65,678)	-	-	(65,678)	(75,510)	-	-	-	(75,510)
- Internal charges adjustment	22a (9,441)	-	-	(9,441)	-	-	-	-	-
- Net gain/(loss) on revaluation of property, plant and equipment	-	239	-	239	-	1,757	-	-	1,757
- Net gain/(loss) on revaluation of intangible assets	-	-	-	-	-	18	-	-	18
- Receipt of government grants	22d -	-	-	-	-	-	-	129	129
- Release of reserves to the operating cost statement	-	2	(1)	1	-	2	(1)	-	1
- Non-cash charges - cost of capital	9 66	-	-	66	477	-	-	-	477
- Non-cash charges - auditor's remuneration	9 77	-	-	77	77	-	-	-	77
- Non-cash charges - timing between accrual and cash VAT	22a (823)	-	-	(823)	(826)	-	-	-	(826)
- Non-cash charges - inter-country transfers	22a (421)	-	-	(421)	(485)	-	-	-	(485)
- Transfer of property, plant and equipment from/to other forestry bodies	22a 72	-	-	72	81	-	-	-	81
- Transfer from revaluation reserve	22b 1	(1)	-	-	1	(1)	-	-	-
- Forest Enterprise England non-cash adjustments	22a 25,823	-	-	25,823	25,823	-	-	-	25,823
Total recognised income and expense for 2009-10	(50,324)	240	(1)	(50,085)	(50,362)	1,776	(1)	129	(48,458)
- Funding received from Defra vote	22a 65,099	-	-	65,099	64,656	-	-	-	64,656
- Amounts issued from Defra vote but not spent at year end	20 (13,818)	-	-	(13,818)	(13,818)	-	-	-	(13,818)
Balance at 31 March 2010	1,951	626	4	2,581	5,865	8,903	4	129	14,901

	Note	Core RESTATED				Consolidated RESTATED			
		General Fund	Revaluation Reserve	Donated Asset Reserve	Total	General Fund	Revaluation Reserve	Donated Asset Reserve	Total
		£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2008		2,745	711	-	3,456	9,206	8,842	-	18,048
Prior period error under IAS 8		-	-	-	-	-	(83)	-	(83)
Changes in accounting policy		(234)	-	-	(234)	(234)	-	-	(234)
Restated balance at 1 April 2008		2,511	711	-	3,222	8,972	8,759	-	17,731
Changes in taxpayers' equity for 2008-09:									
- Net operating cost for the year		(74,077)	-	-	(74,077)	(85,943)	-	-	(85,943)
- Prior period error under IAS 8						(23)			(23)
- Internal charges adjustment	22a	(10,039)	-	-	(10,039)	-	-	-	-
- Net gain/(loss) on revaluation of property, plant and equipment		-	(325)	-	(325)	-	(1,602)	-	(1,602)
- Net gain/(loss) on revaluation of intangible assets		-	-	-	-	-	(2)	-	(2)
- Receipt of donated assets	22c	-	-	5	5	-	-	5	5
- Non-cash charges - cost of capital	9	94	-	-	94	547	-	-	547
- Non-cash charges - auditor's remuneration	9	85	-	-	85	85	-	-	85
- Non-cash charges - timing between accrual and cash VAT	22a	(56)	-	-	(56)	(60)	-	-	(60)
- Non-cash charges - inter-country transfers	22a	(449)	-	-	(449)	(454)	-	-	(454)
- Transfer of property, plant and equipment from/to other forestry bodies	22a	(102)	-	-	(102)	(122)	-	-	(122)
- Transfer from revaluation reserve	22b	-	-	-	-	28	(28)	-	-
- Forest Enterprise England non-cash adjustments	22a	28,231	-	-	28,231	28,231	-	-	28,231
Total recognised income and expense for 2008-09		(56,313)	(325)	5	(56,633)	(57,711)	(1,632)	5	(59,338)
- Funding received from Defra vote	22a	61,334	-	-	61,334	60,666	-	-	60,666
- Amounts issued from Defra vote but not spent at year end	20	(5,837)	-	-	(5,837)	(5,837)	-	-	(5,837)
- CFERs repayable to the Consolidated fund	19	(701)	-	-	(701)	(701)	-	-	(701)
Balance at 31 March 2009		994	386	5	1,385	5,389	7,127	5	12,521

The notes on pages 53 to 90 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 2009-10 *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, and derivative financial assets and derivative financial liabilities at fair value through profit or loss.

1.2 Administrative and programme expenditure

The Operating Cost Statement is analysed between administration and programme income and expenditure. Administration costs reflect the costs of running Forestry Commission Great Britain/England, together with associated operating income. Programme costs include costs relating to the payment of national grants to private sector landowners. 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 Capital charges

Charges, reflecting the cost of capital utilised by Forestry Commission Great Britain/England have been included under programme costs in the operating cost statement. The charge is calculated at the real rate set by HM Treasury (3.5%) on the average carrying amount of all assets less liabilities, except for cash balances held by the Office of the Paymaster General.

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. 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

As at 31 March 2007 and 2008, Forestry Commission Great Britain/England recognised a liability and an expense for performance-related pay. Non-consolidated, non-pensionable bonuses were paid to staff whose work performance was assessed as being a "Top Performer" in accordance with the Commission's performance management system. The bonus amount was at a standard amount depending on the employee's grade and is pro rated for part-time staff. The bonus system ceased with effect from the staff reporting year ending on 31 March 2009.

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 Monitoring

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.

1.5 Contingent liabilities

Contingent liabilities are disclosed in accordance with IAS 37. In addition, 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 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. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament.

1.6 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 were revalued annually as at 31 March. With the agreement of HM Treasury, from 1 April 2008 onward, revaluations shall take place on 1 April.

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 Forestry Commission Great Britain/England undertake a full revaluation of dwellings and other buildings at five yearly intervals coinciding with that for the Forest Estate and Other Land (1 April). 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 1 April 2008 and Bidwells, Chartered Surveyors, reviewed this.

The value of Dwellings are restated between professional valuations using indices provided by the District Valuer. Until 1 April 2009, the value of Other Buildings was restated between professional valuations using indices for Warehouses and Offices provided by the District Valuer. Production of the Warehouses and Offices indices ceased in 2009. From 1 April 2010, the values of Other Buildings are restated by professionally qualified staff employed by Forestry Commission Great Britain/England. Restatement is based on sample professional valuations and further details are in Note 2.

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 operating cost statement 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.

Plant and machinery

Vehicles, machinery and equipment 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 in taxpayers' equity. 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 operating cost statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the operating cost statement and depreciation based on the asset's original cost is transferred from 'revaluation reserve' to 'general fund'.

1.7 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:

Land held under a finance lease	- unexpired term of the lease
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 operating cost statement. 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

Grants from the government are recognised at their fair value when there is reasonable assurance that the grant will be received and Forestry Commission Great Britain/England will comply with all attached conditions.

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

1.10 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 financial asset policy below).

1.11 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.

1.12 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.

1.13 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 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 operating cost statement 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.

1.14 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 finance statements for grant offers made but not yet approved for payment, although they are quantified in note 28.

1.15 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 fulfil 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.

1.16 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 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 operating cost statement.

1.17 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 operating cost statement is net of VAT.

The Forestry Commission accounts for VAT on a Great Britain basis with any VAT due to or from HM Revenue and Customs at the year end included in the Forestry Commission Great Britain/England accounts as a debtor or creditor in the Statement of Financial Position. Irrecoverable VAT is charged to the operating cost statement 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 Forestry Commission Executive 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 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 operating cost statement.

1.20 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.

Computer software

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 of five to seven years.

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 software product include the software development employee costs and an appropriate portion of relevant overheads. 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 recognised as assets are subsequently revalued to depreciated replacement cost and amortised over their estimated useful lives of five to seven years.

1.21 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.

1.22 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 income statement.

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 operating cost statement.

(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 operating cost statement. 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 operating cost statement.

(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 operating cost statement. Dividends on available-for-sale equity instruments are recognised in

the operating cost statement 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 operating cost statement. Impairment losses recognised in the operating cost statement on equity instruments are not reversed through the income statement.

1.23 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, cash balances held by the Office of the Paymaster General 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.

1.24 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 income statement.

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 operating cost statement.

(b) Other financial liabilities

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

1.25 Prior period error

A lease between Forest Research (lessee) and Edinburgh University (lessor) has been capitalised incorrectly from 1997. The property being leased by Forest Research has been treated as a fully owned asset and requires removal from Property, plant and equipment. Due to a lack of historic information in the financial records the adjustment in these accounts has been calculated and based on best available and estimated figures. The value of the adjustment has been agreed at a total capital value of £116,946 with an assumed original capital cost of £45,000

This adjustment became material after a revaluation in 2008-09 and is therefore included in the accounts for this period only. The financial statements have been adjusted as follows –

Property, plant and equipment

Full cost of asset £116,946 and cumulative depreciation of £11,129 removed from Property, plant and equipment.

General fund

Full cost of asset £116,946 has been deducted from the general fund and the cumulative depreciation of £11,129 added back. Assumed revaluation since inception of £83,075 has also been added back to the general fund balance.

Revaluation reserve

Assumed revaluation since inception of £83,075 has been deducted from revaluation reserve.

1.26 Restatement of prior year figures

From 1 April 2009, the Forest Enterprise England has adopted a new accounting policy for Forest Estate new planting. Previously this was capitalised as part of the Forest Estate but from 1 April 2009, HM Treasury permission was received to recognise this expenditure in the Income and Expenditure Statement.

Forest Enterprise England's net deficit is consolidated into the Forestry Commission Great Britain/England Operating Cost Statement. 2007-08 and 2008-09 balances have been restated in accordance with IAS 8.

A reconciliation of restated balances is provided in Note 35.

1.27 Effective in these Financial Statements

All International Financial Reporting Standards, Interpretations and Amendments effective at 31 March 2010 have been adopted in these statements, taking account of the specific interpretations and adaptations included within the FReM.

1.28 Effective for future Financial Years

The following IFRSs, IFRIC Interpretations and Amendments, applicable to Forestry Commission Great Britain/England, have been issued but are not yet effective and have not been adopted early.

IAS 24 Related Party Transactions (effective 1 January 2011) – The amendment exempts full disclosure of transactions with state-controlled entities and is not expected to impact the FReM's current exemption. IAS 24 also extends the definition of a related party to include relationships where joint control exists.

IFRS 9 Financial Instruments (effective 1 January 2013) – IFRS 9 replaces IAS 39 and introduces new requirements for the classification and measurement of financial assets. Further proposals are to be introduced during 2010 and the Commission will undertake an assessment of the impact of IFRS 9 once these are known.

From 2010-11, the FReM includes other changes including removal of the Cost of Capital. This affects the charge to the Operating Cost Statement and the Statement of Changes in Taxpayer's Equity (where the sum is reversed). For 2009-10 the charge was £477k (Consolidated) and £66k (Core). The Net Deficit of Forest Enterprise England includes a charge of £26,184k.

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 intangible assets

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 FIRST TIME ADOPTION OF IFRS

	General Fund Consolidated	Revaluation Reserve Consolidated	Donated Asset Reserve Consolidated
	£000	£000	£000
Taxpayers' equity at 1 April 2008 under UK GAAP (restated)	10,730	8,842	-
Adjustments for:			
IAS 19 Pay in lieu of untaken leave accrual 2007-08	(1,565)	-	-
IAS 19 Performance related pay bonus accrual 2007-08	(193)	-	-
Taxpayers' equity at 1 April 2008 under IFRS	8,972	8,842	-
Taxpayers' equity at 31 March 2009 under UK GAAP	7,196	7,210	5
Adjustments for:			
Prior period error under IAS 8	(23)	(83)	-
1 April 2008 IFRS adjustments	(1,758)	-	-
IAS 19 Pay in lieu of untaken leave accrual increase	(170)	-	-
IAS 19 Performance related pay bonus accrual decrease	144	-	-
Taxpayers' equity at 1 April 2009 under IFRS	5,389	7,127	5
			Consolidated
			£000
Net operating cost for 2008-09 under UK GAAP			(84,490)
Adjustments for:			
IAS 19 Pay in lieu of untaken leave accrual 2007-08 reversal			1,565
IAS 19 Pay in lieu of untaken leave accrual 2008-09			(1,735)
IAS 19 Performance related pay bonus accrual 2007-08 reversal			193
IAS 19 Performance related pay bonus accrual 2008-09			(49)
Notional cost of capital decrease			53
Forest Enterprise England funding increase			(1,150)
Net operating cost for 2008-09 under IFRS			(85,613)

The net operating cost for 2008-09 under IFRS has subsequently been restated due to a change in accounting policy relating to new plantings. Note 30 provides a reconciliation of the restatement.

No cash equivalents were held by the Department at 1 April 2008 or 31 March 2009.

IFRS adjustments rationale:

IAS 19 Pay in lieu of untaken leave accrual 2007-08 and 2008-09 - in accordance with IAS 19 Employee Benefits, accruals have been made in respect of carried forward employee annual leave at 31 March 2008 and 31 March 2009.

IAS 19 Performance related pay bonus accrual 2007-08 and 2008-09 - in accordance with IAS 19 Employee Benefits, accruals have been made in respect of unpaid performance related pay bonuses for the performance year at 31 March 2008 and 31 March 2009.

Notional cost of capital decrease – the notional cost of capital has been recalculated based on IFRS net assets at 31 March 2009.

Forest Enterprise England funding decrease – the Forest Enterprise England funding balance has decreased due to the IFRS adjustments required within the Forest Enterprise England 2008-09 IFRS shadow accounts.

In line with HM Treasury advice, Prior Period Adjustments (PPAs) arising from the adoption of IFRS were not included in spring Supplementary Estimates for 2009-10 on the basis that the PPA numbers could have been misleading, particularly where transactions may well have pre-dated the 2001-02 cut off point for reporting PPAs, as only part of an obligation would have been included. PPAs arising from a change in accounting policy not related to IFRS were included in the Estimates in line with conventional arrangements.

NOTE 4 STATEMENT OF FUNDING

Summary of Outturn for the year ended 31 March 2010

Note	Estimate			Outturn			2009-10	2008-09	
	Gross expenditure	A-in-A	Net Total	Gross expenditure	A-in-A	Net Total	Net total outturn compared with Estimate: saving/ (excess)	**Outturn	
	£000	£000	£000	£000	£000	£000	£000	Net Total £000	
England-wide activities	5	72,578	-	72,578	56,177	-	56,177	16,401	63,755
Great Britain-wide activities	5	19,936	-	19,936	16,328	-	16,328	3,608	17,057
Total resources	5	92,514	-	92,514	72,505	-	72,505	20,009	80,812
Non-operating cost A in A		-	-	-	-	-	-	-	-

**This is the Outturn as reported on the UK GAAP basis as per the 2008-09 published accounts. The comparative cannot be restated as it must reflect the funding authorised. A reconciliation between the Outturn restated for IFRS and as reported on the UK GAAP basis is given in Note 3.

NOTE 6 RECONCILIATION OF NET OUTTURN TO NET OPERATING COST

	2009-10			2008-09
	Outturn	Request for Resources	Outturn Compared with RfR	**Outturn
	£000	£000	£000	£000
Net outturn	72,505	92,514	20,009	80,812
Forest Enterprise England depreciation	2,565	-	(2,565)	2,203
Forest Enterprise England net capital income / (expenditure)	440	-	(440)	1,475
Net operating cost	75,510	92,514	17,004	84,490

**This is the Outturn as reported on the UK GAAP basis as per the 2008-09 published accounts. The comparative cannot be restated as it must reflect the funding authorised. A reconciliation between the Outturn restated for IFRS and as reported on the UK GAAP basis is given in Note 3.

NOTE 7 RECONCILIATION OF RESOURCES TO NET CASH REQUIREMENT

	Note	2009-10		
		Request for Resources	Outturn	Net total outturn compared with RfR: Saving / (Excess)
		£000	£000	£000
Outturn	5	92,514	72,505	20,009
Capital:				
Acquisition of property, plant and equipment and intangible assets	14/15	2,000	2,943	(943)
Government grant towards capital expenditure		-	(129)	129
Accruals adjustments:				
Non-cash items		(4,765)	(3,886)	(879)
Changes in working capital other than cash		10,507	(55)	10,562
Changes in non-current payables		-	(312)	312
Use of provision	21	-	1,279	(1,279)
Timing between accrual and cash VAT		-	826	(826)
Non-cash inter-country transfers		-	485	(485)
Other adjustments:				
Adjustment of FE net deficit to financing		(35,600)	(22,818)	(12,782)
Net cash requirement		64,656	50,838	13,818

Explanations of the variances between request for resource and outturn are given in the Financial Commentary.

NOTE 8 STAFF NUMBERS AND RELATED COSTS

8 (a) Employee benefit expense

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:

	2009-10			2008-09
	Total	Permanently employed staff	Others	Total
				£000
Forestry Commission England				
Wages and salaries	6,600	6,600	-	6,151
Social security costs	498	498	-	469
Other pension costs	1,227	1,227	-	1,194
Agency staff	349	-	349	344
Inward secondments	119	119	-	64
Total net costs	8,793	8,444	349	8,222
Forestry Commission Great Britain				
Wages and salaries	1,819	1,819	-	1,857
Social security costs	150	150	-	156
Other pension costs	330	330	-	354
Sub-total	2,299	2,299	-	2,367
Less recoveries in respect of outward secondments	(10)	-	(10)	(117)
Total net costs	2,289	2,299	(10)	2,250
Forestry Commission Central Shared Services				
Wages and salaries	7,929	7,929	-	6,998
Social security costs	599	599	-	528
Other pension costs	1,428	1,428	-	1,327
Agency staff	75	-	75	153
Capitalised costs	(715)	(715)	-	(440)
Total net costs	9,316	9,241	75	8,566
Forestry Commission Great Britain/England Core department				
Total costs per Operating Cost Statement	20,408	19,984	424	19,155
Less recoveries in respect of outward secondments	(10)	(10)	-	(117)
Total net costs	20,398	19,974	424	19,038
Forest Research				
Wages and salaries	7,631	6,414	1,217	7,736
Social security costs	580	489	91	585
Other pension costs	1,407	1,245	162	1,495
Agency staff	21	-	21	35
Total net costs	9,639	8,148	1,491	9,851
Forestry Commission Great Britain/England Consolidated department				
Total costs per Operating Cost Statement	30,047	28,132	1,915	29,006
Less recoveries in respect of outward secondments	(10)	(10)	-	(117)
Total net costs	30,037	28,122	1,915	28,889

£715,000 (2008-09: £440,000) of the Forestry Commission Great Britain/England consolidated department total net costs has been charged to capital.

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-pensions.gov.uk).

For 2009-10, employers' contributions of £4,355,000 were payable to the PCSPS (2008-09: £4,314,000) 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. From 2010-11, the rates will be in the range 16.7% to 24.3%. The contribution rates are set to meet the cost of the benefits accruing during 2009-10 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 £19,100 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.

No individuals retired early on ill health grounds (2008-09: one); the total additional accrued pension liabilities in the year amounted to £nil (2008-09: £1,240).

8 (b) Average number of persons employed

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

	2009-10			2008-09
	Total	Permanently employed staff	Others	Total
				Number
England Objectives				
Quality of Life	63	62	1	60
Natural Environment	102	100	2	117
Business and Markets	53	52	1	44
England Total	218	214	4	221
Great Britain Objective				
To take the lead in development and promotion of sustainable forest management and to support its achievement nationally	564	505	59	543
Great Britain Total	564	505	59	543
Great Britain/England Consolidated Department Total	782	719	63	764

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

- (i) Advances of salary for house purchase;
- (ii) Advances of salary for purchase of public transport and car park season tickets;
- (iii) Advances of salary for purchase of sports/health club membership;
- (iv) Advances of salary for purchase of IT and sports/health equipment, including bicycles; and
- (v) Car provision for employee scheme.

Each scheme is subject to conditions and financial limits.

Forestry Commission Great Britain/England had house purchase loans totalling £170,000 outstanding at 31 March 2010 relating to 17 employees (2008-09: £174,000 relating to 18 employees). The core department had house purchase loans totalling £112,000 outstanding at 31 March 2010 relating to 14 employees (2008-09:

£111,000 relating to 14 employees). Such loans are unsecured, interest free and typically repayable over 10 years, with an optional 2 year deferral period.

NOTE 9 OTHER ADMINISTRATION COSTS

The Forestry Commission is exempt from the Administration Budget regime which most central government departments and their agencies are bound by. Administration costs in year can be analysed as follows:-

	Note	2009-10		2008-09	
		Core £000	Consolidated £000	Core £000	Consolidated £000
Staff transfers		471	501	632	691
Computer costs		3,090	3,163	2,172	2,258
Travel and subsistence		1,324	1,898	1,266	1,832
Accommodation		1,930	2,667	2,172	2,858
Communication		1,353	1,467	1,283	1,393
Training		457	536	570	655
Premature retirement costs		558	544	133	129
Losses and compensation		21	24	92	104
Legal		197	197	136	187
Other		3,158	3,384	2,905	3,150
		12,559	14,381	11,361	13,257
Rentals under operating leases:					
Hire of plant and machinery		82	82	208	208
Other operating leases		1,860	1,860	2,234	2,234
		1,942	1,942	2,442	2,442
Research and development expenditure		1,068	1,068	1,389	1,389
Non-cash items:					
Cost of capital		66	477	94	547
Auditors remuneration and expenses – audit work		77	77	85	85
Auditors remuneration and expenses – non-audit work		-	-	-	-
Depreciation of property, plant and equipment	14	446	1,171	342	1,000
Amortisation of intangible assets	15	1,583	1,643	1,703	1,762
Losses on disposal of property, plant and equipment		8	35	7	149
Losses on disposal of intangible assets		-	-	-	6
Impairment		-	-	9	9
Revaluation reserve write off		2	2	-	-
(Gain) on revaluation of OME		(161)	(161)	-	-
Provisions - excluding exceptional restructuring early departure costs:					
Provided in year	21	579	646	285	321
Provisions not required written back	21	-	-	(142)	(142)
Unwinding of discount	21	(20)	(19)	5	(22)
Provisions - exceptional restructuring early departure costs:					
Provided in year	21	-	-	1,273	2,539
Unwinding of discount	21	-	-	-	(46)
		2,580	3,871	3,661	6,208
Total		18,149	21,262	18,853	23,296

NOTE 10 OPERATING INCOME

	2009-10		2008-09	
	Core	Consolidated	Core	Consolidated
	£000	£000	£000	£000
Shared services				
Income from Scotland	7,354	7,354	7,204	7,204
Income from Wales	3,384	3,384	3,332	3,332
Income from Forest Enterprise England	5,325	5,325	4,456	4,456
	16,063	16,063	14,992	14,992
Income from operating leases	396	396	716	716
Other operating income	1,283	1,283	1,337	1,337
Total	17,742	17,742	17,045	17,045

On consolidation, the internal income received by central shared services from Forestry Commission Great Britain £4,323,000 (2008-09: £3,220,000), Forestry Commission England £2,836,000 (2008-09: £3,451,000) and Forest Research £762,000 (2008-09: £826,000) was removed from operating 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 income from operating leases are from buildings that are sub-leased and not owned by Forestry Commission Great Britain/England. Details are shown at note 27.

NOTE 11 PROGRAMME COSTS

	Core	2009-10 Consolidated	Core	2008-09 RESTATED Consolidated
	£000	£000	£000	£000
England-wide Activities				
Support for forestry and the rural economy, including grants paid to private woodland owners	4,851	4,851	5,809	5,809
Other programme costs	7,197	7,197	2,943	2,943
Sub-total	12,048	12,048	8,752	8,752
Forest Enterprise England funding	40,074	40,074	46,879	46,879
Total	52,122	52,122	55,631	55,631
GB-wide Activities				
Other programme costs, including research and publications	500	2,404	692	2,758
Total	500	2,404	692	2,758

Forestry Commission Great Britain/England programme costs include Forest Enterprise England's deficit of £40,074,000 (2008-09 restated: £46,879,000). After adjusting for non-cash transactions and capital of £25,823,000 (2008-09 restated: £28,231,000), Forest Enterprise received cash funding of £14,251,000 (2008-09: £18,648,000). To reconcile resource outturn to the net cash requirement in the Statement of Funding (note 4), the non-cash transactions are adjusted by Forest Enterprise England's net capital expenditure and depreciation to calculate the adjustment of Forest Enterprise England deficit to financing of £22,818,000 (2008-09 restated: £23,340,000).

	2009-10	2008-09 RESTATED
	£000	£000
Capital		
Net capital expenditure	(823)	333
Donations toward capital expenditure	406	400
Government grants toward capital expenditure	857	1,955
Accruals adjustments		
Cost of capital	26,184	21,841
Non-cash items	165	2,102
Changes in working capital, including cash	(733)	1,869
Changes in provision	(233)	(269)
Total non-cash adjustments	25,823	28,231
Adjust supply expenditure for Forest Enterprise net capital	823	(333)
Adjust supply expenditure for Forest Enterprise depreciation	(2,565)	(2,203)
Donations toward capital expenditure	(406)	(400)
Government grants toward capital expenditure	(857)	(1,955)
Adjustment of FE deficit to financing	22,818	23,340

NOTE 12 PROGRAMME INCOME

	Core	2009-10 Consolidated	Core	2008-09 Consolidated
	£000	£000	£000	£000
England-wide Activities				
Other income	7,530	7,530	2,943	2,943
Total	7,530	7,530	2,943	2,943
GB-wide Activities				
EU receipts	-	420	-	450
Other income	229	4,633	266	4,310
Total	229	5,053	266	4,760

NOTE 13 ANALYSIS OF NET OPERATING COST BY SPENDING BODY

	Request for Resource	2009-10 Outturn	2008-09 Outturn
	£000	£000	£000
Forestry Commission Great Britain/England	90,992	75,119	81,847
Forest Research Agency	1,522	391	1,827
Net Operating Cost	92,514	75,510	83,674

NOTE 14 PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Plant and Machinery	OME	Total
	£000	£000	£000	£000	£000
Valuation:					
At 1 April 2009	2,038	11,269	3,020	2,405	18,732
Additions	-	375	343	656	1,374
Donations	-	-	129	-	129
Disposals	-	-	(136)	(371)	(507)
Transfers	-	69	-	23	92
Revaluation	-	1,978	153	288	2,419
Impairment	-	-	-	-	-
At 31 March 2010	2,038	13,691	3,509	3,001	22,239
Depreciation:					
At 1 April 2009	-	2,100	1,403	1,414	4,917
Charged in year	-	426	333	412	1,171
Disposals	-	-	(109)	(363)	(472)
Transfers	-	(4)	-	18	14
Revaluations	-	342	54	107	503
Impairment	-	-	-	-	-
At 31 March 2010	-	2,864	1,681	1,588	6,133
Net book value at:					
31 March 2010	2,038	10,827	1,828	1,413	16,106
1 April 2009	2,038	9,169	1,617	991	13,815
Asset financing:					
Owned	2,038	10,827	1,459	1,413	15,737
Finance Leased	-	-	369	-	369
Net book value at 31 March 2010	2,038	10,827	1,828	1,413	16,106

Land, Dwellings and Other Buildings were valued as at 1 April 2008 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 Bidwells. The next professional valuation is due on 1 April 2012. In the intervening years, the assets are revalued using relevant indices.

Until 1 April 2009, indices for Land and Other Buildings were provided by the District Valuer. These have now been discontinued and from the 2009-10 annual accounts, indices or other information about valuation changes are provided by professionally qualified staff employed by the Forestry Commission and approved by Mr Mark Thornycroft, FRICS. The District Valuer's indices for Dwelling Houses were not discontinued and are used to revalue dwellings.

Plant and Machinery was valued as at 31 March 2005. Professionally qualified staff employed by the Forestry Commission valued specialist forestry machinery. All other assets were valued using indices provided by the Office of National Statistics (ONS). In the intervening years, revaluations have been on the basis of the ONS indices or internal professional staff as appropriate. At 31 March 2010, all light vehicles held under finance leases were professionally valued by CAP, a specialist provider of valuation data on vehicles. Cars and Light Vehicles owned by the Forestry Commission were valued by internal staff, taking account of the CAP valuation data. Specialist forestry machinery (owned and held under finance lease) were valued by professionally qualified staff employed by the Forestry Commission.

Office machinery and equipment assets were restated to a current value of £1,413,000 as at 31 March 2010 using an index provided by the ONS.

Depreciation expense of £1,171,000 (2008-09: £1,000,000) has been charged in other administration costs in the operating cost statement.

	Land	Buildings	Plant and Machinery	OME	Total
	£000	£000	£000	£000	£000
Valuation:					
At 1 April 2008	2,038	13,128	3,002	2,397	20,565
Additions	-	-	204	222	426
Donations	-	-	-	5	5
Disposals	-	(116)	(172)	(197)	(485)
Transfers	-	(133)	(37)	-	(170)
Revaluations	-	(1,610)	25	(6)	(1,591)
Impairment	-	-	(2)	(16)	(18)
At 1 April 2009	2,038	11,269	3,020	2,405	18,732
Depreciation:					
At 1 April 2008	-	1,805	1,270	1,221	4,296
Charged in year	-	332	277	391	1,000
Disposals	-	(26)	(120)	(189)	(335)
Transfers	-	(11)	(35)	-	(46)
Revaluations	-	-	14	(3)	11
Impairment	-	-	(3)	(6)	(9)
At 1 April 2009	-	2,100	1,403	1,414	4,917
Net book value at:					
1 April 2009	2,038	9,169	1,617	991	13,815
1 April 2008	2,038	11,323	1,732	1,176	16,269
Asset financing:					
Owned	2,038	9,169	1,617	991	13,815
Net book value at 1 April 2009	2,038	9,169	1,617	991	13,815

Analysis of property, plant and equipment:

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

	Land	Buildings	Plant and Machinery	OME	Total
	£000	£000	£000	£000	£000
Core department at 31 March 2010	-	1,020	326	1,261	2,607
Agency at 31 March 2010	2,038	9,807	1,502	152	13,499
Core department at 1 April 2009	-	832	23	792	1,647
Agency at 1 April 2009	2,038	8,337	1,594	199	12,168
Core department at 1 April 2008	-	1,210	25	882	2,117
Agency at 1 April 2008	2,038	10,113	1,707	294	14,152

NOTE 15 INTANGIBLE ASSETS

	Software Licences	Information Technology	Development Expenditure	Total
	£000	£000	£000	£000
Cost or valuation:				
At 1 April 2009	2,714	8,495	-	11,209
Additions	21	1,419	-	1,440
Disposals	-	-	-	-
Revaluations	31	-	-	31
At 31 March 2010	2,766	9,914	-	12,680
Amortisation:				
At 1 April 2009	1,609	2,653	-	4,262
Charge during year	404	1,239	-	1,643
Revaluations	13	-	-	13
At 31 March 2010	2,026	3,892	-	5,918
Net book value at:				
31 March 2010	740	6,022	-	6,762
1 April 2009	1,105	5,842	-	6,947

	Software Licences	Information Technology	Development Expenditure	Total
	£000	£000	£000	£000
Cost or valuation:				
At 1 April 2008	2,679	5,182	1,215	9,076
Additions	51	2,197	-	2,248
Disposals	(14)	-	-	(14)
Transfers	-	1,116	(1,215)	(99)
Revaluations	(3)	-	-	(3)
At 1 April 2009	2,713	8,495	-	11,208
Amortisation:				
At 1 April 2008	1,213	1,293	-	2,506
Charge during year	402	1,360	-	1,762
Disposals	(6)	-	-	(6)
Transfers	(1)	-	-	(1)
Revaluations	-	-	-	-
At 1 April 2009	1,608	2,653	-	4,261
Net book value at:				
1 April 2009	1,105	5,842	-	6,947
1 April 2008	1,466	3,889	1,215	6,570

Analysis of intangible assets:

The net book value of intangible assets comprises:

	Software Licences	Information Technology	Development Expenditure	Total
	£000	£000	£000	£000
Core department at 31 March 2010	619	6,022	-	6,641
Agency at 31 March 2010	121	-	-	121
Core department at 1 April 2009	963	5,842	-	6,805
Agency at 1 April 2009	142	-	-	142
Core department at 1 April 2008	1,307	3,889	1,215	6,411
Agency at 1 April 2008	159	-	-	159

Amortisation of £1,643,000 (2008-09: £1,762,000) is included in other administration costs in the operating cost statement.

NOTE 16 FINANCIAL ASSETS

This relates to Forest Research's investment in C-Cure Solutions Ltd, a spin-out company jointly launched with the University of Surrey during 2009-10, in the area of land remediation. The company has initial capital funding of £50,000 from the partners, who each own 33.4% of the company and the inventors own the remaining 33.2%.

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

Valuation:-	2009-10		2008-09	
	Core	Consolidated	Core	Consolidated
	£000	£000	£000	£000
At 1 April	-	-	-	-
Addition (at cost)	-	25	-	-
At 31 March	-	25	-	-

NOTE 17 INVENTORIES

	31 March 2010		1 April 2009		1 April 2008	
	Core	Consolidated	Core	Consolidated	Core	Consolidated
	£000	£000	£000	£000	£000	£000
Priced publications	157	160	159	163	170	173
Total	157	160	159	163	170	173

NOTE 18 TRADE AND OTHER RECEIVABLES

18(a) Analysis by type

	31 March 2010		1 April 2009		1 April 2008	
	Core	Consolidated	Core	Consolidated	Core	Consolidated
	£000	£000	£000	£000	£000	£000
Current						
Trade receivables	2,413	2,668	991	1,415	368	1,096
Less: provision for impairment of trade receivables	(103)	(103)	(105)	(105)	(57)	(57)
Trade receivables - net	2,310	2,565	886	1,310	311	1,039
VAT	1,964	1,964	1,834	1,834	2,737	2,737
Other receivables	71	71	112	112	143	147
House purchase loans to employees	13	20	15	20	15	23
Prepayments and accrued income	2,268	2,911	1,508	2,378	1,342	2,474
	6,626	7,531	4,355	5,654	4,548	6,420
Non-current						
House purchase loans to employees	99	150	96	154	58	102
	99	150	96	154	58	102
Total	6,725	7,681	4,451	5,808	4,606	6,522

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

All non-current receivables are due within ten years from 31 March 2010.

As of 31 March 2010, £2,051,000 of the £2,668,000 total trade receivables (2008-09: £186,000 of £1,310,000) were fully performing and not past due or impaired and provided for.

Trade receivables of £617,000 (2008-09: £1,019,000) were past due but not impaired as of 31 March 2010. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	<u>31 March 2010</u>	<u>1 April 2009</u>	<u>1 April 2008</u>
	£000	£000	£000
Less than one month	420	330	114
One to two months	26	208	2
Two to three months	56	78	12
More than three months	115	403	57
	<u>617</u>	<u>1,019</u>	<u>185</u>

As of 31 March 2010, trade receivables of £103,000 (2008-09: £105,000) were impaired and also provided for. These relate to nine debts analysed as follows:

	<u>31 March 2010</u>	<u>1 April 2009</u>	<u>1 April 2008</u>
	£000	£000	£000
Customer ceased trading or in administration	45	45	-
Customer deceased	1	1	30
Advanced legal proceedings underway	3	37	-
Other	54	22	27
	<u>103</u>	<u>105</u>	<u>57</u>

The ageing of the trade receivables provided for is as follows:

	<u>31 March 2010</u>	<u>1 April 2009</u>	<u>1 April 2008</u>
	£000	£000	£000
Less than one month	-	-	6
One to two months	-	-	-
Two to three months	-	-	-
More than three months	103	105	51
	<u>103</u>	<u>105</u>	<u>57</u>

Movements in the provision for impairment of trade receivables are as follows:

	<u>£000</u>
At 1 April 2008	57
Provision for receivables impairment	48
At 1 April 2009	105
Unused amounts reversed	(2)
At 31 March 2010	103

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Forestry Commission does not hold any collateral as security.

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

	<u>31 March 2010</u>	<u>1 April 2009</u>	<u>1 April 2008</u>
	£000	£000	£000
GBP Sterling	7,532	5,635	5,457
Euro	136	157	1,058
US Dollar	13	16	7
	7,681	5,808	6,522

18(b) Intra-government balances

	Current			Non-Current		
	31 March 2010	1 April 2009	1 April 2008	31 March 2010	1 April 2009	1 April 2008
	£000	£000	£000	£000	£000	£000
Balances with other central government bodies	131	594	4,022	-	-	-
Balances with local authorities	60	71	68	-	-	-
Intra-government balances	191	665	4,090	-	-	-
Balances with bodies external to government	7,340	4,989	2,330	150	154	102
Total	7,531	5,654	6,420	150	154	102

NOTE 19 CASH AND CASH EQUIVALENTS

	<u>Core</u>	<u>Consolidated</u>
	£000	£000
Balance at 1 April 2008	4,968	5,243
Net change in cash and cash equivalent balances	1,116	1,295
Balance at 1 April 2009	6,084	6,538
Net change in cash and cash equivalent balances	7,712	7,280
Balance at 31 March 2010	13,796	13,818

	31 March 2010		1 April 2009		1 April 2008	
	Core	Consolidated	Core	Consolidated	Core	Consolidated
	£000	£000	£000	£000	£000	£000
The following balances were held at:-						
Office of HM Paymaster General	13,796	13,796	6,084	6,084	4,968	4,968
Commercial banks and cash in hand	-	22	-	454	-	275
Short term investments	-	-	-	-	-	-
Total	13,796	13,818	6,084	6,538	4,968	5,243

The balance at period end comprises:

Amounts issued by Defra for supply but not spent at the year end	13,796	13,818	5,383	5,837	4,968	5,243
CFER: Income due to be surrendered to the Consolidated Fund	-	-	701	701	-	-
Total	13,796	13,818	6,084	6,538	4,968	5,243

NOTE 20 TRADE AND OTHER PAYABLES

20(a) Analysis by type

	31 March 2010		1 April 2009		1 April 2008	
	Core	Consolidated	Core	Consolidated	Core	Consolidated
	£000	£000	£000	£000	£000	£000
Current						
Other taxation and social security	3,701	3,742	2,889	2,937	2,661	2,661
Trade payables	3,065	3,208	3,270	3,620	2,027	2,875
Other payables	57	57	42	42	1,657	1,670
Accruals and deferred income	3,219	3,904	2,025	2,641	1,867	2,492
Current part of finance leases	104	104	-	-	-	-
Payments received on account	707	1,549	-	677	-	324
Amounts issued from Defra vote but not spent at year end	13,818	13,818	5,837	5,837	5,243	5,243
Consolidated Fund extra receipts due to be paid to the Consolidated Fund: received	-	-	701	701	-	-
	24,671	26,382	14,764	16,455	13,455	15,265
Non-current						
Finance leases	129	129	-	-	-	-
Payments received on account	366	366	-	-	-	-
Deferred income	807	807	990	990	658	658
	1,302	1,302	990	990	658	658
Total trade and other payables	25,973	27,684	15,754	17,445	14,113	15,923

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:

	31 March 2010	1 April 2009	1 April 2008
	£000	£000	
GBP Sterling	27,508	17,383	15,732
Euro	165	60	156
US Dollar	11	-	1
Danish Krona	-	2	34
	27,684	17,445	15,923

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. It is due to complete in 2010-11. As third party assets these sums are not recorded on the face of these accounts. At 31 March 2010 the amount held in Forestry Commission bank accounts on behalf of partners was £(60) (2008-09: £nil). The overdrawn balance is a timing issue driven by the fact the fees on the account were deducted by the bank prior to receipt of the April 2010 instalment. As third party assets these sums are not recorded on the face of these accounts. Refer to note 33.

Amounts held in Forest Research bank accounts on behalf of partners in European Commission projects at 31 March 2010 was £301,000 (2008-09: £12,000). This has subsequently all been transferred to the partners concerned. Refer to note 33.

20(b) Intra-government balances

	Current			Non-Current		
	31 March 2010	1 April 2009	1 April 2008	31 March 2010	1 April 2009	1 April 2008
	£000	£000	£000	£000	£000	£000
Balances with other central government bodies	13,835	11,167	6,252	-	-	-
Balances with local authorities	220	224	68	-	-	-
Balances with public corporations and trading funds	206	1	-	-	-	-
Intra-government balances	14,261	11,392	6,320	-	-	-
Balances with bodies external to government	12,121	5,063	8,945	1,302	990	658
Total	26,382	16,455	15,265	1,302	990	658

NOTE 21 PROVISIONS FOR LIABILITIES AND CHARGES

	Core			Consolidated		
	Early Departure Costs	Other	Total	Early Departure Costs	Other	Total
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2008	937	-	937	1,040	-	1,040
Provided in the year	278	1,280	1,558	1,580	1,280	2,860
Provisions not required written back	(142)	-	(142)	(142)	-	(142)
Utilised in the year	(351)	-	(351)	(385)	-	(385)
Unwinding of discount	5	-	5	(68)	-	(68)
Balance at 1 April 2009	727	1,280	2,007	2,025	1,280	3,305
Provided in the year	559	20	579	626	20	646
Provisions not required written back	-	-	-	-	-	-
Transfers	350	(1,036)	(686)	350	(1,036)	(686)
Utilised in the year	(342)	(166)	(508)	(1,113)	(166)	(1,279)
Unwinding of discount	(20)	-	(20)	(19)	-	(19)
Balance at 31 March 2010	1,274	98	1,372	1,869	98	1,967

Analysis of expected timing of discounted cash flows:

	Core			Consolidated		
	Early Departure Costs	Other	Total	Early Departure Costs	Other	Total
	£000	£000	£000	£000	£000	£000
In the remainder of the Spending Review period to 31 March 2011	474	75	549	638	75	713
Between 1 April 2011 and 31 March 2016	757	23	780	1,172	23	1,195
Between 1 April 2016 and 31 March 2021	43	-	43	59	-	59
Thereafter	-	-	-	-	-	-
Balance at 31 March 2010	1,274	98	1,372	1,869	98	1,967

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.

Restructuring Provisions

Forestry Commission England has provided for those costs for which a contractual liability was incurred when the closure of the Cambridge office was announced, mainly compulsory redundancy payments.

The following restructuring costs have been provided for:-

	<u>Core</u>	<u>Consolidated</u>
	£000	£000
Redundancy / early retirement costs	-	-
Onerous lease	41	41
Legal fees	30	30
Total restructuring provision	71	71

NOTE 22 TAXPAYERS' EQUITY

22(a) General fund

	2009-10		2008-09	
	Core	Consolidated	Core	Restated Consolidated
	£000	£000	£000	£000
Balance at 31 March	994	5,389	2,745	9,206
Changes in accounting policy	-	-	(234)	(234)
Restated balance at 1 April	994	5,389	2,511	8,972
Net operating cost for the year	(65,678)	(75,510)	(74,077)	(85,943)
Prior period error adjustment under IAS 8	-	-	-	(23)
Internal charges adjustment	(9,441)	-	(10,039)	-
Notional auditor's remuneration	77	77	85	85
Timing between accrual and cash VAT	(823)	(826)	(56)	(60)
Non-cash inter-country transfers	(421)	(485)	(449)	(454)
Transfer of property, plant and equipment from/to other forestry bodies	72	81	(102)	(122)
Notional cost of capital	66	477	94	547
Forest Enterprise England non-cash adjustments	25,823	25,823	28,231	28,231
Transfer from revaluation reserve	1	1	-	28
Funding received from Defra vote	65,099	64,656	61,334	60,666
Amounts issued from Defra vote but not spent at year end	(13,818)	(13,818)	(5,837)	(5,837)
CFERs repayable to the Consolidated fund	-	-	(701)	(701)
Balance at 31 March	1,951	5,865	994	5,389

22(b) Revaluation reserve

	2009-10		2008-09	
	Core	Consolidated	Core	Consolidated
	£000	£000	£000	£000
Balance at 1 April	386	7,127	711	8,842
Prior period error under IAS 8	-	-	-	(83)
Restated balance at 1 April	386	7,127	711	8,759
Arising on revaluation during the year	239	1,775	(325)	(1,604)
Transferred to general fund in respect of realised element of revaluation reserve	(1)	(1)	-	(28)
Write-off	2	2	-	-
Balance at 31 March	626	8,903	386	7,127

22(c) Donated asset reserve

	2009-10		2008-09	
	Core	Consolidated	Core	Consolidated
	£000	£000	£000	£000
Balance at 1 April	5	5	-	-
Additions during the year	-	-	5	5
Revaluation	-	-	-	-
Release to OCS	(1)	(1)	-	-
Balance at 31 March	4	4	5	5

22(d) Government grant reserve

	2009-10		2008-09	
	Core	Consolidated	Core	Consolidated
	£000	£000	£000	£000
Balance at 1 April	-	-	-	-
Additions during the year	-	129	-	-
Revaluation	-	-	-	-
Release to OCS	-	-	-	-
Balance at 31 March	-	129	-	-

NOTE 23 FINANCIAL INSTRUMENTS

23(a) Financial instruments by category

	31 March 2010			1 April 2009			1 April 2008		
	Loans and Receivables £000	Available-for-Sale £000	Total £000	Loans and Receivables £000	Available-for-Sale £000	Total £000	Loans and Receivables £000	Available-for-Sale £000	Total £000
Assets as per statement of financial position									
Available-for-sale financial assets	-	25	25	-	-	-	-	-	-
Trade & other receivables (excluding prepayments)	2,806	-	2,806	2,219	-	2,219	2,907	-	2,907
Cash & cash equivalents	13,818	-	13,818	6,538	-	6,538	5,243	-	5,243
Total	16,624	25	16,649	8,757	-	8,757	8,150	-	8,150

	31 March 2010		1 April 2009		31 March 2008	
	Other financial liabilities £000	Total £000	Other financial liabilities £000	Total £000	Other financial liabilities £000	Total £000
Liabilities as per the Statement of Financial Position						
Finance Lease Liabilities		233		-		-
Trade and other payables excluding statutory liabilities		8,374		8,362		9,788
Total		8,607		8,362		9,788

23(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.

Refer to note 18 for further analysis of credit risk.

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 Budget Act via the Defra vote. Resources and accruing resources may be used only for the purposes specified and up to the amounts specified in the Budget 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.

	Less than 1 year £000	Between 1 and 5 years £000	Over 5 years £000
At 31 March 2010			
Finance lease liabilities	94	139	-
Trade and other payables excluding statutory liabilities	8,008	128	238
	8,102	267	238

	Less than 1 year £000	Between 1 and 5 years £000	Over 5 years £000
At 1 April 2009			
Trade and other payables excluding statutory liabilities	8,185	177	-
	8,185	177	-

	Less than 1 year £000	Between 1 and 5 years £000	Over 5 years £000
At 1 April 2008			
Trade and other payables excluding statutory liabilities	9,788	-	-
	9,788	-	-

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.

23(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.

23(d) Fair value estimation

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

NOTE 24 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

24(a) Analysis of capital expenditure and financial investment by Request for Resource

	Capital Expenditure £000	Loans £000	A-in-A £000	Net total £000
England-wide activities	60	-	-	60
GB-wide activities	2,883	-	-	2,883
Total 2009-10	2,943	-	-	2,943
Total 2008-09	2,679	-	-	2,679

24(b) Reconciliation of net cash requirement to increase / (decrease) in cash

	2009-10 £000	2008-09 £000
Net cash requirement	(50,838)	(54,829)
From the Defra vote (RfR2)	64,656	60,666
Payment of amount to Defra	(5,837)	(5,243)
Payment of amount due to consolidated fund	(701)	-
Amounts due to the Consolidated Fund received and not paid over	-	701
	7,280	1,295

NOTE 25 CONSOLIDATED STATEMENT OF OPERATING COSTS BY DEPARTMENTAL STRATEGIC OBJECTIVES FOR THE YEAR ENDED 31 MARCH 2010

	2009-10			2008-09: Restated		
	Gross Expenditure	Income	Net	Gross Expenditure	Income	Net
	£000	£000	£000	£000	£000	£000
England Objectives						
Quality of Life	19,324	(2,143)	17,181	23,043	(837)	22,206
Natural Environment	31,967	(4,207)	27,760	38,252	(1,644)	36,608
Business and Markets	15,828	(1,587)	14,241	18,840	(620)	18,220
England Net Operating Costs	67,119	(7,937)	59,182	80,135	(3,101)	77,034
Great Britain Objective						
To take the lead in development and promotion of sustainable forest management and to support its achievement nationally	38,716	(22,388)	16,328	30,556	(21,647)	8,909
Great Britain Net Operating Costs	38,716	(22,388)	16,328	30,556	(21,647)	8,909
Great Britain/England Net Operating Costs	105,835	(30,325)	75,510	110,691	(24,748)	85,943

Description of England Objectives

Quality of Life: To increase the contribution that trees, woods and forests make to the quality of life for those living in, working in or visiting England.

Natural Environment: To protect and enhance the environmental resources of water, soil, air, biodiversity and landscapes (both woodland and non-woodland) and the cultural and amenity values of trees and woodland.

Business and Markets: To improve the competitiveness of woodland businesses and promote the development of new or improved markets for sustainable woodland products and ecosystem services where this will deliver identifiable public benefits, nationally or locally.

An explanation of the relationship between Departmental Strategic Objectives (above) and our Aims and Objectives is provided on page 20.

The three Departmental Strategic Objectives under which we report our net operating costs are aligned to delivery of the three themes rather than the five aims of the Strategy for England's Trees Woods and Forests and Improving how we work (Modernising our delivery and Managing our resources) which we set out in the 2008-2011 Corporate Plan.

Both "protecting and enhancing the resource" and "climate change" are not reported in their own right, or they are underpinning themes that run through the three Departmental Strategic Objectives. Likewise "modernising our delivery and managing our resources" is an integral part of improving the way we work, being implemented as part of the improved process for the delivery of all three of the Departmental Strategic Objectives.

Explanation of Allocation

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

Capital employed by Departmental Strategic Objectives at 31 March 2010

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

	<u>2009-10</u>	<u>2008-09</u>
	£000	£000
England Objectives		
Quality of Life	2,721	2,607
Natural Environment	4,500	4,327
Business and Markets	<u>2,229</u>	<u>2,131</u>
England capital employed	<u>9,450</u>	<u>9,065</u>
Great Britain Objective		
To take the lead in development and promotion of sustainable forest management and to support its achievement nationally	5,451	3,456
Great Britain Objective	<u>5,451</u>	<u>3,456</u>
Capital employed	<u>14,901</u>	<u>12,521</u>

NOTE 26 CAPITAL COMMITMENTS

There were no contracted capital commitments at 31 March 2010 (2008-09: £nil).

NOTE 27 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 2010		1 April 2009		1 April 2008	
	Core	Consolidated	Core	Consolidated	Core	Consolidated
	£000	£000	£000	£000	£000	£000
Obligations under operating leases comprise:						
Land:						
Not later than one year	-	2	-	2	-	2
Later than one year and not later than five years	-	10	-	10	-	10
Later than five years	-	2	-	4	-	6
	<u>-</u>	<u>14</u>	<u>-</u>	<u>16</u>	<u>-</u>	<u>18</u>
Buildings:						
Not later than one year	1,790	1,791	1,806	1,807	2,270	2,271
Later than one year and not later than five years	6,916	6,922	5,838	5,844	8,000	8,006
Later than five years	10,875	10,876	10,733	10,734	14,120	14,121
	<u>19,581</u>	<u>19,589</u>	<u>18,377</u>	<u>18,385</u>	<u>24,390</u>	<u>24,398</u>
Other:						
Not later than one year	53	53	58	58	58	58
Later than one year and not later than five years	29	29	150	150	155	155
	<u>82</u>	<u>82</u>	<u>208</u>	<u>208</u>	<u>213</u>	<u>213</u>

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 2010		1 April 2009		1 April 2008	
	Core	Consolidated	Core	Consolidated	Core	Consolidated
	£000	£000	£000	£000	£000	£000
Obligations under finance leases comprise:						
Plant and machinery						
Not later than one year	100	100	-	-	-	-
Later than one year and not later than five years	145	145	-	-	-	-
Later than five years	-	-	-	-	-	-
	245	245	-	-	-	-
Less: interest element	(12)	(12)	-	-	-	-
	233	233	-	-	-	-

NOTE 28 OTHER FINANCIAL COMMITMENTS

Planting and replanting grants

At 31 March 2010, Forestry Commission England was committed under draft and signed contracts to the payment of future instalments of planting and replanting grants amounting to £1.7 million (2008-09: £2.6 million).

Existing woodlands

Forestry Commission England was committed under draft and signed contracts to the payment of future instalments of grants which support existing woodlands amounting to £2.0 million at 31 March 2010 (2008-09: £2.4 million).

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

	31 March 2010		1 April 2009		1 April 2008	
	Core	Consolidated	Core	Consolidated	Core	Consolidated
	£000	£000	£000	£000	£000	£000
Not later than one year	2,000	2,000	4,000	4,000	4,500	4,500
Later than one year and not later than five years	1,700	1,700	1,000	1,000	2,900	2,900
	3,700	3,700	5,000	5,000	7,400	7,400

NOTE 29 CONTINGENT LIABILITIES DISCLOSED UNDER IAS 37

There was one contingent liability as at 31 March 2010 (2008-09: two) in respect of an ex employee of the Forest Research Agency.

NOTE 30 OPERATING LEASE RECEIVABLES

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

	2009-10		2008-09	
	Core	Consolidated	Core	Consolidated
	£000	£000	£000	£000
Not later than one year	5	5	87	87
Later than one year and not later than five years	-	-	5	5
	5	5	92	92

The Forestry Commission sub-leases a building under agreements terminating in April 2010.

NOTE 31 LOSSES AND SPECIAL PAYMENTS

	2009-10		2008-09	
	Number	£000	Number	£000
Losses total	14	6	24	39
Special payments total	3	6	5	85

NOTE 32 CONSOLIDATED RELATED PARTY TRANSACTIONS

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

In addition, Forestry Commission Great Britain/England has had various material transactions with other government departments and other central government bodies. The main entities within government with which the Forestry Commission has had dealings are HM Treasury, UK Co-ordinating Body, the Paymaster General's Office, HM Revenue and Customs, the Department for the Environment, Food and Rural Affairs, the Department for Communities and Local Government, the North West Development Agency, Yorkshire Forward the Greater London Authority, South East Development Agency and East of England Development Agency.

In the year to 31 March 2010, 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 2009-10.

The following additional transactions were carried out with related parties:

32(a) Purchases of goods and services

	2009-10	2008-09
	£000	£000
The University of Reading	10	4
The University of Southampton	8	4
	18	8

The above transactions, for course fees, student stipend, samples, amendments to an existing database, production of a new database and related training course, 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. There are no outstanding balances at 31 March 2010 (2008-09: £nil).

32(b) Financial Assets

	<u>2009-10</u>	<u>2008-09</u>
	£000	£000
C-Cure Solutions Limited	25	-
	<u>25</u>	<u>-</u>

The above transaction for investment in shares in C-Cure Solutions Limited is disclosed as under the Agreement to form the company, James Pendlebury (Chief Executive, Forest Research Agency) was appointed as the Forest Research Director of the company. See Note 16 for further details.

32(c) Other

	<u>2009-10</u>	<u>2008-09</u>
	£000	£000
Farm Woodland Premium Scheme grant	4	2
England Woodland Scheme grant	5	-
Scottish Forestry Scheme grant	2	-
Partner employee salary package	36	35
	<u>47</u>	<u>37</u>

Sir Harry Studholme, Commissioner for England and Chair of the National Committee received a Farm Woodland Premium Scheme grant of £3,000 during the year (2008-09: £1,895) and an England Woodland Grant Scheme grant of £4,900. There were no outstanding balances at 31 March 2010 (2008-09: £nil).

Michael Ansell, Head of Forest Renewables, received a Farm Woodland Premium Scheme grant of £576 and payments of £2,383 under the Scottish Forestry Grant Scheme during the year. There were no further payments due at 31 March 2010.

The partner of a member of the National Committee for England, received salary payments of £29,000 (2008-09: £28,000), benefits of £3,000 (2008-09: £3,000), and allowances of £4,000 (2008-09: £4,000) as part of a normal salary package for employment at the Forestry Commission. There were no outstanding balances at 31 March 2010 (2008-09: £nil). The National Committee member played no role in the appointment, management or setting the remuneration of their partner.

32(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.

32(e) Loans to related parties

	<u>2009-10</u>	<u>2008-09</u>
	£000	£000
Loans to key management personnel (house purchase)		
Balance at 1 April	28	-
Loans advanced during year	-	28
Balance at 31 March	<u>28</u>	<u>28</u>

The above balance relates to one member of key management personnel (2008-09: 1). House purchase loans to key management personnel are provided on the same terms and conditions as other Forestry Commission staff members. Such advances of salary are unsecured, interest free and typically repayable over 10 years, with an optional 2 year deferral period.

£Nil provision has been made at 31 March 2010 (2008-09: £nil) in relation to the loans made to key management personnel.

NOTE 33 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. It is due to complete in 2010-11. As third party assets these sums are not recorded on the face of these accounts. At 31 March 2010 the amount held in Forestry Commission bank accounts on behalf of partners was £(60) (2008-09: £nil). The overdrawn balance is a timing issue driven by the fact the fees on the account were deducted by the bank prior to receipt of the April 2010 instalment.

In addition, as a co-ordinator 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>2009-10 Net</u>	<u>Gross Inflows</u>	<u>Gross Outflows</u>	<u>2008-09 Net</u>
	£000	£000	£000	£000
Core	-	-	-	-
Consolidated	289	301	(12)	12

NOTE 34 EVENTS AFTER 31 MARCH 2010

In accordance with the requirements of IAS 10, events after 31 March 2010 are considered up to the date on which the accounts are authorised for issue. These accounts were authorised for issue on 16 July 2010.

Non-adjusting events after 31 March 2010: It was announced in the Budget on 22 June 2010 that the Government intends to adopt the Consumer Price Index (CPI) for the indexation of public service pensions from April 2011. This will have an impact upon the future operation of the pension schemes that Forestry Commission Great Britain/England provides to employees.

NOTE 35 RECONCILIATION OF PRIOR YEAR RESTATEMENT

From 1 April 2009, Forest Enterprise England has adopted a new accounting policy for Forest Estate new planting. Previously this was capitalised as part of the Forest Estate but from 1 April 2009, HM Treasury permission was received to recognise this expenditure in the Income and Expenditure Statement.

Forest Enterprise England's net deficit is consolidated into the Forestry Commission Great Britain/England Operating Cost Statement. 2008-09 balances have been restated in accordance with IAS 8 (the restatement has no effect on 2007-08 closing balances).

<u>Forest Enterprise England new planting balances</u>	<u>£000</u>
New planting 2008-09	330

	Note	Per 2008-09 Shadow Accounts		Restated Balance		Adjustment		Description of Adjustment
		Core	Conso- lidated	Core	Conso- lidated	Core	Conso- lidated	
		£'000	£'000	£'000	£'000	£'000	£'000	
Operating Cost Statement								
Forest Enterprise Funding	11	46,549	46,549	46,879	46,879	(330)	(330)	0809 new planting recognised as expenditure
England-wide activities - programme costs	OCS,11	55,301	55,301	55,631	55,631	(330)	(330)	0809 new planting recognised as expenditure
Net deficit for the year	OCS,3	73,747	85,613	74,077	85,943	(330)	(330)	0809 new planting recognised as expenditure
Adjustment of Forest Enterprise England deficit to financing								
Net capital expenditure	11	n/a	3	n/a	333	n/a	(330)	0809 new planting recognised as expenditure
Forest Enterprise England non-cash adjustments	CF,11	n/a	27,901	n/a	28,231	n/a	(330)	0809 new planting recognised as expenditure
Consolidated Statement of Cash Flows								
Net deficit for the year	CF	n/a	85,613	n/a	85,943	n/a	(330)	0809 new planting recognised as expenditure
Forest Enterprise England non-cash adjustments	CF,11	n/a	27,901	n/a	28,231	n/a	(330)	0809 new planting recognised as expenditure
General Fund								
Net deficit for the year	SOCE, 22a	73,747	85,613	74,077	85,943	(330)	(330)	0809 new planting recognised as expenditure
Forest Enterprise England non-cash adjustments	SOCE, 22a	27,901	27,901	28,231	28,231	(330)	(330)	0809 new planting recognised as expenditure
Balance as at 1 April 2009	SOCE, 22a	994	5,389	994	5,389	-	-	Restatement does not impact the General Fund closing balance

NOTE 36 ENTITIES WITHIN THE DEPARTMENTAL BOUNDARY

The entities within the boundary during 2009-10 were as follows:

(a) Supply-financed agencies:

Forest Research Agency, which incurred a net deficit of £391,000. The aggregate amount of its capital and reserves as at 31 March 2010 was £12,320,000. The annual report and accounts of the Forest Research Agency are published separately.

(b) Non-executive NDPBs:

None

(c) Other entities:

None

Forest Enterprise England
Annual Accounts 2009-10

FINANCIAL COMMENTARY

Basis of accounts

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

Departmental accounting boundary

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

Status

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

Financial review

Details of the financial performance targets set for Forest Enterprise England by the Forestry Commission National Committee for England and achievement against those targets are shown in Note 29 to the accounts.

Forest Enterprise England incurred a deficit on its Income and Expenditure Statement, before cost of capital, of £13.9 million (2008-09 restated: £25.0 million). We achieved an operating surplus of £0.8 million (2008-09 restated: deficit of £8.1m). The key factors for this movement are described below:

- We exceeded our marketing and sales plans by 7.9%, dispatching 1,558,000 cubic metres of timber with a value of £24.5 million (2008-09: £24.9 million).
- Property sales raised £7.7 million. This comprised £7.0 million from woodland rationalisation sales, £0.5 million from the disposal of houses and £0.2 million from development and other sales. A surplus of £2.5 million (2008-09 restated: deficit of £1.3million) on the disposals was gained, after expenses of £0.7 million.
- Acquisitions totalled 136 hectares. These comprised 114 hectares in Peninsula, 21 hectares in the West Midlands and 1 hectare in the Forest of Dean.
- The net cost of recreation, conservation and heritage was £17.2 million.
- The value of the forest estate increased by £92.8 million and other land increased by £1.4 million following an interim valuation. Building assets were revalued upwards by £0.4 million and buildings under construction at the year end amounted to £0.8 million. The main projects taken forward, with the assistance of external funding, were the visitor centres at Grizedale in the Lake District (which came into use during the year) and Hicks Lodge, part of the Wyre Project in the West Midlands.

After adjusting the total deficit for items not involving the movement in cash and for capital expenditure and receipts, the net cash funding received from Forestry Commission England was £14.3 million (2008-09: £18.6 million).

Forest Holidays

In May 2006, the Forestry Commission entered into a partnership with the Camping and Caravanning Club to take over management of its Forest Holidays' business. As the investment in the partnership is outside the departmental boundary and Forest Enterprise England does not exercise budgetary control over the partnership, then, in accordance with the FReM the arrangement is regarded as an investment. Under IAS 32 and IAS 39 the investment is treated as a financial asset. In accordance with the initial business plan, no income has been received from the investment in the partnership.

The Forest Holidays business continues to develop well, with new sites planned within England.

Other Disclosures

Research and Development

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

Pensions

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

Supplier Payment Policy

Forest Enterprise England complies with the Government's Better Payment Practice Code. Unless otherwise stated in the contract or by special arrangement with individual suppliers, we aim to pay within 30 days from the receipt of goods and services or the presentation of a valid invoice, whichever is the later. A sample analysis for 2009-10 indicates that 99.0% 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.

In October 2008, the Prime Minister committed Government organisations to improving the cash flow position of its suppliers by settling their accounts within 10 days wherever possible. Forest Enterprise England recognised its role in supporting local, rural economies and has a proven record of meeting its contractual payment terms. It also works closely with its local suppliers to ensure prompt payment of debt. Management recognised that the general economic climate could potentially have a detrimental effect on small and medium enterprises and considered whether further action could be taken to improve cash flows.

Forest Enterprise England concluded that no special systems solutions would be required as local offices have a very close working relationship with their suppliers. For the most part, local suppliers have ongoing dialogues with their Forest Enterprise England contract managers about business issues including cash flows. Through these, small/medium suppliers who faced hardship would discuss the matter with contract managers and agreed solutions developed. Whilst the above would not apply directly to large companies, Forest Enterprise England believed that special measures would not be required because of existing levels of prompt payment.

Personal data related incidents

There were no protected personal data related incidents reported for Forest Enterprise England in 2009-10 or previous financial years. Forestry Commission 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 Statement on Internal Control.

Auditors

These accounts are audited by the Comptroller and Auditor General. The audit fee was £100,000 (2008-09: £85,000). No fees were charged for other services (2008-09: 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.

Simon Hodgson
Accounting Officer
15 July 2010

REMUNERATION REPORT

Remuneration policy

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

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

- Guidelines circulated by the Cabinet Office implementing Government decisions on the recommendations of the Senior Salaries Review Body (SSRB). The SSRB is responsible for monitoring the operation of the Senior Civil Service pay system and for making recommendations to the Government on the shape of the system, including the salary values for the minimum and maximum of each of the senior pay bands, the range of percentage increases to base salary and range of bonuses. Further information on the work of the SSRB can be found at www.ome.uk.com.
- Reporting Officers' recommendations on the relative performance of each of their senior staff, whether a bonus should be paid, and if so, whether low or high. The Senior Pay Committee consider the recommendations, 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 Monitoring 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. No bonuses were paid for 2009-10.

Employment contracts

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

Members of the Forest Enterprise 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

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

	2009-10		2008-09	
	Salary £000	Benefits in kind Nearest £100	Salary £000	Benefits in kind Nearest £100
Simon Hodgson	80-85	2,800	85-90	2,300
Andy Medhurst	50-55	-	45-50	-
Brian Mahony	70-75	-	65-70	-
Mark Thornycroft	60-65	-	60-65	-
James Swabey	55-60	-	55-60	-
Steve Meeks	0-5 ¹	-	50-55	-
Paddy Harrop	35-40 ²	-	n/a	-
John Tewson	45-50	-	40-45	-

Salary

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

Benefits in kind

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

¹ Figure quoted is for the period 1 April 2009 to 30 April 2009. The full year equivalent is 50-55.

² Figure quoted is for the period 25 June 2009 to 31 March 2010. The full year equivalent is 45-50.

Pension benefits

	Accrued pension at pension age at 31 March 2010 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2010	CETV at 31 March 2009*	Real increase in CETV	Employer contribution to partnership pension account
	£000	£000	£000	£000	£000	Nearest £100
Simon Hodgson	15-20 plus LS of 45-50	0-2.5 plus LS of 2.5-5	340	297	16	-
Andy Medhurst	15-20 plus LS of 50-55	0-2.5 plus LS of 5-7.5	305	257	31	-
Brian Mahony	25-30 plus LS of 55-60	0-2.5 plus LS of 0-2.5	565	494	38	-
Mark Thornycroft	20-25 plus LS of 60-65	0-2.5 plus LS of 5-7.5	502	429	50	-
James Swabey	30-35 plus LS of 0-5	2.5-5 plus LS of 0-2.5	596	519	48	-
Steve Meeks	20-25 plus LS of 65-70	2.5 -5 plus LS of 12.5-15	399	306	72	-
Paddy Harrop	10-15 plus LS of 35-40	0-2.5 plus LS of 2.5-5	170	141	19	-
John Tewson	15-20 plus LS of 55-60	0-2.5 plus LS of 2.5-5	371	326	22	-

*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 changes in the Retail Prices Index (RPI). 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. The **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 RPI. 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 www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values

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

The 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.

Simon Hodgson
Accounting Officer
15 July 2010

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

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

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

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

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

STATEMENT ON INTERNAL CONTROL

1. Scope of responsibility

As Agency Accounting Officer and Chief Executive, I have responsibility for maintaining a sound system of internal control that supports the achievement of Forest Enterprise England's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in HM Treasury's *Managing Public Money*.

The Agency is an executive agency of the Forestry Commission. The Agency's framework document sets out my responsibilities as Accounting Officer. I am accountable to parliament through the Accounting Officers for the Forestry Commission.

The Forestry Commission is a Great Britain cross-border department responsible for forestry matters. The Forestry Commissioners are statutorily responsible for the stewardship of the estate placed at their disposal by Ministers, but delegate this responsibility to a National Committee for each of England, Scotland, Wales and Northern Ireland. The National Committee England delegates responsibility for the Forestry Commission's estate in England to the Agency.

I am responsible as Agency Chief Executive, through the Director Forestry Commission England (a Forestry Commissioner), to the National Committee for the management of the Agency. I have a right of direct access to the Forestry Commissioners, and to the relevant Minister, and a right to meet them at least once a year.

As Agency Accounting Officer, I am responsible for the Agency's accounts and financial procedures and for the proper, effective and efficient use of resources provided to the Agency within the terms of the Framework Document and in pursuit of the agreed objectives and targets. In particular, I am responsible for:

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

Public Accounts Committee

As part of their responsibilities, one or more of the Accounting Officers for Forestry Commission Great Britain/England are liable to be invited to appear before the Committee of Public Accounts (PAC). It will be for Ministers to decide who should represent them at other Parliamentary Committee hearings. In practice, where a Committee's interest is confined to the day-to-day operations of the Agency, Ministers will normally regard the Chief Executive as the person best placed to appear on their behalf.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Forest Enterprise England's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Forest Enterprise England for the year ended 31 March 2010 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3. Capacity to handle risk

The Forestry Commission has a risk management policy statement which sets out why risk management is important; the procedures in place to enable the Forestry Commission to manage risk; and the roles and responsibilities individuals have to ensure risks are managed effectively. The policy was updated in March 2009 and is available to all staff via the intranet. Forest Enterprise England continued to adopt the GB policy through 2009-10, but will seek to refresh the policy and make it more agency specific in 2010-11.

Risk is embedded in policymaking, planning and delivery across Forest Enterprise England.

4. The risk and control framework

The system of internal control incorporates risk management. It encompassed a number of elements that together facilitate an effective and efficient operation, including regular reporting to the Agency Management Board and the National Committee for England.

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. Through its work the ARC provides independent assurance to the National Committee on those key activities within the direct control of Forest Enterprise England which support the achievement of England's objectives.

The ARC operates in accordance with the principles contained in the Treasury's Audit Committee Handbook.

The Committee met three times in July and November 2009 and March 2010. In all cases they considered a range of reports from management, and from internal and external audit.

At the GB Risk Management Group (RMG) meeting in August 2009, country and FR representatives confirmed that they had taken the GB Risk Policy and were tailoring it to meet the needs of each country, and it was agreed that this was the best approach. Members agreed that risk management was firmly embedded now in each country/agency and that the GB RMG had served its purpose.

The ownership of risk policy and associated management now sits more formally with countries, although there will be a continuing need to share best practice and developments in risk management across GB.

In the year to 31 March 2010, Forest Enterprise England has further embedded risk register reviews into its business and governance structures. Regional Business Continuity Plans (BCPs) have been put in place during year and will be tested during early 2010-11.

By the end of the year, the central shared services had all reviewed their risk registers at service board meetings. The HR central shared service has a BCP in place and has tested some elements of the plan during 2009-10. Framework BCPs exist for the Finance and Accounting Services, Information Services, Inventory Forecasting and Operational support and other shared service functions but more work is needed to turn them into plans that can be properly tested. An independent business continuity management specialist is now preparing a business impact analysis report to highlight the Forestry Commission's critical business activities across the central shared services, the recovery periods within which they should be returned to operation following a disruption, and the minimum resource requirements needed to support these activities. Phase 2 of the project will lead to development of a full set of BCPs, an appropriate test schedule and a suitable maintenance procedure.

5. Protecting Information in Government (Information Assurance)

Forest Enterprise England's approach to information assurance is set by the Forestry Commission, as it manages shared systems and services. In comparison with other government departments, our information systems hold a relatively small number of records and the volume of sensitive information requiring a protective marking is relatively low.

The Director Finance for GB, as the Forestry Commission's principal Senior Information Risk Owner (SIRO), chairs the Information Security Management Forum (ISMF). It co-ordinates and controls the implementation of information security across the Forestry Commission. It met on ten occasions during the year. The work of the ISMF is supported on a day to day basis by the Departmental Security Officer (DSO) and the IT Security Officer (ITSO). The SIRO produces an annual assessment of risk management across the Forestry Commission.

Governance arrangements have been strengthened during the year with the appointment of a SIRO in England. The SIRO will attend the ISMF and provide a direct link on information assurance matters between the ISMF and the agency board. The ARC has also received updates on information assurance during the year.

A network of Information Asset Owners (IAOs) exists who have direct responsibility for the assets under their control. IAOs have been identified for our key corporate systems and our local information stores.

Following the encryption of all our laptops, the ISMF approved a policy on protecting sensitive information on removable media. The ISMF also approved the purchase of encrypted USB memory sticks for issue in 2010, which all members of staff are required to use when taking sensitive or personal information out the office.

The majority of staff have now successfully completed the National School for Government (NSG) online training package Level 1, Protecting Information.

To aid continuous improvement, the Forestry Commission on behalf of Forest Enterprise England undertook a self-assessment against the Government's Information Assurance Maturity Model (IAMM). The self-assessment, in combination with the risk assessments from the project undertaken to ensure that our woodland grant paying systems are compliant with ISO/IEC 27001, has identified a number of areas of risk where we will concentrate our efforts in the coming year. The areas include:

- improvements to business continuity and disaster recovery systems within central shared services;
- improvements to systems access controls; and
- further documentation of processes and procedures leading to less dependency on key staff.

Although this is of concern, in recent times we have suffered only one major systems failure. While our Information Services (IS) took immediate action to prevent a re-occurrence, further work is still required to address key areas of vulnerability. IS has now developed a longer term strategy to re-establish quality information services and technology. By the end of the financial year, we had made funds available to IS to start a significant investment programme in the ICT infrastructure to reduce the business risk from system failure. The work is described in the IS Infrastructure Proposal document, which overall has a 2-3 year incremental delivery time scale, subject to sufficient resources being available. New equipment recently purchased will allow IS to improve some of the more critical back-up and recovery arrangements as quickly as possible.

Further work is still required to establish an overall project plan encompassing all three of the key risk areas. This will be taken forward under the lead of Director Finance GB in his role as SIRO and as a member of the ICT Service Board.

We have a reporting system to capture all security incidents, which are investigated in accordance with Cabinet Office and Information Commissioners guidance. There have been no reportable incidents of personal information data loss during the year.

6. Review of effectiveness

As Agency Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by

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

The main risk for Forest Enterprise England is managing the consequences of current and expected reductions in public expenditure.

During 2009-10 the Agency brought in interim enabling resource from PricewaterhouseCoopers to assist in improving cash and working capital management and reporting.

Forest Enterprise England is reliant on Shared Services for many of its Human Resources, Information Services and Finance requirements. The governance and funding of these services, and their links to country based support functions, is under review to ensure that they can meet the needs of their customers through an annual review process.

The Forestry Commission strove to meet the Treasury Trigger Points during 2009-10 for the introduction of International Financial Reporting Standards (IFRS). For Trigger Point 3, Forest Enterprise England was required to prepare a complete set of IFRS shadow accounts by 10 September 2009. Trigger Point 4 required the NAO to complete its audit of the IFRS shadow accounts for 2008-09 and report its opinion to Forest Enterprise England by 31 December 2009.

The Agency received a qualified opinion due to a limitation of scope arising from insufficient evidence to support the application of IAS41: Agriculture. The significant issue relates to the estimation technique for determining costs to the point of sale in respect of biological assets. Further evidence supporting the cost of sales, together with additional evidence on other issues, was subsequently provided to NAO and accepted.

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

The overall opinion is that internal control within Forest Enterprise England continues to provide substantial assurance that material risks to the achievement of objectives are adequately managed. However, the Head of Internal Audit has highlighted that insufficient progress on some key business continuity planning and information assurance work has led to a limited opinion in respect of these items. Our action for dealing with this is covered under the paragraphs above headed Protecting Information in Government.

7. Significant internal control problems

There were no significant problems to report.

Simon Hodgson
Accounting Officer
15 July 2010

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

I certify that I have audited the financial statements of Forest Enterprise England for the year ended 31 March 2010 under the Government Resources and Accounts Act 2000. These comprise the Income and Expenditure Statement, the Statement of Financial Position, the Statement of Cash Flows, the Statement of 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 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 the financial statements in accordance with applicable law and 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 am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

OPINION ON REGULARITY

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

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 2010 and of its net deficit, changes in taxpayers' equity and cash flows 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 issued under the Government Resources and Accounts Act 2000; and
- the information given in the Management Commentary and Financial Commentary and the unaudited part of the Remuneration Report 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
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control 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

16 July 2010

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

INCOME AND EXPENDITURE STATEMENT

for the year ended 31 March 2010

		2009-10	2008-09
	Note	£000	RESTATED £000
Operating Income			
Sales of timber		24,510	24,953
Forest protection and maintenance		663	592
Management and development of estate	6	8,763	8,780
Gain on revaluation of biological assets	12	19,574	12,445
		53,510	46,770
Operating Expenditure			
Forest planning		(2,165)	(2,896)
Harvesting and haulage of timber		(12,234)	(12,020)
Value of timber felled	10/12	(12,741)	(13,264)
Forest roads		(3,102)	(2,891)
Forest protection and maintenance		(14,524)	(14,613)
New planting		(204)	(330)
Management and development of estate	6	(7,725)	(8,896)
		(52,695)	(54,910)
Operating surplus / (deficit)		815	(8,140)
Recreation, Conservation & Heritage			
Income		15,308	16,412
Expenditure		(32,468)	(31,972)
		(17,160)	(15,560)
Operating Deficit Net of R,C & H		(16,345)	(23,700)
Surplus/(deficit) on sale of properties	8	2,455	(1,338)
Deficit		(13,890)	(25,038)
Notional cost of capital	9	(26,184)	(21,841)
Net Deficit for the Year		(40,074)	(46,879)
Transferred to General Fund	19	(40,074)	(46,879)

There have been no acquisitions during the year.

All income and expenditure is derived from continuing operations.

The notes on pages 110 to 142 form part of these accounts

STATEMENT OF FINANCIAL POSITION

as at 31 March 2010

		31 March 2010	1 April 2009 RESTATED	1 April 2008 RESTATED
	Note	£000	£000	£000
Non-current assets:				
Property, plant and equipment	10	697,604	608,849	466,621
Biological assets	12	86,100	73,527	67,367
Financial assets	11	4,297	4,297	4,297
Trade and other receivables	15	8,697	8,102	7,721
Total non-current assets		796,698	694,775	546,006
Current assets				
Non-current assets held for sale	13	2,743	3,242	121
Inventories	14	1,180	1,107	1,136
Trade and other receivables	15	10,612	11,868	12,566
Cash and cash equivalents	16	17	22	35
Total current assets		14,552	16,239	13,858
Total assets		811,250	711,014	559,864
Current liabilities				
Provisions	18	(238)	(345)	(349)
Trade and other payables	17	(11,739)	(10,773)	(11,298)
Total current liabilities		(11,977)	(11,118)	(11,647)
Non-current assets plus net current assets		799,273	699,896	548,217
Non-current liabilities				
Provisions	18	-	(71)	(225)
Trade and other payables	17	(2,485)	(364)	-
Total non-current liabilities		(2,485)	(435)	(225)
Assets less liabilities		796,788	699,461	547,992
Taxpayers' equity				
General fund	19	337,679	335,748	341,267
Revaluation reserve	19	444,893	351,612	195,928
Donated asset reserve	19	2,072	1,507	1,567
Government grant reserve	19	12,144	10,594	9,230
Total taxpayers' equity		796,788	699,461	547,992

S Hodgson
Accounting Officer
15 July 2010

The notes on pages 110 to 142 form part of these accounts

STATEMENT OF CASH FLOWS

for the year ended 31 March 2010

		2009-10	2008-09
			RESTATED
	Note	£000	£000
Cash flows from operating activities			
Net deficit for the year		(40,074)	(46,879)
Adjustments for non-cash transactions:			
Depreciation	10	2,565	2,204
Donated asset reserve released	19	(37)	(21)
Government grant reserve released	19	(64)	(94)
Timing between accrual and cash VAT	19	494	49
Non-cash inter-country transfers	19	373	527
Profit on disposal of property	8	(3,200)	982
Profit on disposal of other property, plant and equipment		(88)	(19)
Gain on revaluation of OME	10	(18)	-
Impairment of property, plant and equipment and write off of revaluation reserve	19	75	2
Property, plant and equipment written off	10	10	8
Notional cost of capital	9	26,184	21,841
Movements in provisions	18	55	111
(Increase) in plant and seed (biological assets)	12	(148)	(317)
(Increase) / decrease in inventories	14	(73)	29
Decrease in trade and other receivables	15	661	317
Add increase in receivables relating to items not passing through the income and expenditure statement		(4,265)	-
Increase / (decrease) in trade and other payables	17	3,087	(161)
Add increase in payables relating to items not passing through the income and expenditure statement		-	7
Use of provisions	18	(233)	(269)
Net cash outflow from operating activities		(14,696)	(21,683)
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(1,788)	(3,649)
Proceeds of disposal of properties	8	7,734	3,391
Proceeds of disposal of other property, plant and equipment		64	28
Lease repayment		-	-
Adjustments for non cash transactions:			
Partnership lease revaluation		-	80
Gain on revaluation of biological assets	12	(19,574)	(12,447)
Value of fellings	10/12	12,741	13,264
Net cash inflow from investing activities		(823)	667
Cash flows from financing activities			
Deficit funded by Forestry Commission	19	14,251	18,648
Donations towards capital expenditure	19	406	400
Government grants towards capital expenditure	19	857	1,955
Net financing		15,514	21,003
Net increase in cash and cash equivalents in the period		(5)	(13)
Cash and cash equivalents at the beginning of the period		22	35
Cash and cash equivalents at the end of the period		17	22

The notes on pages 110 to 142 form part of these accounts

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

for the year ended 31 March 2010

	Note	General Fund RESTATED £000	Revaluation Reserve £000	Donated Asset Reserve £000	Government Grant Reserve £000	Total Reserves £000
Balance at 31 March 2008	3	341,601	195,594	1,567	9,230	547,992
Changes in accounting policy (New planting)		(334)	334	-	-	-
Restated balance at 1 April 2008		341,267	195,928	1,567	9,230	547,992
Changes in taxpayers' equity for 2008-09						
Net gain/(loss) on revaluation of property, plant and equipment		-	156,029	(439)	(497)	155,093
Non-cash charges - notional cost of capital	19a	21,841	-	-	-	21,841
Non-cash charges - timing between accrual and cash VAT	19a	49	-	-	-	49
Non-cash charges - inter-country transfers	19a	527	-	-	-	527
Realised element of revaluation reserve	19a/b	345	(345)	-	-	-
Transfer of property, plant and equipment (to)/from other Forestry Bodies		(50)	-	-	-	(50)
Receipt of government grants	19d	-	-	-	1,955	1,955
Receipt of donated assets	19c	-	-	400	-	400
Release of reserves to the income & expenditure statement	19c/d	-	-	(21)	(94)	(115)
Net (deficit) for the year		(46,879)	-	-	-	(46,879)
Total recognised income and expense for 2008-09		(24,167)	155,684	(60)	1,364	132,821
Cash deficit funded by Forestry Commission	19a	18,648	-	-	-	18,648
Balance at 31 March 2009		335,748	351,612	1,507	10,594	699,461
Balance at 31 March 2009	3	336,412	350,948	1,507	10,594	699,461
Changes in accounting policy (New planting 2007-08)		(334)	334	-	-	-
Changes in accounting policy (New planting 2008-09)		(330)	330	-	-	-
Restated balance at 1 April 2009		335,748	351,612	1,507	10,594	699,461
Changes in taxpayers' equity for 2009-10						
Net gain/(loss) on revaluation of property, plant and equipment		-	93,983	196	757	94,936
Non-cash charges – notional cost of capital	19a	26,184	-	-	-	26,184
Non-cash charges - timing between accrual and cash VAT	19a	494	-	-	-	494
Non-cash charges - inter-country transfers	19a	373	-	-	-	373
Realised element of revaluation reserve	19a/b	777	(777)	-	-	-
Transfer of property, plant and equipment (to)/from other Forestry Bodies		(74)	-	-	-	(74)
Receipt of government grants	19d	-	-	-	857	857
Receipt of donated assets	19c	-	-	406	-	406
Release of reserves to the income & expenditure statement	19b/c/d	-	75	(37)	(64)	(26)
Net (deficit) for the year		(40,074)	-	-	-	(40,074)
Total recognised income and expense for 2009-10		(12,320)	93,281	565	1,550	83,076
Cash deficit funded by Forestry Commission	19a	14,251	-	-	-	14,251
Balance at 31 March 2010		337,679	444,893	2,072	12,144	796,788

The notes on pages 110 to 142 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 2009-10 *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 Forest Enterprise England for the purpose of giving a true and fair view has been selected. 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, and derivative financial assets and derivative financial liabilities at fair value through profit or loss.

1.2 Capital charges

Notional charges, reflecting the cost of capital utilised by Forest Enterprise England have been included in the income and expenditure statement. The charge is calculated at the real rate set by HM Treasury (3.5%) on the average carrying amount of all assets less liabilities, except for cash balances held by the Office of the Paymaster General.

1.3 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

As at 31 March 2007 and 2008, Forest Enterprise England recognised a liability and an expense for performance-related pay. Non-consolidated, non-pensionable bonuses were paid to staff whose work performance was assessed as being a "Top Performer" in accordance with the Commission's performance management system. The bonus amount was at a standard amount depending on the employee's grade and is pro rated for part-time staff. The bonus system ceased with effect from the staff reporting year ending on 31 March 2009.

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 Monitoring 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.

1.4 Contingent liabilities

Forest Enterprise England discloses contingent liabilities in accordance with IAS 37. 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. Amounts reported to Parliament are separately noted at the amounts reported to Parliament.

1.5 Property, plant and equipment

Legal ownership of all land and buildings is vested in the Secretary of State with legal ownership of the timber, including uncut trees, vested in Forest Enterprise England. Legal ownership of other tangible fixed assets is vested in Forest Enterprise England. 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. See also 'Land and Buildings Leased to Customers' at 1.7 below, and 'Leases' at 1.13 below.

Until 31 March 2008 tangible fixed assets were revalued annually as at 31 March. With the agreement of HM Treasury, from 1 April 2008 onward revaluations shall take place on 1 April.

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'.

Trees Not Apportioned to Biological Assets

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 2007, Bidwells, Chartered Surveyors were appointed as the Commission's valuers as from the full valuation as at 1 April 2008. In accordance with Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Standards (the 'Red Book'), the Forest Estate land is valued 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 Bidwells who are contracted to undertake the work until 2012.

Forest Estate Land

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 Bidwells, 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 Bidwells who are contracted to undertake the work until 2012.

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 (1 April). 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 staff is reviewed by Bidwells. A full valuation took place on 1 April 2008.

Until 1 April 2009, Other Land values were restated between professional valuations using indices for Unequipped Agricultural Land provided by the District Valuer. Production of the indices ceased during 2009.

From 1 April 2010, the values of Other Land are restated by professionally qualified staff employed by Forest Enterprise England. Restatement is based on sample professional valuations and further details are in Note 2 'Critical Accounting Estimates and Judgements'.

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 (1 April). 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 1 April 2008 and Bidwells, Chartered Surveyors, reviewed this.

The value of Dwellings are restated between professional valuations using indices provided by the District Valuer. Until 1 April 2009, the value of Other Buildings was restated between professional valuations using indices for Warehouses and Offices provided by the District Valuer. Production of the Warehouses and Offices indices ceased in 2009. From 1 April 2010, the values of Other Buildings are restated by professionally qualified staff employed by Forest Enterprise England. Restatement is based on sample professional valuations and further details are in Note 2 'Critical Accounting Estimates and Judgements'.

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 Income and Expenditure Statement 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.

Plant and machinery

Forestry 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.

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 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 in taxpayers' equity. 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 Income and Expenditure Statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the Income and Expenditure Statement and depreciation based on the asset's original cost is transferred from 'revaluation reserve' to 'general fund'.

1.6 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:

Land held under a finance lease	- unexpired term of the lease
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 Income and Expenditure Statement.

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

1.7 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.

1.8 Government grants receivable

Grants from the government are recognised at their fair value when there is reasonable assurance that the grant will be received and Forest Enterprise England will comply with all attached conditions.

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

1.9 Subsidiaries, associates and joint ventures

Investments held in subsidiaries, associates or joint ventures that are outside the departmental boundary and where Forest Enterprise 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 financial asset policy below).

1.10 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 Bidwells, 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 Bidwells who are contracted to undertake the work until 2012.

Revaluation gains and losses are recognised in the Income and Expenditure Statement 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.

1.11 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.

1.12 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.

1.13 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 1.5 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 Income and Expenditure Statement 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.

1.14 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.

1.15 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 Income and Expenditure Statement.

1.16 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 Income and Expenditure Statement 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 Income and Expenditure Statement in the year in which it is incurred.

1.17 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.

1.18 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 Income and Expenditure Statement.

1.19 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.

(a) Computer software

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 of five to seven years.

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 Forest Enterprise 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 software product include the software development employee costs and an appropriate portion of relevant overheads.

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 recognised as assets are subsequently revalued to depreciated replacement cost and amortised over their estimated useful lives of five to seven years.

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 income statement.

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 Income and Expenditure Statement.

(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 Income and Expenditure Statement. 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 Income and Expenditure Statement.

(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 Income and Expenditure Statement. Dividends on available-for-sale equity instruments are recognised in the Income and Expenditure Statement 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 Income and Expenditure Statement. Impairment losses recognised in the Income and Expenditure Statement on equity instruments are not reversed through the income statement.

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 Office of the Paymaster General 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 income statement.

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 Income and Expenditure Statement.

(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 Restatement of prior year figures

From 1 April 2009, Forest Enterprise England has adopted a new accounting policy for Forest Estate new planting. Previously this was capitalised as part of the Forest Estate but from 1 April 2009, HM Treasury permission was received to recognise this expenditure in the Income and Expenditure Statement. 2007-08 and 2008-09 balances have been restated in accordance with IAS 8. A reconciliation of restated balances is provided in Note 30.

1.25 Effective in these Financial Statements

All International Financial Reporting Standards, Interpretations and Amendments effective at 31 March 2010 have been adopted in these statements, taking account of the specific interpretations and adaptations included within the FReM.

1.26 Effective for future Financial Years

The following IFRSs, IFRIC Interpretations and Amendments, applicable to the Forestry Commission, have been issued but are not yet effective and have not been adopted early.

IAS 24 Related Party Transactions (effective 1 January 2011) – The amendment exempts full disclosure of transactions with state-controlled entities and is not expected to impact the FReM's current exemption. IAS 24 also extends the definition of a related party to include relationships where joint control exists.

IFRS 9 Financial Instruments (effective 1 January 2013) – IFRS 9 replaces IAS 39 and introduces new requirements for the classification and measurement of financial assets. Further proposals are to be introduced during 2010 and the Commission will undertake an assessment of the impact of IFRS 9 once these are known.

From 2010-11, the FReM includes other changes including removal of the Cost of Capital. This affects the charge to the Operating Cost Statement and the Statement of Changes in Taxpayer's Equity (where the sum is reversed). For 2009-10 the charge Net Deficit of Forest Enterprise England includes a charge of £26,184k.

NOTE 2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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 detailed review of the designations shall normally take place on a 5-yearly cycle to coincide with the professional valuation of land. Accounts from 2007-08 are based on the analysis of the agency's land records as at 1 April 2008. The next formal review will take place prior to the professional valuation in 2012.

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

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 1 April 2008. 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 considers that a reasonable reflection of typical sales costs for the estate as a whole may be estimated by using the average cumulative costs and fair values over the previous three years. For 2007-08 to 2009-10 costs are estimated to be 4.5% of the Fair Value.

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.

Following the discontinuation of the District Valuer's indices in 2009, annual revaluation of Other Land is carried out by Forest Enterprise England's internal professionally qualified staff. Revaluation is based on a sample basis and is stratified to take account of the forest district location, land use and local markets and costs. The sample and valuations are approved by the Head of Estates. The basis of the sampling and valuations will be reviewed annually.

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.

Following the discontinuation of the District Valuer's indices for Warehouses and Other Buildings in 2009, annual revaluation of Other Buildings is carried out by Forest Enterprise England's internal professionally qualified staff. Revaluation is based on a sample basis and is stratified to take account of the forest district location, building type, use and local markets and costs. The sample and valuations are approved by the Head of Estates. The basis of the sampling and valuations will be reviewed annually.

NOTE 3 FIRST TIME ADOPTION OF IFRS

	General Fund	Revaluation Reserve	Donated Asset Reserve	Government Grant Reserve	Total Reserves
	£000	£000	£000	£000	£000
Taxpayers' equity at 1 April 2008 under UK GAAP	350,346	247,340	1,567	9,230	608,483
Adjustments for:					
IAS 19 Pay in lieu of untaken annual leave 2007-08 accrual	(1,416)	-	-	-	(1,416)
IAS 19 Performance related pay bonus accrual 2007-08	(179)	-	-	-	(179)
IAS 17 Leases	(32,321)	(23,140)	-	-	(55,461)
IAS 41 Agriculture	25,171	(28,584)	-	-	(3,413)
IFRS 5 Non Current Assets Held for Sale	-	(22)	-	-	(22)
Taxpayers' equity at 1 April 2008 under IFRS	341,601	195,594	1,567	9,230	547,992
Taxpayers' equity at 31 March 2009 under UK GAAP	348,497	404,154	1,507	10,594	764,752
Adjustments for:					
1 April 2008 IFRS adjustments	(8,745)	(51,746)	-	-	(60,491)
IAS 19 Pay in lieu of untaken annual leave increase	(61)	-	-	-	(61)
IAS 19 Performance related pay bonus accrual decrease	174	-	-	-	174
IAS 17 Leases	(651)	-	-	-	(651)
Adjustment for timber harvested	(13,264)	-	-	-	(13,264)
IFRS 5 Non Current Assets Held for Sale	(1,647)	(107)	-	-	(1,754)
IAS 41 Agriculture	12,109	(1,353)	-	-	10,756
Taxpayers' equity at 1 April 2009 under IFRS	336,412	350,948	1,507	10,594	699,461
					£000
Net operating deficit for 2008-09 under UK GAAP					(45,399)
Adjustments for:					
IAS 19 Pay in lieu of untaken annual leave accrual 2007-08 reversal					1,416
IAS 19 Pay in lieu of untaken annual leave accrual 2008-09					(1,477)
IAS 19 Performance related pay bonus accrual 2007-08 reversal					179
IAS 19 Performance related pay bonus accrual 2008-09					(5)
IAS 41 Agriculture					12,109
IAS 17 Leases					(651)
Timber Harvested					(13,264)
Disposal of Non Current Assets Held for Sale property IFRS 5					(1,647)
Notional cost of capital decrease					2,190
Net operating deficit for 2008-09 under IFRS					(46,549)

2007-08 and 2008-09 balances have subsequently been restated due to a change in accounting policy relating to new plantings. Note 30 provides a reconciliation of the restatement.

No cash equivalents were held by the Agency at 1 April 2008 or 31 March 2009

IFRS adjustments rationale:

IAS 19 Pay in lieu of untaken annual leave accrual 2007-08 and 2008-09: in accordance with IAS 19 Employee Benefits, accruals have been made in respect of carried forward employee annual leave at 31 March 2008 and 31 March 2009.

IAS 19 Performance related pay bonus accrual 2007-08 and 2008-09: in accordance with IAS 19 Employee Benefits, accruals have been made in respect of unpaid performance related pay bonuses for the performance year at 31 March 2008 and 31 March 2009.

IAS 41 Agriculture – Adoption of IAS 41 Agriculture 2007-08 and 2008-09: in accordance with IAS 41 Agriculture, adjustments have been made to identify biological assets and re-classify from the forest estate, plant and seed stocks and timber stocks.

IAS 17 Leases – Re-classification of finance leases for land: in accordance with IAS 17 Leases, land leases formerly classed as Finance have been re-classified as Operating. The carrying value of leased land has been deducted from the forest estate and the lease creditor value has also been adjusted.

Leased land under a partnership agreement with forest holidays has been re-classified and moved to other land from trade receivables.

Adjustment for value of timber harvested 2008-09: timber fellings have been re-classified and adjusted at 31 March 2009 as follows:

Fellings for forest estate timber £8,089,000.
Fellings from timber classified as biological assets £5,175,000.

Adjustment for new planting additions 2008-09: new planting additions in 2008-09 have been re-classified and transferred from forest estate additions to forest protection and maintenance in the Income and Expenditure Statement.

Disposal of Non Current Assets Held for Sale (NCAHFS): The book value of NCAHFS property disposed in 2008-09, this has been charged to the Income and Expenditure Statement under IFRS 5.

Notional cost of capital: the notional cost of capital has been recalculated based on IFRS total assets less cash and cash equivalents, less total liabilities at 31 March 2009.

NOTE 4 SEGMENT 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 5 STAFF NUMBERS AND RELATED COSTS

5 (a) Employee benefit expense

	<u>2009-10</u>	<u>2008-09</u>
	£000	£000
Wages and salaries	23,597	22,086
Social security costs	1,643	1,531
Other pension costs	4,073	3,838
Agency/temporary staff	461	132
Total costs	<u>29,774</u>	<u>27,587</u>

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-pensions.gov.uk).

For 2009-10, employers' contributions of £3,971,000 were payable to the PCSPS (2008-09 £3,826,000) 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. From 2010-11, the rates will be in the range 16.7% to 24.3%. The contribution rates are set to meet the cost of the benefits

accruing during 2009-10 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 £51,000 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 £3,500 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.

2 individuals retired early on ill health grounds; the total additional accrued pension liabilities in the year amounted to £3,219 (2008-09: £624).

5 (b) Average number of persons employed

Average number of whole-time equivalent persons employed:

	2009-10		2008-09
	Permanently employed staff	Others	Total
	Number	Number	Number
Directly employed	914	68	982
Other	-	13	13
Total	914	81	995

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

- (i) Advances of salary for house purchase;
- (ii) Advances of salary for purchase of public transport and car park season tickets;
- (iii) Advances of salary for purchase of sports/health club membership;
- (iv) Advances of salary for purchase of IT and sports/health equipment, including bicycles; and
- (v) Car provision for employees scheme.

Each scheme is subject to conditions and financial limits.

NOTE 6 MANAGEMENT AND DEVELOPMENT OF ESTATE

Management and development of estate income and expenditure is stated as:

	Income	Expenditure	2009-10 Net	2008-09 Net
	£000	£000	£000	£000
Estate management	3,764	(3,933)	(169)	(590)
Other	4,999	(3,792)	1,207	474
Total	8,763	(7,725)	1,038	(116)

Estate management reflects the income and expenditure of managing the non-forested estate which comprises, farms, agricultural land and all other lettings. It also includes income and expenditure relating to non-current assets held for sale.

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

NOTE 7 OPERATING DEFICIT

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

		<u>2009-10</u>	<u>2008-09</u>
	Note	£000	£000
Hire of plant and equipment		1,087	1,481
Operating lease rentals -			
Land & buildings		480	457
Plant and machinery		277	494
Auditors' remuneration		100	85
Shared central services		5,528	4,456
Non-cash costs:			
Provisions –			
Provided in year	18	280	279
Provisions not required written back	18	(234)	(176)
Provisions utilised in year	18	(233)	(269)
Unwinding of discount	18	9	8
Depreciation of property, plant and equipment	10	2,565	2,204

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 8 GAIN/(LOSS) ON SALE OF PROPERTIES

	<u>2009-10</u>	<u>2008-09</u>
	£000	£000
Income	7,734	3,391
Less book value	<u>(4,534)</u>	<u>(4,373)</u>
	3,200	(982)
Less disposal costs		
External costs	(403)	(100)
Administration expenses	<u>(342)</u>	<u>(256)</u>
	(745)	(356)
Gain/(Loss) on sale of properties	<u>2,455</u>	<u>(1,338)</u>

NOTE 9 COST OF CAPITAL

Notional cost of capital based on 3.5% of average total assets less any balances held with the Office of Paymaster General (2009-10: £nil) less total liabilities employed in 2009-10 amounted to £26,184,000 (2008-09: £21,841,000).

NOTE 10 PROPERTY, PLANT AND EQUIPMENT

	Forest Estate	Other Land	Forest Holidays Land	Dwellings and Other Buildings	VME	OME	POA & AUC	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Valuation:								
At 1 April 2009	444,358	100,300	1,542	66,324	5,441	239	5,246	623,450
Additions	56	-	-	-	4,386	25	323	4,790
Donations/government grants	-	-	-	-	-	-	1,263	1,263
Transfers	-	-	-	5,931	(15)	-	(6,000)	(84)
Transfer to NCAHFS	(1,120)	-	-	(563)	-	-	-	(1,683)
Disposals	-	-	-	(530)	(520)	(36)	-	(1,086)
Fellings	(7,673)	-	-	-	-	-	-	(7,673)
Write-off	-	-	-	-	-	-	(10)	(10)
Revaluation	92,846	1,359	-	2,042	638	28	-	96,913
At 31 March 2010	528,467	101,659	1,542	73,204	9,930	256	822	715,880
Depreciation:								
At 1 April 2009	-	-	-	10,561	3,933	107	-	14,601
Provided during year	-	-	-	2,036	480	49	-	2,565
Transfers	-	-	-	-	(10)	-	-	(10)
Transfer to NCAHFS	-	-	-	(50)	-	-	-	(50)
Disposals	-	-	-	(184)	(482)	(30)	-	(696)
Revaluation	-	-	-	1,633	223	10	-	1,866
At 31 March 2010	-	-	-	13,996	4,144	136	-	18,276
Net book value at 31 March 2010	528,467	101,659	1,542	59,208	5,786	120	822	697,604
Net book value at 1 April 2009	444,358	100,300	1,542	55,763	1,508	132	5,246	608,849
Net book value at 1 April 2008	361,657	41,693	1,542	53,783	971	150	6,825	466,621
Asset Financing:								
Owned	528,467	101,659	1,542	59,208	2,120	120	822	693,938
Finance leased	-	-	-	-	3,666	-	-	3,666
Net book value at 31 March 2010	528,467	101,659	1,542	59,208	5,786	120	822	697,604

	Forest Estate RESTATED	Other Land	Forest Holidays Land	Dwellings and Other Buildings	VME	OME	POA & AOC	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Valuation:								
At 1 April 2008	361,657	41,693	1,542	63,214	4,744	265	6,825	479,940
Additions	-	-	-	-	877	36	706	1,619
Donations/government grants	-	-	-	-	-	-	2,355	2,355
Transfers	(3,617)	-	-	4,632	(308)	-	(4,632)	(3,925)
Disposals	(810)	(10)	-	(2,389)	(188)	(61)	-	(3,458)
Fellings	(8,089)	-	-	-	-	-	-	(8,089)
Write-off	-	-	-	-	-	-	(8)	(8)
Revaluation	95,217	58,617	-	867	316	-	-	155,017
Impairment	-	-	-	-	-	(1)	-	(1)
At 1 April 2009	444,358	100,300	1,542	66,324	5,441	239	5,246	623,450
Depreciation:								
At 1 April 2008	-	-	-	9,431	3,773	115	-	13,319
Provided during year	-	-	-	1,782	371	51	-	2,204
Donations/government grants	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	(258)	-	-	(258)
Disposals	-	-	-	(652)	(179)	(58)	-	(889)
Revaluation	-	-	-	-	226	-	-	226
Impairment	-	-	-	-	-	(1)	-	(1)
At 1 April 2009	-	-	-	10,561	3,933	107	-	14,601
Net book value:								
At 1 April 2009	444,358	100,300	1,542	55,763	1,508	132	5,246	608,849
At 1 April 2008	361,657	41,693	1,542	53,783	971	150	6,825	466,621
Asset financing:								
Owned	444,358	100,300	1,542	55,763	791	132	5,246	608,132
Finance leased	-	-	-	-	717	-	-	717
Net book value at 1 April 2009	444,358	100,300	1,542	55,763	1,508	132	5,246	608,849
Owned	361,657	41,693	1,542	53,783	971	150	6,825	466,621
Finance leased	-	-	-	-	-	-	-	-
Net book value at 1 April 2008	361,657	41,693	1,542	53,783	971	150	6,825	466,621

Bidwells, Chartered Surveyors carried out a professional valuation of the Forest Estate and Biological Assets as at 1 April 2008. The next professional valuation is due on 1 April 2012. In the intervening years, the assets are revalued using specialist forestry indices developed and provided by Bidwells.

Other Land, Dwellings and Other Buildings were valued as at 1 April 2008 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 Bidwells. The next professional valuation is due on 1 April 2012. In the intervening years, the assets are revalued using relevant indices.

Until 1 April 2009, indices for Other Land and Other Buildings were provided by the District Valuer. These have now been discontinued and from the 2009-10 annual accounts, indices or other information about valuation changes are provided by professionally qualified staff employed by Forest Enterprise England and approved by Mr Mark Thornycroft, FRICS. The District Valuer's indices for Dwelling Houses were not discontinued and are used to revalue dwellings.

Plant and Machinery was valued as at 31 March 2005. Professionally qualified staff employed by the Forestry Commission valued specialist forestry machinery. All other assets were valued using indices provided by the Office of National Statistics (ONS). In the intervening years, revaluations have been on the basis of the ONS indices or internal professional staff as appropriate. At 31 March 2010, all light vehicles held under finance leases were professionally valued by CAP, a specialist provider of valuation data on vehicles. Cars and Light Vehicles owned by

Forest Enterprise were valued by internal staff, taking account of the CAP valuation data. Specialist forestry machinery (owned and held under finance lease) were valued by professionally qualified staff employed by the Forestry Commission.

Office machinery and equipment (OME) was restated to a current value of £120,000 at 31 March 2010 using an index provided by the ONS.

Additions to assets under construction included £406,000 funded by donations, £857,000 funded by UK government grants and £nil funded by EU grants.

Depreciation expense of £2,565,000 (2008-09: £2,204,000) has been charged in the Income and Expenditure Statement.

NOTE 11 INVESTMENTS

	<u>31 March 2010</u>	<u>1 April 2009</u>	<u>1 April 2008</u>
	£000	£000	£000
As at 1 April	4,297	4,297	3,173
Revaluation	-	-	1,124
At 31 March	4,297	4,297	4,297

The investment represents Forest Enterprise England's share in the limited liability partnership between the Forestry Commissioners and the Camping and Caravanning Club to operate holiday facilities within the Forestry Commission's land holdings.

The investment is valued annually at 28 February on an open market basis by Barrs & Co, specialist leisure consultants and valuers.

NOTE 12 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 carrying value of total biological assets was £86,100,000 at 31 March 2010 (2008-09: £73,527,000) comprising:

Plant and seed £2,873,000 (2008-09: £2,724,000).

Timber £83,227,000 (2008-09: £70,803,000).

	<u>2009-10</u>	<u>2008-09</u>
	£000	£000
At 1 April	73,527	67,367
Fellings	(5,068)	(5,175)
Movement on plant and seed	149	317
Transferred to NCAHFS	(2,082)	(1,290)
Disposals	-	(169)
Gains and losses arising from changes in fair values	19,574	12,477
At 31 March	86,100	73,527

Bidwells Chartered Surveyors revalued the forest estate including biological assets. The next full revaluation is due as at 1 April 2013. For 2009-10, valuations were updated using indexation information provided by Bidwells

Chartered Surveyors. 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 Income and Expenditure Statement 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 and assess how these may impact on funding requirements. Discussions on these impacts are also held with Forestry Commission Great Britain/England and the Department of Environment, Food and Rural Affairs (Defra) to consider the effect on their Resource requirements.

NOTE 13 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 2011.

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
	£000	£000	£000
Opening balance at 1 April 2008	121	-	121
Additions (transfers in)	4,907	309	5,216
Disposals	(1,647)	(309)	(1,956)
Revaluation	(139)	-	(139)
Balance at 1 April 2009	3,242	-	3,242
Additions (transfers in)	3,201	513	3,714
Disposals	(3,621)	(501)	(4,122)
Revaluation	(79)	(12)	(91)
Closing balance at 31 March 2010	2,743	-	2,743

NOTE 14 INVENTORIES

	<u>31 March 2010</u>	<u>1 April 2009</u>	<u>1 April 2008</u>
	£000	£000	£000
Timber	505	573	587
Consumable materials, supplies and livestock	675	534	549
Total	1,180	1,107	1,136

NOTE 15 TRADE AND OTHER RECEIVABLES

15(a) Analysis by type

	<u>31 March 2010</u>	<u>1 April 2009</u>	<u>1 April 2008</u>
	£000	£000	£000
Current			
Trade receivables	8,544	8,210	7,825
Less provision for impairment of trade receivables	(11)	(67)	(57)
Trade receivables – net	<u>8,533</u>	<u>8,143</u>	<u>7,768</u>
Other trade receivables	-	18	25
House purchase loans to employees	20	24	52
Partnership lease	321	-	394
Prepayments and accrued income	1,738	3,683	4,327
	<u>10,612</u>	<u>11,868</u>	<u>12,566</u>
Non Current			
Partnership loan	4,463	3,565	3,565
Partnership lease	4,049	4,369	3,994
House purchase loans to employees	157	168	162
Operating lease accrued rent	28	-	-
	<u>8,697</u>	<u>8,102</u>	<u>7,721</u>

The Advances of Salary for House Purchase scheme had loans with an outstanding balance of £2,500 or more to 14 members of staff at 31 March 2010 (2008-09: £2,500 or more, relating to 20 employees). The total outstanding value of all loans was £177,000 (2008-09: £192,000). 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.

All non-current receivables are due within 22 years from 31 March 2010.

As at 31 March 2010, trade receivables of £7,218,000 (2008-09: £5,527,000) were fully performing and not past due or impaired and provided for.

As at 31 March 2010, trade receivables of £1,315,000 (2008-09: £2,616,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	<u>31 March 2010</u>	<u>1 April 2009</u>	<u>1 April 2008</u>
	£000	£000	£000
Less than one month	688	889	861
One to three months	588	728	787
More than three months	39	999	308
	<u>1,315</u>	<u>2,616</u>	<u>1,956</u>

As of 31 March 2010, trade receivables totalling £11,000 (2008-09: £67,000) were impaired and also provided for. These relate to 11 debts analysed as follows:

	<u>31 March 2010</u>	<u>1 April 2009</u>
	£000	£000
Customers in administration/ ceased trading	1	63
Legal action pending / underway	7	-
Other	3	4
	<u>11</u>	<u>67</u>

The ageing of the trade receivables provided for is as follows:-

	<u>31 March 2010</u>	<u>1 April 2009</u>	<u>1 April 2008</u>
	£000	£000	£000
Less than one month	-	1	3
One to three months	-	25	9
More than three months	11	41	45
	<u>11</u>	<u>67</u>	<u>57</u>

Movements in the provision for impairment of trade receivables are as follows:

	<u>£000</u>
At 1 April 2008	57
Provision for receivables impairment	67
Receivables written off during the year as uncollectable	(49)
Unused amounts reversed	(8)
At 1 April 2009	67
Provision for receivables impairment	4
Receivables written off during the year as uncollectable	(50)
Unused amounts reversed	(10)
At 31 March 2010	11

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. Forest Enterprise England does not hold any collateral as security.

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

	<u>31 March 2010</u>	<u>1 April 2009</u>	<u>1 April 2008</u>
	£000	£000	£000
GBP Sterling	<u>19,309</u>	<u>19,970</u>	<u>20,287</u>

15(b) Intra-Government Balances

	<u>Current</u>			<u>Non-Current</u>		
	<u>31 March 2010</u>	<u>1 April 2009</u>	<u>1 April 2008</u>	<u>31 March 2010</u>	<u>1 April 2009</u>	<u>1 April 2008</u>
	£000	£000	£000	£000	£000	£000
Balances with other central government bodies	101	54	17	-	-	-
Balances with local authorities	147	267	253	-	-	-
Balances with public corporations and trading funds	-	-	-	-	-	-
Intra-government balances	<u>248</u>	<u>321</u>	<u>270</u>	-	-	-
Balances with bodies external to government	10,364	11,547	12,296	8,697	8,102	7,721
Total	10,612	11,868	12,566	8,697	8,102	7,721

NOTE 16 CASH AND CASH EQUIVALENTS

	<u>£000</u>
Balance at 1 April 2008	35
Net change in cash and cash equivalent balances	(13)
Balance at 1 April 2009	22
Net change in cash and cash equivalent balances	(5)
Balance at 31 March 2010	17

	31 March 2010	1 April 2009	1 April 2008
	£000	£000	£000
The following balances were held at:-			
Office of HM Paymaster General	-	-	-
Commercial banks and cash in hand	17	22	35
Short term investments	-	-	-
Total	17	22	35

NOTE 17 TRADE AND OTHER PAYABLES

17(a) Analysis by type

	31 March 2010	1 April 2009	1 April 2008
	£000	£000	£000
Current:			
Trade payables	2,921	4,026	5,112
Other payables	304	349	122
Taxation and social security costs	110	98	401
Accruals and deferred income	7,218	6,047	5,645
Current part of finance leases	1,113	202	-
Payments received on account	73	51	18
	11,739	10,773	11,298
Non-current:			
Payments received on account (non current)	19	-	-
Finance leases	2,466	364	-
	2,485	364	-

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:

	31 March 2010	1 April 2009	1 April 2008
	£000	£000	£000
GBP Sterling	14,224	11,137	11,298

17(b) Intra-Government Balances

	Current			Non-Current		
	31 March 2010	1 April 2009	1 April 2008	31 March 2010	1 April 2009	1 April 2008
	£000	£000	£000	£000	£000	£000
Balances with other central government bodies	2	102	403	-	-	-
Balances with local authorities	27	153	124	-	-	-
Balances with NHS Trusts	-	-	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-	-	-
Intra-government balances	29	255	527	-	-	-
Balances with bodies external to government	11,710	10,518	10,771	2,485	364	-
Total	11,739	10,773	11,298	2,485	364	-

NOTE 18 PROVISIONS FOR LIABILITIES AND CHARGES

	Early departure costs	Public legal claims	Other legal claims	Total
	£000	£000	£000	£000
Balance at 1 April 2008	196	112	266	574
Provided in the year	8	148	123	279
Provisions not required written back	-	(64)	(112)	(176)
Provisions utilised in the year	(123)	(32)	(114)	(269)
Unwinding of discount	8	-	-	8
Balance at 1 April 2009	89	164	163	416
Provided in the year	1	92	187	280
Provisions not required written back	-	(96)	(138)	(234)
Provisions utilised in the year	(77)	(33)	(123)	(233)
Unwinding of discount	9	-	-	9
Balance at 31 March 2010	22	127	89	238

Analysis of expected timing of discounted cash flows:

	Early departure costs	Public legal claims	Other legal claims	Total
	£000	£000	£000	£000
In the remainder of the Spending Review period to 31 March 2011	22	127	89	238
Balance at 31 March 2010	22	127	89	238

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 19 TAXPAYER'S EQUITY

19 (a) General Fund

	2009-10	2008-09 RESTATED
	£000	£000
Opening balance at 31 March	336,412	341,601
Changes in accounting policy (New planting 2007-08)	(334)	(334)
Changes in accounting policy (New planting 2008-09)	(330)	-
Restated balance at 1 April	335,748	341,267
Movement in year:		
Net deficit for the year	(40,074)	(46,879)
Notional cost of capital	26,184	21,841
Cash deficit funded by Forestry Commission	14,251	18,648
Transfers of property, plant and machinery to other Forestry Bodies	(74)	(50)
Transferred to general fund (realised element of revaluation reserve)	777	345
Timing between accrual and cash VAT	494	49
Non-cash inter-country transfers	373	527
Balance at 31 March	337,679	335,748

19(b) Revaluation reserve

	2009-10	2008-09
	£000	£000
Opening balance at 1 April	350,948	195,594
Opening balance adjustment – new plantings 2007-08	334	334
Opening balance adjustment – new plantings 2008-09	330	-
Restated balance at 1 April	351,612	195,928
Arising on revaluation during the year:		
Forest estate	92,755	95,440
Land	1,359	58,696
Dwellings and other buildings	(546)	1,804
VME	415	89
	93,983	156,029
Transferred to general fund (realised element of revaluation reserve)	(777)	(345)
Write off of Revaluation Reserve	75	-
Balance at 31 March	444,893	351,612

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

	2009-10	2008-09
	£000	£000
Dwellings and other buildings	(777)	(345)
	(777)	(345)

19 (c) Donated asset reserve

	2009-10	2008-09
	£000	£000
Balance at 1 April	1,507	1,567
Additions during the year	406	400
Revaluation	196	(439)
Release to I&E	(37)	(21)
Balance at 31 March	2,072	1,507

19 (d) Government grant reserve

	UK	EU	2009-10 Total	2008-09
	£000	£000	£000	£000
Balance at 1 April	8,062	2,532	10,594	9,230
Additions during the year	857	-	857	1,955
Revaluations	559	198	757	(497)
Release to I&E	(50)	(14)	(64)	(94)
Balance at 31 March	9,428	2,716	12,144	10,594

NOTE 20 FINANCIAL INSTRUMENTS

20(a) Investments in non-public sector bodies (Available for sale financial assets)

	2009-10 £000	2008-09 £000
At 1 April	4,297	4,297
Additions	-	-
Net gains/losses transfer from equity	-	-
Net gains/losses transfer to equity	-	-
At 31 March	4,297	4,297

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

20(b) Financial Instruments by category

	31 March 2010			1 April 2009			1 April 2008		
	Loans and Receivables £000	Available-for-Sale £000	Total £000	Loans and Receivables £000	Available-for-Sale £000	Total £000	Loans and Receivables £000	Available-for-Sale £000	Total £000
Assets as per statement of financial position									
Available-for-sale financial assets	-	4,297	4,297	-	4,297	4,297	-	4,297	4,297
Trade & other receivables (excluding prepayments)	17,571	-	17,571	16,287	-	16,287	15,566	-	15,566
Cash & cash equivalents	17	-	17	22	-	22	35	-	35
Total	17,588	4,297	21,885	16,309	4,297	20,606	15,601	4,297	19,898

	31 March 2010		1 April 2009		31 March 2008	
	Other financial liabilities £000	Total £000	Other financial liabilities £000	Total £000	Other financial liabilities £000	Total £000
Liabilities as per the Statement of Financial Position						
Finance lease liabilities	3,579	3,579	566	566	-	-
Trade and other payables excluding statutory liabilities	8,268	8,268	8,113	8,113	8,401	8,401
Total	11,847	11,847	8,679	8,679	8,401	8,401

20 (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 15 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 5 years	Over 5 years
	£000	£000	£000
At 31 March 2010			
Finance lease liabilities	1,113	2,431	35
Trade and other payables excluding statutory liabilities	8,250	3	15
Total	9,363	2,434	50
	Less than 1 year	Between 1 and 5 years	Over 5 years
	£000	£000	£000
At 1 April 2009			
Finance lease liabilities	202	362	2
Trade and other payables excluding statutory liabilities	8,113	-	-
Total	8,315	362	2

	Less than 1 year	Between 1 and 5 years	Over 5 years
	£000	£000	£000
At 31 March 2008			
Finance lease liabilities	200	481	2
Trade and other payables excluding statutory liabilities	8,401	-	-
Total	8,601	481	2

(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.

20 (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.

20 (e) Fair Value Estimation

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

NOTE 21 CAPITAL COMMITMENTS

	<u>31 March 2010</u>	<u>1 April 2009</u>	<u>1 April 2008</u>
	£000	£000	£000
Property, plant and equipment	<u>30</u>	<u>472</u>	<u>1,793</u>

Amounts contracted for but not provided in the accounts amounted to £30,000 and relate to the Wyre Project building works. (In prior years, relating to building works at the Grizedale Visitor Centre).

NOTE 22 COMMITMENTS UNDER LEASES

22(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 2010</u>	<u>1 April 2009</u>	<u>1 April 2008</u>
	£000	£000	£000
Land:			
Not later than one year	87	73	102
Later than one year and not later than five years	331	286	404
Later than five years	61,676	49,978	53,166
	<u>62,094</u>	<u>50,337</u>	<u>53,672</u>
Buildings:			
Not later than one year	393	384	214
Later than one year and not later than five years	1,408	1,499	1,536
Later than five years	2,319	2,587	2,935
	<u>4,120</u>	<u>4,470</u>	<u>4,685</u>
Plant and machinery:			
Not later than one year	277	494	344
Later than one year and not later than five years	202	1,314	1,312
Later than five years	-	10	-
	<u>479</u>	<u>1,818</u>	<u>1,656</u>

22(b) Finance leases

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

	<u>31 March 2010</u>	<u>1 April 2009</u>	<u>1 April 2008</u>
	£000	£000	£000
Obligations under finance leases comprise:			
Plant and Machinery			
Not later than one year	1,346	209	209
Later than one year and not later than five years	2,727	372	496
Later than five years	39	2	2
	<u>4,112</u>	<u>583</u>	<u>707</u>
Less: interest element	(533)	(17)	(24)
	<u>3,579</u>	<u>566</u>	<u>683</u>

NOTE 23 OTHER FINANCIAL COMMITMENTS

Forest Enterprise England has entered into non-cancellable contracts for artist fees and stage rental for the 'Forest Concert Tour 2010' (2008-09: 'Forest Concert Tour 2009'; 2007-08: 'Forest Concert Tour 2008') 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:

	<u>31 March 2010</u>	<u>1 April 2009</u>	<u>1 April 2008</u>
	£000	£000	£000
Not later than one year	<u>2,651</u>	<u>2,306</u>	<u>2,060</u>

NOTE 24 LEASE RECEIVABLES

24(a) Operating leases

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

	<u>2009-10</u>	<u>2008-09</u>
	£000	£000
Not later than one year	2,319	1,907
Later than one year and not later than five years	6,709	4,556
Later than five years	9,857	8,822
	<u>18,885</u>	<u>15,285</u>

Forest Enterprise England leases land and buildings under agreements that terminate between June 2010 and March 2030.

The Forest Holidays partnership land lease receivable is £109,809 per annum and terminates in March 2080.

24(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 2010</u>	<u>1 April 2009</u>
	£000	£000
Not later than one year	313	302
Later than one year and not later than five years	1,250	1,210
Later than five years	20,627	20,261
	<u>22,190</u>	<u>21,773</u>
Less: interest element	(18,070)	(17,610)
	<u>4,120</u>	<u>4,163</u>

NOTE 25 CONTINGENT LIABILITIES DISCLOSED UNDER IAS 37

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

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

This is a contingent liability in line with IAS 37 due to the legal uncertainty regarding the chain of liability of Forest Enterprise England as a successor body, and the absence of a sufficiently reliable estimate of the possible obligation and its timing.

NOTE 26 LOSSES AND SPECIAL PAYMENTS

	2009-10		2008-09	
	Number	£000	Number	£000
Losses total	75	106	39	99
Special payments total	74	176	146	169
	149	282	185	268

NOTE 27 RELATED PARTY TRANSACTIONS

The Forestry Commission Great Britain/England is regarded as a related party. During the year, Forest Enterprise England has had a significant number of material transactions with the 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 H M Treasury, UK Co-ordinating Body, the Paymaster General's Office, HM Revenue and Customs, the Department for the Environment, Food and Rural Affairs, Communities and Local Government, the North West Development Agency and Yorkshire Forward.

The following additional transactions were carried out with related parties:

27(a) Sales of goods and services:

The value of purchases from Forest Enterprise England in the year to 31 March 2010 were:

	2009-10	2008-09
	£000	£000
BSW Timber plc	624	-
Howie Forest Products Ltd	635	-
Total	1,259	-

Year-end balances arising from sale of goods and services:

Amounts owing to Forest Enterprise England at 31 March 2010 were:

	2009-10	2008-09
	£000	£000
BSW Timber plc	372	-
Howie Forest Products Ltd	89	-
Total	461	-

The above transactions, for timber sale occurred on an arms length basis and are disclosed as 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 from this date have also been disclosed.

27(b) Other

The daughter of one of the members of the Forest Enterprise England Management Board received remuneration of £962 in her role as an administration officer.

27(c) Key management compensation

Key management personnel are deemed to be the members of the Forest Enterprise England Management Board.

Refer to the Remuneration Report for further details of the remuneration of Board members.

NOTE 28 THIRD PARTY ASSETS

No third party assets were held in Forest Enterprise England bank accounts at 31 March 2010 (2008-09: £nil).

NOTE 29 FINANCIAL PERFORMANCE MEASURES

The financial performance measures set by the National Committee for England for 2009-10 and the actual outturns achieved were:

	<u>2009-10</u>	<u>Target</u>
	£000	2009-10
		£000
Operating deficit	40,074	53,409
Cash deficit	14,696	22,599
Gross receipts from sale of properties	7,798	10,000

NOTE 30 RECONCILIATION OF PRIOR YEAR RESTATEMENT

From 1 April 2009, Forest Enterprise England has adopted a new accounting policy for Forest Estate new planting. Previously this was capitalised as part of the Forest Estate but from 1 April 2009, HM Treasury permission was received to recognise this expenditure in the I&E. 2007-08 and 2008-09 balances have been restated in accordance with IAS8.

	<u>£000</u>
New planting 2007-08	334
New planting 2008-09	330
Total	664

The following balances were restated:-

		Per 2008-09 Shadow Accounts	Restated Balance	Adjustment	Description of Adjustment
Note		£000	£000	£000	
Income and Expenditure Statement					
Operating expenditure	I&E	(54,580)	(54,910)	330	0809 new planting expenditure recognised as expenditure
Net deficit for the year	I&E	(46,549)	(46,879)	330	0809 new planting expenditure recognised as expenditure
Statement of Financial Position					
Property, plant and equipment					
Forest estate additions 2008-09	10	330	-	330	0809 new planting de-capitalised
Forest estate revaluation 2008-09	10	94,887	95,217	330	Increase in 0809 revaluation adjustment
Forest estate net book value at 1 April 2009	SFP, 10	444,358	444,358	-	No net impact on net book value or PPE balance
General fund					
Balance at 1 April 2008	SFP, SOCE, 19	341,601	341,267	334	0708 new planting de-capitalised
Net deficit for the year	SOCE, 19	(46,549)	(46,879)	330	0809 new planting expenditure recognised as expenditure
Balance at 1 April 2009	SFP, SOCE, 19	336,412	335,748	664	0708 and 0809 new planting de-capitalised
Revaluation reserve					
Balance at 1 April 2008	SFP,SOCE, 19	195,594	195,928	334	0708 new planting de-capitalised
Net gain/(loss) on revaluation of PPE	SOCE, 19	155,699	156,029	330	0809 new planting recognised as expenditure
Balance at 1 April 2009	SFP, SOCE, 19	350,948	351,612	664	0708 and 0809 new planting de-capitalised
Statement of Cash Flows					
Net deficit for the year	CF	(46,549)	(46,879)	330	0809 new planting recognised as expenditure
Purchase of property, plant and equipment	CF	(3,979)	(3,649)	(330)	0809 new planting de-capitalised

NOTE 31 EVENTS AFTER 31 MARCH 2010

In accordance with the requirements of IAS 10, events after 31 March 2010 are considered up to the date on which the accounts are authorised for issue. These accounts were authorised for issue on 16 July 2010.

Non-adjusting events after 31 March 2010: It was announced in the Budget on 22 June 2010 that the Government intends to adopt the Consumer Price Index (CPI) for the indexation of public service pensions from April 2011. This will have an impact upon the future operation of the pension schemes that Forest Enterprise England provides to employees.



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