

Great Britain and England

Annual Report and Accounts 2002-03



Aims and Objectives

The Forestry Commission's aim is the sustainable management of our existing woods and forests, and a steady expansion of tree cover to increase the many, diverse benefits that forests provide to meet the needs of present and future generations. Through its powers and duties set out in the various Acts, the objective of the Forestry Commission for its Great Britain activities, is:

- 🌲 on behalf of all 3 administrations, to take the lead in development and promotion of sustainable forest management and to support its achievement nationally.

In England, it aims to implement the programmes of the England Forestry Strategy whose objectives are:

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

The Forestry Commission also aims to be a place which values:

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

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.

Forestry Commission

Annual Report and Accounts 2002-03 for Great Britain and England together with the Comptroller and Auditor General's Report on the Accounts.

Presented to Parliament in pursuance of Section 45 of the Forestry Act 1967 and Section 5 of the Exchequer and Audit Departments Act 1921.

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This Report deals with Forestry Commission functions funded by Westminster – our activities in England, and those functions, such as plant health, international policy and research, which are funded on a Great Britain basis. The Forestry Commission also prepares formal Reports for the Scottish Parliament and the National Assembly for Wales.



“...we are now well structured and equipped to make the new arrangements work well for the benefit of forestry and society as a whole.”

forests for industry



forests for leisure



forests for fitness

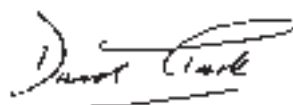
Foreword by the Rt. Hon Lord Clark of Windermere, Chairman

Forests are adaptable and inspiring places. Created by an earlier generation, they meet the needs of people today and are being planned and managed for the future. This is true sustainability. The same can also be said of the Forestry Commission as an organisation. Last year, following the Forestry Devolution Review, Ministers reaffirmed their support for the Forestry Commission but recommended some structural changes to better meet the needs of the devolved administrations. We have set about implementing the Ministers' conclusions, an outcome which I believe gives us potential to enjoy the best of both worlds, focusing our delivery according to countries' agendas and yet able to take a GB view when appropriate. This has meant changes at all levels, including the Board of Commissioners. I am delighted to welcome to the Board the three Country Directors, Paul Hill-Tout, Bob McIntosh and Simon Hewitt. I believe that we are now well structured and equipped to make the new arrangements work well for the benefit of forestry, and society as a whole.

This report – together with our parallel reports to the Scottish Parliament and the Welsh Assembly – describes another year of promoting the sustainable management of forests and woods throughout Great Britain.

I am greatly encouraged by the variety of successes we can point to, from our work in diversifying timber transport to linking a nation's health to a walk in the woods; from the successful re-introduction of species such as the red kite to the enormously successful Treefest celebration in Scotland.

These, and many other activities set out in this report, are testimony – not only to the commitment and dedication of the Forestry Commission's staff – but also to the high regard of our partners and their continued enthusiasm to work with us. We have not allowed organisational activity to distract us from delivering on the ground. It is this continuing high quality delivery which, I am sure, stands us in good stead to thrive in the years ahead.



Lord Clark

“ ...our policies are more in line with the principles of devolution and will improve our work on the ground.”



forests for education

forests for wildlife



forests for people



Introduction by David Bills CBE, Director General

The Forestry Commission has an enviable heritage. Since 1919 we have been promoting and delivering good forestry practice the length and breadth of Britain. Much of the expertise and know-how which we bring to bear today has been built up over many years. But this does not mean that the Forestry Commission is immune to change. Annual Reports are always a chance to stand back and reflect on the shape and speed of that change.

The nature of our business continues to evolve rapidly. This year followed the trend of previous years, with increased emphasis on delivering the non-timber benefits which forests can produce. Examples include the research we are commissioning into the ways forestry can contribute to public well-being and health and the impact which our osprey-viewing facilities in the Lake District have had in giving a boost to rural areas still smarting from the economic impact of foot and mouth disease. The efforts we put into ensuring that the forestry sector played its part in the World Summit on Sustainable Development and, domestically, our publication of UK indicators of sustainable forestry underline our commitment to looking at every aspect – and impact – of forestry. At a time of continuing poor markets for timber and timber products, many in the sector inevitably wonder how these non-timber benefits are to be paid for. In other words, true sustainability must include an economic dimension. We agree. In addition to continuing to develop other markets such as wood for fuel, we have been working hard this year to provide a sound economic basis for demonstrating the value of these other benefits to society as a basis for supporting the case for financial support for sustainable forestry. We expect that work to bear fruit soon.

There has also been change in the way we go about our business. The nature of sustainable forestry means that no longer should experts work in isolation. The UK Forest Partnership for Action is a prime example of genuine cooperation, with all those who make up our sector coming together to agree on what steps we need to take to make forestry truly sustainable. The Newlands project, leading to the regeneration of large areas of north west England, is another more local example of what can be achieved by bodies working to a common goal, sharing resources and expertise. At the same time, we are modernising how we do business, bringing the information revolution to bear on, for example, how we process grants and how we auction our timber.

These changes, however fundamental, have been gradual and ongoing. The Forestry Devolution Review (FDR), however, was a step change in the way we operate. It called for relatively radical change to the Forestry Commission's structures and governance. During the past year we set about implementing the agreement. I believe that the arrangements we have agreed on are sensible and pragmatic, and will not only lead to policies more in line with the principles of devolution but will improve our work on the ground.

However, the experts tell us that, no matter how hard we work on creating ideal structures, they will work only if the culture is right. In other words, it is vitally important that our own people are being developed, motivated and equipped to give of their best. So, a major event for me over the past year was the second survey of all Forestry Commission staff which gave us the opportunity to benchmark change to culture and morale throughout the Forestry Commission.

Introduction by David Bills CBE, Director General (continued)

While some areas of concern remain, the overall trend was very encouraging. Moreover, there were significant increases in key areas such as morale up 12 per cent and pride in the organisation up 11 per cent. At the same time, we have signed up collectively to a clear set of values to guide all that we do: teamwork, professionalism, respect, communication, learning and creativity. It is above all for those reasons that I am confident we are in good shape to make the new structures work well in practice.

As I sign-off my last Annual Report as Director General I would like to thank the two chairmen under whom I have served, all the Board members, my Forestry Commission colleagues and the many others who the Commission deals with day by day for making the past eight years so rewarding and satisfying. Together we have brought about what I believe are very real changes for the better for the Commission and for forestry in Great Britain. I am immensely proud to have been a part of that process.



David Bills
Director General

“...working with business and environment groups to develop a strategy for sustainability for the forest sector.”



Great Britain – Sustainable Forest Management

(i) International

World Summit on Sustainable Development

The UK was very active in the regional, national and international preparations for the World Summit on Sustainable Development which took place in Johannesburg, South Africa from 26 August to 4 September 2002. It was an opportunity to demonstrate the important contribution that sustainable forest management makes to the wider goals of sustainable development.

There were three formal outcomes from the Summit: a Political Declaration, a detailed Plan of Implementation and a number of Multistakeholder Partnerships. Forests were not the subject of negotiation at the Summit as sustainable forestry issues had been negotiated and agreed at the second session of the United Nations Forum on Forests (UNFF) in March 2002. As well as including a section on forests, the Plan of Implementation also includes references to forests and forestry issues under other sections, for example, biodiversity, agriculture, climate change and desertification. A number of forestry related events were held at the Summit including one organised by the UK on the Forest Partnership for Action hosted by the Environment Minister Michael Meacher.

UK Forest Partnership for Action

We led the UK Government's contribution on forestry to the Summit, working with business and environmental groups to develop a strategy for sustainability for the forest sector. The forest and forest products industries, environmental groups, the devolved administrations and the

UK Government agreed to work in partnership to promote sustainable development in the forestry sector in the UK and abroad. Areas on which the UK Partnership agreed to focus include forest certification, illegal logging, timber procurement and forest restoration and protection.

United Nations Forum on Forests (UNFF)

The UNFF provides an important focus to promote sustainable forest management globally and to implement existing commitments. Following the second session of the UNFF (March 2002) the UK has been working to make future sessions more constructive and effective. In particular the UK has been involved in a range of initiatives in support of the UNFF's work programme in Criteria and Indicators of Sustainable Forest Management, The Role of Planted Forests and Monitoring Assessment and Reporting. The third session will take place in May 2003 in Geneva with a focus on economic aspects of forests, forest health and productivity, and maintaining forest cover to meet present and future needs.

Convention on Biological Diversity (CBD)

Forest Biological Diversity was a priority issue at the 6th Conference of the Parties (COP6) to the Convention on Biological Diversity in The Hague in April 2002. Michael Meacher led the UK delegation and underlined the need for concrete actions. The key outcome on forests was an expanded programme of work on Forest Biological Diversity, to be implemented on the basis of national needs and priorities.

Forest Landscape Restoration

We worked closely with the World Wildlife Fund (WWF), the World Conservation Union (IUCN) and others to develop a Global Partnership on Forest Landscape Restoration, and Forestry Minister, Elliot Morley, took the opportunity to launch the Partnership at the United Nation's Food and Agriculture Organisation (FAO) Committee on Forestry in Rome in March 2003. The aim is to restore forests in areas of deforestation and forest degradation. The Partnership is a network of governments, organisations, communities and individuals who all recognise the importance of restoration and wish to be part of a co-ordinated global effort. Partners will learn from one another's experiences and identify, undertake and support restoration activities around the world. The outcomes will ultimately contribute to the implementation of the work programmes of both the UNFF and the CBD.

FAO Committee on Forestry (COFO)

At its 16th Session, in March 2003 in Rome, COFO broke with tradition and introduced a new format offering open debate in side events to discuss the many challenges facing forestry around the world. Delegates made the most of this opportunity and demand for several events resulted in standing room only. David Bills, the Director General, welcomed the concepts and practices developed by FAO to promote the use of National Forest Programmes and shared our experiences of developing the UK National Forest Programme.

Ministerial Conference on the Protection of Forests in Europe (MCPFE)

Throughout the year the MCPFE continued to work towards the 4th Ministerial Conference in Vienna, April 2003. The UK has played an active role in the development of the draft declaration and five draft resolutions for adoption at the Vienna Conference,

which aims to demonstrate the political will of Governments to take practical action towards achieving sustainable forest management and overall sustainable development. Elliot Morley is attending on behalf of the UK.

European Union

Reform of the Common Agricultural Policy has provoked intense discussion. The European Commission's initial radical proposals, breaking the link between subsidies and production and transferring significant funding to rural development, and potentially forestry, were resisted by a number of conservative Member States. The final package, due to be agreed in summer 2003, will put pressure on existing funds rather than bring new EU money to forestry.

During the year the Forestry Commission led UK negotiations on a new EU Regulation on monitoring the health of forests. Final agreement is due in autumn 2003, but it appears likely that we will secure our principal negotiating aims: re-focusing monitoring away from needle loss and leaf damage towards areas such as biodiversity, soil condition and carbon sequestration; and ensuring EU monitoring complements domestic activities and helps deliver international commitments made in Kyoto and the CBD.

Enlargement of the EU to embrace ten new countries is on track for 2004. From 2006 the bulk of EU Structural Funds will be diverted to these new Member States reducing funding opportunities for UK forestry. It will also present the EU with a major challenge – how to reach agreement among 25 with more applicants waiting in the wings.

Sustainable Forest Management (continued)

(ii) UK Activity

UK National Forest Programme

A National Forest Programme for the UK was jointly launched on 5 February 2003 by the forestry Ministers for England, Scotland, Wales and Northern Ireland. Published together on a single CD-ROM, the documents provide a complete framework for policy and practice on sustainable forest management in the UK.

The Programme consists of full versions of the forestry strategies for England, Scotland, Wales and the consultation document for Northern Ireland; the UK Forestry Standard which sets out UK policy and practices on sustainable forestry, and sets out the criteria and standards which will be applied; and an introduction which outlines the background and international context of the key documents.

Publication of the Programme was part of the Government's follow up from last year's World Summit on Sustainable Development. The Programme charts progress on forestry from Rio to Johannesburg and reflects the UK's commitment to move from rhetoric to implementation.

Indicators of Sustainable Forestry

The Forestry Commission, in partnership with the Northern Ireland Forest Service, published a set of UK Indicators of Sustainable Forestry in October 2002. This contained 40 indicators, describing woodlands, woodland biodiversity, the condition of the woodland environment, timber and other forest products, and social and economic aspects of forestry in the UK. These national-level indicators are linked to the UK Forestry Standard and to the

pan-European indicators of sustainable forest management. They give information about the current state – and trends over time – of woodlands and their management and will allow us to monitor forestry's contribution to sustainable development.

In preparation for the 2003 Ministerial Conference on the Protection of Forests in Europe, Forestry Commission staff also participated in the international review and revision of pan-European indicators of sustainable forest management, including a final workshop held in May 2002 and subsequent expert-level developments.

Forest Certification and Timber Procurement

The wider benefits of independent certification of woodland came to the fore last year. Initially seen simply as a market access issue, evidence is now emerging that certification can deliver a range of benefits including improved woodland management and better health and safety in the forest and has potential to underpin positive promotion of the sustainability of UK forestry.

Demand for certified timber continued to grow, and is set to increase with the UK Government's commitment to try and purchase timber only from legally logged and sustainably managed sources. The devolved administrations and many local authorities have made similar commitments. Up until now implementation of the UK commitment has been slow, but in response to criticism from the Westminster Environment Audit Committee, the Government is preparing to establish a Central Point of Expertise on Timber to assist its procurement officers. Although certification is not the only proof of legality and sustainability, it is the simplest and cheapest option for most suppliers.

Certification will play a prominent role in the UK Forest Partnership for Action programme. In recognition of its role in promoting UK forestry and helping to deliver on timber procurement and combating illegal logging, the Partnership agreed a target of increasing the UK certified area from 40 per cent to 60 per cent and certified UK timber output from 60 per cent to 80 per cent by 2007.

It was recognised that aims and targets mean little unless forest owners are persuaded that certification is worthwhile and affordable. Working with the UK Woodland Assurance Standard (UKWAS) Steering Group we commissioned trials of simplified procedures for small woods with continued access to the Forest Stewardship Council (FSC) certificate – in this the UK leads the world. In England, working with industry and environmental partners, we launched three certification pilots with the aim of identifying and evaluating appropriate incentive mechanisms for small woods to enter certification. We also began examination of how management plans for our grants can be dovetailed with management plans for certification.

Market Development

The Forestry Commission works with industry to develop the market for wood products through promotion and research. We support the *wood. for good* campaign which is now in its third year and work closely with our country-based market development officers. *Wood. for good* took a major initiative to update architects and engineers through technical seminars run by the Timber Research and Development Association. Just as significant was its sponsorship of the new UK Centre for Timber Engineering at Napier University in Edinburgh. The centre, which was opened in January 2003, has been established through a partnership initiative by the UK sawmilling industry, the Forestry Commission and Scottish Enterprise.

It will have a key role in re-introducing education in timber engineering within structural engineering courses at technical, graduate and post graduate level exploiting the university's already strong experience in the preparation of distance learning materials and modular teaching. The Centre is already expanding its research capability.

Inventory of Woodlands

Since it began in 1995 the Inventory has mapped 90 per cent of UK woodland over two hectares and has sampled all of it – a total of 2.665 million hectares. This is nearly 12 per cent of the land area of Great Britain. Publication of country and county level reports is now complete. A summary report for Great Britain, a report covering the secondary data collected about tree condition and management, and a publication describing the methodology used for the whole survey are in preparation. The digital map of all woodland down to two hectares has been made widely available. This can show Forestry Commission and other woodland separately and allows a selection of alternative geographic areas for combination with woodland sample data to provide bespoke reports and analysis. This also allows the combination of the inventory data with other geographically referenced data sets. The inventory team in Forest Research has dealt with a large number of such enquiries from public agencies, environmental organisations and businesses.

At the year-end pilot work for field collection of data in the next inventory was well advanced in preparation for consultation in 2003-04. Change between successive inventories will provide much of the data needed to monitor the sustainable forestry indicators and the impact of forestry policy in England, Scotland and Wales.

Sustainable Forest Management (continued)

Forestry Workforce – Safety and Training

The Forestry Commission has had a major part to play in a successful first year for the two new groups that replaced the Forestry and Arboricultural Training Council (FASTCo) in providing advice and guidance to the forest industry.

The Arboriculture and Forestry Advisory Group (AFAG) has taken over the role of providing safety advice to the forest industry, and this year launched 35 revised safety guides. AFAG was set up by the Health and Safety Commission's Agriculture Industry Advisory Committee (AIAC) to deal specifically with arboriculture and forestry. Members are drawn from across both sectors, with representatives from major industry bodies and organisations. The Forestry Commission's Safety Officer is the Technical Secretary to the Group.

The Trees and Timber Industry Group of the Lantra Sector Skills Council, comprising employer (including Forest Enterprise), education, trade union and Lantra representatives from across the UK, meet and communicate regularly to steer priorities and advise Lantra on skills issues. The Forestry Commission attends in an observer/expert adviser capacity. The Group agreed an action plan to address the recruitment, training and workforce development issues that face the industry. The Group was also able to resolve a long running issue concerning certificates of competence for chainsaw use. This involved classification of detailed requirements and appropriate awarding bodies according to the type of usage and user.

The new Machine Operator Certification Scheme (developed and established by the industry) has been involved in assessing the competence of machine operators. The Forestry Commission's Forest

Operations Training Centre at Ae, in Dumfries, is one of two approved Assessment Centres and now has some 1,200 machine operators registered for assessment on a range of harvesting and establishment operations. Experience shows us that this scheme will have a significant impact on efficiency, safety and environmental performance and reduce opportunities for cowboy operators.

Restoration of Native Woodland

In March 2003 we published new guidance to help landowners restore many of the UK's ancient woodlands that have been lost or damaged. Between the 1930s and the early 1980s, nearly 40 per cent of the UK's remaining ancient semi-natural woodlands were converted into plantations. Around 130,000 hectares of these were planted with non-native conifer species often resulting in losses of characteristic native woodland species of plants and animals. However, nature is surprisingly resilient and remnants of the biodiversity of ancient woodland have survived in many plantations. This has created opportunities to give nature a helping hand through a process of restoration.

The guide shows owners and managers how to go about this and points them to sources of further advice. It will support distinctive national policies and grant schemes currently being developed in England, Scotland, Wales and Northern Ireland. Produced jointly by the Forestry Commission and the Northern Ireland Forest Service following extensive consultation, the guidance draws on experience gained from the considerable amounts of restoration work already underway on the Forestry Commission's estate and on those of private owners and charitable trusts.

Forest Reproductive Material

Forest reproductive material (FRM) is the seeds, cones, cuttings, and planting stock of 46 exotic and native tree species and the genus *Populus* (including aspen, black poplar and *Populus canescens*) which are marketed for multi-purpose forestry. The marketing of these species is controlled by the Forest Reproductive Material (Great Britain) Regulations 2002 which implement EU Directive 1999/105. These regulations, which replaced the Forest Reproductive Material Regulations 1977 came into force in January 2003 after wide public consultation.

The previous regulations controlled only 13 species and the genus *Populus*, which were important for commercial forestry. The larger number of species covered by the new regulations reflect the broader set of objectives for which woods and forests are now established.

Under the new regulations:

- 🌱 basic material (e.g. stands of trees, seed orchards) from which FRM is collected, must be registered;
- 🌱 all suppliers of FRM must be registered with the Forestry Commission;
- 🌱 seeds and plants must be labelled;
- 🌱 a clear audit trail from seed collection to the end customer has to be established so that planting stock is correctly identified; and
- 🌱 each time FRM is sold, a supplier's document, which sets out information such as species, quantity, provenance, origin and level of breeding, must be passed to the buyer.

Twenty-eight of the regulated species are relevant to forestry in Great Britain, of which 12 are native, including alder, ash, sessile and pedunculate oak, downy and silver birch, and wild cherry.

Another important change is the introduction of the source-identified category. FRM which previously would not meet the certain phenotypic standards can be freely marketed under the new category. It will be particularly useful in further encouraging the collection of locally sourced material of native species.

More information is available on our website under "planting and managing woods":

The Forestry Commissioners' Advisory Panel (FCAP)

The Panel continued its work in accordance with the terms of reference set out in the Annual Report for 1999-00. This year the Panel met in July and November 2002, and advised Commissioners on community participation, forestry education, recycling, forestry employment and training and the Forestry Devolution Review.

The Technical, Supply and Demand and Environment Sub-Committees of the main Panel advised on a range of matters, including the national inventory of woodlands, timber quality, social forestry and woodfuel.

The terms of office of the Panel and its sub-committees came to an end early in 2003, coinciding with a fundamental review of the Forestry Commission's advisory needs post Forestry Devolution Review re-structuring. The Forestry Commissioners decided that they did wish to retain a central advisory panel, but without formally constituted sub-committees. A revised terms of reference is attached at Appendix 5.

The Forestry Commissioners expressed their gratitude for the Panel and its sub-committees' support and hard work during the last three years.

Research

The Forestry Commission spent £11.9 million on research in 2002-03, covering a wide range of technical problems and strategic scientific issues. In addition to experimental work, the research budget also funded the provision of knowledge, technology and scientific advice to the public and practitioners as well as to scientists and policy makers in the Forestry Commission and other parts of UK government and devolved administrations. Around 82 per cent of expenditure was in the Forestry Commission's own agency, Forest Research, which presents a separate detailed report on its activities to Parliament HC156 ISBN 0 10 292625 5.

The relatively small sum spent with external providers secured specialist expertise (particularly in timber technology) and enabled the Forestry Commission to take part in research programmes led by other departments and agencies where forestry is one interest among others.

The Forestry Commission's research activities and capacity were examined in 2002 by the Forest Devolution Review and the Quinquennial Review of the Forest Research Agency. Recommendations from the reviews have been published and acted upon. Arrangements have been put in hand for National Offices to play a leading role in revising the Forestry Commission Research Strategy so that it reflects the distinctive needs of England, Scotland and Wales as well as the problems common across the whole of Great Britain's forest estate.

Protecting Forests

We maintained a substantial investment in research to manage the insect pests *Hylobius abietis* and *Hylastes* spp. Uncontrolled, these pests are capable

of killing young trees on replanted sites in such numbers that successful restocking becomes difficult and expensive. The aim is to reduce reliance on chemical pesticides and to find a replacement for the currently used permethrin-based products in time for the withdrawal of permethrin from the European plant protection market in 2003. Forest Research used an "integrated forest management" approach to reduce reliance on insecticides and achieved significant progress in producing a management support system to assist forest managers in insect risk reduction. Results from the third year of insecticide trials by the same team made crucial advances in demonstrating the efficacy of alpha-cypermethrin as an alternative to permethrin.

Actions have been taken to prevent the introduction and establishment in Britain of the fungal pathogen *Phytophthora ramorum*. Research and scientific advice to support policy has been a major requirement from Forestry Commission pathologists, working in partnership with the Central Scientific Laboratory funded by the Department for Environment, Food and Rural Affairs (Defra).

Making Forestry Safer

The safety of the workforce and others using forests is a prime consideration. It is a feature built into all of the operational research funded by the Forestry Commission. For example, the demonstration that alpha-cypermethrin may be a suitable replacement for permethrin triggered an investigation to determine the level of personal protection that may be required in normal operational use. This research is a joint project by the Forestry Commission and the Health and Safety Laboratory.

An important project which examined current methods of transport for cross-loaded round timber in relation to the safety of staff and other road users was completed. The research was jointly sponsored by the Health and Safety Executive, Department of Transport, Forestry Commission and the forestry industry and was carried out by the Transport Research Laboratory with assistance from Forest Research. It involved analysing how such loads may be shed, the methods of load restraint and the implications for driver loading. A full report with recommendations was published in February 2003 by HSE Books as Research report 077 (ISBN 0717626245).

Partnership in Social Research

Research into the relationships between communities, forests and forestry institutions was established in 1997 has been extended until 2006. The continuing research, a partnership with the Department of City and Regional Planning, University of Wales, Cardiff will explore aspects of rural governance in Great Britain and the contribution of communities and local people to forest policy and practice. An important international collaborative programme was also established as part of the Forestry Commission's investigation into how forestry can contribute to public wellbeing and health. In February we submitted a successful proposal for an EU-funded research network, a COST action, on forestry and health. The proposal was developed in partnership with Scandinavian countries and with Greece. The aim is to identify best practice and information needs across Europe.

The Forestry Commission has a tradition of funding, wholly or partly, research studentships in partnership with universities and research councils. Studentships have proved valuable in putting forestry on research

agendas outside the Commission and in creating an interest in forestry topics in a nucleus of talented young scientists. Our contribution to postgraduate research has been especially strongly developed in the area of social research through collaboration with the Economic and Social Research Council. We provided financial support and facilities for eight CASE studentships awarded by the Council. Topics covered include the place of forestry in contemporary Welsh culture, delivery of sustainable forestry through the land-use planning system and understanding the social value of forests through choice experiments.

The Forestry Commission's social research programme covers organisational and institutional questions such as reform of the Common Agricultural Policy (CAP). With the Land Use Policy Group, a co-ordinating network for the rural agencies in Great Britain, we supported research into the application of the Rural Development Regulation in EU Member States and Candidate Member States. The results were presented at a jointly organised seminar in London in 2002. An international seminar in Brussels is scheduled for April 2003. The aim is to provide evidence that can be used in the mid-term review of the CAP.

Understanding timber quality

Development of the market for timber depends on an understanding of the quality of the crops maturing over the next 20 years or so. This information needs to be quantified in order to complement data already available on species and volume through standard production forecasts. A timber quality survey of the main conifer species in Wales was completed during the year adding to earlier studies in Scotland and Northern England.

Research (continued)

The key assessment chosen by the sawmilling industry for these quality surveys was stem straightness. Straightness has been related to stand product outturn by a number of studies carried out by Forest Research in conjunction with sawmills. However the longer term interest in the timber quality research programme has been to assess a wide range of tree quality factors and relate them to timber strength and dimensional stability in sawn timber. There is a great deal of interest in this topic in other countries and the research has benefited from close collaboration and staff exchanges with Germany, France and New Zealand. The Forest Research team is multi-disciplinary, and expects to produce a model for UK conditions and species. This will help managers to understand and test different crop management prescriptions for planting and thinning both pure and mixed crops. The model will be particularly helpful in understanding the timber quality and economic implications of converting crops from clearfelling systems to some form of continuous cover management.

Innovation in Forest Products

The Forestry Commission's wood product research budget is used mainly in partnership with industry. It supports improvements in efficiency and initial development work needed to make new types of product from UK grown timber. Much of the work is carried out at the Centre for Timber Technology and Construction (CTTC) at the Building Research Establishment but also at other centres, sometimes in collaboration the CTTC and in EU funded partnerships. This gives us a better understanding of how the characteristics of different species and qualities of timber affect performance – with implications for silvicultural management of crops.

This knowledge is then used in the increasing number of re-engineering techniques to derive new types of product from timber. Such products can give very high performance and allow timber of essentially quite low quality to be used in new applications, thereby improving the high environmental performance that is becoming increasingly recognised in sustainable construction. A significant project initiated this year is a programme to install and monitor UK grown timber in timber frame housing. This is a major potential market for our higher grade softwood timber which we previously failed to penetrate in competition with imported softwood.

Forests and the environment

The Forestry Commission places a high value on scientific understanding of the interactions between forests and the physical environment. This is increasingly important in developing the evidence base for land management policies across the UK. One development has been the translation of research into the impacts of climate change into strategic advice on forestry policy. An analytical study for the east of England was prepared by Forest Research in 2002 and a further study for Wales is near completion.

Increased risks of flooding are among the most likely impacts of climate change. The Forestry Commission joined other parts of the UK government and devolved administrations in reviewing the possible interactions between land use, land management and flooding. We contributed to the inception of a major research review, led by Defra and the Environment Agency, that will scope existing research and advise where gaps exist.

One of the most effective ways in which forestry can help to mitigate climate change is through the provision of woody biomass to use as a replacement for fossil fuels in the generation of heat and power. However unconstrained use of the finer material in harvesting residues could risk nutrient depletion in some areas and in others risk soil damage. The Forestry Commission in collaboration with the Forestry Contracting Association developed a procedure to help managers to identify areas where residues can be removed safely. International literature on the environmental effects of wood ash recycling has been reviewed as a first step to developing recommendations.

Implementation of the Water Framework Directive in the UK will impose a regime of River Basin Management Planning to improve the ecological status of surface water and groundwater. Analysis and mitigation of the pressures on water quality and quantity from land management activities will form an important part of the process. Under the leadership of the Forestry Commission, scientists from Forest Research and the Northern Ireland Forest Service have joined others from statutory conservation agencies and water regulatory bodies to revise the UK *Forests and Water Guidelines*. The advice on best practice incorporates the latest research on methods to increase the beneficial effects of woodland on the environment and to minimise adverse impacts. The revision was completed early in 2003 and the final document will be published shortly. The Forestry Commission contributed to wider research in support of implementation of the Directive through contributions to the Scotland and Northern Ireland Forum for Environmental Research.

The Timber Market

Timber Prices

After an extremely difficult period of the GB Forest Industry, there have been a number of more positive signs. It has been a generally better year for the wood based panels, increasing prices in some grades of sawnwood and the introduction of a significant export pulp market. However, weak demand due to the loss of a number of key markets, increased availability of timber and continued downward pressure on pallet, fencing, chipwood and co-product prices has meant that roundwood prices have continued to suffer.

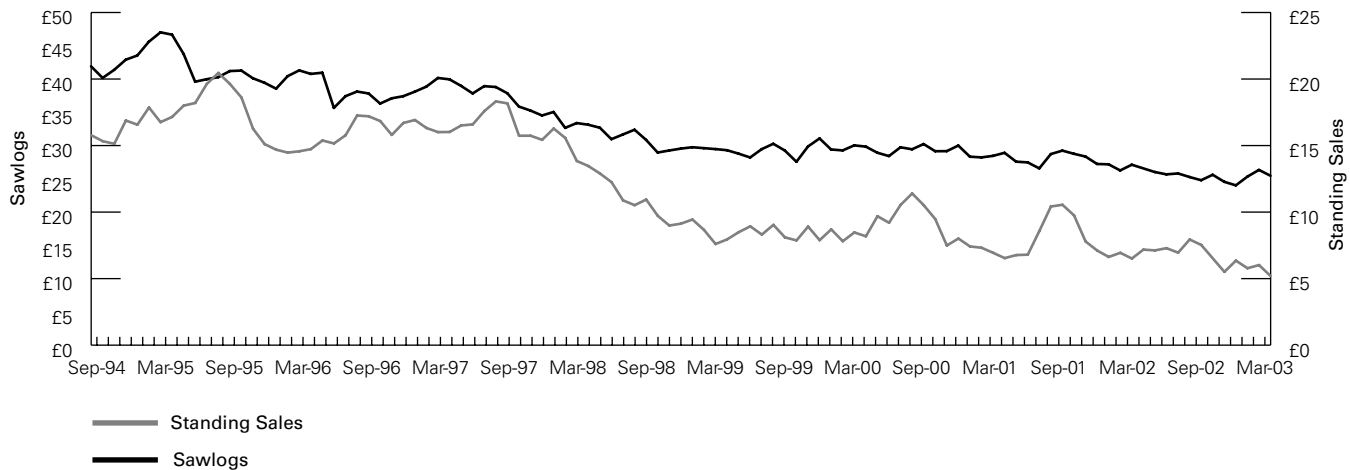
Over the year average log prices fell by around 7 per cent and standing prices by 18 per cent taking them to an all time low. Prices for sawlogs now stand at 54 per cent of their 1995 value, while standing timber sales are currently only 27 per cent of their 1995 value.

Timber Production

During 2002-03 Forest Enterprise produced 5.439 million m³ of timber against our target volume of 5.404 million m³. This was despite a background of weak demand, particularly in Scotland and represents a significant achievement.

	Production Target (Mm ³)	Actual Production (Mm ³)	Variance (per cent)
Standing Timber	2.840	2.879	+1.4
FE Production	2.563	2.560	-0.1
GB Total	5.404	5.439	+0.7

Nominal Timber Prices 1994-2003



Timber Sales Systems

During 2002-03, Forest Enterprise started work on the development of an electronic timber sales system. This is intended to replace existing open market sales methods (tenders and auctions) and is planned to be operational late in 2003. The introduction of the new sales system will allow increased flexibility and improved level of customer service. It is also expected to simplify the process of buying and selling, leading to a reduction in cost for both Forest Enterprise and timber purchasers.

Timber Haulage

The Forestry Commission continue to work closely with a number of organisations and groups currently working to improve timber transport. We work closely with the Regional Transport Groups and the Timber Transport Forum. The Timber Transport Forum with assistance from the Forestry Commission continues to assist in the dissemination of haulage information, until recently only in Scotland but now also in England and Wales. We have provided assistance and advice to a number of transport initiatives during the year including the production of the Roundwood Timber Haulage Code of Practice and Agreed Routes Maps. A "Review of Timber Haulage and Forest Roads" was finalised and conclusions drawn about forest roads materials and specification; forest vehicle specifications and road network management. Work was also done on containerisation of roundwood. A significant impact of the report has been the development, by a number of hauliers, of timber lorries designed to have a low impact on the structure of roads.

Plant Health

Import inspections of sawn wood

Over the year, 2.9 million m³ of sawn wood that is subject to quarantine control were imported (2001-02: 2.9 million) and 6,600 inspections were carried out (2001-02: 6,700). As in the last two years, we again achieved our Charter Standard target of inspecting consignments on the day of notification of landing, or the next again working day at the latest, in more than 99 per cent of cases.

Despite our forecast last year that we would need to increase import inspection fees, this did not prove necessary. We have not increased our charges since 1999 but have continued to make operational savings. We shall continue to monitor our income against our target of full cost recovery and may need to increase our fees later in the coming year.

Import inspections of wood packaging material

Following the interceptions of pests in wooden packaging material reported in recent years, and the implementation of the emergency EU landing requirements in respect of wood packaging material coming from Canada, China, Japan and the USA (Commission Decision 2001/219/EC), we have focussed more inspection resource in this area. We examined more than 2,500 consignments with associated wood packaging material and recorded 175 cases of non-compliance with the requirements. However, the majority of these were either documentary (China only), or involved wood that had either not been properly treated or stamped with treatment details. Some instances were recorded where signs of pests were observed, but no live infestations were found. We were pleased to note a significant improvement over previous years.

Implementation of the International Standard for wood packaging material

We reported last year on the adoption of an International Standard for a Phytosanitary Measure "*Guidelines for regulating wood packaging material in international trade*" (ISPM No. 15) by the Interim Commission on Phytosanitary Measures, set up by the Food and Agriculture Organization of the United Nations. Global implementation of regulations based on ISPM15 have been delayed following copyright difficulties associated with part of the mark recommended to be applied to treated wood packaging material. These were expected to be resolved just after the end of the year under report and the EU Standing Committee on Plant Health has begun preparing regulations that are expected to come into force within a matter of months.

The UK Wood Packaging Material Marking Programme, launched in October 2001 and reported on last year, has continued to expand and there were 260 participants at the end of the year approved to manufacture or treat and stamp material which is ISPM15 compliant. We have also appointed four independent assessment agencies that will carry out six-monthly audits of all participants. The Timber Packaging and Pallet Confederation (TIMCON) continue to administer the Programme on our behalf.

In October 2003, The Peoples' Republic of China implemented emergency measures regulating imports of wooden packaging material from the EU. This followed their interception of a number of organisms in wood packaging material shipped from the EU, including some that originated in other countries. In addition to requiring packaging to be treated and stamped, the measures demand that consignments are accompanied by a phytosanitary certificate. While many exporters were able to access treated and stamped packaging from members of our Programme, the demand for certificates required us to double our administrative capacity to keep pace.

Pheromone traps

Only one bark beetle of quarantine concern was captured in the year (2001-02:6). A single *Ips typographus* (the Eight-toothed Spruce Bark Beetle) was captured in one of the 200 traps sited at ports around the country.

Pine Wood Nematode

As part of the continuing EU programme of monitoring for this pest we again carried out sampling at 100 locations around the country. No evidence of this pest was detected. The eradication campaign being conducted in Portugal has again managed to prevent the spread of the pest from the demarcated affected area. All samples from other parts of Portugal and all other member States were negative.

Asian Longhorn Beetle (*Anoplophora glabripennis*)

Last year an outbreak of this pest was reported from Austria, the first finding of *Anoplophora glabripennis* in Europe. Prompt felling of the affected trees may have eradicated

this as no further findings have been reported. Here in Great Britain we continue to be vigilant and have followed up a small number of reported sightings. In one notable case, in Nottingham, a local resident captured an adult beetle, later identified as *A. glabripennis* and reported it to the local museum. This triggered an immediate survey of trees and businesses in the area and our inspectors tracked down a pile of pallets showing evidence of infestation. No evidence of any damage to local trees was noted and we are hopeful that this was an isolated occurrence and that the source was correctly identified and destroyed.

Great Spruce Bark Beetle (*Dendroctonus micans*)

In our last report we indicated that we had carried out a review of controls and were ready to put forward proposals for consultation. However, in April 2002, a new outbreak of this pest was found in the Lake District and an extensive survey was mounted to determine the extent of the area affected. Consequently, our plans to consult were put on hold. In addition to surveying in the north of England, we also monitored spruce woodland surrounding major wood processing operations in the Scottish borders and elsewhere in the country. While no evidence of the pest was detected in Scotland, a further isolated occurrence was found in Devon. We modified our proposals and distributed a Consultation Paper in March. The outcome will be recorded in our next report.

Plant Health (continued)

Gypsy moth

The joint Defra/Forestry Commission campaign to eradicate this pest from the London Borough of Redbridge continued this year. Again, while no larvae were detected in surveys, the 76 pheromone traps set up in the area captured one adult moth. We shall continue our efforts again next year to try to finally eradicate this persistent residual population.

Horse Chestnut Leaf Miner (*Cameraria ohridella*)

As indicated in our last report, we published an Exotic Pest Alert in April 2002. In June, the first British record of this pest was confirmed from Wimbledon, south-west London, a specimen having been found by an alert local resident. Surveys of the area revealed a number of affected trees and we alerted local authority tree officers to be on the look out. In addition, around 50 traps were set up along the south coast, but no specimens were captured. As there are no effective controls available, it is likely that this pest will spread and cause unsightly and premature defoliation. However, attacked trees are not killed and will recover.

Sudden Oak Death (*Phytophthora ramorum*)

The first case of this disease, caused by the recently identified pathogen *Phytophthora ramorum*, was under investigation in our last report. Following positive confirmation Defra and the Scottish Executive Environment and Rural Affairs Department (SEERAD) have conducted a major survey of nurseries and

garden centres throughout the country and a significant number of infected plants have been identified and destroyed. In addition, pathologists from Forest Research have carried out surveys at four woodland locations adjacent to infected nursery sites but nothing amiss was found. Emergency legislation was enacted in May covering imports of host plants and in June the Plant Health (Forestry) (*Phytophthora ramorum*)(Great Britain) Order 2002 came into force extending landing controls to trees, wood and isolated bark of known hosts from the USA. These emergency measures were extended Community-wide with some amendment, principally to regulate intra-Community movements of host plants for planting, and revised Orders came into force in November. The principal hosts in Europe appear to be *Rhododendron* and *Viburnum* but it has also been found on *Pieris* and *Camellia*. We published an Exotic Pest Alert in the summer and revised this in March 2003.

A substantial research programme is underway to try to learn more about this disease and the range of hosts prone to infection. While initial results indicate that our native oaks may be more resistant than their American cousins, but that related genera such as beech and sweet chestnut may also be susceptible, there are no records of infection on any trees anywhere outside the USA. This work is reported fully in the Forest Research Annual Report and Accounts 2002-03.

Forestry Commission Organisation and People

Forestry Devolution Review

As reported last year, Forestry Ministers announced a wide-ranging interdepartmental review of the administrative arrangements for developing sustainable forestry policies post-devolution in December 2001.

Ministers agreed the recommendations of the Forestry Devolution Review in August 2002 and expressed their support for the delivery of forestry policy by the Forestry Commission. The Review recommended changes to achieve greater integration of forestry with other rural policy work in England, Scotland and Wales while retaining desirable opportunities for a collaborative approach to common issues.

We welcomed this vote of confidence in our role and what we deliver, and immediately began to implement the required changes. The changes agreed by Ministers, and the actions we have subsequently taken are outlined below:

- ✚ much greater integration of policy development and delivery between the Forestry Commission's National Offices and the rural affairs departments in England, Scotland and Wales. This will be underpinned by concordats worked up individually between each rural affairs department and the relevant Forestry Commission National Office;
- ✚ devolving the Forestry Commission's Forest Enterprise agency into three bodies, charged with managing separately the public forests in England, Scotland and Wales;
- ✚ an enhanced role for the devolved administrations in Scotland and Wales in determining research priorities, with joint approval by forestry Ministers of the research strategy and annual research programme;
- ✚ enhanced representation from England, Scotland and Wales on the Board of Forestry Commissioners. We have appointed an Executive and two Non-executive Commissioners for each

country. The Board has also delegated to National Committees in each country responsibility for country-specific issues; and

- ✚ a new ministerial committee, involving Ministers from England, Scotland, Wales and Northern Ireland, to discuss international issues and any cross-cutting issues where collaboration would be advantageous and to monitor the effectiveness of these new arrangements. The new Forestry Ministers' Group met for the first time in February 2003.

In implementing the changes we aimed to maximise the benefits to enable the Forestry Commission to:

- ✚ deliver the administration's objectives in each country, not as arms length "partners" but as full members of the Minister's team;
- ✚ lead with confidence on UK and GB matters with the support of the UK Government and the devolved administrations; and
- ✚ reap the benefits of the experience at our disposal throughout GB and of efficient central services.

This has involved extensive restructuring of the organisation to enable us to continue to improve delivery of the country forestry strategies in England, Scotland and Wales. Much of the responsibility that remained at our headquarters at Silvan House has been devolved to our National Offices, whose teams have been strengthened accordingly. Details of our new organisational structure can be found at Appendix 1b.

Modernising Government

During the year, we continued to move ahead with the programme of improvement in the delivery of our services, which originated from the Modernising Government White Paper (Cm 4310).

Forestry Commission Organisation and People (continued)

We made further progress with our “Connect” internal change management programme which is designed to improve the way our staff work together to further the interests of forestry throughout Britain. This included:

- 🔧 drawing up for the first time a set of Values for our staff. The Values (Teamwork, Professionalism, Respect, Communication, Learning and Creativity) were based on discussion with more than half of our staff in all parts of the Forestry Commission;
- 🔧 developing the leadership skills of a further 197 managers who attended specially-designed “Valuing People and Supporting Change” events, on top of the 250 managers who attended leadership events during 2001-02;
- 🔧 improving communications with staff, notably through more face-to-face meetings with senior managers; better use of e-mail including distributing fortnightly to all staff “Connect Bulletins” of items of general interest; and an increase in the amount and accessibility of information on our intranet; particular efforts were made to both inform and consult staff frequently during FDR;
- 🔧 greater use of non-pay rewards for staff, ranging from a simple “thank-you” to a one-off award of five days extra holidays in employees’ 20th year of service; and
- 🔧 a revised course for recruits to the Forestry Commission, to improve the effectiveness of new staff. During the year, 11 courses were attended by 156 people.

Other important achievements during the year included:

- 🔧 progress towards the government-wide target of giving citizens and businesses electronic access to all services by 2005. At the end of March 2003, more than 40 per cent of our services were fully accessible and more than 20 per cent partly accessible;

- 🔧 the successful completion of a pilot project to store and retrieve records electronically, replacing paper files and improving efficiency – allowing progressive implementation throughout the Forestry Commission to start in April 2003, in plenty of time for the target completion date of 2004;
- 🔧 a reduction in sickness absence, thanks to better occupational health policies and management practices. We have reduced absence rates from 8.3 days per staff year in 1998 to 6.9 days in 2002, putting us on course to achieve our 2003 target of 6.3 days. At the same time, we have reduced medical retirements from 7.65 per 1,000 staff in 2000 to 3.84 in 2002 – beating our target of less than 4.84 by 2005;
- 🔧 an increase in the number of female staff at senior levels, achieving (or almost achieving) all our end-2002 targets; and
- 🔧 completion of the 5-yearly review of our Forest Research executive agency and the implementation of almost all its recommendations (with the rest following later in 2003).

We have benchmarked our progress against other organisations, and against our own performance before the Connect change programme.

Externally, that involved a re-evaluation against the Investors in People accreditation which we were awarded in 2000. During 2002, the core part of the Forestry Commission, plus our Forest Enterprise executive agency, won re-accreditation. The assessors noted tangible improvements in performance since the original accreditation. Our Forest Research executive agency will be re-evaluated in June 2003.

The November 2002 Staff Survey, too, showed progress. Of the 160 questions asked, only eight showed a poorer performance and there were big improvements in team working, leadership, diversity and training. Staff who thought that morale in their unit was high increased by 12 per cent and those

who would recommend the Forestry Commission as a place to work had increased by 18 per cent. Almost 40 per cent felt that the Commission was a better place to work than it had been at the time of the previous survey two years before. There were still areas of concern but the survey gave a strong indication that the culture change programme was moving quickly in the right direction.

Forestry Commission Website

This team manages and supports a very large and cost-effective website: there are more than 10,000 pages and 6,000 pictures on the website, and around 1,000 PDF documents, each consisting of several pages.

Consumer feedback has consistently been positive. When the site was redesigned two years ago it was serving up around 140,000 pages per month (ppm). This figure more than doubled in the space of a few months with the redesign and the site's popularity continues to grow. Over the past year the number of hits on the website increased from 377,000 ppm in July 2002 to more than 1,000,000 in June 2003. The Internet team has trained and supported the 100 plus publishers who are responsible for providing the site content. Alongside these core tasks, the team also ensures that the Forestry Commission's website is aligned with Government guidelines and frameworks.

Recently, "Wild Woods" was launched on the website. This attractive area allows the public to discover where they can go to see wildlife, describes our woods and forests and gives expert information about species and habitats. Future developments concentrate mainly on Forest Research.

New developments include two new content management systems, Meetings which allows easy publishing of meetings and agenda items, Bulletin Board to discuss issues before RAC meetings and new e-business applications.

Review of the Administration of Grants and Licences

As part of our commitment to provide the best possible service to our customers, we commissioned a review of the way we operate our grants and licences (G&L) administration. Work has now started to develop a new IT system (GLADE) that will allow map based and textual data to be exchanged with applicants.

The complexity of the work involved and the wider business issues were recognised and a programme of projects has been set up for delivery of the IT system and new grant schemes.

The programme is expected to realise financial and non-financial benefits to both applicants and Forestry Commission staff. These will be monitored throughout the programme to ensure that the delivery is transparent.

This is the first time that a grant delivery system has been developed for three country specific grant schemes so each country is represented within the GLADE project team to ensure that it delivers the country business requirements. In addition, the Forestry Industry Development Council represents the industry. Separate country projects have been established that will deliver the grant schemes and business re-engineering.

The country projects will include training and development to meet the changes in technology and working practises. Business Change Managers have been appointed for the duration of the programme to work with local managers, agents and applicants to communicate and implement changes within their workplace.

Where necessary external expertise, knowledge and guidance will be bought in to allow us to support the in-house teams who will be responsible for the long term support of the new IT and revised business system.

Forestry Commission Organisation and People (continued)

Forestry Training Services (FTS)

FTS has a strategic role in providing learning, training and development opportunities for Forestry Commission staff. FTS works with others to develop and deliver best practice in the Commission and the wider Industry.

We have four training centres in England, Scotland and Wales and offer a service to each of the countries.

FTS is customer focused and consequently delivers a large number of events at locations chosen by customers and not at the training centres. Developments in 2003 included a new training event, part of our people skills series called "Valuing and Supporting People and Change". This is a key element of the Forestry Commission's change culture programme. An important development in operator training was the formation of a partnership with Barony College to train qualified machine operators for the Commission and the Industry.

Health and Safety

It is the policy of the Forestry Commission to ensure the health and safety of all its employees, and to provide for the health and safety of others, including contractors, visitors, neighbours and members of the public who use our forests. The Forestry Commission also has a policy of taking good care of the welfare of its employees.

During the year the Forestry Commission has continued to work with the Health and Safety Executive (HSE), promoting and managing health and safety in forestry. We have organised Seminars with the Forestry Contractors' Association to improve the management of health and safety in the timber transport chain, in particular the understanding of risk assessment and site safety rules. In another collaboration we worked with Scottish Natural Heritage and the Countryside Agency to advise on the health and safety of those taking part in a wide range of countryside recreational activities.

We have developed and published a policy on managing the health and safety of employees who drive at work. The policy sets out the responsibilities for those who drive and for those who manage staff that drive. It includes an information leaflet setting out best practice.

Accidents at Work

The following figures set out the incidence of reportable accidents (those causing incapacity for more than three days) for all staff in 2002-03 and the preceding years. The overall decline in accident rates is encouraging and can partly be attributed to the higher profile afforded to health and safety in all forest operations.

Year	No of accidents per 100 employees
2002-2003	0.98
2001-2002	1.10
2000-2001	1.66
1999-2000	1.64
1998-1999	1.47

“...the strengthening of our delivery instruments and organisational structures will help to ensure that we are well placed to continue developing forestry’s potential in England in the years ahead.”



Forestry Commission in England

Introduction by the Director England

The England Forestry Strategy, A New Focus for England's Woodlands, which was published in 1998 provides the foundation for our work. The Strategy is based on four interrelated programmes which develop the Government's wider social, environmental and economic policies in a forestry context:

- 🌲 Forestry for Rural Development
- 🌲 Forestry for Economic Regeneration
- 🌲 Forestry for Recreation, Access and Tourism
- 🌲 Forestry for the Environment and Conservation

This report reviews our continuing progress during the year to implement these programmes.

A key element of our work this year has focussed on identifying the ways in which the delivery of our policy aims can be strengthened and enhanced. At the heart of this have been two major reviews. The results from the review of woodland management in England have provided some significant issues for development over the coming years. Similarly, the review of support for the creation of new woodlands has identified a number of areas for further development. As we work to implement the recommendations from the two reviews, our aim will be to ensure continual improvement in our ability to deliver forestry policy, commensurate with the resources available to us. Throughout both reviews we have worked closely with our partners, both in the forestry sector and outside. We will continue these partnerships with the key interest groups to ensure that our delivery mechanisms are aligned to their needs.

As reported elsewhere in this report (on page 25) we have strengthened our organisational structures in order to implement the conclusions of the Forestry Devolution Review. In particular we have developed a much closer working relationship with the Department for Environment, Food and Rural Affairs (Defra) and have formalised this relationship through an internal concordat. This stronger relationship is already bringing early returns as forestry issues gain a higher profile in the developing rural agenda. Forestry is increasingly viewed by our colleagues in Defra as having a positive part to play in the delivery of their policies. We have also continued to develop closer working relationships with the Office of the Deputy Prime Minister (ODPM) with special emphasis on opportunities for forestry to play in an urban environment. In England, delivery of policy at the regional level is also becoming increasingly significant. Accordingly, we have strengthened our capacity to handle this dimension of our work. We have achieved this both through organisational adjustments and by refocusing our work to give greater emphasis to regional needs and opportunities. The developing regional forestry frameworks, which were recommended last year by the England Forestry Forum, will provide a solid foundation for achieving this.

Taken together, the strengthening of our delivery instruments and organisational structures will help to ensure that we are well placed to continue developing forestry's potential in England in the years ahead.



Paul Hill-Tout
Director England

Sustaining England's Woodlands

Sustaining England's Woodland Review

In October 2002 we published the outcomes of a review into the way the Forestry Commission supports the sustainable management of woodlands in England. An independent steering group conducted the review and it involved extensive stakeholder consultation. Our response to the Steering Group's report concluded that the time was right for a new approach and a new relationship between the Commission and woodland owners and managers in England. The key areas for action identified in the response were:

- 🌳 improving the evidence base;
- 🌳 enhancing engagement with owners and managers;
- 🌳 strengthening advocacy for woodlands and sustainable forest management;
- 🌳 developing new and stronger partnerships;
- 🌳 increasing income from woodlands; and
- 🌳 using Forestry Commission resources more effectively.

We are now in the process of implementing the actions identified in the report¹.

Woodland Creation Review

Along with Defra we carried out a policy review of woodland creation in England under the WGS and Farm Woodland Premium Scheme (FWPS). The review has been informed by the work of an independent Steering Group comprising representatives drawn from a cross section of the main stakeholder organisations.

The Steering Group reported to the Forestry Commission and Defra in November 2002. The response of the two departments to the report was published on 15 April 2003.

Most of the 25 headline recommendations have been accepted either in whole or in part. The Group's key recommendations are to:

- 🌳 support the creation of high quality woodlands that are designed and managed to deliver clear public benefits;
- 🌳 provide for a more regionally based approach to woodland creation policy and delivery;
- 🌳 raise the profile of the role of trees and woodlands in urban renaissance and land regeneration;
- 🌳 bring the current WGS and FWPS together under one umbrella scheme administered by the Forestry Commission; and
- 🌳 improve the provision of advice and information.

The response notes, however, that a definitive conclusion on the detail of how some of the recommendations will be implemented cannot be reached pending the outcome of the review of forestry policy in England and the outcome of Lord Haskins' review of environmental and rural delivery.

Grant Aid under the England Rural Development Programme (ERDP)

The ERDP sets out the government's support for agriculture, forestry and the rural economy over the period 2000-06. The programme includes the Woodland Grant Scheme (WGS) which provides incentives for people to create new woodlands and plan, manage and improve existing ones.

Tables 1, 2, 3, and 4 show the main figures for grants paid in 2002-03, both in terms of area and money. Tables 2 and 3 also show trends over recent years. Overall grants totalling £17.3 million were paid out under WGS in 2002-03, 56 per cent going to new planting and 44 per cent to support the management of existing woodland.

¹ Sustaining England's Woodlands: Response of the Forestry Commission to the Steering Group Report. Forestry Commission, Cambridge. 2002. Available at: www.forestry.gov.uk/hcou-4z6k5n

Sustaining England's Woodlands (continued)

Felling Regulations

We continue to exercise strict controls on felling. We approved 2,236 WGS plans during the year, of which 950 contained licensable thinning and felling operations on 21,540 hectares of woodland. These include 1,242 hectares of clear felling, 510 hectares of selective felling and 987 hectares of coppicing.

We also issued 1,113 felling licenses that were not linked to WGS plans, compared with 1,131 last year. These licenses covered 407,571 cubic metres and 74 per cent of this was for unconditional thinning operations.

We received 188 reports of illegal felling from the public. After checking our record of approved felling, we investigated 26 in more detail. This year we sought nine prosecutions and have 12 serious cases still to be resolved. In 11 less serious cases, we issued formal warnings to those involved. During the year seven restocking notices were served following successful prosecutions.

Our Conservators continued to receive forest design plans from Forest Enterprise for proposed felling operations. These plans are subject to external consultation on the same basis as private sector grant aid and felling licence applications. We have now approved plans covering more than 210,000 hectares, around 83 per cent of the Forestry Commission's estate in England.




Certification Workshops and Pilots

In March 2003 we ran four Certification Workshops (Scotch Corner, Nottingham, London and Bristol) aimed at providing information and encouraging woodland owners and managers to certify their woodlands. More than 300 people attended and the Workshops were considered to be a success.

We also funded the establishment of three pilot projects in England aimed at understanding and overcoming the barriers to certification for small woodland owners. The pilots will run for three years.

Woodland Initiatives

In early 2002 we commissioned, jointly with the Countryside Agency, a review of the effectiveness of woodland initiatives. The aim was to determine whether these initiatives are or could be valuable partners in implementing forestry policy in England. The overwhelming message is that the initiatives are making valuable contributions to the enhancement of the social, economic and environmental values of woodlands and that we should continue to support them where they contribute to the delivery of our national and regional priorities. We intend to do this by:

-  providing direct support at the regional level;
-  supporting national networking and the sharing of best practice between initiatives; and
-  developing and testing pilot projects, tools and other support mechanisms at the national level.

We hosted a networking day for the initiatives in England to provide a forum for networking and sharing best practice. The conclusions of the day along with a resume of action over the last 18 months from the participating initiatives were published².

We also supported the appointment of a network co-ordinator post to the Small Woods Association to continue to develop the capacity of the initiatives to share information and best practice.

² Woodland Initiatives Networking Day. Wednesday 8 May 2002. Forestry Commission, Cambridge and the Small Woods Association. 2002. Available at: www.forestry.gov.uk/infid-5j4mbk

Forestry for Rural Development

Our Rural Development programme covers forestry's role in the wider countryside, including its contribution to the rural economy. The programme focuses on the role of trees, woods and woodland businesses in the sustainable development of rural areas, and how both new and existing woodlands can be managed to deliver more benefits to local economies.

Key achievements during the year are described below.

Reconnecting with the Forest Industry

A healthy, viable, and competitive woodland business sector is needed to help underpin the sustainable management of England's woodlands and the delivery of the wide range of public benefits set out in the Government's England Forestry Strategy. Woodland businesses make an important contribution to the economies and communities of their local areas. In England the traditional forestry sector employs nearly 15,000 people. A study into "English Forestry Contribution to Rural Economies"³ indicated that for every £1 directly generated by the forestry and the processing industries a further £2.71 is generated in England through indirect and induced effects in other activities.

Traditional woodland businesses are facing the most difficult operating conditions experienced for many years. However most of the pressures on woodland businesses are to do with world market conditions and the state of the wider economy. We are working in partnership with the private sector and other government departments to identify how we can jointly help support the right operating environment to enable woodland businesses to deliver our aspirations for sustainable rural development.

Fundamental to this is developing a robust and effective working relationship with the forestry business sector. As an initial step we undertook a series of visits to forest industry businesses in England to improve our understanding of the sector's operating environment and the challenges facing the industry. We followed this with a joint workshop with the Forest Industries Development Council for the key forest industry sector representatives to look at how we could better work together. The outcome of the workshop was an agreement to set up an England Forest Industries Partnership group to identify and take action on the key issues facing the sector in England.

Woodfuel

In February the Secretary of State for Trade and Industry, Patricia Hewitt, launched the Government's new energy policy⁴. The policy reinforces the Government's commitment to ensuring 10 per cent of our electricity generation comes from renewable sources by 2010, and sets out an ambition to double this by 2020. Biomass is seen as the next most significant renewable energy resource behind wind to move to commercial deployment. This key opportunity will provide the framework for our developing work on woodfuel.

³ English Forestry Contribution to Rural Economies. January 2000. Public and Corporate Economic Consultants.

⁴ Our Energy Future: Creating a Low Carbon Economy. Department of Trade and Industry and Department for Environment, Food and Rural Affairs. London. Cm 5761 February 2003.

Forestry for Rural Development (continued)

We have continued to work closely with Defra and the Department of Trade and Industry on energy issues by providing technical support for the implementation of the Energy Crop Scheme.

We have also advised on the development and implementation of the suite of bio-energy grants funded by the Department of Trade and Industry and the New Opportunities Fund. These grants will support the development of five new biomass power stations and seven small-scale biomass heating projects in England. The power stations alone could produce enough heat and electricity to meet the needs of more than 90 000 homes – equivalent to a city the size of Southampton.

We are developing an internal framework for advancing the role of woodlands as a source of renewable energy in England. This will help guide our staff and others on the unique expertise and skills that we can bring to encourage the use of wood for renewable energy production in order to:

- 🌱 contribute to the Government's targets for renewable energy; and
- 🌱 to support the sustainable management of our existing woods and forests.

In addition we have:

- 🌱 worked with the Community Renewables Initiative to promote biomass systems as one of a range of options for local and community renewable energy schemes;
- 🌱 provided information to end users on the woodfuel resource and technical issues; and
- 🌱 worked closely with regional partners, in particular the RDA's and Government Offices to ensure that the potential for energy from biomass, and in particular forestry wood fuel is reflected in regional renewable energy strategies as they develop. Where appropriate we have

provided encouragement and support for the regions to prepare separate woodfuel strategies, commissioning baseline studies, and, in some cases, detailed feasibility studies.

Rural Affairs Forum

We have taken an active part in the Rural Affairs Forum England, Chaired by Alun Michael, Minister of State for Rural Affairs. The Rural Affairs Forum implements the Government's commitment in the Rural White Paper⁵ to establish a national sounding board so that Ministers could "have regular and direct contact with the main rural groups so they know what is going on and what countryside people think". We have established joint working arrangements between the England Forestry Forum and the Rural Affairs Forum including agreement to establish a joint sub-group on the role of woodlands in rural economies and communities.

Working with the Countryside Agency

We developed a programme of partnership work with the Countryside Agency to help consumers make the links between the woodland products they buy and the countryside they value. The programme will build on the work of the Agency's Eat the View Programme. As part of this work the partnership made contact with the National Association of Farmers Markets and produced an article for their news letter to promote the potential for local woodland products to be included in farmers markets.

⁵ *Our countryside: the future. A fair deal for rural England.* Ministry of Agriculture, Fisheries and Food and the Department of the Environment, Transport and the Regions. London. Cm 4909. November 2000.

New Grant Schemes

Forest Futures

In July we launched "The Forest Futures Programme" a new woodland support package as our contribution to the regeneration of the Cumbria Rural Action Zone (RAZ). The package provides a premium for new woodland planting and woodland management activity that contributes to the sustainable rural development of the RAZ. The third element of the package is a business development grant for businesses that provide alternative uses for woodlands, such as woodland tourism, firewood and charcoal ventures etc. The programme is being implemented in partnership with the North West Regional Development Agency through Cumbria Woodlands. The Forestry Commission has put in an additional £700,000 each year into the area to top up the existing WGSs and provide funding for the business development grant. In the first six months of operation the scheme supported 179 hectares of new woodland planting, brought 590 hectares of woodland into management, assisted 34 businesses.

Harvesting, Processing and Marketing Grant

We obtained European Commission approval to develop a new project based grant scheme under the ERDP. The grant proposals formed part of the ERDP modifications that were approved by the European Commission in December. The grant will provide support to businesses engaged in harvesting, processing, marketing and promotion of outlets for primary timber products. It will enable farmers, other forest holders and forest businesses to become more competitive by promoting sustainable forest management, encouraging added value at the point of timber production and improving the supply chain through co-operative working.

Good Practice

We continue to work with a wide range of local and national partners to promote best practice in sustainable development. In 2002 we commissioned a report on the work of the Green Wood Trust in Community Education and Development⁶. The Trust is a registered charity based in Shropshire. It was set up to help save and regenerate Britain's native woodland by developing commercial, education and aesthetic uses for green, small diameter hardwood. The report focuses on a National Lottery funded programme of work with deprived wards in Telford, and provides valuable insight into how woodland projects can provide a medium for community development and skills required for success.

Research

We need to continue to improve our understanding of how trees, woods and woodland businesses contribute to the sustainable development of rural areas. We therefore commissioned research to develop a low-cost methodology to better understand the current and potential contribution of forestry to the development of rural areas in Britain at a project or sub-regional level. The research, which will be tested on selected case studies, will identify and where appropriate quantify the entire range of benefits of forestry accruing to a specific area. This will inform key partners and decision makers about the range of contributions forestry makes to rural well-being. The final report is due next year.

In preparation for the development of regional forestry frameworks we have undertaken, in partnership with the Regional Development Agencies baseline studies of the contribution of forestry to the region in the West Midlands⁷, South West⁸, and Yorkshire and Humber⁹ Regions. Further work has been commissioned in East of England and North West that will report in 2003.

⁶ Report on the work of the Green Wood Trust in Community Education and Development for the Forestry Commission and Small Woods Association. Liz Whitelaw. February 2003.

⁷ Embedding Woodland Industries in the West Midlands. DTZ Pidea Consulting. 2002

⁸ South West England Woodland and Forestry Strategic Economic Study. Forestry Commission England. January 2003. Available at: www.forestry.gov.uk/website/Oldsite.nsf/ByUnique/INFD-5J3FJC

⁹ Forestry Forward, Yorkshire and the Humber Forestry Foundations Study. A Report to the Forestry Commission and Yorkshire Forward. Firn Crichton Roberts Ltd and John Clegg and Co. (unpublished) July 2002.

Forestry for Rural Development (continued)

Timber Production

A total of 1.47 million cubic metres of timber were harvested from the Forestry Commission's forests in England. Our timber production supports significant employment and economic activity in the harvesting, haulage and wood processing sectors throughout England. We see a viable and efficient harvesting and marketing sector as essential to undertaking and funding the sustainable management of woodlands, in pursuit of a wide range of objectives.

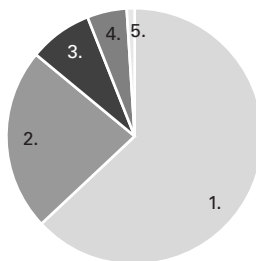
63 per cent of the volume was sold as standing trees with the balance coming from Forest Enterprise's own harvesting activity. Thinning operations contributed 33 per cent of the volume. This demonstrates the continuing commitment to improvement of both timber quality and the landscape and environmental values of the nation's woodlands. In extremely difficult market conditions, total timber income was £18.6 million.

111,000 cubic metres of hardwood was harvested during the year made up of both high quality stems for the bespoke building and furniture markets, and thinning of 2500 hectares of younger woodlands to promote timber quality and improvement of biodiversity values.

Markets in general have been under severe pressure with closures in both the sawmilling and panelboard sectors. A strong pound, coupled with increased use of recycled fibre led to further reductions in unit prices. However, a number of sawmills continue to invest in new equipment to improve their competitiveness and there is continuing dialogue

with the wood energy sector and other potential new market areas. The establishment of the England Forestry Industries Partnership provides an important means for all involved in the forestry sector to continue to work together to sustain timber processing and the significant income that it provides for the management of woodlands.

Main Market sectors for Forest Enterprise timber 2001-02



1	Standing timber purchases	63%
2	Direct Supply to Sawmills	23%
3	Direct Supply to Panel Products	8%
4	Direct Supply to Paper and Paperboard	5%
5	Direct Supply to Other	1%

Dean Oak Project

An exhibition in Coleford completed phase one of the Dean Oak project, generating widespread media interest and enthusiastic acclaim. The project has been run in partnership with the Countryside Agency and has focused on making better use of thinnings from 20th century oak stands which had previously been destined for pulp or firewood.

Thinnings were harvested, and better logs were segregated on the basis of form – even though the size was much smaller than traditionally used for sawing. These were contract sawn, predominantly to 100mm x 25mm sections, kiln dried and then distributed to a wide range of hardwood timber users in the Forest of Dean. Significantly, although there were nearly 50 such businesses, none were using local material – and many were using imported American oak. Businesses were asked to provide feedback on how the timber had performed in use, provide examples for use in the exhibition and to market any produce as “Dean Oak”.

The products ranged from small turned items and a wide range of furniture through to garden benches and large gates. Of significance was the innovation deployed to overcome the small size of the timber. The quality of the products was extremely high, and there was genuine enthusiasm for the fact that it highlighted the potential of local timber. We are now considering how to take the project through its next phase, which involves building the process chain right through to retail outlets.

Blackdowns Hills – Neroche Project

The Heritage Lottery Fund awarded this innovative landscape scale project a special planning grant of £47,000 during the year to develop a full bid based around the restoration of the woodlands and grassland of the northern escarpment of the Blackdown hills. The project aims to benefit the local economy by stimulating environmental tourism in an area which is a poorly known but

beautiful part of England. A ridge top walking, cycling and horse riding route will be a key part of this, providing a vital link to the existing access network and fine views across the vale of Taunton. Local identity and produce, including timber products produced from locally sourced woods, will also be a part of the project.

Wyre Forest

The Wyre Forest Discovery Centre became the first Forest Enterprise centre in England to achieve Eco-Centre. Our action plan for the centre aims to reduce use of fossil fuel energy, enhance biodiversity around the centre, inform visitors of what we are doing and give advice on how they can improve the environment through their own actions.

During the year a major, project proposal was developed for Wyre Forest. Initially starting from a project to improve education and visitor facilities at the Discovery Centre, the project has expanded, with encouragement from Advantage West Midlands, the Regional Development Agency, to encompass the whole of Wyre Forest. The project now aims to engage a wide range of owners and link the ecological restoration and economic activity in the forest to the project. In principle agreement for funding up to £3 million, subject to preparing a full plan, has been secured.

Forestry for Economic Regeneration

Our Forestry for Economic Regeneration programme outlines a number of ways in which woodlands can contribute to strategic land-use planning. The programme's priorities include restoring former industrial land and creating green and attractive settings in which to attract inward investment.

Key achievements during the year are described below. Progress has taken place within a rapidly evolving and potentially very positive policy context. Notable in this respect were the publication by the Office of the Deputy Prime Minister (ODPM) of:

-  *Sustainable Communities: Building For The Future*¹⁰ which sets out the Government's programme to support the creation of more liveable cities, including a step change in housing supply, new growth areas, more attractive built and green environments and more sustainable communities. The programme includes the development of a comprehensive national strategy for brownfield land as well as a target for restoring 1500 hectares of brownfield land restored as public green space through the Land Restoration Trust within the next three years; and
-  *Living Places, Cleaner, Safer, Greener*¹¹ which complements the Sustainable Communities Plan and sets out the Government's vision for public space including open green space and woodland.

Both documents emphasise the "Local Environment/Liveability" agenda where we see we have an important role to play. These policy developments provide a significantly stronger context for our own objectives and we are currently exploring with the ODPM ways in which we may best be able to contribute.

Brownfield Land

We are continuing to work with regional partners to gain a deeper understanding of the brownfield resource where there is potential for restoration to woodlands. Surveys have now been undertaken for the whole of the North West, South East Northumberland, South Yorkshire, and the Nottinghamshire/Derbyshire coalfields. A related project is also underway in the West Midlands supported by the Regional Development Agency (Advantage West Midlands). We intend to use the data obtained from the surveys to help establish strategic frameworks for guiding our future work at a regional level. An early example of this is the "Newlands" project (see below) which has recently received Treasury approval. We are also working with English Partnership's National Brownfield Strategy team on how our work may complement their wider strategic remit.

Working with English Partnerships

We are now over halfway through the three-year life span of our accord with English Partnerships. We have continued to collaborate on policy issues and opportunities that are relevant to our shared objectives. Examples of this collaboration include:

-  formative work to establish a new Land Restoration Trust. The Trust is being established by a partnership comprising English Partnerships, Groundwork and the Environment Agency. It also has the support of the Office of the Deputy Prime Minister and Defra. The purpose of establishing a Trust is to make better use of land that is currently underused, neglected or derelict and which would have most value as green space. The ultimate aim of the Trust is to improve the quality of life for communities with

¹⁰ Sustainable Communities: Building for the Future. Office of the Deputy Prime Minister. London. February 2003.
¹¹ Living Places. Cleaner, Safer, Greener. Office of the Deputy Prime Minister. London. October 2002.

derelict land on their doorstep and to contribute to sustainable development at local, regional and national level by providing a focus for environmentally-informed and community-led land regeneration;

- 🌱 work on a portfolio of coalfield sites comprising some 450 hectares in South Yorkshire, held by English Partnerships, where our Forest Enterprise agency is working with Yorkshire Forward on their restoration and the creation of new community woodlands. With joint funding from Yorkshire Forward, we have appointed a new member of staff to supervise all the woodland establishment and management work on these sites. It is planned to transfer the sites into the Land Restoration Trust, when it is established, with our Forest Enterprise agency acting as managers;
- 🌱 and continue to develop the "Roots" computer software package designed as a decision support tool to aid the preparation of woodland specifications on brownfield land and associated site assessment procedures. The products of this work should, following field testing in South Yorkshire, help to provide more effective specifications for soft-end uses of brownfield land. It is planned to use the software to support site assessment work in the Newlands project. Following the completion of field-testing we are planning to investigate the scope for commercially marketing the software.

Next year we intend to review progress, taking into account English Partnership's revised remit following completion of their quinquennial review in 2002.

Developing Good Practice

The Public Benefit Recording System (PBRs) has been developed as part of the decision support process within the Newlands project (see below). It takes a targeted approach that addresses those sites that contribute sufficiently to Sub-Regional Partnership priorities for regeneration and have a local significance. PBRs establishes the social, economic and environmental attributes of each site.

We are currently exploring ways in which to support the developing regional agenda. We are looking at how conservancies will engage with regional strategic partners in delivering forestry objectives using regional strategic frameworks. The PBRs is seen as potentially being a valuable tool in supporting the development of these frameworks.

The Land Regeneration Unit is also working with our Forest Research Agency to develop a process of brownfield site assessment to ensure that the Forestry Commission has sufficient information to satisfy both itself and future users of Forestry Commission sites that:

- 🌱 the decision to acquire/develop the land was based upon an informed assessment using a risk-based approach;
- 🌱 the Forestry Commission is complying with the Environmental Protection Act 1990, the environment act 1995 and other legislation; and
- 🌱 important features of landscape, the cultural heritage and the natural resource heritage are protected and enhanced in accordance with current legislation and good practice.

Forestry for Economic Regeneration (continued)

Mineral Restoration

Research was commissioned last year by our West Midlands Conservancy into attitudes and practices pertaining to woodland and mineral restoration in Staffordshire. The results of this work identified a number of national issues which were addressed at a seminar for mineral and landfill planners and practitioners in the West Midlands in March 2003. The seminar involving presentations from the Forestry Commission, the Department for Environment, Food and Rural Affairs, Staffordshire County Council and the private sector will be used to provide a template for future events in other regions.

Research

In the last year, our Forest Research agency has consolidated experimental work on modern methods for relieving soil compaction on brownfield sites. Focusing on our large portfolio of sites affected by coal mining, research has also been designed to identify the characteristics of leachate from pyritic materials using leachate columns and relate this to initial spoil condition. Forest Research have also been instrumental in developing an integrated IT system for holding and maintaining records which relate to the land which we have taken on to establish community woodland, so that we can track the evolutionary history over successive years.

Landfill Tax Credits

During the year, we benefited from two tranches of funding from Entrust under the Landfill Tax Credits arrangements. In March we secured a lease from the Cleanaway Havering Riverside Trust for 16 hectares of land at Great Barn, Broadfields Farm,

Upminster, Essex at a peppercorn rent as part of the Great Barn Woodland Creation Project funded by Entrust. The lease, with an approximate value of £100,000, began on 14 March 2003. We also received funding from the lessor for survey work and to support community involvement activities related to the project. We received additional funding from The Cleanaway Havering Riverside Trust for survey work, community involvement and the development of recreational infrastructure on the Pages and Mount Pleasant Farms Woodland Creation Project.

England's Community Forests

The 12 Community Forests across England have continued to prosper. Over the past year nearly 982 hectares of new woodland has been established across the 12 forest areas. Over the same period a further 873 hectares of existing woodland was brought under enhanced management, 646 hectares of which had public access.

New planting of 510 hectares was funded through the Treasury supported Capital Modernisation Fund in Thames Chase, Red Rose and The Mersey Forests, in partnership with Forest Enterprise. A further 236 hectares was funded through the WGS and more than 236 hectares from other sources. There was a significant increase in both larger-scale planting and new planting on derelict land, in line with the objectives of the England Forestry Strategy. Planting on reclaimed land amounted to 436 hectares. Total planting in Community Forests since their inception in 1990 now totals more than 10,000 hectares.

In partnership with the Department for Environment, Food and Rural Affairs and The Countryside Agency, we are working with the 12 Forest Partnerships to develop a strategy for ensuring they can continue to implement their forest plans when the exiting arrangements for their core funding come to an end in March 2005. We are also exploring how their experience, and that of similar projects, can be extended to other urban areas in the context of the aims of the Rural White Paper and the Sustainable Communities Plan.

Capital Modernisation Fund Project

This was the third and final year of the Government's £9.6 million funding for woodland development in the Thames Chase (East of London), Red Rose and Mersey (both North West) community forests. All of the key targets – acquisition of 1,000 hectares of land, creation of 1,000 hectares of new woodland and establishment of 49 kilometres of new paths were substantially exceeded by the partnership.

Other outputs include ten new wetlands, one fishing pond, new links between existing ancient woodlands, and art works such as sculptures. The project has been received with growing enthusiasm at every level – from the North-West Development Agency who backed it with additional funding of £2.8 million – to the people living around the woods who have participated enthusiastically in the design and development of the new woods and are now enjoying them.

Gloucester University has been commissioned to prepare a monitoring report for the project and the work is scheduled to be completed next year.

Public participation had a significant influence on the design of these woods, with a general wish for more open space and more paths – we planted a smaller proportion of the land acquired than expected and were able to deliver significantly more paths than planned.

In March, Her Majesty the Queen and His Royal Highness the Duke of Edinburgh visited Redden Court School in Essex where they learnt about the partnership forged between the Forestry Commission, Thames Chase Community Forest and the school.

Newlands

Newlands (New Economic Environments via Woodlands) is an innovative strategic approach to woodland creation and management being developed in the North West. In its first phase, "Newlands 1" is set to restore and regenerate more than 400 hectares of brownfield land across Merseyside, Greater Manchester and north Cheshire. A second phase is expected to extend across the rest of the region to include Cumbria, Lancashire and the rest of Cheshire.

Newlands is being developed through a partnership between the Forestry Commission, the North West Development Agency, local authorities, Groundwork, the Mersey and Red Rose Forests and the Pennine Edge Forest. It is one of several strategic programmes of brownfield land regeneration across North West England funded by the North West Development Agency to achieve a step change in the quantity of land reclaimed. It is however much more than simply a restoration programme and will impact upon economic, social, environmental and health agendas across the whole region using PBRS (see above) to facilitate this process.

Forestry for Economic Regeneration (continued)

Newlands' vision is to improve the region's living and working environments, and to make the North West a more exciting and viable choice for investment opportunities by tackling degraded brownfield land via restoration to woodland.

Green Arc

Following the success of Capital Modernisation Fund project in Thames Chase the 'Green Arc' project is under development by a partnership including the Forestry Commission, Thames Chase Community Forest, the Corporation of London's Epping Forest and the Lea Valley Country Park. The partnership will promote the development of new woodland and other habitats in a broad arc between Thames Chase to the East of London and Watling Chase Community Forest to the north.

South Yorkshire

Our partnership with Yorkshire Forward and Doncaster Metropolitan Council has been working on the restoration of coalfield sites in South Yorkshire since 1998. This year the restoration of the first site, the 102 hectare Bentley Colliery which closed in 1993, was completed. Using advice provided by our Land Regeneration Unit and our Forest Research Agency, site treatment included tining the site to break compaction and incorporation of sewage sludge to provide nutrients for the young trees. The project included community consultation throughout its development and seven kilometres of walking, cycling and horse riding routes have been included in the restoration.

Forestry for Recreation, Access and Tourism

Our Forestry for Recreation, Access and Tourism programme promotes more and better quality public access to woodlands. It also includes opportunities for ensuring that woods and forests continue to be used for a wide range of recreational pursuits as well as supporting the tourism and leisure industries.

Key achievements during the year are described below.

Dedicating Woodlands for Access

Work is continuing with Defra and other bodies including the Countryside Agency to implement Section 16 of the Countryside and Rights of Way Act 2000 Part I in relation to the dedication of land for public access in perpetuity. This has concentrated on developing the regulatory and associated administrative frameworks to enable landowners to dedicate.

A number of countryside bodies, including the Forestry Commission, commissioned research into incentives and support mechanisms for access to the countryside primarily to support the introduction of the access provisions. The research was completed in December and the Countryside Agency has published an Information Note¹² to summarise the results. Findings from the research will help to inform further deliberations on how a new grant scheme can be developed to support the management of open access land.

Support for Access to Woodlands

The Sustaining England's Woodlands Review identified the need to review how support for access was provided. A pilot grant scheme, Woodland Welcome, was developed and launched in the South East of England in October. Sixty-seven applications were received and more than £250,000 worth of annual and capital grants were provided to 27 schemes. Woodland Welcome tested a number of new approaches including different rates of annual management grant according to three categories of woodland: Urban, Park and Rural woods, linking the management costs to intensity of their use and also looked at using non-grant mechanisms to support owners. The Scheme is now being evaluated and the findings will be used to inform the development of the England Woodland Grant Scheme.

As part of the Woodland Welcome approach to supporting access. The University of Brighton was commissioned to undertake research into owners' attitudes towards public access. The research will be used to consider how further support will be required to increase and improve the quality of access to woodlands in private ownership or management.

Tourism

We were invited to sit on the Rural Tourism sub-group of the Rural Affairs Forum led by Defra. The sub-group submitted its recommendations in July. We also contributed towards progress against the Countryside Agency and English Tourism Council's rural tourism strategy which was published in June 2001¹³.

12 Grants and incentives for managing and improving countryside access in England and Wales. Countryside Research Note 59. The Countryside Agency, Cheltenham. March 2003.
13 Working for the Countryside. The Countryside Agency and English Tourism Council. CAX 7 The Countryside Agency, Cheltenham. June 2001.

Forestry for Recreation, Access and Tourism (continued)

Health

A seminar was held in July which brought together practitioners from policy, practice and research in relation to health and the wooded environment. Papers from the seminar were published by our Forest Research Agency¹⁴. Further discussions with the health sector are planned for 2003 to identify a number of practical pilot initiatives to help evaluate outcomes from this work on a wider basis.

Woods for People

The Woods for People project which we are collaborating on with the Woodland Trust to collate data on accessible woodland was extended during 2002 to ensure a greater degree of accuracy. When completed, the database will provide a greater strategic assessment of where access is currently provided and help to identify gaps in provision where resources can be targeted.

Social Forestry Training

Many of our Forest Enterprise staff are working increasingly closely with local communities. In order to support and enhance their skills in this area, we introduced a new modular training programme on 'Social Forestry – Engaging People' during the year. The initial module 'Why engage people?' has now been delivered by our Forestry Training Services group to every Forest District in England. Further modules matched to individual requirements will be delivered over the coming year.

Campsites in the New Forest

There was an active debate during the year over the future of campsites in the New Forest located on land classified as Ancient and Ornamental Woodland (A&O). These sites are within the candidate Special Area of Conservation (SAC) under the European Union Habitats Directive. Following advice from

English Nature, we are planning to reduce the number of available camping pitches at Hollands Wood and provide alternative pitches elsewhere on freehold Crown land within the Forest area.

High Lodge – Thetford Forest

Badly-needed new space has been added to the successful High Lodge Forest Centre in Thetford Forest in Norfolk. The £400,000 project is due for completion in April 2003 and will nearly double the centre's size, with an expanded kitchen to service the increasingly popular café and a £100,000 base for the centre's cycle business funded by the franchisee. The opening of the first 'Go-Ape' high wire course in England, by Jarvis Cocker of the rock band Pulp was well publicised. This is proving to be an extremely popular attraction and enables visitors to explore the forest through a challenging high-wire course which runs between 20 and 30 feet above the ground. Plans are now well advanced for a new Education and Community building as part of the continued development of the High Lodge facilities.

Westonbirt Arboretum

The first Westonbirt International Festival of Gardens attracted 120,000 visitors. It ran from June to September, and was a first for England. Modelled on similar events in France and Canada it presented exciting modern garden designs to a responsive and interested audience. Exhibits ranged from Neil Wilkins beautiful glass 'stars' 'Suncatcher' through Dr Christine Facer's fascinating 'Genetic Garden' to American-born Candace Bahouth's 'Fantasy Garden' where all the flowers were plastic. Aimed to provoke, inform and inspire, the Festival provided an innovative way for visitors to look at garden designs. We plan to repeat this successful event in 2003.

¹⁴ Health and Well-being – trees, woodlands and natural spaces. Forest Research Agency. 2003. Available at: www.forestry.gov.uk/ggae-5kydpc

'Maples', Westonbirt's new restaurant was completed during the year. Designed by Roderick James Architects, it was constructed using softwood grown at the arboretum. The resulting building demonstrates the beauty and function of wood in construction and complements the adjacent Great Oak Hall and the 20 year old Visitor Centre.

Bedgebury Pinetum

HRH The Countess of Wessex, Patron of the Friends of Bedgebury Pinetum, visited Bedgebury in October to unveil a plinth and plant a tree to mark the start of landscape planting for the Bedgebury Development Project. The event was organised by the Friends and sponsored by UPM Kymene.

While fundraising did not progress to the point where it was possible to start building the new centre there was significant progress with associated works during the year, including completion of the new car park and the lake and the design and commencement of landscape planting for the centre.

Ospreys in the Lake District

Osprey's returned to Bassenthwaite in the north Lake District for their second successful breeding season in 2002, rearing two young. A viewpoint, at Dodd Wood was opened by Lord Clark, the Forestry Commission's Chairman, in April. A new webcam link from the nest to our nearby Whinlatter Visitor Centre, funded by English Nature, was installed. Working with the Lake District National Park and the Royal Society for the Protection of Birds, more than 100,000 people were able to view the nest and it is estimated that this generated £1.4 million for the local economy. This was a major boost in an area badly hit by the closure of the countryside in 2001 due to Foot and Mouth Disease. The project won a Regional Tourism award from the Cumbrian Newspaper Group which was presented by the broadcaster John Craven.

During the year £1 million external funding was raised to develop the project over the next three years. Funders include the European Regional Development Fund, the Cumbrian Rural Development Partnership and M-Sport (Ford World Rally Team) who use Whinlatter Forest for car testing. The largest part of the project is the £400,000 refurbishment of our Whinlatter visitor centre, with completion due in May 2004.

Red Kites@Rockingham

In its second season, Red Kites at Rockingham in Northamptonshire were linked to the English Nature website, achieving the second highest number of hits after their home page! The Kites reared two young. The project was run again in partnership with the Royal Society for the Protection of Birds, and was one of their 'Aren't Birds Brilliant' sites. The project is at the heart of plans to develop Fineshade as a forest centre for visitors to Forest Enterprise woods in the area. The 2003 season was launched in March but unfortunately the Kites had not returned to the previous year's nest, meaning that live webcam coverage was not possible at the start of the season – and emphasising that these are unpredictable wild birds!

Forestry for the Environment and Conservation

The Forestry for Environment and Conservation programme embraces the role woodlands can play in conserving and enhancing the character of our environment, our cultural heritage, and in delivering the government's biodiversity and climate change objectives. Key achievements during the year are described below.

England Biodiversity Strategy

The Government published the Biodiversity Strategy for England¹⁵ in November. Preparation of the Strategy involved a number of sectoral groups and we co-ordinated the work on woodlands and forestry. This was completed with full input from a wide range of stakeholders from the forestry sector. The Strategy sets out overall aims and priorities supported by a detailed work programme for the next five years. A supporting set of indicators is being developed, which will include woodland birds, condition of Sites of Special Scientific Interest (SSSI) and delivery of the Habitat Action and Species Action Plans as headline measures of performance.

England Native Woodland Partnership

The Partnership continues to be a strong and active group, guiding the implementation of the native woodland Habitat Action Plans in England. It played a crucial role in the production of the England Biodiversity Strategy, and will become the key implementation working group for woodland. The final Habitat Action Plan relating to Lowland Mixed Deciduous Woodland which covers more than 200,000 hectares in England, was further developed during the year, and this habitat was included in the list of priority habitats drawn up under Part III of the Countryside and Rights of Way Act 2000. Much work was also done on the interpretation of the various action plan targets, as well as contributing data to the major 2002 BAP Recording Round.

Ancient Woodland Policy and Practice

During the year, we started work on developing a new statement of policy and practice for ancient woodland. This will update our guidance on the protection and management of ancient woodland, and set a clear and positive direction for the restoration of Plantations on Ancient Woodland Sites (PAWS). Preparation of the statement will include a public consultation exercise during the coming year.

Related to this, our Forest Enterprise agency completed a major survey of all their ancient woodland areas, totalling 53,100 hectares. The survey classified all ancient woods into one of four semi-natural classes according to the proportion of native and non-native trees in the canopy. Analyses are made by Forest District, by semi-natural class and by the National Vegetation Classification. The report will be used to develop policy for the restoration of Forest Enterprise's PAWS to native woodland and for recording future change to these woodlands. This work will make a significant contribution to delivery of the Government's Habitat Action Plans for Native Woodland.

Three one-day seminars on developing ancient woodland policy were attended by 150 Forest Enterprise staff. Two of the seminars targeted implementers, from Forest district managers to beat foresters and works supervisors. They were briefed on the Ancient Woodland Survey and issues related to policy and practice on ancient woodland restoration. The third seminar was aimed at communicators, ranging from administrative staff who receive public enquiries to recreation and wildlife rangers.

15 Working with the Grain of Nature: a biodiversity strategy for England. Department for Environment, Food and Rural Affairs. London. November 2002.

Woodland Birds

Populations of wild birds is the Headline Indicator used by the Government of the overall health of the countryside. The indicator, which incorporates a farmland bird index and a woodland bird index, is recalculated annually. During the year we established a Woodland Bird Group, made up of representatives from 15 Government and non-Government organisations to begin to address the long-term national declines in woodland birds, as expressed by the index. The group aims to raise awareness of the decline in woodland birds and the inter-relationship with declines in farmland birds, agree priority research necessary to determine the factors primarily responsible, and then based on the evidence, propose further action.

Working closely with Defra, English Nature, the Royal Society for the Protection of Birds and the British Trust for Ornithology, we launched the National Woodland Bird Survey, a breeding bird repeat survey of over 350 mainly broadleaved woodland plots last surveyed in earlier decades. Bird numbers and distribution will be compared with a range of variables to enable refinement of hypothesis for the declines and thus help identify further research and management action. The survey will run for two years, with final reporting in 2005. The group has also been active in identifying more detailed priority work on habitat and environmental processes, on a growing number of species in serious decline and on parallel work in largely conifer forests.

Agri-environment schemes

Woodlands are one of the most important and extensive habitats on farms, and we have collaborated closely with Defra in integrating woodland within the new package of agri-environment measures. Woodland is being included in the Entry Level Scheme Pilot Areas, and various options for work

on woodland margins and rides have been incorporated into the scheme. These "buffers" and marginal habitats will be of immense value to both woodland and farmland birds in particular.

Accords with AONB and National Parks

The Accord agreed with the Association of AONBs last year was put into action this year. The main expression was an initiative to jointly fund with the Countryside Agency new woodland officer posts in clusters of AONBs. These are to be focused on integrating woodland into AONB Management Plans and ensuring woodland contributes to the economic, social and environmental purposes of AONBs.

Our Accord with the Association of National Parks was also renewed. This provided us with an opportunity to reflect the wider purposes of National Parks and the results of the Defra review. The Accord was launched at a conference in November in the North York Moors, where the focus was also on woodland creation and restoration.

LIFE 3 The New Forest

A new LIFE project for work on river catchments in the New Forest was accepted by the European Union in September. The project will develop and implement work programmes meeting targets under the Habitats and Water Directives. Improvement of riverine habitats will aim to deliver conservation benefits and reduce the risk of downstream flooding and is expected to become an exemplar of soft engineering alleviation of flooding in lowland catchments. The Forestry Commission's partners for the project are the Environment Agency, Hampshire County Council, English Nature, RSPB and the National Trust.

Forestry for the Environment and Conservation (continued)

Sherwood Forest National Nature Reserve

A new National Nature Reserve, incorporating our Birklands woodland, was launched in November by HRH The Duke of Gloucester. The 220 hectare site is a partnership between Thoresby Estate, Nottinghamshire County Council and the Forestry Commission. It is an exceptional area of ancient pasture woodland – the last remnants of Robin Hood’s famed Sherwood Forest, with more than 1,000 veteran Oaks.

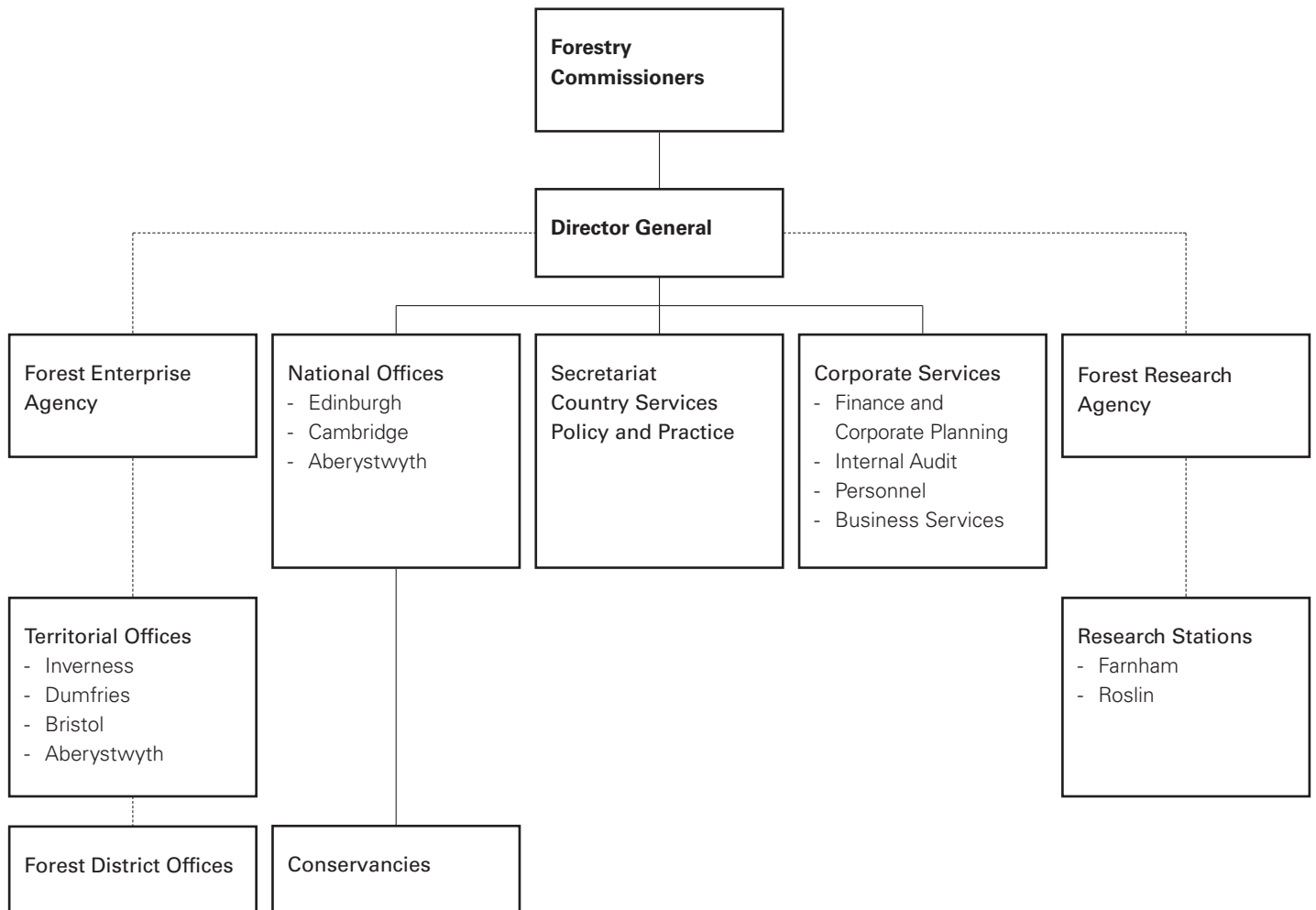
Memorandum of Understanding between the New Forest and Fontainebleu

In October we signed a Memorandum of Understanding with the Office National des Forêts to establish a formal link between the New Forest and a similar forest at Fontainebleu, south of Paris. The Memorandum reflected the similarities between the two forests – a long, distinguished history, great biodiversity value and, most of all, exceptional levels of public use. It provides the basis for collaboration over research and practical management action. One of the first actions is the preparation of a funding bid for European Union Intereg support for research and action to address the impacts on the environment of heavy public access to forest areas.

Appendix 1a

The Role and Structure of the Forestry Commission as at 31 March 2003

As the Government Department for forestry in Britain we have a statutory duty to promote the interests of forestry, balancing the needs of timber production with those of landscape and conservation. We are responsible for effective implementation of forestry policies and can only do this by working with others. We aim to be an effective, open and responsive organisation, committed to providing a first class service and striving to achieve continuous improvement. We have a structure designed to deliver Government policy in England, Scotland and Wales.



Appendix 1b

The Role and Structure of the Forestry Commission as at 1 April 2003



Appendix 2

Forestry Commissioners and Senior Staff as at 31 March 2003

Board of Commissioners

Lord David Clark	Chairman
David Bills CBE	Deputy Chairman and Director General
Anthony Bosanquet	
Tom Bruce Jones CBE	
Tony Cooper	
Dr Victoria Edwards	
John James OBE	
Duncan Macniven TD	
Dr Bob McIntosh	
Andrew Raven	
Gareth Wardell	
Frank Strang	Secretary

Forestry Commission

Duncan Macniven TD	Head of Corporate Services
Frank Strang	Secretary and Head of Secretariat
Wilma Harper	Director, Finance and Corporate Planning
Jim Anderson	Director, Personnel
Alan Mitchell	Head of Business Services
Liz Holmes	Head of Internal Audit
Tim Rollinson	Head of Policy and Practice Division
Roger Herbert	Head of Country Services
Paul Hill-Tout	Chief Conservator, England
David Henderson-Howat	Chief Conservator, Scotland
Simon Hewitt	Chief Conservator, Wales

Forest Enterprise Agency

Dr Bob McIntosh	Chief Executive
Keith Gliddon	Director, Corporate Services
Peter Ranken	Director, Estate Management
Craig Heaney	Director, Mechanical Engineering Services
Alan Stevenson	Head of Environment and Communications
Ian Forshaw	Head of Forest Operations
Peter Weston	Head of Forest Planning
Geoff Hatfield	Director, England
Dr Hugh Insley	Director, Scotland (North)
Mike Lofthouse	Director, Scotland (South)
Dr Bob Farmer	Director, Wales

Forest Research Agency

Vacant	Chief Executive
Dr Peter Freer-Smith	Chief Research Officer

Appendix 3

Statutory and other Committees appointed by the Forestry Commission

Membership as at 31 March 2003

National Committees

The Committee is appointed by the Forestry Commissioners under Section 2(3) of the Forestry Act 1967, which states that:

“The Commissioners shall by order appoint committees for England, Scotland and Wales respectively, whose membership shall consist partly of persons who are Forestry Commissioners or officers of the Commission and partly of persons not exceeding three in number, who are not Forestry Commissioners or officers of the Commissioners; and the Commissioners may delegate, subject to such restrictions or conditions as they see fit, and of their functions to a committee so appointed.”

England

John James OBE (Chairman), Bridget Bloom OBE, Tom Bruce Jones CBE, Tony Cooper, Dr Victoria Edwards, Chris Stratton OBE, Professor Carys Swanwick, Gareth Wardell. Secretary to the Committee: Barry Sidaway. The Committee had no meetings during the year.

Note: This membership will change during 2003-04 as a result of the forestry devolution review.

Regional Advisory Committees

The Committees are appointed by the Forestry Commissioners under Sections 37 and 38 of the Forestry Act 1967; their terms of reference are:

- 🔊 (a) to advise the Forestry Commissioners on the performance of the Forestry Commissioners' functions under Section 1(3) and Part II of the Forestry Act 1967;
- 🔊 (b) to advise the Forestry Commissioners on such other functions as the Forestry Commissioners may from time to time determine. These additional functions include:

to adjudicate in disputed applications for grant aid or felling licences and in disputes by the statutory bodies arising from Forest Enterprise Design Plans;
to advise on a small number of specific topics and issues, which the Forestry Commissioners will select, focusing on regional issues or implications; and
to inform the Forestry Commissioners of matters of regional or local concern on which the RAC considers it necessary to comment.

The Forestry Commissioners usually ask the Regional Advisory Committees for their views on proposed changes to the Regional Advisory Committee structure, composition or remit, or to the Forestry Commission's grant schemes and felling licence procedures and associated consultation arrangements.

England

North West England Conservancy

Professor John Handley (Chairman), Councillor Derek Bateman, Martin Clark, Tom Ferguson, John Harris, Eira Hughes, Liz Newton, Martin Reynolds, Karen Slater. Secretary to the Committee: Rob Lawson. The Committee met in May and December 2002.

North East England Conservancy

Professor Martin Whitby (Chairman), Clive Davies, Rod Edwards, David Fruin, Andrew Hampton, Lord Anthony Hill, Dr John Hogger, Caroline Stewart, Lorraine Weeks. Secretary to the Committee: Isabel Farries. The Committee met in June, September and December 2002 and March 2003.

Yorkshire and The Humber Conservancy

Professor Carys Swanwick (Chairman), Ian Carstairs, David Clayden, Val Dilcock, Martin Glynn, Alan Simson, Peter Townson, Richard Walker, David Wilmot-Smith MBE. Secretary to the Committee: Lesley Dyson. The Committee met in April, July and October 2002 and February 2003.

West Midlands Conservancy

Stephen Potter (Chairman), Mike Bradbury, Dr Tony Harris OBE, Graham Hunt, Nerys Jones, Sara Roberts, Russell Rowley, Andrew Thompson, Judith Webb. Secretary to the Committee: Julia Hall. The Committee met in July and November 2002 and March 2003.

East Midlands Conservancy

Julian Purvis (Chairman), Tim Cleeves, Richard Harvey, Clive Keble, John Lockhart, James Machin OBE, Councillor Roy Mayhew, Dr Bob Middleton, Dr Brian Waters. Secretary to the Committee: Anne Jordan. The Committee met in June and October 2002 and February 2003.

East England Conservancy

Chris Stratton OBE (Chairman), Edward Brun, Steele Haughton, Jo Hefford, Dr Keith Kirby, John Meehan, Richard Powell, Richard Tattersall, Matthew White. Secretary to the Committee: Rose Proctor. The Committee met in June and October 2002 and January 2003.

South West England Conservancy

Sir Harry Studholme (Chairman), Dr Richard Cresswell MBE, Mark Durk, Dr George Peterken OBE, Tony Phillips, Chris Roberts, Valerie Whitworth, Gwilym Wren. Secretary to the Committee: Jo Scott. The Committee met in August and November 2002 and February 2003.

South East England Conservancy

Bridget Bloom OBE (Chairman), Andrew Binmore, Nigel Braden, Lyndis Cole, Martin Henderson, David Jordan, Duncan Mackay, Steve Rodrick, Dr Tony Whitbread. Secretary to the Committee: Caroline Ewin. The Committee met in June and November 2002 and March 2003.

Appendix 3 (continued)

Forestry Commissioners' Advisory Panel (FCAP) until 31 December 2002

Martin Gale (Chairman), Professor W Bart Banks, Alan Bloomfield, Clive Davies, Roger Hay, Philip Higginbotham, David Hughes, Andrew Phillips, Councillor Iain Ross, Professor Joyce Tait, Mark Thomasin-Foster CBE DL, Mike Townsend OBE, Roger Venables, Tony Whitbread, William Worsley, Len Yull. Secretary to the Committee: Theresa Andrew. The Committee met in July and November 2002.

Environment Sub-committee of the FCAP

Professor Joyce Tait (Chairman), Clifton Bain, Patrick Bourdillon, Stephen Craig, Angela Douglas, John Firn, David Jenkins, Richard Leslie, Nick Marshall, Professor Hugh Miller, Paul Nolan, Dr Simon Pryor. Secretary to the Sub-committee: Marcus Sangster. The Sub-committee met in June 2002.

Supply and Demand Sub-committee of the FCAP

David Hughes OBE (Chairman), Neil Campbell, Alan Christison, Nick Purdy, Andrew Smith, Steve Smith, John Viviani, George Webb, Tony Willis. Secretary to the Sub-committee: Bob Selmes. The Sub-committee met in May, August and November 2002.

Technical Sub-committee of the FCAP

Professor Bart Banks (Chairman), Charles Bridgeman, Dr Christine Cahalan, Ian Forshaw, Colin Forsyth, Barrie Hudson, Peter Savill, Norman Starks, Dr David Wood, Dr Richard Worrell. Secretary to the Sub-committee: Dr Helen McKay. The Sub-committee met in May and October 2002.

Advisory Committee on Forest Research

Professor Hugh Miller (Chairman), Dr Christine Cahalan, Dr Steve Gregory, Professor Mike Jeger, Rob Kempton, Professor Brian Kerry, Dr Peter Savill, Professor Michael Usher. Secretary to the Committee: Dr Peter Freer-Smith. The Committee met in September 2002 and appointed external visiting groups to look at the work of the Silviculture and Entomology research programmes. Rob Kempton died in May 2003 and his contribution to the Committee will be greatly missed.

Forestry Research Co-ordination Committee

Tim Rollinson (Chairman), Dr John Baker, Nick Barker, Malcolm Beaty, Richard Brand-Hardy, Professor Melvin Cannell, Dr John Hooker, Dr Keith Kirby, Professor Hugh Miller, John Palmer, Dr Susan Riley, Dr David Rook, Bob Selmes, Paul Weskett, Cedric Wilkins, Dr Toby Willison. Secretary to the Committee: Dr Peter Freer-Smith. The Committee met in April and November 2002.

England Forestry Forum

The England Forestry Forum reports to the Forestry Minister for England, Elliot Morley MP, through the Forestry Commission and has the following terms of reference:

- to share and exchange proposals for implementing the Government's Forestry Strategy for England; and
- to monitor and review progress of the implementation of the Forestry Strategy.

The Forum met once during the year, in October 2002 and held a workshop on the same day.

The workshop discussed the draft guidance on the preparation of Regional Forestry Frameworks and the Forestry Commission response to the recommendations made in the Sustaining England's Woodlands review.

The Forum received papers on the work of the Small Business Service and the work of the England Native Woodland Partnership. It also responded to the progress report of Forestry and Biodiversity ad-hoc working group. Reports that summarised the actions planned or underway to implement the England Forestry Strategy and the progress in implementing the accepted recommendations of the Forum's ad-hoc working groups were also presented.

Reports of Forum meetings and all Forum papers are available on our website at:
www.forestry.gov.uk/forestry/englandforestryforum

Members of the Forum include representatives from the following organisations:

Association of National Park Authorities; The Community Forests; Council for British Archaeology; Council for the Protection of Rural England; Country Land and Business Association; Countryside Agency; English Heritage; English Nature; English Partnerships; The Environment Agency; Forestry Commission Regional Advisory Committees; Forestry Contracting Association; Forestry Industry Development Council; Farming and Wildlife Advisory Group; Forestry and Timber Association; Institute of Chartered Foresters; Local Government Association; National Farmers Union; National Forest Company; The National Trust; National Urban Forestry Unit; Planning Officers Society; Ramblers Association; North West Regional Development Agency; Royal Forestry Society of England, Wales and Northern Ireland; Royal Society for the Protection of Birds; Royal Town Planning Institute; Small Business Service; Small Woods Association; United Kingdom Forest Products Association; Wildlife and Countryside Link; Wildlife Trusts; The Woodland Trust; officials from the Department for Environment, Food and Rural Affairs and Office of the Deputy Prime Minister. The Forestry Commission provides the secretariat for the Forum.

Appendix 4

Publications

We published the following titles during the year ending 31 March 2003. All of our publications can be found on our website at www.forestry.gov.uk/publications and many titles can be viewed and/or downloaded free of charge.

Sustainable Forestry in the UK (CD-ROM)	free
UK Forest Partnership for Action	free
UK Indicators of Sustainable Forestry	£10.00
Forestry Statistics	£15.00
Forestry Facts and Figures	free
The Silviculture and Management of Coppice Woodlands	£12.00

Practice Guides

Restoration of Native Woodlands on Ancient Woodland Sites	£9.00
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Field Guides

The Identification of Soils for Forest Management	£17.00
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Practice Notes

Handling and Storing Acorns and Chestnuts and Sycamore Fruits	free
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Technical/research papers

Applying ESC in the Lowlands: A Case Study of the New Forest Enclosures	£10.00
The Restoration of Wooded Landscapes	£17.50
The Potential of Applied Landscape Ecology to Forest Design Planning	£19.00

Information Notes (all free of charge)

- 43. The Supply of Homegrown Timber Products to the Building Industry in Scotland
- 44. The Opportunities for Woodland on Contaminated Land
- 45. Monitoring the Transformation of Even-aged Stands to Continuous Cover Management
- 46. Forest Condition Survey 2001
- 47. Nutrition of Sitka Spruce on Upland Restock Sites in Northern Britain

Technical Notes (all free of charge)

- 1. Harvesting Machine Census 1999/2001
- 2. Planning Controlled Burning Operations in Forestry
- 3. Forest and Moorland Fire Suppression
- 4. Burning Forest Residues

Inventory Reports

National Inventory of Woodland and Trees – England: South East	£15.00
National Inventory of Woodland and Trees – England: North West	£15.00
National Inventory of Woodland and Trees – England: London	£15.00
National Inventory of Woodland and Trees – Welsh Summary	£15.00
National Inventory of Woodland and Trees – Welsh Wallchart	free

For inventory results at county level for England and Wales please visit: www.forestry.gov.uk/inventory where all reports are available to download free of charge.

To order copies of Forestry Commission publications, please contact:

Forestry Commission Publications
PO Box 25
Wetherby
West Yorkshire
LS23 7EW

Telephone: 0870 121 4180

Fax: 0870 121 4181

E-mail: forestry@twoten.press.net

Appendix 5

Forestry Commissioners' Advisory Panel

Terms of Reference

To advise the Forestry Commissioners on:

- 🌲 generic issues of concern to the forestry industry throughout Great Britain, including matters reserved to Westminster;
- 🌲 the practices and standards required to ensure UK forestry delivers optimum environmental, social and economic benefits;
- 🌲 the Forestry Commission's Research Strategy;
- 🌲 development of the timber industry;
- 🌲 the implications for the forestry sector of UK forestry and timber statistics;
- 🌲 technical matters concerned with the processing of, and adding value to, GB forest products;
- 🌲 the Commissioners' duty under Section 1(3A) of the Forestry Act 1967 to achieve a reasonable balance between timber supply and conservation;
- 🌲 any regulations that the Commissioners may make under their powers as defined in Section 32 (1) of the Forestry Act 1967;
- 🌲 the performance by the Commissioners of their functions under Section 1(3) and Part II of the Forestry Act 1967;
- 🌲 other issues, as directed by the Forestry Commissioners.

Table 1

Area of planting by private woodland owners for which grants were paid in the year ended 31 March 2003.

Woodland Grant Scheme
Hectares

	England			Wales			Scotland			Great Britain		
	New Planting	Re-stocking	Total	New Planting	Re-stocking	Total	New Planting	Re-stocking	Total	New Planting	Re-stocking	Total
Conifer	305	336	641	41	527	568	2,963	2,709	5,672	3,309	3,572	6,881
Broadleaved	4,287	629	4,916	288	186	474	3,671	780	4,451	8,246	1,595	9,841
Total	4,592	965	5,557	329	713	1,042	6,634	3,489	10,123	11,555	5,167	16,722

Notes:

1. The figures include new planting grant-aided in association with the Farm Woodland Premium scheme administered by the Agriculture Departments.
2. The areas of new planting and restocking include those areas where the second instalment of grant for Natural Regeneration has been paid.
3. The GB area of new planting includes 8 hectares of Short Rotation Coppice which was grant aided.

Table 2

Area of Planting by Private Woodland Owners for which Grants were paid in the 20 year period
1 April 1983 to 31 March 2003.

Hectares

	England			Wales			Scotland			Great Britain		
	New Planting	Re-stocking	Total	New Planting	Re-stocking	Total	New Planting	Re-stocking	Total	New Planting	Re-stocking	Total
1984	1,480	1,935	3,415	1,064	113	1,177	14,129	1,019	15,148	16,673	3,067	19,740
1985	976	1,767	2,743	918	122	1,040	14,135	1,177	15,312	16,029	3,066	19,095
1986	984	2,346	3,330	743	434	1,177	17,292	1,559	18,851	19,019	4,339	23,358
1987	1,219	2,644	3,863	708	280	988	17,220	1,547	18,767	19,147	4,471	23,618
1988	1,679	2,718	4,397	945	476	1,421	21,197	1,660	22,857	23,821	4,854	28,675
1989	1,752	2,330	4,082	923	256	1,179	22,433	2,248	24,681	25,108	4,834	29,942
1990	3,366	3,871	7,237	552	270	822	11,488	1,984	13,472	15,406	6,125	21,531
1991	4,363	3,970	8,333	510	296	806	10,563	2,840	13,403	15,436	7,106	22,542
1992	3,966	4,042	8,008	356	579	935	9,825	3,210	13,035	14,147	7,831	21,978
1993	5,052	3,811	8,863	429	654	1,083	9,814	3,609	13,423	15,295	8,074	23,369
1994	6,091	3,700	9,791	626	441	1,067	9,180	4,314	13,494	15,897	8,455	24,352
1995	4,997	2,475	7,472	554	626	1,180	12,577	3,068	15,645	18,128	6,169	24,297
1996	4,338	1,972	6,310	442	620	1,062	10,195	3,169	13,364	14,975	5,761	20,736
1997	4,348	2,027	6,375	411	814	1,225	11,212	3,692	14,904	15,971	6,533	22,504
1998	4,123	1,984	6,107	485	804	1,289	11,304	2,737	14,041	15,912	5,525	21,437
1999	4,875	1,726	6,601	629	802	1,431	10,410	2,958	13,368	15,914	5,486	21,400
2000	5,414	1,414	6,828	744	813	1,557	10,363	3,083	13,446	16,521	5,310	21,831
2001	5,365	1,708	7,073	447	759	1,206	11,627	3,561	15,188	17,439	6,028	23,467
2002	4,324	949	5,273	270	757	1,027	7,880	2,884	10,764	12,474	4,590	17,064
2003	4,592	965	5,557	329	713	1,042	6,634	3,489	10,123	11,555	5,167	16,722

Note:

This table includes planting grant-aided under the Woodland Grant Scheme in association with the Farm Woodland and the Farm Woodland Premium Schemes administered by the Agriculture Departments.

Table 3

Area of Management Grant for which grant was paid in the year ended 31 March 2003.

Woodland Grant Scheme
Hectares

	England	Wales	Scotland	Great Britain
Standard MG	100	–	636	736
Special MG	912	–	447	1,359
Annual MG	132,971	7,698	40,149	180,818
Woodland Improvement Grant	7,302	2,690	4,780	14,772
Livestock Exclusion Annual Premium	2,012	793	8,453	11,258
Total	143,297	11,181	54,465	208,943

Area Approved for Management Grant under the Woodland Grant Scheme.

Hectares

		England	Wales	Scotland	Great Britain
1993-1994	Conifer	18,246	3,911	41,983	64,140
	Broadleaved	39,302	1,879	5,762	46,943
	Total	57,548	5,790	47,745	111,083
1994-1995	Conifer	7,620	1,750	31,293	40,663
	Broadleaved	21,749	1,037	8,088	30,874
	Total	29,369	2,787	39,381	71,537
1995-1996	Conifer	4,478	1,164	9,136	14,778
	Broadleaved	15,545	1,353	4,322	21,220
	Total	20,023	2,517	13,458	35,998
1996-1997	Conifer	3,257	458	5,103	8,818
	Broadleaved	12,679	1,295	4,946	18,920
	Total	15,936	1,753	10,049	27,738
1997-1998	Conifer	5,900	885	5,808	12,593
	Broadleaved	18,474	1,189	3,890	23,553
	Total	24,374	2,074	9,698	36,146
1998-1999	Conifer	6,205	820	6,594	13,619
	Broadleaved	24,556	1,523	3,552	29,631
	Total	30,761	2,343	10,146	43,250
1999-2000	Conifer	8,563	908	5,396	14,867
	Broadleaved	24,893	1,018	4,349	30,260
	Total	33,456	1,926	9,745	45,127
2000-2001	Conifer	4,920	445	6,323	11,688
	Broadleaved	18,519	1,437	2,590	22,546
	Total	23,439	1,882	8,913	34,234
2001-2002	Conifer	4,578	493	3,051	8,122
	Broadleaved	15,394	963	2,058	18,415
	Total	19,972	1,456	5,109	26,537
2002-2003	Conifer	3,481	506	2,803	6,790
	Broadleaved	15,709	809	3,174	19,692
	Total	19,190	1,315	5,977	26,482

Note:

- The figures quoted in the 2001-02 Annual Report included Woodland Improvement Grant and Livestock Exclusion Premium. These figures have been revised to show only the Annual Management Grant.

Table 4

Summary Breakdown of Woodland Grant Scheme expenditure by grant type.

Woodland Grant Scheme	£000
(a) New Planting	
Establishment (1st instalments)	3,923
(2nd and 3rd instalments)	1,396
Community Woodland Supplement	453
Better Land Supplement	2,247
Locational Supplement	438
Short Rotation Coppice	2
Short Rotation Coppice (Locational Supplement)	–
Challenge Funding	1,204
Tendering	–
Total	9,663
(b) Existing Woodlands	
Restocking (1st instalments)	406
(2nd and 3rd instalments)	592
Discretionary Grant	40
Standard Management Grant	2
Special Management Grant	34
Annual Management Grant	4,712
Forest Plans and Native Woodland Plan Pilot	178
Woodland Improvement Grant Challenge	1
Woodland Improvement Grant 50%	1,499
Livestock Exclusion Annual Premium	161
Total	7,625
(c) Closed Grant Schemes	
New Planting	196
Restocking	24
Management Grants	43
Other (Legal Expenses)	28
Total	291
Total Grant Expenditure	17,579

Forestry Commission in Great Britain/England accounts for the year ended 31 March 2003

Financial highlights

Summary Income and Expenditure Account

for the year ended 31 March 2003

	2002-03	2001-02
	£000	£000
Income		
Forestry Commission		
EU co-financing of woodland grants	6,423	6,162
Other income	955	952
Recovery of Great Britain support services costs	14,192	13,778
Forest Research		
Forestry and tree related research	12,508	12,411
Forest Enterprise		
Sales of Timber	18,361	19,635
Other forest income	5,490	4,614
Recreation income	10,735	8,988
	68,664	66,540
Expenditure		
Forestry Commission		
Grants and partnership funding	18,837	18,798
Policy, regulation and administration (England)	7,926	9,908
International policy, plant health and Great Britain support services	36,309	31,698
Forest Research		
Forestry and tree related research	11,880	12,398
Forest Enterprise		
Planning, protecting and maintaining the forest asset	14,681	13,548
Social and environmental	20,298	18,051
Timber harvesting and roads	12,699	12,076
Managing the non-forest assets	9,608	6,037
	132,238	122,514
Net expenditure for the year	(63,574)	(55,974)

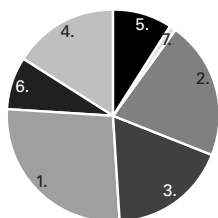
Summary Cash Flow statement for the year ended 31 March 2003

	2002-03 £000	2001-02 £000
Net expenditure for the year	(63,574)	(55,974)
Depreciation and other non-cash items	7,706	5,736
Movement in working capital	9,780	(5,255)
Movement in provision and liabilities	(227)	(514)
Net cash flow from operating activities	(46,315)	(56,007)
New planting	(2,637)	(1,352)
Purchase of fixed assets	(12,736)	(6,912)
Net proceeds from disposal of fixed assets	2,605	5,212
Funding from UK Government	(59,083)	(59,059)

Summary Balance Sheet as at 31 March 2003

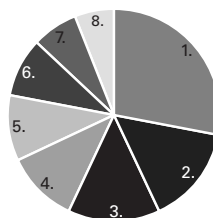
	2002-03 £000	2001-02 £000
Fixed assets	415,602	496,296
Debtors falling due after more than one year	512	464
Current assets	16,418	21,203
Creditors: amounts falling due within one year	(14,281)	(13,532)
Net current assets	2,137	7,671
Creditors: amounts falling due after more than one year	(1,942)	–
Provision for liabilities and charges	(2,951)	(2,027)
Total assets less liabilities	413,358	502,404
Capital and reserves	413,358	502,404

Income 2002-03



1 Sales of Timber	27%
2 Recovery of GB support services costs	21%
3 Forestry and tree related research	18%
4 Recreation income	16%
5 EU co-financing of woodland grants	9%
6 Other forest income	8%
7 Other income	1%

Expenditure 2002-03



1 International policy, plant health and GB support services	28%
2 Social and environmental	15%
3 Grants and partnership funding	14%
4 Planning, protecting and maintaining the forest asset	11%
5 Timber harvesting and roads	10%
6 Forestry and tree related research	9%
7 Managing the non-forest assets	7%
8 Policy, regulation and administration (England)	6%

Forestry Commission in Great Britain/England resource accounts for the year ended 31 March 2003

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Annual Report

Scope

1. Basis of Accounts

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

2. Departmental Accounting Boundary

The Forestry Commission in Great Britain/England Resource Accounts incorporate the following entities within the departmental boundary:

- ✎ the core-department (the Forestry Commission) in England together with international matters and topics which, though devolved, are agreed to be best delivered for Great Britain (GB) as a whole;
- ✎ Forest Research (FR), an executive agency of the Forestry Commission since 1 April 1997 and funded by the UK Parliament. It also produces its own annual report and accounts.

Forest Enterprise (FE), an executive agency of the Forestry Commission since 1 April 1996, is a public corporation for national accounting. Accordingly, it is outside the departmental boundary for resource accounting and produces its own accounts for each country with the net funding and net worth of FE in England reflected in these accounts.

Equivalent resource accounts are produced for the Forestry Commission's activities in Scotland and Wales.

3. Status

The Forestry Commission is the government department responsible for advising Ministers on, and for implementing, forestry policy in each of the three countries comprising Great Britain. 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 1968.

The Government of Wales Act 1998, the Scotland Act 1998, and the subsequent statutory instruments, specified the Forestry Commission as a cross-border public authority, transferred the Ministers' responsibilities for forestry in Scotland and Wales to the Scottish Ministers and the National Assembly respectively, transferred ownership of land and property, and made other various changes to devolve forestry to Scotland and Wales.

On 1 April 2003, the Forestry Commission in England changed its structure to reflect a step change in co-operation with the Department for Environment, Food and Rural Affairs (Defra) on joined-up delivery of the Government's agenda in rural England. The stronger links are a direct result of the recent GB-wide Forestry Devolution Review which was agreed by the England Forestry Minister and Forestry Ministers in Scotland and Wales. Forestry Commission England brings together the different roles which have been exercised by Forest Enterprise in managing England's public forests and the National Office and Conservancies in supporting forestry through grant aid, regulation and advice and serving as the Government's forestry department.

Annual Report (continued)

The Commission's Great Britain forest management agency, Forest Enterprise, ceased to operate on 31 March 2003 and its functions were transferred to separate bodies in each country on 1 April 2003. England will, therefore, have its own agency.

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

4. Responsibilities

The Forestry Commission is responsible for:

- 🌲 providing support and advice to Ministers;
- 🌲 policy development;
- 🌲 European and international liaison;
- 🌲 implementing the Government's forestry policy, including the control of tree felling and providing advice to private woodland owners;
- 🌲 administering the payment of grants for approved planting, restocking and management schemes;
- 🌲 liaising with public bodies and non-government organisations concerned with forestry and the countryside;
- 🌲 commissioning forestry research; and
- 🌲 plant health.

The Forestry Commission sets standards for the forest industry as a whole, and monitors the performance of Forest Enterprise in the same areas of operation as those which apply to the private sector.

5. Aim and Objectives

The Forestry Commission is the forestry department of 3 administrations – the UK Government, the Scottish Executive and the National Assembly for Wales. Its aim is the sustainable management of our existing woods and forests, and a steady expansion of tree cover to increase the many, diverse benefits that forests provide to meet the needs of present and future generations.

Through its powers and duties set out in the various Acts, the objective of the Forestry Commission for its Great Britain activities, is:

- 🌲 on behalf of all 3 administrations, to take the lead in development and promotion of sustainable forest management and to support its achievement nationally.

In England, it implements the programmes of the England Forestry Strategy whose objectives are:

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

The aims of Forest Research are set out in its Framework Document. They are to provide:

- 🌳 a capability to conduct research and development, surveys and related services relevant to the forest industry; and
- 🌳 authoritative advice to support the development and implementation of the government's forestry policy.

6. Departmental Report

The Departmental Report 2003 for Defra was published in May 2003. Annex B of the report gives an overview of the activities of the Forestry Commission in Great Britain/England over 2002-03 and looks ahead to what it will be aiming to achieve, including its resource plans for 2003-04 to 2005-06. The Autumn Performance Report is published as part of the Forestry Commission's England and Great Britain Annual Report and Accounts.

7. Post-Balance Sheet events

There are no post-balance sheet events other than the outcome of the Forestry Devolution Review noted at paragraph 3.

8. Pensions

Present and past employees of the Forestry Commission are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The financial status of the scheme is reported in a separate PCSPS scheme statement. The Forestry Commission recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS.

Annual Report (continued)

Operating and Financial Review

9. The business, its objectives and strategy

As the Government department for forestry throughout Great Britain, the Forestry Commission provides advice and support to the UK Government and to the devolved administrations in Scotland and Wales. It develops policy, sets the standards for sustainable forest management and encourages good forestry practice. It conducts forestry research, provides information and offers grants for managing and expanding woodlands and forests. It has statutory duties to regulate forestry through the control of tree felling and to protect forests from pests and diseases. It also manages the public forest estate in England, Scotland and Wales, providing recreation for many millions of visitors, producing more than 5 million cubic metres of timber each year and making a major contribution to the conservation of our natural heritage.

The Forestry Commission operates across Great Britain as a cross-border public body. This allows England, Scotland and Wales to benefit from the economies of scale that a GB-wide body is able to offer. This includes support services such as finance, personnel and IT skills; expertise on matters such as climate change, biodiversity, forest protection and industry development; and access to shared resources such as economic, statistics and forestry training services.

The Forestry Commission answers separately to Ministers in England, Scotland and Wales for the development and implementation of forestry policy. The Commissioners' programmes to deliver each country's forestry strategy are set out in Corporate Plans for England, Scotland and Wales. These programmes are directed and financed by the three administrations to which the Commission is directly accountable. In addition, a number of the Commission's functions are funded directly by Westminster and operated on a Great Britain basis. These include:

- 🌲 European and International Forestry Policy – the Forestry Commission's international policy staff (working with other departments) formulate UK policy in international negotiations, develop the UK's national forest programme and advise on implementation of international and European obligations.
- 🌲 Plant Health and Forest Reproductive Materials – the Forestry Commission's Plant Health Unit operates throughout Great Britain with the vital task of preventing entry of harmful pests and diseases from overseas. It also controls the marketing of forest seed, cones, cuttings and plants by approving basic material (e.g. stands, seed orchards), certifying reproductive material and inspecting the nursery trade.
- 🌲 Forest Research – the Forestry Commission's executive agency is a centre of excellence for scientific expertise in forestry. Around £10 million a year is spent through the Agency and external providers looking at issues such as sustainable forest management, climate change, biodiversity, inventory, forest condition and threats to tree health, ways of measuring the social and environmental benefits of woodlands and improving the economic potential of home-grown timber.

🔧 Setting and Monitoring Standards of Sustainable Forest Management – the Forestry Commission is responsible for developing the UK Forestry Standard setting out how the principles of sustainable forest management will be delivered in practice against international agreed criteria. This work includes monitoring the state of the UK forestry sector against Indicators of Sustainable Forestry published in 2002 and supporting the UK Woodland Assurance Standard which provides for the independent certification of forest management in the UK.

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

The Forestry Commission's executive agencies, Forest Enterprise (which manages Britain's public forest estate of over 1 million hectares) and Forest Research operate on a Great Britain basis. The agencies' programmes reflect priorities as expressed in the country strategies.

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

Forest Enterprise is responsible for managing the Commission's estate which amounts to approximately 257,000 hectares in England and contains 19% of England's woodlands. Forest Enterprise has an England office in Bristol and 11 Forest Districts.

Forest Research has a major research station at Alice Holt near Farnham and several field stations.

10. Operating review

The objective for the department's activities across Great Britain is to take the lead in development and promotion of sustainable forest management and to support its achievement nationally. The department led the UK Government's contribution on forestry to the World Summit on Sustainable Development which took place in Johannesburg, South Africa from 26 August to 4 September 2002, working with business and environmental groups to develop a strategy for sustainability for the forest sector. The forest and forest products industries, environmental groups, the devolved administrations and the UK Government agreed to work in partnership to promote sustainable development in the forestry sector in the UK and abroad. Areas on which the UK partnership agreed to focus include forest certification, illegal logging, timber procurement and forest restoration and protection. Other international and national achievements are contained in the Forestry Commission's England and Great Britain Annual Report and Accounts.

Annual Report (continued)

The department's aim in England is to sustain and expand woodlands and woodland services in accordance with the England Forestry Strategy. Much of this is achieved through the payment of grants where demand remained strong except for restocking. This year, 53% of incentives were provided for expansion with 47% going to woodland management. This is similar to last year, as is the overall expenditure on grants of £18,837,000.

11. Performance in the period

The department's progress with implementing the 2000 Spending Review targets is recorded in Annex B of the Defra Departmental Report 2003. Later updates are contained in the Autumn Performance Report published as part of the Forestry Commission's England and Great Britain Annual Report and Accounts and in the Forestry Commission's Corporate Plan for England and Great Britain Activities 2003-06. The targets cover the following areas:

Great Britain Activities

- 🌲 Publish the National Forest Programme for the UK based on the forestry strategies for each country
- 🌲 Publish UK indicators for monitoring sustainable forest management.

England Forestry Strategy

- 🌲 Sustainable Forest Management
- 🌲 Rural Development
- 🌲 Economic Regeneration
- 🌲 Access, Recreation and Tourism
- 🌲 Environment and Conservation
- 🌲 Value for Money.

The Great Britain targets have been met within the period covered by the 2000 Spending Review. 10 of the targets associated with the England Forestry Strategy are expected to be met in full or exceeded and a shortfall against the remaining 6.

12. Dynamics of the business

During 2002 an interdepartmental group undertook the Forestry Devolution Review, which considered administrative arrangements for forestry in Great Britain. Forestry Ministers decided that current arrangement should be updated, without legislation, to achieve greater integration of forestry with other rural policy work in each country whilst maintaining a collaborative approach to common issues. The key changes agreed by Ministers had been implemented by 1 April 2003 and include:

- 🌲 establishing a new Ministerial Committee bringing together Forestry Ministers in England, Scotland, Wales and Northern Ireland to discuss international issues, any cross-cutting issues where collaboration would be an advantage, and to monitor the effectiveness of the new arrangements;

- ✿ expanding the International forestry group to include officials from the Scottish Executive and Welsh Assembly Government;
- ✿ enhancing the role of the devolved administrations in determining research priorities through the joint approval of Forestry Ministers;
- ✿ strengthening integration of policy development and delivery between the Forestry Commission's National offices and rural affairs departments;
- ✿ appointing executive Forestry Commissioners to head all the Forestry Commission's work in England, Wales and Scotland;
- ✿ devolving the Forest Enterprise agency into three separate country bodies.

On 8 November 2002 the Minister of State for Rural Affairs announced the appointment of Lord Haskins to review the way in which the Government's rural policies are delivered. The Review will make recommendations on: simplifying responsibilities for rural delivery; maximising value for money; providing better, more streamlined services and helping to deliver Defra's rural priorities and Public Service Agreement target cost effectively. It will look at rural delivery arrangements at national, regional and local levels. As well as focusing on relevant parts of Defra, Lord Haskins and his team will consider the rural delivery activities of other agencies, including the Forestry Commission. The Haskins Report and the Government's response were published on 11 November 2003, including a recommendation that the policy development role of the Forestry Commission in England should be transferred to Defra.

A major initiative is being launched in the north-west of England. The programme called "Newlands" is a partnership between the Forestry Commission and the North West Regional Development Agency to restore derelict sites in the region. Project expenditure and income will be identified separately in all future accounts.

Next year will see the completion of a new England Woodland Grant Scheme which is being developed with Defra. This will be launched in 2005 as part of an interim review of the England Rural Development programme.

13. Investment for the future

The development of a web-enabled grant system continued this year, working towards a fully integrated system in 2005. The system forms part of the department's "Modernising Government" agenda and will produce efficiency savings in grant delivery costs in future years.

14. Financial review

Cash funding for our activities in England and our Great Britain functions comes from Westminster, from the EU and from income from the public forest estate managed by Forest Enterprise. Like the rest of the public sector, we now also make provision for resource costs which do not involve movements of cash – mainly the cost of capital invested in the public forest estate and depreciation charges for use of assets.

Annual Report (continued)

Westminster funding for the Forestry Commission was decided as part of the Government's 2002 Spending Review. The planned sources of income and expenditure up to 2005-06 are shown in the Forestry Commission's Corporate Plan for England and Great Britain Activities 2003-06

In November 2000 the Government announced that, as a consequence of modulation arrangements introduced in the England Rural Development Plan, additional EU funds would be available until 2006-07 to support landowners in sustaining woodlands and creating new woodlands for public benefit. This support is provided through the Woodland Grant Scheme (FC) and the Farm Woodland Premium and Energy Crops Scheme operated by Defra. Additional EU support is also potentially available through the Structural Funds. The Forestry Commission is actively engaged with partners in connection with Objective 1 funding in Cornwall, Merseyside and South Yorkshire and Objective 2 in most of the northern counties, the Welsh Marches and Devon.

Timber sales represent the main source of income for Forest Enterprise and its financial performance is closely linked to the strength of the round timber market. Over recent years there has been a major decline in the price of round timber. Measured in pounds in real terms, prices remain at the lowest levels ever encountered. Factors such as the strength of sterling and high sawn timber production levels in Sweden and the Baltic States have contributed to the fall in prices. There is no sign of an early recovery and our plans assume that prices will continue at their depressed level.

At the Great Britain level, our resources support work which benefits all three countries. The largest component is research and development carried out by the executive agency Forest Research (about 90%) and by other providers (about 10%). The remaining expenditure is on protecting Britain's trees from pest and diseases, representing British interests on the international stage, and other GB-wide work including the costs of the Board of Forestry Commissioners, the development of the timber market, and the development and promotion of standards for sustainable forest management.

Resources in England are used to sustain and expand woodlands and woodland services in accordance with the England Forestry Strategy. We plan to spend approximately 53% of grants on woodland expansion and 47% on the management of existing woodlands over the period of the 2002 Spending Review.

Management

15. Ministers

The Ministers who had responsibility for the Forestry Commission during the year were:

Rt. Hon. Margaret Beckett MP	Secretary of State, Department for Environment, Food and Rural Affairs
Elliot Morley MP	Parliamentary Secretary (Commons), Department for Environment, Food and Rural Affairs

16. Permanent Head of the Department and Forestry Commissioners

The Board of Commissioners directs the work of the Forestry Commission. It includes the Permanent Head of Department, the Director General. The Board of Commissioners who served during the year were:

Rt. Hon. Lord Clark of Windermere	Non executive Chairman
David Bills CBE	Director General and Deputy Chairman
Dr Bob McIntosh	Chief Executive, Forest Enterprise
Duncan Macniven TD	Head of Corporate Services

Non-executive Commissioners during the year were:

Anthony Bosanquet
Tom Bruce Jones CBE
Tony Cooper
Dr Victoria Edwards
John James OBE
Andrew Raven
Gareth Wardell

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

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

18. Remuneration

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

Remuneration of the non-executive Commissioners is determined in accordance with guidelines prescribed by the Senior Salaries Review Board. The Forestry Commission's Senior Pay Committee comprises the Chairman, Director General, Chief Executive of Forest Enterprise, Head of Corporate Services and one other non-executive Commissioner. The Chairman and non-executive member determine the Director General's pay. The Chairman, Director General and non-executive Commissioner take decisions in respect of the Chief Executive of Forest Enterprise and Head of Corporate Services. The entire committee takes decisions on remaining senior staff posts in accordance with guidelines prescribed by the Senior Salaries Review Board.

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

Annual Report (continued)

Public interest and other

19. Employment Policies

The Forestry Commission and its agencies are committed to the principle of equality of opportunity for employment and advancement for all eligible people on the basis of their ability, qualifications and fitness for the work. The Commission has systems to ensure that all permanent appointments are made on merit on the basis of fair and open competition and in accordance with the guidance laid down by the Civil Service Commissioners. Further information on the employment of persons with disabilities, the provision of information to, and consultation with, employees, and the promotion of equal opportunities is available on request from the Personnel Services unit of the Forestry Commission.

20. Supplier Payment Policy

The Forestry Commission 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 2002-03 indicates that 96.8% of invoices paid by the Forestry Commission and 99.3% 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.

21. Auditors

The accounts of the Forestry Commission in Great Britain/England are audited by the Comptroller and Auditor General.

D J Bills CBE
Accounting Officer
17 November 2003

Statement of Forestry Commissioners' and Accounting Officer's Responsibilities

1. Under section 5(2) of the Government Resources and Accounts Act 2000, the Forestry Commission is required to prepare resource accounts for each financial year, in conformity with a Treasury direction, detailing the resources acquired, held or disposed of during the year and the use of resources by the department during the year.
2. The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the department, the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.
3. HM Treasury has appointed the Permanent Head of Department as Principal Accounting Officer of the department with overall responsibility for preparing the department's accounts and for transmitting them to the Comptroller and Auditor General.
4. In preparing the accounts the Principal Accounting Officer is required to comply with the *Resource Accounting Manual* prepared by HM Treasury, and in particular to:
 - ❏ observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
 - ❏ make judgements and estimates on a reasonable basis;
 - ❏ state whether applicable accounting standards, as set out in the Resource Accounting Manual, have been followed, and disclose and explain any material departures in the accounts;
 - ❏ prepare the accounts on the going concern basis.
5. In addition the Director General of the Forestry Commission, as Principal Accounting Officer, has designated the Chief Executives of Forest Research and Forest Enterprise as the Accounting Officers for the Agencies. The appointments do not detract from the Head of Department's overall responsibility as Accounting Officer for the department's accounts.
6. The responsibilities of the Director General, as Principal Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the department's assets, are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in *Government Accounting*. Under the terms of the Accounting Officers' Memorandum, the relationship between the department's Principal Accounting Officer and the Chief Executives of Forest Research and Forest Enterprise, together with their respective responsibilities, is set out in writing.

Statement on Internal Control

1. As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of departmental policies, aims and objectives, set by Ministers, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me.
2. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives: it can therefore only provide reasonable and not absolute assurance of effectiveness.
3. The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the Forestry Commission's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 March 2003 and up to the date of approval of the annual report and accounts and accords with Treasury guidance.
4. We have agreed and promulgated a risk management policy. Working with responsible managers, we have developed a risk register for the principal risks to the achievement of the Commission's policies, aims and objectives. This identifies the risks, the adequacy of the controls and any corrective action required. This has been endorsed by the Forestry Commission Management Board and we have carried out a full risk and control assessment before reporting on the year ending 31 March 2003.
5. As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. The Forestry Commission established the following processes which operated during the financial year:
 - ☛ The Board of Commissioners, the Management Board and the Policy Board each met monthly to consider the plans and strategic direction of the Commission. Boards received regular reports from managers on key projects. The risk management policy ensured that the Management Board included risk management within its remit and formally tasked it with its review.
 - ☛ The Forestry Commission had an overarching Audit Committee chaired by a non-executive Forestry Commissioner. Its remit included advice to me on the effectiveness of risk management and control throughout the Commission and its Agencies. The work of the internal and external auditors is currently reported annually to the full Board of Commissioners; in future this will be expanded to cover the full business of the overarching Forestry Commission Audit Committee.
 - ☛ The Forestry Commission has an Internal Audit Unit, which operates to Government Internal Audit Standards. It submits regular reports which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the Commission's system of internal control together with recommendations for improvement.
 - ☛ Control of certain activities is delegated to the Forestry Commission's agencies, Forest Enterprise and Forest Research. In respect of those I place reliance on the Statements on Internal Control made by the Chief Executives and on their annual internal control reports provided to me.

- ☛ The topic of risk management was introduced into a series of financial awareness seminars attended by staff of all grades with financial responsibilities. The series was completed by December 2002 and the seminar has now become part of our internal training prospectus available to all staff.
6. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Commission who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letters and other reports.
7. From 1 April 2003 the Forestry Commission has appointed new Directors for England, Scotland and Wales. The Directors will assume responsibility for all the Forestry Commission's activities in the relevant country, in particular policy making, grant-aiding, regulation and the management of the forest estate. The move follows the outcome of a wide-ranging interdepartmental review of the administrative arrangements for developing sustainable forestry policies post-devolution. The system of internal control has been re-designed to reflect the change in structure and will involve:
- ☛ The Board of Commissioners and the Forestry Commission Executive Board will meet regularly to consider plans and strategic direction of the Commission. National Committees and Country Executive Boards will meet regularly to consider the plans and strategic direction for each country. Boards will receive regular reports from managers on key projects.
 - ☛ The overarching Audit Committee will include one non-executive Commissioner from each country. Its remit will include advice to me on the effectiveness of risk management and control throughout the Commission and its agencies. Each country (and Forest Research) will operate its own internal control committee to advise the Accounting/Accountable Officer on the effectiveness of risk management and control.
 - ☛ Country Executive Board members will receive a briefing on corporate governance and risk management.
 - ☛ Separate risk registers will operate for each country, the forest management agency within each country, Forest Research and the Great Britain core department.

D J Bills CBE
Accounting Officer
17 November 2003

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

I certify that I have audited the financial statements on pages 82 to 117 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and stocks and the accounting policies set out on pages 88 to 92.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 77, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

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

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

I review whether the statement on page 78 reflects the Department's compliance with Treasury's guidance 'Corporate Governance: Statement on Internal Control'. I report if it does not meet the requirements specified by Treasury or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

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

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

In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- ✿ the financial statements give a true and fair view of the state of affairs of the Forestry Commission in England and those functions which it carries out on a Great Britain-wide basis at 31 March 2003 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury; and
- ✿ in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP
26 November 2003

Schedule 1

Summary of Resource Outturn for the year ended 31 March 2003

		2002-03 Estimate			2002-03 Outturn			2002-03	2001-02
		Gross Expend- iture	A in A	Net Total	Gross Expend- iture	A in A	Net Total	Net total compared with Estimate saving/ (excess)	Prior year outturn Net
		£000	£000	£000	£000	£000	£000	£000	£000
Total resources		106,370	–	106,370	89,950	–	89,950	16,420	82,718
Net cash requirement		63,398	–	63,398			61,632	1,766	53,612
Reconciliation of resources to net cash requirement									
	Note	£000	£000	£000	£000	£000	£000	£000	£000
Net total resources				106,370			89,950	16,420	82,718
Capital:									
Purchase of fixed assets	6			850			944	(94)	943
Investments				–			–	–	–
Non-operating cost A in A:				–			–	–	–
Accruals adjustments:									
Non-cash items	3/4			(1,710)			(1,650)	(60)	(1,514)
Changes in working capital other than cash	8			–			(4,747)	4,747	2,239
Changes in creditors falling due after more than one year				–			–	–	–
Use of provision	13			–			631	(631)	680
Non-cash inter-country transfers	14			–			(11)	11	(1,232)
Other adjustments:									
Adjustment of FE net deficit to financing	4			(42,112)			(23,485)	(18,627)	(30,222)
Net cash requirement				63,398			61,632	1,766	53,612

The notes on pages 88 to 109 form part of these accounts.

Summary of Resource Outturn
for the year ended 31 March 2003

Explanation of the variance between Estimate and Outturn (net total resources):

- (i) Cost of capital was £16.3 million below estimate because the valuation of the forest estate managed by Forest Enterprise was below the forecast provided by external valuers as part of Spending Review 2002.

Explanation of the variance between Estimated net cash requirement and Outturn (net cash requirement):

- (i) In addition to the cost of capital difference, staff costs were below estimate because of the effect on debtors of a year on year movement of tax and national insurance deductions not paid over. This was a consequence of a change in the external provider of our payroll system.

Prior-period adjustments:

No explanation required.

Analysis of income payable to the Consolidated Fund

	2002-03		2001-02	
	Income £000	Receipts £000	Income £000	Receipts £000
Income from fees not classified as A in A	-	-	-	-
Income from the sale of assets not classified as A in A	-	-	-	-
	-	-	-	-

Actual outturn – resources:

Actual amount net resources outturn £89,950,543.65. Actual amount of savings in resources over Estimate £16,419,456.35.

Actual outturn – cash

Net cash requirement: Outturn net requirement £61,631,941.83 which is £1,766,057.17 less than Estimate.

The notes on pages 88 to 109 form part of these accounts.

Schedule 2

Operating Cost Statement

for the year ended 31 March 2003

	Note	2002-03		2001-02	
		£000	£000	£000	£000
Administration Costs					
Staff costs	2		20,910		19,848
Other administration costs	3		20,500		19,584
Gross Administration Costs			41,410		39,432
Operating income	3		(15,147)		(13,514)
Net Administration Costs			26,263		25,918
Programme Costs:					
Request for Resources 1					
Expenditure	4	72,821		66,042	
Less income	4	(9,134)		(9,242)	
Net Programme Costs			63,687		56,800
Net Operating Costs	5		89,950		82,718
Net Resource Outturn	5		89,950		82,718

Statement of Recognised Gains and Losses

for the year ended 31 March 2003

	Note	2002-03		2001-02	
		£000	£000	£000	£000
Revaluation surplus for the year	15		561		1,483
In year movement in FE revaluation	15		(92,133)		(2,194)
Total recognised gains and losses for the year			(91,572)		(711)

There have been no acquisitions and discontinued operations during the year.

The notes on pages 88 to 109 form part of these accounts.

Schedule 3

Consolidated Balance Sheet

as at 31 March 2003

	Note	2002-03		Restated 2001-02	
		£000	£000	£000	£000
Fixed Assets					
Tangible assets	6	12,649		12,052	
Intangible assets		–		–	
Investments	7	402,869		487,547	
			415,518		499,599
Debtors falling due after more than one year			246		263
Current Assets					
Stocks	9	787		880	
Debtors	10	6,432		6,480	
Cash at bank and in hand	11	1,823		4,372	
			9,042		11,732
Creditors (amounts falling due within one year)	12	(9,294)		(7,771)	
Net Current Assets			(252)		3,961
Total assets less current liabilities			415,512		503,823
Provisions for liabilities and charges	13	(2,154)		(2,785)	
			(2,154)		(2,785)
			413,358		501,038
Taxpayers' equity:					
General fund	14		355,645		351,769
Revaluation reserve	15		57,713		149,269
Donated asset reserve			–		–
			413,358		501,038

The notes on pages 88 to 109 form part of these accounts.

D J Bills CBE
Accounting Officer
17 November 2003

Schedule 4

Cash Flow Statement

as at 31 March 2003

	Note	2002-03 £000	2001-02 £000
Net cash outflow from operating activities		(60,688)	(52,669)
Capital expenditure and financial investment	6	(944)	(943)
Financing		59,083	59,059
Increase/(Decrease) in cash in the period	11	(2,549)	5,447

Reconciliation of operating cost to operating cash flows

Net operating cost		(89,950)	(82,718)
Adjustments for non-cash transactions	3/4	25,135	31,736
Non-cash inter-country transfers	14	11	1,232
Adjustments for movements in working capital other than cash	8	4,747	(2,239)
Use of provisions		(631)	(680)
Net cash outflow from operating activities		(60,688)	(52,669)

Analysis of capital expenditure and financial investment

Tangible fixed asset additions	6	(944)	(943)
Proceeds of disposal of fixed assets		-	-
Loans to other bodies		-	-
Repayment of loans to other bodies		-	-
Net cash outflow from investing activities		(944)	(943)

Analysis of financing and reconciliation to the net cash requirement

Net financing from Westminster consolidated fund (supply)		59,083	59,059
(Increase)/decrease in cash	11	2,549	(5,447)
Net cash requirement		61,632	53,612

Amount of grant actually issued to support the net financing requirement = £59,082,537.95.

The notes on pages 88 to 109 form part of these accounts.

Schedule 5

Resources by Departmental Aim and Objectives

for the year ended 31 March 2003

	2002-03			2001-02		
	Gross		Net	Gross		Net
	expenditure	Income	expenditure	expenditure	Income	expenditure
	£000	£000	£000	£000	£000	£000
England Objectives						
Increase the contribution of forests and woodlands to local economies and rural development	45,874	(3,414)	42,460	48,554	(9,926)	38,628
Expand the role of woodlands in supporting the economic regeneration of former industrial land and disadvantaged communities	2,314	(476)	1,838	3,828	(1,918)	1,910
Promote public access to woods and forests and develop diverse recreational opportunities	14,607	(771)	13,836	14,254	(2,489)	11,765
Conserve and improve biodiversity, landscape and cultural heritage of our forests and woodlands	15,127	(2,846)	12,281	20,103	(7,467)	12,636
England Net Operating Costs	77,922	(7,507)	70,415	86,739	(21,800)	64,939
Great Britain Objective						
To take the lead in development and promotion of sustainable forest management and to support its achievement nationally	36,309	(16,774)	19,535	18,735	(956)	17,779
Great Britain Net Operating Costs	36,309	(16,774)	19,535	18,735	(956)	17,779
Great Britain/England Net Operating Costs	114,231	(24,281)	89,950	105,474	(22,756)	82,718

See Note 16.

The notes on pages 88 to 109 form part of these accounts.

Notes to the Resource Accounts

1. Statement of Accounting Policies

The financial statements have been prepared in accordance with the 2002-03 Resource Accounting Manual (RAM) issued by HM Treasury. The accounting policies contained in the RAM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where RAM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the department for the purpose of giving true and fair view has been selected. The department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

(a) Accounting Convention

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

(b) Basis of Consolidation

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

(c) Tangible Fixed Assets

Legal ownership of all land and buildings is vested in the Secretary of State with legal ownership of the timber, including uncut trees, vested in the Forestry Commissioners. Where FE is the principal beneficial user of the assets of the Forestry Commission estate they are treated as a fixed asset of the agency. Freehold land and buildings are assessed at 3-yearly intervals by professionally qualified staff employed by the Forestry Commission following the principles set out in the RICS Appraisal and Valuation Standards. Wherever possible, they are valued on the basis of open market value (OMV) taking account of all relevant circumstances which may affect value. In those infrequent cases where it is not possible to assess the OMV, they are assessed on the basis of depreciated replacement cost (DRC). They are restated to current value in the intervening years using indices provided by the District Valuer.

Legal ownership of other tangible fixed assets, primarily office equipment, is vested in the Forestry Commissioners. Office equipment values are restated to current value annually using a general price index supplied by the Office for National Statistics.

The normal threshold for the capitalisation of assets is £2,000 for buildings and £1,500 for office equipment. Items of office machinery and furniture, if treated singly, would fall below the capitalisation threshold but collectively they represent a significant asset and accordingly, are capitalised as a pooled asset.

(d) Depreciation

Freehold land is not depreciated.

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

Dwellings and other buildings	–	10 to 60 years
Research and office equipment	–	5 to 20 years

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

(e) Intangible assets

There are no intangible assets in the accounts. Purchased software, including software licences, and computer systems development costs are charged to the operating statement in the period in which they have occurred.

(f) Investments

Forest Enterprise in England is treated as an investment and is shown in the balance sheet at the value of the net assets of the agency as at 31 March 2003.

(g) Stocks and work in progress

Stocks and work in progress are valued as follows:

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

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

Notes to the Resource Accounts (continued)

(h) Provision for Bad and Doubtful Debts

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

(i) Research and Development

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

(j) Administrative and Programme Expenditure

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

(k) European Union (EU) Funding

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

(l) Cost of Capital Charges

Charges, reflecting the cost of capital utilised by the core department in England, Forest Research and Forest Enterprise in England, have been included under Administration or Programme costs (as appropriate) in the Operating Cost Statement. The charge is calculated at the Government's standard rate of 6% in real terms on the average carrying amount of all assets less liabilities, except for cash balances held by the Office of the Paymaster General and amounts due to be surrendered to the Westminster Consolidated Fund. The Government's rate changed to 3.5% with effect from 1 April 2003.

(m) Value Added Tax (VAT)

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

(n) Insurance

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

(o) Pensions

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

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

(p) Compensation Scheme

The Forestry Commission is required to meet the additional cost of benefits beyond the normal pension scheme benefits in respect of employees who retire early. It provides in full for this cost when an obligation to pay such costs has been entered into. For staff leaving on or prior to 31 March 1999, the future liabilities for monthly 'compensation' payments are shown in the Forestry Commission accounts for Great Britain/England. For staff leaving on or after 1 April 1999, the payments are shown in the Forestry Commission or agency accounts for the country in which staff were serving at the time they took early retirement. The early retirement costs for 5 members of staff who left during 2000-01 and 5 members of staff who left during 2001-02 were funded by the Modernising Government Fund with the objective of increasing the diversity of the workforce. These costs have been included in the operating cost statement and balance sheet in line with other early retirements.

(q) Operating Leases

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

Notes to the Resource Accounts (continued)

(r) Prior-year adjustments

The prior year comparatives have been adjusted to reflect changes in accounting policies as per FRS3.

1. Cash at bank and in hand

Previous year's accounts disclosed all cash balances except petty cash in the Forestry Commission Great Britain/England accounts. To properly reflect funding from each of the three administrations the closing cash balance has been included in the appropriate country accounts. The prior year comparatives have been adjusted accordingly.

2. Provision for liabilities and charges/creditors

The provision for liabilities and charges relates solely to early retirement compensation payments. In previous years the amounts falling due within one year were disclosed in the accounts within creditors and the amounts falling due after more than one year within provisions for liabilities and charges. In accordance with FRS12 and the RAM the whole amount of the early retirement compensation payments has been included within provisions for liabilities and charges and the prior year figures have also been adjusted.

2. Staff Numbers and Costs

(a) Employees and Costs

The average number of whole time equivalent persons employed by the Forestry Commission and its agencies during the year was 3,091 (3,007 in 2001-02). The Forestry Commission in England employed an average of 152 (145 in 2001-02) with a further 563 staff (547 in 2001-02) employed on a basis, which includes Forest Research, to provide support to Forestry Commission activities in all three countries and to its agencies.

The aggregate payroll costs were as follows:

	2002-03	2001-02
	£000	£000
Forestry Commission Great Britain/England (excluding Great Britain staff costs)		
Wages and salaries	3,904	3,529
Social security costs	265	251
Other pension costs	513	535
	4,682	4,315
Forestry Commission Great Britain/England (including Great Britain staff costs)		
Wages and salaries	17,445	16,227
Social security costs	1,200	1,173
Other pension costs	2,265	2,448
	20,910	19,848

Staff were covered by the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is an unfunded multi-employer defined benefit schemes but the Forestry Commission is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 1999. Details can be found in the resource accounts of the Cabinet Office; Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2002-03, employers' contributions of £2,265,000 were payable to the PCSPS (£756,000 in 2001-02) at one of the four rates in the range 12 to 18.5% of pensionable pay, based on salary bands. Rates will remain the same for the next year, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £nil were paid to one or more of a panel of four 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 £nil, 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

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

Benefits in kind are provided under the following schemes, subject to conditions and financial limits:

- (i) advances of salary for house purchase;
- (ii) advances of salary for purchase of travel season tickets;
- (iii) car provision scheme.

The advances of salary for house purchase scheme had 34 loans with an outstanding balance of £2,500 or more to individual members of staff at 31 March 2003. The total value of these loans was £267,000.

Notes to the Resource Accounts (continued)

(b) Board of Commissioners

The salary and pension entitlements of the Board of Commissioners, excluding the Forest Enterprise Chief Executive whose remuneration is in the FE accounts, were as follows:

	Age	Salary	Real increase	Total	Benefits	Employer
	Years	£000	in pension	accrued	in kind	contribution
			at age 60	pension		to partnership
			£000	at age 60 at		pension
				31 March 2003		account
				£000	£	including risk
						benefit cover
						(note (d))
						£
2002-03						
Chairman						
Rt. Hon. Lord Clark of Windermere	63	45-50	N/A	N/A	–	–
Executive Commissioners						
David Bills CBE	a 55	110-115	0.0-2.5	5-10	–	–
Duncan Macniven TD	a 52	80-85	2.5-5.0	30-35	–	–
Non-Executive Commissioners						
Anthony Bosanquet	59	5-10	N/A	N/A	–	–
Tom Bruce Jones CBE						
(to 31 March 2003)	61	5-10	N/A	N/A	–	–
Tony Cooper	59	0-5	N/A	N/A	–	–
Dr Victoria Edwards	39	5-10	N/A	N/A	–	–
John James OBE	53	5-10	N/A	N/A	–	–
Andrew Raven	44	5-10	N/A	N/A	–	–
Gareth Wardell	58	5-10	N/A	N/A	–	–

	Age Years	Salary £000	Real increase in pension at age 60 £000	Total accrued pension at age 60 at 31 March 2003 £000	Benefits in kind £	Employer contribution to partnership pension account including risk benefit cover (note (d)) £
2001-02						
Chairman						
Sir Peter Hutchison	66	30-35	N/A	N/A	–	–
Rt. Hon. Lord Clark of Windermere	62	5-10	N/A	N/A	–	–
Executive Commissioners						
David Bills CBE	54	115-120	0.0-2.5	5-10	–	–
Duncan Macniven TD	51	75-80	0.0-2.5	25-30	–	–
Non-Executive Commissioners						
Anthony Bosanquet	58	5-10	N/A	N/A	–	–
Tom Bruce Jones CBE	60	5-10	N/A	N/A	–	–
Tony Cooper	58	5-10	N/A	N/A	–	–
Dr Victoria Edwards	38	5-10	N/A	N/A	–	–
John James OBE	52	5-10	N/A	N/A	–	–
Andrew Raven	43	5-10	N/A	N/A	–	–
Gareth Wardell	57	5-10	N/A	N/A	–	–

Salary

'Salary' includes gross salary and performance bonuses.

Pension

Pension benefits for the management board are consistent with other Forestry Commission employees and are provided through the Principal Civil Service Pension Scheme (PCSPS). From 1 October 2002, civil servants may be in one of three statutory based "final salary" defined benefit schemes (classic, premium, and classic plus). New entrants after 1 October 2002 may choose between membership of premium or joining a good quality "money purchase" stakeholder based arrangement with a significant employer contribution (partnership pension account).

(a) Classic Scheme

Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1.5% of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

(b) Premium Scheme

Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5% of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths the member's pension (before any commutation). On death in service, the scheme pays a lump-sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

Notes to the Resource Accounts (continued)

(c) Classic Plus Scheme

This is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

Pensions payable under classic, premium, and classic plus are increased in line with the Retail Prices Index.

(d) Partnership Pension Account

This is a stakeholder-type arrangement where the employer pays a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product. The employee does not have to contribute but where they do make contributions, these will be matched by the employer up to a limit of 3% (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of risk benefit cover (death in service and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up 25% of the fund as a lump sum.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as taxable income.

Loans to senior Great Britain staff

Loans are made to members of the Management Board in the form of an advance of salary for house purchase. The loans are made on the same terms as are available to other staff. The amount outstanding at 31 March 2003 amounted to £83,000 (£31,000 at 31 March 2002). Permission to disclose details had not been requested.

3. Other Administration Costs

	2002-03	2001-02
	£000	£000
Travel and subsistence	1,089	1,695
Other expenditure	18,381	16,931
Other income	(15,147)	(13,514)
Sub-total	4,323	5,112
Non cash costs		
Cost of capital	99	(11)
Notional audit fees – audit work	48	45
Notional audit fees – CGA	4	–
Depreciation	828	910
Loss on revaluation reserve	16	4
(Gains)/Losses on disposal of assets	35	10
Sub-total	1,030	958
Other administration costs	5,353	6,070

The central services of the Forestry Commission for information technology, personnel, training, public relations and internal audit are made available through service level agreements. These services are charged out in the year to internal customers in Forest Enterprise. The Forestry Commission is charged for their share of finance services provided by Forest Enterprise and for mechanical engineering services.

The Forest Research Agency undertakes 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 is 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 provides research and survey services for Forest Enterprise and other parts of the Forestry Commission on a full cost recovery basis.

A number of changes, arising from the Forestry Devolution Review, will take place with effect from 1 April 2003. A slimmed down Forestry Commission centre in Edinburgh will continue to provide central services such as personnel, training, information technology, accountancy services and internal audit where it is cost-effective or there are sound policy or practical reasons for doing so. Transitional charging mechanisms will be in place for 2003-04 with new service level agreements in place by 1 April 2004.

4. Programme Expenditure and Income

	2002-03	2001-02
	£000	£000
Grants paid to private woodland owners	18,837	18,798
Publications and other expenditure	5,007	3,458
Planting grant co-financing from EU	(5,423)	(6,162)
Sundry income	(3,711)	(3,079)
Sub-total	14,710	13,015
Forest Enterprise funding	48,357	43,229
	63,067	56,244
Non-cash costs		
Forest Research cost of capital	620	556
Programme expenditure and income	63,687	56,800

Notes to the Resource Accounts (continued)

Forest Enterprise in England incurred a deficit on its income and expenditure account of £48,357,000 (£43,229,000 in 2001-02). It received cash funding of £24,872,000 (£13,007,000 in 2001-02) from the Forestry Commission and the difference is shown under other adjustments in Schedule 1.

The difference comprises:

	2002-03	2001-02
	£000	£000
Capital		
Net capital	(11,499)	(1,784)
Accruals adjustments		
Cost of capital	26,712	29,354
Non cash items	5,384	55
Changes in working capital, including cash	2,484	2,431
Use of provisions	404	166
Adjustment of FE deficit to financing	23,485	30,222

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

	2002-03	2001-02
	£000	£000
Net operating deficit for the year	89,950	82,718
Remove non-supply expenditure	-	-
Add non-supply income including CFERs	-	-
Add net deficit on revaluations	-	-
Net resource outturn	89,950	82,718

6. Tangible Fixed Assets

	Land and Buildings £000	Machinery Plant and Equipment £000	Total £000
Cost or valuation:			
At 1 April 2002	9,703	10,916	20,619
Additions	167	777	944
Transfers	–	(192)	(192)
Disposals	–	(1,793)	(1,793)
Revaluation to current prices	584	(31)	553
At 31 March 2003	10,454	9,677	20,131
Depreciation:			
At 1 April 2002	331	8,236	8,567
Provided during year	205	623	828
Transfers	–	(147)	(147)
Disposals	–	(1,758)	(1,758)
Revaluation to current prices	–	(8)	(8)
At 31 March 2003	536	6,946	7,482
Net Book Value at:			
31 March 2003	9,918	2,731	12,649
1 April 2002	9,372	2,680	12,052

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

Land and buildings were subject to a triennial revaluation as at 31 March 2002 by professionally qualified land agents employed by the Forestry Commission. They were restated to current values as at 31 March 2003 using indices supplied by the District Valuer. Land and buildings assets comprise both freehold and leasehold assets.

The machinery, plant and equipment assets were restated to current values as at 31 March 2003 using indices supplied by the Office for National Statistics.

Notes to the Resource Accounts (continued)

7. Investments

Forest Enterprise in England is a public corporation for national accounting and as such is outside the departmental boundary for resource accounting. Its net book value of £402,869,000 (£487,547,000 for 2001-02) is shown as an investment in the balance sheet of the Forestry Commission in Great Britain/England.

8. Movements in working capital other than cash

	2002-03	2001-02
	£000	£000
Decrease/(Increase) in Stocks	93	(529)
Decrease/(Increase) in Debtors	65	(3,307)
(Decrease)/Increase in Creditors:		
amounts falling due within one year	4,589	1,597
Total	4,747	(2,239)

9. Stocks and work in progress

	2002-03	2001-02
	£000	£000
Stocks	625	621
Raw materials and work in progress	162	259
Total	787	880

10. Debtors

	2002-03	2001-02
	£000	£000
Amounts falling due within one year:		
VAT	1,568	1,631
Trade debtors	4,333	4,540
Other debtors	286	307
Prepayments	245	2
	6,432	6,480
Amounts falling due after more than one year:		
Other debtors	246	263
Total	6,678	6,743

11. Cash at bank and in hand

	2002-03	Restated 2001-02
	£000	£000
Balance with Office of Paymaster General	1,823	4,346
Cash at commercial banks and cash in hand	–	26
Total	1,823	4,372
Amounts issued from Westminster consolidated fund (supply) but not spent at year end	1,306	4,372
Other – amounts held on behalf of third parties (Note 12)	517	–

12. Creditors

	2002-03	Restated 2001-02
	£000	£000
Amounts falling due within one year:		
Other taxation and social security	1,580	–
Trade creditors	4,683	3,058
Other creditors	858	61
Payments received on account	350	280
Amounts held on behalf of third parties	517	–
Historic cash surplus to be paid to Westminster consolidated fund (supply)	57	57
Amounts issued from Westminster consolidated fund (supply) but not spent at year end	1,249	4,315
Total	9,294	7,771

Forest Research acts as co-ordinator for a number of projects partially funded by the European Union. The duties of co-ordinators include receiving EU funds on behalf of partners for onward transmission once work programmes have been approved. At 31 March 2003 the amount held in Forest Research Bank accounts on behalf of partners was £517,000. This has subsequently all been transferred to the partners concerned. The saving compared to Estimate for the Net Cash Requirement of £1,766,000 in Schedule 1 comprises third party monies of £517,000 and unspent Supply of £1,249,000.

Notes to the Resource Accounts (continued)

13. Provision for liabilities and charges (Early retirement compensation payments)

	2002-03	Restated 2001-02
	£000	£000
Compensation payments:		
Balance at 1 April 2002	2,785	3,687
Provided in the year	337	491
Utilised in the year	(1,170)	(1,393)
Unwinding of discount	202	–
Balance at 31 March 2003	2,154	2,785

The provision for liabilities and charges relates solely to early retirement compensation payments. The Forestry Commission is required to meet the additional cost of benefits beyond the normal pension scheme benefits in respect of employees who retire early. It provides in full for this cost when an obligation to pay such costs has been entered into by establishing a provision for the estimated payments discounted by the Treasury discount rate of 6% in real terms. Subsequent annual payments to individuals are set against the provision.

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

	2002-03 £000	2001-02 £000
Net operating cost for the year (Schedule 2)	(89,950)	(82,718)
Net Parliamentary funding	59,083	57,885
Settlement of previous year creditor for cash unspent	4,315	–
Net excess working balance 1999-2000 and 2000-01	–	(415)
	(26,552)	(25,248)
Adjustment for consolidated FE totals (Note 4)	23,485	30,222
	(3,067)	4,974
Notional cost of capital – FC	99	(11)
Notional cost of capital – FR	620	556
Transfer of fixed assets from/to other forestry bodies	(45)	64
Non-cash inter-country transfers	11	1,232
Notional audit fees	52	45
Adjustment for FR bank balance in general fund at 31 March 2001	–	182
Historic cash surplus to be paid to Westminster consolidated fund (supply)	–	(57)
Amounts issued from the Consolidated Fund for supply but not spent at year end re FC Pension Scheme	–	42
Amounts issued from the Consolidated Fund for supply but not spent at year end	(1,249)	(4,315)
	(3,579)	2,712
In year movement in FE general fund	7,455	(1,170)
Net increase/(decrease) in General Fund	3,876	1,542
General fund as at 31 March 2002	351,769	350,227
General fund as at 31 March 2003 (Schedule 3)	355,645	351,769

Non-cash inter-country transfers include transfers of provisions, VAT to the Forestry Commission in Great Britain/England and workers clothing. The net total of the transactions for 2002-03 is £11,000.

Notes to the Resource Accounts (continued)

15. Revaluation Reserve

	2002-03	2001-02
	£000	£000
Balance at 1 April 2002	149,269	149,980
Revaluation reserve adjustment to operating cost statement	16	–
FC revaluation surplus for the year	561	1,483
In year movement in FE revaluation reserve	(92,133)	(2,194)
Balance at 31 March 2003	57,713	149,269

16. Schedule 5

Expenditure in Schedule 5 comprises the direct costs incurred by the Forestry Commission in 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. Forest Enterprise has been included in Schedule 5 to the extent of the net cost to the Forestry Commission (operating deficit plus cost of capital). Costs are identified in the Forest Enterprise by activity and these activities have been allocated to objectives.

Staff numbers have been apportioned pro rata to the net expenditure on each objective giving:

	2002-03	2001-02
	No	No
England		
Increase the contribution of forests and woodlands to local economies and rural development	84	86
Expand the role of woodlands in supporting the economic regeneration of former industrial land and disadvantaged communities	4	4
Promote public access to woods and forests and develop diverse recreational opportunities	34	27
Conserve and improve the biodiversity, landscape and cultural heritage of our forests and woodlands	30	28
England Total	152	145
Great Britain		
To take the lead in development and promotion of sustainable forest management and to support its achievement nationally	563	554

17. Capital commitments

There were no capital commitments at 31 March 2003.

18. Commitments under leases

Operating leases

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

	2002-03	2001-02
	£000	£000
Building leases expiring within:		
One year	25	7
Two to five years	7	58
More than five years	1,992	1,600
Total	2,024	1,665

19. Other financial commitments

Following approval of a management plan for planting proposals, the Forestry Commission undertakes to pay planting grants in three instalments. At 31 March 2003, the Forestry Commission was committed under signed plans to the payment of future instalments of planting and replanting grants amounting to £16.1 million (£19.2 million in 2001-02). Grants for the management of existing woodlands are payable annually in arrears during the five-year currency of an approved plan, so long as specific objectives and age criteria are met. Commitments to future payments in respect of approved plans amounted to £14.4 million at 31 March 2003 (£23.1 million in 2001-02). Applications for planting and replanting grants, awaiting approval at 31 March 2003, amounted to £10.4 million (£0.4 million in 2001-02).

20. Contingent Liabilities

There were contingent liabilities of £48,000 at 31 March 2003 in respect of claims for compensation for personal injury to employees. (£nil as at 31 March 2002).

21. Losses statement

Losses totalled £348,000 from 79 cases (£336,000 from 99 cases in 2001-02).

Special payments totalled £178,000 from 58 cases (£115,000 from 44 cases in 2001-02).

Notes to the Resource Accounts (continued)

22. Related Party Transactions

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

In addition, the Forestry Commission 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, Welsh Assembly, Scottish Executive, UK Co-ordinating Body, the Paymaster General's Office, Customs and Excise, the Inland Revenue, and the Department for the Environment, Food and Rural Affairs.

In the year to 31 March 2003, Forest Enterprise entered into the following material transactions involving the non-executive Commissioners of the Forestry Commission:

Mr Tom Bruce Jones is a director of James Jones & Sons Ltd which purchased approximately 335,770 cubic metres of timber at £4,468,000 and plants and seed at £13,000 from Forest Enterprise. The balance due from Mr Jones at 31 March 2003 was £nil.

23. Financial Instruments

FRS13, *Derivatives and Other Financial Instruments*, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which government departments are financed, the Forestry Commission in Great Britain/England is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS13 mainly applies. The department has no powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities and are held not to change the risks facing the department in undertaking its activities.

Liquidity risk

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

Interest-rate risk

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

Foreign currency risk

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

Fair Values

There is no difference between book value and fair value for the cash at bank shown in Note 11. Fair value for the provisions shown in Note 13 is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted by the Treasury rate of 6% in real terms.

Schedule 3

Balance Sheet

as at 31 March 2003

	Note	2002-03		2001-02	
		£000	£000	£000	£000
Fixed Assets					
Tangible assets	2	2,271		2,284	
Intangible assets		–		–	
Investments	3	402,869		487,547	
			405,140		489,831
Debtors falling due after more than one year			173		192
Current Assets					
Stocks	4	625		621	
Debtors	5	5,474		6,080	
Cash at bank and in hand	6	1,306		4,371	
			7,405		11,072
Creditors (amounts falling due within one year)	7	(8,117)		(7,029)	
Net Current Assets			(712)		4,043
Total assets less current liabilities			404,601		494,066
Creditors (amounts falling due after more than one year)		–		–	
Provisions for liabilities and charges	8	(2,154)		(2,785)	
			(2,154)		(2,785)
			402,447		491,281
Taxpayers' equity:					
General fund	9		349,122		345,900
Revaluation reserve	10		53,325		145,381
Donated asset reserve			–		–
			402,447		491,281

The notes on pages 111 to 117 form part of these accounts.

D J Bills CBE
Accounting Officer
17 November 2003

Notes to the Resource Accounts – Great Britain/England Core-department

1. Statement of Accounting Policies

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

2. Tangible Fixed Assets

	Land and Buildings £000	Machinery Plant and Equipment £000	Total £000
Cost or valuation:			
At 1 April 2002	1,053	5,883	6,936
Additions	55	386	441
Transfers	–	(218)	(218)
Disposals	–	(1,681)	(1,681)
Revaluation to current prices	82	(31)	51
At 31 March 2003	1,190	4,339	5,529
Depreciation:			
At 1 April 2002	–	4,652	4,652
Provided during year	37	402	439
Transfers	–	(174)	(174)
Disposals	–	(1,651)	(1,651)
Revaluation to current prices	–	(8)	(8)
At 31 March 2003	37	3,221	3,258
Net Book Value at:			
31 March 2003	1,153	1,118	2,271
1 April 2002	1,053	1,231	2,284

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

Land and buildings were subject to a triennial revaluation as at 31 March 2002 by professionally qualified land agents employed by the Forestry Commission. They were restated to current values as at 31 March 2003 using indices supplied by the District Valuer. Land and buildings assets comprise both freehold and leasehold assets.

The machinery, plant and equipment assets were restated to current values as at 31 March 2003 using indices supplied by the Office for National Statistics.

Notes to the Resource Accounts – Great Britain/England Core-department (continued)

3. Investments

Forest Enterprise in England is a public corporation for national accounting and as such is outside the departmental boundary for resource accounting. Its net book value of £402,869,000 (£487,547,000 for 2001-02) is shown as an investment in the balance sheet of the Forestry Commission in Great Britain/England.

4. Stocks and work in progress

	2002-03	2001-02
	£000	£000
Stocks (publications)	625	621

There was no work in progress as at 31 March 2003.

5. Debtors

	2002-03	2001-02
	£000	£000
Amounts falling due within one year:		
VAT	1,568	1,631
Trade debtors	3,527	4,172
Other debtors	234	277
Prepayments	145	–
	5,474	6,080
Amounts falling due after more than one year:		
Trade debtors	–	–
Other debtors	173	192
	173	192
Total	5,647	6,272

6. Cash at bank and in hand

	2002-03	2001-02
	£000	£000
Balance with Office of Paymaster General	1,306	4,345
Cash at commercial banks and in hand	–	26
Total	1,306	4,371
Amounts issued from Westminster Consolidated Funds (supply) but not spent at year end	1,306	4,371

7. Creditors

	2002-03	2001-02
	£000	£000
Amounts falling due within one year:		
Other taxation and social security	1,580	–
Trade creditors	4,373	2,604
Other creditors	858	53
Historic cash surplus to be paid to Westminster consolidated funds (supply)	57	57
Amounts issued from the Consolidated Fund for supply but not spent at year end	1,249	4,315
Total	8,117	7,029

8. Provision for liabilities and charges (Early retirement compensation payments)

	2002-03	2001-02
	£000	£000
Compensation Payments:		
Balance at 1 April 2002	2,785	3,687
Provided in the year	337	491
Utilised in the year	(1,170)	(1,393)
Unwinding of discount	202	–
Balance at 31 March 2003	2,154	2,785

The provision for liabilities and charges relates solely to early retirement compensation payments. The Forestry Commission is required to meet the additional cost of benefits beyond the normal pension scheme benefits in respect of employees who retire early. It provides in full for this cost when an obligation to pay such costs has been entered into by establishing a provision for the estimated payments discounted by the Treasury discount rate of 6% in real terms. Subsequent annual payments to individuals are set against the provision.

Notes to the Resource Accounts –
Great Britain/England Core-department (continued)

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

	2002-03 £000	2001-02 £000
Net operating cost for the year	(89,954)	(82,731)
Net Parliamentary funding	59,067	58,741
Settlement of previous year creditor for cash unspent	4,315	–
Net excess working balance 99/00 and 00/01	–	(415)
	(26,572)	(24,405)
Adjustment for consolidated FE totals (Note 4)	23,485	30,222
	(3,087)	5,817
Notional cost of capital	99	(11)
Transfer of fixed assets from/to other forestry bodies	(46)	77
Non-cash inter-country transfers	2	1,223
Notional audit fees	48	45
Adjustment for FR bank included in general fund at 31 March 2001	–	182
Historic cash surplus to be paid to Westminster consolidated funds (supply)	–	(57)
Amounts issued from the Consolidated Fund for supply but not spent at year end re FC Pension Scheme	–	42
Amounts issued from the Consolidated Fund for supply but not spent at year end	(1,249)	(4,315)
	(4,233)	3,003
In year movement in FE general fund	7,455	(1,170)
Net increase/(decrease) in General Fund	3,222	1,833
General fund as at 31 March 2002	345,900	344,067
General fund as at 31 March 2003	349,122	345,900

Non-cash inter-country transfers include transfers of provisions, VAT to the Forestry Commission in Great Britain/England and workers clothing. The net total of the transactions for 2002-03 is £2,000.

10. Revaluation Reserve

	2002-03	2001-02
	£000	£000
Balance at 1 April 2002	145,381	147,372
Revaluation reserve adjustment to operating cost statement	18	–
FC revaluation surplus for the year	59	203
In year movement in FE revaluation reserve	(92,133)	(2,194)
Balance at 31 March 2003	53,325	145,381

11. Capital commitments

There were no capital commitments at 31 March 2003.

12. Commitments under leases

Operating leases

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

	2002-03	2001-02
	£000	£000
Building leases expiring within:		
One year	25	7
Two to five years	7	58
More than five years	1,992	1,600
Total	2,024	1,665

Notes to the Resource Accounts – Great Britain/England Core-department (continued)

13. Other financial commitments

Following approval of a management plan for planting proposals, the Forestry Commission undertakes to pay planting grants in three instalments. At 31 March 2003, the Forestry Commission was committed under signed plans to the payment of future instalments of planting and replanting grants amounting to £16.1 million (£19.2 million in 2001-02). Grants for the management of existing woodlands are payable annually in arrears during the five-year currency of an approved plan, so long as specific objectives and age criteria are met. Commitments to future payments in respect of approved plans amounted to £14.4 million at 31 March 2003 (£23.1 million in 2001-02). Applications for planting and replanting grants, awaiting approval at 31 March 2003, amounted to £10.4 million (£0.4 million in 2001-02).

14. Contingent Liabilities

There were no contingent liabilities at 31 March 2003 for damages caused to other persons' property or for compensation for personal injury to employees (£nil as at 31 March 2002).

15. Losses statement

Losses totalled £348,000 from 79 cases (£336,000 from 99 cases in 2001-02).

Special payments totalled £178,000 from 58 cases (£115,000 from 44 cases in 2001-02).

16. Related Party Transactions

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

In addition, the Forestry Commission 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, Welsh Assembly, Scottish Executive, UK Co-ordinating Body, the Paymaster General's Office, Customs and Excise, the Inland Revenue, and the Department for the Environment, Food and Rural Affairs.

In the year to 31 March 2003, Forest Enterprise entered into the following material transaction involving non-executive Commissioners:

Mr Tom Bruce Jones is a director of James Jones & Sons Ltd which purchased approximately 335,770 cubic metres of timber at £4,468,000 and plants and seed at £13,000 from Forest Enterprise. The balance due from Mr Jones at 31 March 2003 was £nil.

17. Financial Instruments

FRS13, *Derivatives and Other Financial Instruments*, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which government departments are financed, the Forestry Commission in Great Britain/England is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS13 mainly applies. The department has no powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities and are held not to change the risks facing the department in undertaking its activities.

Liquidity risk

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

Interest-rate risk

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

Foreign currency risk

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

Fair Values

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

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

1. This direction applies to those government departments and pension schemes listed in the attached appendix.*
2. Those departments and pension schemes shall prepare resource accounts for the year ended 31 March 2003 in compliance with the accounting principles and disclosure requirements of the edition of the Resource Accounting Manual issued by H M Treasury ("the Resource Accounting Manual") which is in force for 2002-03.
3. The accounts for **government departments** shall be prepared so as to:
 - (a) give a true and fair view of the state of affairs at 31 March 2003 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year then ended; and
 - (b) provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.
4. The accounts for **pension schemes** shall be prepared so as to:
 - (c) give a true and fair view of the state of affairs at 31 March 2003 and of the net resource outturn and cash flows for the financial year then ended; and
 - (d) provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.
5. Compliance with the requirements of the Resource Accounting Manual will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the Resource Accounting Manual is inconsistent with the requirement to give a true and fair view, the requirements of the Resource Accounting Manual should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the Resource Accounting Manual. Any material departure from the Resource Accounting Manual should be discussed in the first instance with the Treasury.

David Loweth
Head of Central Accountancy Team, Her Majesty's Treasury
19 February 2003

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

Forest Enterprise in England accounts for the year ended 31 March 2003

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Foreword

1. Accounts Direction

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

2. Background Information

Forest Enterprise became an executive agency on 1 April 1996. It manages the forest estate of the Secretary of State for Environment, Food and Rural Affairs, Scottish Ministers and the National Assembly for Wales. Forest Enterprise is part of the Forestry Commission which is a cross-border government department headed by a Board of Forestry Commissioners established by statute (the Forestry Act 1967, as amended). The Forestry Commission reports to the respective Forestry Minister for its activities.

Its status remained unaltered following devolution except that it has produced three separate accounts for activities in England, Scotland and Wales from 1999-2000 onwards. The agency ceased to operate on 31 March 2003 and its functions were transferred to separate bodies in each country on 1 April 2003. This was a direct result of the recent GB-wide Forestry Devolution Review agreed by the three Forestry Ministers which called for tighter integration of Forestry Commission policy development and delivery with the three countries' other rural policy work and the decentralisation of Forest Enterprise. Each new agency will have a Chief Executive reporting to the Forestry Commission's Director in that country. The accounts continue to be prepared on a going concern basis because, despite the agency ceasing to operate, the functions have transferred to separate agencies.

The Office of National Statistics designated Forest Enterprise, for national accounting purposes, as a public corporation in January 1999 in accordance with European System of Accounts (ESA) 95. Following devolution it has been designated as three separate public corporations covering activities in England, Scotland and Wales. Accordingly, it is outside the departmental boundary for resource accounting purposes with the net funding and net worth reflected in the Forestry Commission's consolidated resource accounts for England/Great Britain, Scotland and Wales.

3. Aims and Objectives

The aims and objectives of Forest Enterprise are described in the Framework Document published in April 1996. They are to produce the environmental, financial, social and other outputs sought by Ministers and the Forestry Commissioners in a way which meets the Government's objectives and international commitments and sustains both the environmental quality and the productive potential of the forest estate.

The conclusion of the Forestry Devolution Review will allow resumption of the process, started by the quinquennial review of the agency, of determining a new set of objectives and performance measures for the country agencies. This work is crucial to the agencies and will provide the opportunity to clearly articulate the role of the public forest estate and to develop on a country basis, a set of objectives, desired outcomes and performance measures which reflects the contribution that the agencies can make to delivering the forestry strategies, and other related agenda, of the Scottish, English and Welsh administrations.

Details of the financial performance targets set for Forest Enterprise in England by the Forestry Commissioners and achievement against those targets are shown in Note 21 to the accounts.

4. Review of Principal Activities

It has been a generally better year for the Great Britain wood based panel sector and increasing prices in some sawnwood grades. Weak demand due to the loss of a number of key markets, increased availability of timber on the market and continued downward pressure on pallet, fencing, chipwood, co-product prices has meant that roundwood prices have continued to suffer. Over the year average log prices fell by around 7% and standing prices by 18% taking them to an all time low. Prices for sawlogs now stand at 54% of their 1995 value, while standing timber are currently only 27% of their 1995 value.


The recovery from the 2001 foot and mouth outbreak was complete with recreation facilities being available for the full year and showing much improved income. The refurbishment of the Forest Holidays cabin sites at Deerpark, Cornwall and Keldy, North Yorkshire continued using funds awarded from the Government's Capitalisation Modernisation Fund.

The Capital Modernisation Fund programme of economic regeneration, focused on the Mersey, Red Rose and Thames Chase community forests, continued during the year. Other partnership opportunities were developed whenever possible including EU co-sponsored projects.

Further information on the activities of Forest Enterprise in England is contained in the Annual Report.

5. Result for the Year

Forest Enterprise in England incurred a net deficit on its income and expenditure account of £48,357,000 compared to £43,229,000 in 2001-02. A comparison of income and expenditure with the previous year shows that:

 The operating deficit increased by £5,906,000. Operating income was maintained at the 2001-02 level because the continued reduction in timber income from reduced prices and poor market conditions was counterbalanced by improvement in Forest Holidays income post foot and mouth and estate management income from minerals and phone masts sites. Operating expenditure increased by £5,835,000 mainly due to the loss on impairment on Forest Holiday's cabins and expenditure carried out in our community forests.

Foreword (continued)

- 🔊 Net spending on recreation, conservation and heritage increased by £319,000. Income improved by £1,420,000, reflecting full recovery from the foot and mouth outbreak in 2001-02, and expenditure increased by £1,739,000 on recreation, access and community involvement projects, including the Westonbirt International Festival of Gardens.
- 🔊 A programme of property sales generated a surplus of £1,055,000 on a significantly reduced level of income compared with 2001-02.
- 🔊 Cost of capital reduced by £2,642,000, primarily as a result of the reduced asset value of the forest estate (see Note 8 of the Foreword).

After adjusting the total deficit for items not involving the movement in cash and for capital expenditure and income, the net cash funding received from the Forestry Commission was £24,872,000 compared to £13,007,000 in 2001-02. Net capital expenditure increased by £9,715,000 from the Forest Holidays cabin sites modernisation programme and the capital modernisation fund, additional new planting and reduced receipts from sale of properties.

6. Post-Balance Sheet Events

There are no post-balance sheet events other than the outcome of the Forestry Devolution Review noted at paragraph 2.

7. Future Developments

On 8 November 2002 the Minister of State for Rural Affairs announced the appointment of Lord Haskins to review the way in which the government's rural policies are delivered. The Review will make recommendations on: simplifying responsibilities for rural delivery; maximising value for money; providing better, more streamlined services and helping to deliver Defra's rural priorities and Public Service Agreement target cost effectively. It will look at rural delivery arrangements at national, regional and local levels. As well as focusing on relevant parts of Defra, Lord Haskins and his team will consider the rural delivery activities of other agencies, including the Forestry Commission. The Haskins Report and the Government's response were published on 11 November 2003, including a recommendation that the policy development role of the Forestry Commission in England should be transferred to Defra.

Difficult trading conditions in the timber market are expected to continue into 2003-04 but a positive impact on income is expected from the refurbished Forest Holiday cabin sites at Keldy and Deerpark. FE in England expect to build on the success of their work in Mersey, Red Rose and Thames Chase community forests, funded from the Capital Modernisation Fund, by regenerating further derelict, underused or neglected land in the north west of England. Work will commence on a number of EU co-sponsored projects in the New Forest and in the north west of England.

8. Fixed Assets

The forest estate was subject to a full professional valuation as at 31 March 2003 by a country valuation panel comprising John Clegg & Co., Bidwells and professionally qualified land agents employed by the Forestry Commission. Its current existing use value of £330,305,000 has fallen by 38% since the previous revaluation in 1998 which reflects the significant fall in timber prices during the same five-year period. £110,641,000 of the adjustment, including in year additions, disposals and transfers, was accounted for annually from 1998 using interim professional opinions. The final in year adjustment of £89,551,000 is included in these accounts. A total of £41,605,000 remains in the revaluation reserve before any further reduction in the value of the forest estate would have to be charged direct to the income and expenditure account.

295 hectares of non-forest land were acquired during the year. Non-forest land showed a downward revaluation of £1,498,400 based on the unequipped agricultural land index provided by the District Valuer.

Additions to dwellings and other buildings amounted to £867,000. The assets were revalued upwards by £5,802,000 using an index provided by the District Valuer.

The Keldy forest cabins were demolished in year as part of a modernisation programme and the loss on disposal of £597,000 recognised through the income and expenditure account. In addition to the land value of the site, £3,477,000 had been spent on site modernisation as at the balance sheet date but the asset under construction was subsequently valued at £3,425,000, and the balance sheet adjusted for the impairment to date. The Deerpark modernisation programme was completed in 2002-03 with £2,827,000 spent during the year in addition to the £2,000,000 spent in 2001-02. The asset was subsequently valued at £2,625,000 and the balance sheet adjusted for the remaining impairment. Impairment of £975,000 for Deerpark was recognised in 2001-02.

Purchases of forestry vehicles, machinery and equipment (VME) amounted to £987,000 compared with net disposals and transfers of £171,000. Asset values increased by a net £12,000 based on a valuation of specialist forestry machinery by internal professional staff and using an index provided by the Office for National Statistics for all other assets.

Additions to office machinery and equipment (OME) amounted to £167,000. OME was revalued using an index provided by the Office for National Statistics.

9. Research and Development

Forest Research, an executive agency of the Forestry Commission, is responsible for carrying out forest research and allied work. Forest Enterprise commissions research through the agency and through external contracts awarded by a variety of means including open tender. Although forestry is a devolved subject, Forest Research continues to be funded from Westminster.

Foreword (continued)

10. Pensions

Present and past employees of the Forestry Commission are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The financial status of the scheme is reported in a separate PCSPS scheme statement. The Forestry Commission recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS.

11. Supplier Payment Policy

Forest Enterprise 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 2002-03 indicates that 96.7% 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.

12. Employment Policies

Forest Enterprise is committed to the principle of equality of opportunity for employment and advancement for all eligible people on the basis of their ability, qualifications and fitness for the work. Forest Enterprise has systems to ensure that all permanent appointments are made on merit on the basis of fair and open competition and in accordance with the guidance laid down by the Civil Service Commissioners. Further information on the employment of persons with disabilities, the provision of information to, and consultation with, employees, and the promotion of equal opportunities is available on request from the Personnel Services unit of the Forestry Commission.

13. Management Board

Members of the Management Board of Forest Enterprise during the year were:

Bob McIntosh	Chief Executive
Bob Farmer	Territorial Director Wales
Geoff Hatfield	Territorial Director England
Hugh Insley	Territorial Director Scotland (North)
Mike Lofthouse	Territorial Director Scotland (South)
Ian Forshaw	Director Forest Operations
Keith Gliddon	Director Corporate Services
Craig Heaney	Director Engineering
Peter Ranken	Director Estate Management
Alan Stevenson	Head of Environment & Communications
Peter Weston	Acting Head of Forest Planning

14. Auditors

These accounts are audited by the Comptroller and Auditor General.

R McIntosh
Chief Executive and Agency Accounting Officer
17 November 2003

Statement of Forestry Commission's and Chief Executive's Responsibilities

1. Under Section 7 of the Government Resources and Accounts Act 2000 the Treasury has directed the Forestry Commission to prepare a statement of accounts for Forest Enterprise in England for each financial year in the form and on the basis set out in the accounts direction at Appendix 1 to these accounts. The accounts are prepared on an accruals basis and must give a true and fair view of the Forest Enterprise in England state of affairs at the year end and of its income and expenditure and cash flows for the financial year.
2. In preparing the accounts the Forestry Commission is required to:
 - ☛ observe the accounts direction at Appendix 1 to these financial statements, 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 have been followed, and disclose and explain any material departures in the financial statements;
 - ☛ prepare the financial statements on the going concern basis, unless it is inappropriate to assume that Forest Enterprise will continue in operation.
3. The Director General of the Forestry Commission, as departmental Principal Accounting Officer, has designated the Chief Executive of Forest Enterprise as the Accounting Officer for the Agency. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity for the public finances and for the keeping of proper records, are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in "Government Accounting" (HMSO).

Statement on Internal Control

1. As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Agency's policies, aims and objectives, set by Ministers, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me.
2. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives: it can therefore only provide reasonable and not absolute assurance of effectiveness.
3. The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the Agency's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 March 2003 and up to the date of approval of the annual report and accounts and accords with Treasury guidance.
4. We have agreed and promulgated a risk management policy. Working with responsible managers, we have developed a risk register for the principal risks to the achievement of the Agency's policies, aims and objectives. This identifies the risks, the adequacy of the controls and any corrective action required. This has been endorsed by the Forest Enterprise Management Board and we have carried out a full risk and control assessment before reporting on the year ending 31 March 2003.
5. As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. The Agency established the following processes which operated during the financial year:
 - ❏ The Forest Enterprise Management Board met monthly to consider the plans and strategic direction of the Agency. The Management Board received regular reports from managers on key projects. The risk management policy ensured that the Management Board included risk management within its remit and formally tasked it with its review.
 - ❏ The Agency had an Audit Committee which reviewed matters concerning risk and internal control within the Agency. The Forestry Commission had an overarching Audit Committee chaired by a non-executive Forestry Commissioner. Its remit included advice on the effectiveness of risk management and control throughout the Commission and its Agencies, including Forest Enterprise. The work of the internal and external auditors is currently reported annually to the full Board of Commissioners; in future this will be expanded to cover the full business of the overarching Forestry Commission Audit Committee.
 - ❏ The Forestry Commission has an Internal Audit Unit, which operates to Government Internal Audit Standards. It submits regular reports which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the Agency's system of internal control together with recommendations for improvement.
 - ❏ The topic of risk management was introduced into a series of financial awareness seminars attended by staff of all grades with financial responsibilities. The series was completed by December 2002 and the seminar has now become part of our internal training prospectus available to all staff.

Statement on Internal Control (continued)

6. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letters and other reports.
7. From 1 April 2003 the Forestry Commission has appointed new Directors for England, Scotland and Wales. The Directors will assume responsibility for all the Forestry Commission's activities in the relevant country, in particular policy making, grant-aiding, regulation and the management of the forest estate. The move follows the outcome of a wide-ranging interdepartmental review of the administrative arrangements for developing sustainable forestry policies post-devolution. The system of internal control has been re-designed to reflect the change in structure and will involve:
 - ❏ The Board of Commissioners and the Forestry Commission Executive Board will meet regularly to consider plans and strategic direction of the Commission. National Committees and Country Executive Boards will meet regularly to consider the plans and strategic direction for each country. Boards will receive regular reports from managers on key projects.
 - ❏ The overarching Audit Committee will include one non-executive Commissioner from each country. Its remit will include advice on the effectiveness of risk management and control throughout the Commission and its agencies. Each country (and Forest Research) will operate its own internal control committee to advise the Accounting/Accountable Officer on the effectiveness of risk management and control.
 - ❏ Country Executive Board members will receive a briefing on corporate governance and risk management.
 - ❏ Separate risk registers will operate for each country, the forest management agency within each country, Forest Research and the Great Britain core department.

R McIntosh
Chief Executive and Agency Accounting Officer
17 November 2003

The Certificate of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements on pages 131 to 154 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and stock and the accounting policies set out on pages 135 to 139.

Respective responsibilities of the Agency, the Chief Executive and Auditor

As described on page 126, the Agency and Chief Executive are responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Agency and Chief Executive are also responsible for the preparation of other contents of the Annual Report. My responsibilities as independent auditor are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

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

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

I review whether the statement on page 127 reflects the Agency's compliance with Treasury's guidance 'Corporate Governance: Statement on Internal Control'. I report if it does not meet the requirements specified by Treasury or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of Audit Opinion

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

The Certificate of the Comptroller and Auditor General to the House of Commons (continued)

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

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of Forest Enterprise in England at 31 March 2003 and of the deficit, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP
11 December 2003

Income and Expenditure Account

Income and Expenditure Account for the Year Ended 31 March 2003

	Note	2002-03 £000	2001-02 £000
Operating Income			
Sales of Timber		18,361	19,635
Forest Protection and Maintenance		391	253
Management and Development of Estate	2b	8,077	7,012
		26,829	26,900
Operating Expenditure			
Forest Planning		2,983	3,013
Harvesting and Haulage of Timber		10,133	9,564
Forest Roads		2,566	2,512
Forest Protection and Maintenance		11,698	10,535
Management and Development of Estate	2b	13,667	9,588
		41,047	35,212
Operating Deficit		(14,218)	(8,312)
Recreation, Conservation and Heritage			
Income		7,757	6,337
Expenditure		16,239	14,500
		(8,482)	(8,163)
Operating Deficit Net of R, C & H		(22,700)	(16,475)
Surplus on sale of properties	4	1,055	2,600
Deficit		(21,645)	(13,875)
Notional cost of capital	5	(26,712)	(29,354)
Net Deficit for the year		(48,357)	(43,229)
Transferred to General Fund		(48,357)	(43,229)

There have been no acquisitions and discontinued operations during the year

The notes on pages 135 to 154 form part of these accounts.

Statement of Total Recognised Gains and Losses

Statement of Total Recognised Gains and Losses

for the Year Ended 31 March 2003

	Note	2002-03 £000	2001-02 £000
Net deficit for the year		(48,357)	(43,229)
Realised revaluation surplus		4,269	–
Revaluation deficit for the year	13	(87,864)	(2,194)
Total recognised gains and losses for the year		(131,952)	(45,423)

The notes on pages 135 to 154 form part of these accounts.

Balance Sheet

Balance Sheet

as at 31 March 2003

	Note	2002-03 £000	2001-02 £000
Fixed Assets			
Tangible assets	6	402,953	484,244
Intangible assets		–	–
		402,953	484,244
Debtors falling due after more than one year	8	266	206
 Current Assets			
Stocks	7	1,853	2,132
Debtors	8	5,511	5,936
Cash at banks and in hand	9	12	32
		7,376	8,100
Creditors (amounts falling due within one year)	10	(4,987)	(4,610)
Net Current Assets		2,389	3,490
Creditors (amounts falling due after more than one year)	10	(1,942)	–
Provision for Liabilities and Charges	11	(797)	(393)
		(2,739)	(393)
Total Assets less Liabilities		402,869	487,547
Capital and Reserves			
General fund	12	349,835	342,380
Revaluation reserve	13	53,034	145,167
Total Capital and Reserves		402,869	487,547

The notes on pages 135 to 154 form part of these accounts.

R McIntosh

Chief Executive and Agency Accounting Officer

17 November 2003

Cash Flow Statement

Cash Flow Statement

for the Year Ended 31 March 2003

	Note	2002-03 £000	2001-02 £000
Reconciliation of Net Deficit to Operating Cash Flows			
Net deficit for the year		(48,357)	(43,229)
Notional cost of capital		26,712	29,354
Depreciation charges		2,331	2,127
Revaluation reserve adjustments	13	18	–
(Profit)/loss on sale of properties	4	(1,380)	(2,925)
Write-off of assets	6	4,464	975
(Profit)/loss on sale of other tangible fixed assets		(5)	234
Non-cash inter-country transfers	12	(44)	(356)
(Increase)/decrease in stocks		279	(64)
(Increase)/decrease in debtors		365	1,672
Increase/(decrease) in creditors		1,820	845
Use of provisions		404	166
Net cash outflow from operating activities		(13,393)	(11,201)
Cash Flow Statement			
Net cash outflow from operating activities		(13,393)	(11,201)
Capital			
New planting		(2,637)	(1,352)
Payments to acquire tangible fixed assets		(11,792)	(5,969)
Receipts from sale of properties	4	2,754	5,537
Receipts from sale of other tangible fixed assets		176	–
Net Capital		(11,499)	(1,784)
Net Cash Outflow after Capital		(24,892)	(12,985)
Financing			
Deficit funded by Forestry Commission		24,872	13,007
Increase/(decrease) in cash		(20)	22
Reconciliation of Net Cash Flow to movement in Net Funds			
Increase/(decrease) in cash		(20)	22
Net funds at 1 April 2002		32	10
Net funds at 31 March 2003		12	32

The notes on pages 135 to 154 form part of these accounts.

Notes to the Accounts

1. Accounting Policies

(a) Accounting Convention

In accordance with Section 7 of the Government Resource and Accounts Act 2000, the accounts are drawn up in a format agreed and approved by the Treasury. The accounts are prepared under the historical cost convention modified by the inclusion of the valuation of assets. Without limiting the information given, the accounts meet the requirements of the Companies Acts and of the Financial Reporting Standards where relevant.

(b) Tangible Fixed Assets

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

Forest Estate

The forest estate has, since 31 March 1993, been valued on an open market basis (OMV). Regional valuation panels consisting of the Forestry Commission's land agent and two private sector firms have valued it every five years on a forest district basis taking account of the species mix, age, yield class and other relevant factors. The valuation was carried out on the basis of the forest estate being sold in an orderly manner as between a willing seller and a willing buyer in full accordance with public accountability and assuming its existing use. It was further assumed that no restraints exist, as they do in practice, from title, statute and environmental considerations.

For the purpose of the valuation as at 31 March 2003, the panels were re-organised into country panels comprising the Forestry Commission's country land agent and two external valuers under the direction of the Director Estate Management. The panels agreed that the valuation should be done on the basis of existing use value (EUV) as the valuation is carried out for the purposes of company accounts and they are non-specialised assets occupied by the owners of the interest for the purposes of the business. The valuation was carried out in accordance with the RICS Appraisal and Valuation Standards (the "Red Book") and a valuation instruction agreed with each panel. A valuation certificate was issued by each panel which confirmed that there was no material difference between the EUV and OMV methods of valuation.

In the absence of an annual forestry based index, the Forestry Commission obtained an external professional opinion of the open market value in the intervening years between 1998 and 2003, which was outside the RICS Red Book Guidelines and made without reference to the valuation panels which undertook the 1998 five-year revaluation. This policy will continue to operate during the period up to the next full revaluation as at 31 March 2008.

Notes to the Accounts (continued)

Non-Forest Land

Non-forest land is assessed at 3-yearly intervals by professionally qualified staff employed by the Forestry Commission following the principles set out in the RICS Red Book. It is valued on the basis of their open market value (OMV) taking account of all relevant circumstances which may affect value. It is restated to current value in the intervening years using an unequipped agricultural land index provided by the District Valuer.

Dwellings and Other Buildings

Dwellings and other buildings are assessed at 3-yearly intervals by professionally qualified staff employed by the Forestry Commission following the principles set out in the RICS Red Book. Wherever possible, dwellings and other buildings are valued on the basis of OMV taking account of all relevant circumstances which may affect value. In those infrequent cases where it is not possible to assess the OMV, they are assessed on the basis of depreciated replacement cost (DRC). They are restated to current value in the intervening years using an index provided by the District Valuer.

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

Forest Holidays Land and Buildings

Forest Holidays land and buildings are restated to current value each year using valuations provided by a specialist leisure business firm.

Plant and Machinery

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

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

Fixture and Fittings

Office machinery and equipment (OME) values are restated to current value each year using indices provided by the Office for National Statistics.

The normal threshold for capitalisation of assets is £1,500.

Revaluation Reserve

The revaluation reserve was restated as at 31 March 1993 when the basis of accounting for the forest estate changed to open market value. On formation of the agency, the balance as at 31 March 1996 was brought forward as the opening revaluation reserve balance but was not apportioned between the classes of asset. The balance as at 31 March 2001 was apportioned between the asset classes, except for the balance on non-forest land and dwellings and other buildings. A further review of the revaluation reserve balances as at 31 March 2003 has resulted in adjustments to the balances held against each class of asset to comply fully with FRS 11 and FRS 15 from 1 April 2003. Note 13 provides further details of the adjustments.

With effect from 1 April 2003, the revaluation reserve for each class of asset will be adjusted regularly to take account of each disposal, as well as regular adjustments for price movements, to comply with FRS 11 and FRS 15. The adjustment to the forest estate revaluation reserve will be calculated on a case by case basis using an appropriate forest district valuation based on species mix, age and yield class.

(c) Depreciation of Tangible Fixed Assets

The forest estate, freehold land and leasehold land are not depreciated.

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:

Freehold buildings	–	over 1 to 60 years
Leasehold buildings	–	lesser of unexpired term of lease and 60 years
Forestry vehicles, machinery and equipment	–	over 3 to 16 years
Office equipment	–	over 4 to 20 years

(d) Intangible Fixed Assets

There are no intangible fixed assets in the accounts. Purchased software, including software licences, and computer systems development costs are charged to the income and expenditure account in the period in which they have occurred.

(e) Stocks

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

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

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

Notes to the Accounts (continued)

(f) **Provision for bad and doubtful debts**

Specific provisions for bad and doubtful debts are set aside based on an annual review.

(g) **Research and Development**

Expenditure on research and development is treated as an operating cost in the year in which it is incurred and taken to the income and expenditure account.

(h) **Capital Charge**

A notional charge, reflecting the cost of capital used by Forest Enterprise in England, is included in the income and expenditure account. The charge is calculated at the government's standard rate of 6% in real terms on the average carrying amount of all assets less liabilities except for cash balances held by the Office of the Paymaster General. The Government's standard rate changed to 3.5% with effect from 1 April 2003.

(i) **Taxation**

Forest Enterprise is not subject to corporation tax.

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

(j) **Leases**

Where substantially all risks and rewards of ownership of a leased asset are borne by the Forestry Commission, the asset is recorded as a tangible fixed asset and a debt is recorded to the lessor of the minimum lease payments discounted by the Treasury discount rate of 6% in real terms. The interest element of the finance lease payment is charged to the Income and Expenditure Account over the period of the lease at a constant rate in relation to the balance outstanding. Costs in respect of operating leases are charged on a straight-line basis over the lease term.

(k) **Insurance**

In accordance with normal government accounting practice, Forest Enterprise carries its own insurance risks.

(l) **Pensions**

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

Further information on pensions is contained in Note 3 to the accounts.

(m) Compensation Scheme

The Forestry Commission is required to meet the additional cost of benefits beyond the normal pension scheme benefits in respect of employees who retire early. It provides in full for this cost when an obligation to pay such costs has been entered into. For staff leaving on or prior to 31 March 1999, the future liabilities for monthly 'compensation' payments are shown in the Forestry Commission accounts for England/Great Britain. For staff leaving on or after 1 April 1999, the payments are shown in the Forestry Commission or agency accounts for the country in which staff were serving at the time they took early retirement. The early retirement costs for five members of staff who left during 2000-01 and five members of staff who left during 2001-02 were funded by the Modernising Government Fund with the objective of increasing the diversity of the workforce. These costs have been included in the income and expenditure account and balance sheet in line with other early retirements.

2. Operating Deficit

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

	2002-03	2001-02
	£000	£000
Depreciation of fixed assets	2,331	2,127
Hire of plant and equipment	598	620
Operating lease rentals:		
Land and buildings	168	233
Other	1,164	1,059
Auditors' remuneration – audit work	35	33

There are four Forest Enterprise units supplying England, Scotland and Wales with specialist services: supply of trees for planting, mechanical engineering, civil engineering and design and interpretation. The costs of these units are recovered through the year by internal charges.

Forest Enterprise Head Office (FEHO) has three primary functions: developing corporate strategy and policies, performance monitoring and reporting, and providing corporate support services including estate management, accountancy services and business planning support. Wherever possible the support services are charged out in the year to each country based on service level agreements. The remaining costs are apportioned at the end of the year on a defined basis, first to operational activities and then to each country.

Notes to the Accounts (continued)

The central services of the Forestry Commission for information technology, personnel, training, public relations and internal audit are made available through service level agreements. These services are charged out in the year to internal customers in Forest Enterprise. The Forestry Commission is charged for their share of finance services provided by Forest Enterprise and for mechanical engineering services

The Forest Research Agency provides research development and survey services to Forest Enterprise through a service level agreement and charges internal Forest Enterprise customers in the year. Forest Enterprise charges the Forest Research Agency for mechanical engineering services, property rentals and central finance services.

A number of changes, arising from the Forestry Devolution Review, will take place with effect from 1 April 2003. Each business unit will still run as a discrete GB unit but all expenditure and income will be directly accounted against each country. The FEHO functions have either transferred to the countries or become part of a slimmed down Forestry Commission centre in Edinburgh which continues to provide central services such as personnel, training, information technology, accountancy services and internal audit where it is cost-effective or there are sound policy or practical reasons for doing so. Transitional charging mechanisms will be in place for 2003-04 with new service level agreements in place by 1 April 2004.

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

	Income	Expenditure	2002-03 Net	2001-02 Net
	£000	£000	£000	£000
Forest Holidays	2,978	2,184	794	(900)
Estate Management	3,354	3,243	111	(1,908)
Loss on impairment of Forest Holidays cabins (Note 6)	–	4,464	(4,464)	–
Revaluation reserve adjustments	–	18	(18)	–
Other	1,745	3,758	(2,013)	232
Totals	8,077	13,667	(5,590)	(2,576)

Forest Holidays is a separate business unit which operates within Forest Enterprise to provide accommodation at self-catering log cabins and camping and touring caravan sites. Income and expenditure is allocated at the end of the year to England, Scotland and Wales on a site by site basis. Forest Holidays earned a real rate of return on capital invested in their operating activities of 8.5%, compared with a target rate of 8%. With effect from 1 April 2003, the business unit will still be managed as a discrete GB unit but all expenditure and income will be directly accounted against each country.

Estate Management reflects the net cost of managing the non-forested estate which comprises houses, farms, agricultural land and all other lettings. It includes surplus assets which are disposed of wherever possible. With effect from 1 April 2002, the net cost or income of offices and other buildings has been charged to other operational activities and administrative expenses, as appropriate, instead of to the Estate Management activity.

The revaluation reserve adjustments are described in Notes 1B and 13 to the Accounts.

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

Additions to tangible fixed assets includes an amount of £499,000 remaining unpaid at 31 March 2003. 'Payments to acquire tangible fixed assets' in the cash flow statement has been adjusted accordingly to derive the cash spend on capital additions.

3. Staff Costs and Numbers

(a) Employees and Costs

The average number of whole time equivalent persons employed in Forest Enterprise in England during the year was 750 (717 in 2001-02). A further 457 staff (443 in 2001-02) were employed on a Great Britain basis to provide support to Forest Enterprise activities in all three countries.

The aggregate payroll costs were as follows:

	2002-03	2001-02
	£000	£000
Salaries	17,308	16,247
Social Security Costs	1,096	1,063
Employers Superannuation Costs	2,028	2,214
	20,432	19,524

Staff were covered by the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is an unfunded multi-employer defined benefit schemes but the Forestry Commission is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 1999. Details can be found in the resource accounts of the Cabinet Office; Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2002-03, employers' contributions of £2,028,000 were payable to the PCSPS (£694,000 in 2001-02) at one of the four rates in the range 12 to 18.5% of pensionable pay, based on salary bands. Rates will remain the same for the next year, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Notes to the Accounts (continued)

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £390 were paid to one or more of a panel of four 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 £34, 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £106. Contributions prepaid at that date were £318.

Benefits in kind are provided under the following schemes, subject to conditions and financial limits:

- (i) advances of salary for house purchase
- (ii) advances of salary for purchase of travel season tickets
- (iii) car provision scheme

The advances of salary for house purchase scheme had 24 loans with an outstanding balance of £2,500 or more to individual members of staff at 31 March 2003. The total value of these loans was £267,000.

(b) Management Board

The salary and pension entitlements of the management board of the whole agency were as follows:

		Age Years	Salary £000	Real increase in pension at age 60 £000	Total accrued pension at age 60 at 31 March 2003 £000	Benefits in kind £	Employer contribution to partnership pension account including risk benefit cover (Note (D)) £
2002-03							
Bob McIntosh	a	51	80-85	2.5-5.0	25-30	–	–
Bob Farmer	a	55	55-60	0.0-2.5	20-25	–	–
Geoff Hatfield	a	51	70-75	2.5-5.0	20-25	£1,900	–
Hugh Insley	a	54	60-65	2.5-5.0	20-25	–	–
Mike Lofthouse	a	58	60-65	0.0-2.5	25-30	–	–
Ian Forshaw	a	47	50-55	0.0-2.5	15-20	£500	–
Keith Gliddon	a	51	50-55	0.0-2.5	15-20	–	–
Craig Heaney	a	54	55-60	0.0-2.5	25-30	£1,400	–
Peter Ranken	a	52	60-65	0.0-2.5	25-30	–	–
Alan Stevenson	a	45	50-55	0.0-2.5	10-15	£400	–
Peter Weston	a	44	45-50	0.0-2.5	10-15	£800	–
2001-02							
Bob McIntosh		50	75-80	0.0-2.5	25-30	–	–
Bob Farmer		54	50-55	0.0-2.5	15-20	–	–
Geoff Hatfield		50	65-70	0.0-2.5	20-25	–	–
Hugh Insley		53	50-55	0.0-2.5	20-25	–	–
Mike Lofthouse		57	50-55	0.0-2.5	20-25	£2,000	–
Ian Forshaw		46	40-45	0.0-2.5	10-15	£1,200	–
Keith Gliddon		50	45-50	0.0-2.5	15-20	–	–
Wilma Harper		46	45-50	0.0-2.5	10-15	–	–
Craig Heaney		53	50-55	0.0-2.5	20-25	£2,500	–
Iain Miller		56	45-50	0.0-2.5	20-25	£645	–
Peter Ranken		51	55-60	0.0-2.5	20-25	£200	–
Alan Stevenson		44	50-55	0.0-2.5	10-15	£600	–
Peter Weston		43	40-45	0.0-2.5	5-10	£1,500	–

- a opted to join classic scheme
- b opted to join premium scheme
- c opted to join classic plus scheme
- d opted to join partnership pension account

Notes to the Accounts (continued)

Salary

- (i) 'Salary' includes gross salary and performance bonuses.

Pension

- (ii) Pension benefits for the management board are consistent with other Forestry Commission employees and are provided through the Principal Civil Service Pension Scheme (PCSPS). From 1 October 2002, civil servants may be in one of three statutory based "final salary" defined benefit schemes (classic, premium, and classic plus). New entrants after 1 October 2002 may choose between membership of premium or joining a good quality "money purchase" stakeholder-based arrangement with a significant employer contribution (partnership pension account).

(a) Classic Scheme

Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1.5% of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

(b) Premium Scheme

Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5% of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths the member's pension (before any commutation). On death in service, the scheme pays a lump-sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

(c) Classic Plus Scheme

This is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

Pensions payable under classic, premium, and classic plus are increased in line with the Retail Prices Index.

(d) Partnership Pension Account

This is a stakeholder-type arrangement where the employer pays a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product. The employee does not have to contribute but where they do make contributions, these will be matched by the employer up to a limit of 3% (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of risk benefit cover (death in service and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up 25% of the fund as a lump sum.

Benefits in kind

- (iii) The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as taxable income.

Loans to members of the Management Board

Loans are made to members of the Management Board in the form of an advance of salary for house purchase. The loans are made on the same terms as are available to other staff. The amount outstanding at 31 March 2003 amounted to £83,000 (£31,000 at 31 March 2002). Permission to disclose details had not been requested.

4. Sale of Properties

	2002-03	2001-02
	£000	£000
Income	2,754	5,537
Book value	1,374	2,612
	1,380	2,925
Disposal costs		
External costs	115	110
Administration expenses	210	215
	325	325
Surplus/(deficit) on sale of properties	1,055	2,600

Notes to the Accounts (continued)

5. Notional Cost of Capital

Notional cost of capital based on 6% of average total assets less liabilities employed in 2002-03 amounted to £26,712,000.

6. Tangible Fixed Assets

	Forest Estate £000	Land £000	Forest Holidays Land £000	Dwellings and Other Buildings £000	Forest Holidays Buildings £000	VME £000	OME £000	Total £000
Valuation:								
At 1 April 2002	420,455	20,651	1,755	34,584	4,175	10,348	2,127	494,095
Additions	5,283	1,325	–	867	6,299	987	167	14,928
Transfers	–	–	–	–	–	(73)	58	(15)
Disposals	(815)	(3)	–	(514)	(73)	(1,667)	(102)	(3,174)
Revaluation	(92,222)	(1,657)	–	5,802	202	171	(29)	(87,733)
Write-off	(2,396)	–	–	(196)	(1,966)	–	–	(4,558)
At 31 March 2003	330,305	20,316	1,755	40,543	8,637	9,766	2,221	413,543
Depreciation:								
At 1 April 2002	–	–	–	–	113	7,999	1,739	9,851
Provided during year	–	–	–	1,153	214	828	136	2,331
Transfers	–	–	–	–	–	(74)	54	(20)
Disposals	–	–	–	(31)	–	(1,494)	(102)	(1,627)
Revaluation	–	–	–	–	–	159	(10)	149
Write-off	–	–	–	(3)	(91)	–	–	(94)
At 31 March 2003	–	–	–	1,119	236	7,418	1,817	10,590
At 31 March 2003	330,305	20,316	1,755	39,424	8,401	2,348	404	402,953
At 1 April 2002	420,455	20,651	1,755	34,584	4,062	2,349	388	484,244

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

The forest estate was subject to a full professional revaluation, on the basis of existing use value, as at 31 March 2003 by a country valuation panel comprising John Clegg & Co. Chartered Surveyors, Bidwells Chartered Surveyors and professionally qualified land agents employed by the Forestry Commission. The valuation has been adjusted by 2.5% for estimated directly attributable selling expenses. The next full revaluation is due as at 31 March 2008 with annual updates in the intervening years based on an external professional opinion. Expenditure of £2,396,000 on our community forests warranted being accounted for as an impairment loss.

Non-forest land and buildings were subject to a triennial revaluation as at 31 March 2002 by professionally qualified land agents employed by the Forestry Commission. The next full revaluation is due as at 31 March 2005 with annual updates in the intervening years based on indices provided by the District Valuer.

Forest Holidays land and buildings were revalued by Barrs and Co. Chartered Surveyors of Leeds as at 31 March 2003. The Keldy forest cabins were demolished in year as part of a modernisation programme and the loss on disposal of £597,000 recognised through the income and expenditure account. In addition to the land value of the site, £3,477,000 had been spent on site modernisation as at the balance sheet date but the asset under construction was subsequently valued at £3,425,000, and the balance sheet adjusted for the impairment to date. The Deerpark modernisation programme was completed in 2002-03 with £2,827,000 spent during the year in addition to the £2,000,000 spent in 2001-02. The asset was subsequently valued at £2,625,000 and the balance sheet adjusted for the remaining impairment. Impairment of £975,000 for Deerpark was recognised in 2001-02.

Dwellings and other buildings include the loss resulting from a fire at Delamere nursery, Cheshire of £193,000.

Forestry vehicles, machinery and equipment (VME) were subject to a triennial revaluation as at 31 March 2002 by professionally qualified staff employed by the Forestry Commission. The next full revaluation is due as at 31 March 2005 with annual updates in the intervening years based on valuations provided by internal professionally qualified staff for specialist forestry machinery and indices provided by the Office for National Statistics for all other assets.

Office machinery and equipment (OME) was restated to current value as at 31 March 2003 using an index provided by the Office for National Statistics.

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

Additions to tangible fixed assets includes an amount of £499,000 remaining unpaid at 31 March 2003. 'Payments to acquire tangible fixed assets' in the cash flow statement has been adjusted accordingly to derive the cash spend on capital additions.

7. Stocks

	2002-03	2001-02
	£000	£000
Timber	299	391
Plants and seed	933	1,134
Consumable materials, supplies and livestock	621	607
	1,853	2,132

Notes to the Accounts (continued)

8. Debtors

	2002-03	2001-02
	£000	£000
Amounts falling due within one year:		
Trade debtors	4,014	4,343
Other debtors	516	987
Prepayments	981	606
	5,511	5,936
Amounts falling due after more than one year:		
Other debtors	266	206
	5,777	6,142

9. Cash at Banks and In Hand

	2002-03	2001-02
	£000	£000
Cash in hand	12	32
	12	32

10. Creditors

	2002-03	2001-02
	£000	£000
Amounts falling due within one year:		
Trade creditors	3,680	2,853
Other creditors	510	807
Payments received on account	797	950
	4,987	4,610
Amounts falling due after more than one year:		
Finance leases	1,942	–
	6,929	4,610

11. Provision for Liabilities and Charges

	Early departure costs £000	Public legal claims £000	Other legal claims £000	Total £000
Balance at 1 April 2002	393	–	–	393
Provided in the year	47	226	186	459
Provisions not required written back	–	–	–	–
Provisions utilised in the year	(97)	–	–	(97)
Unwinding of discount	42	–	–	42
Balance at 31 March 2003	385	226	186	797

Provisions for liabilities and charges include provisions for:

- 🔗 Early departure costs. The Forestry Commission is required to meet the additional cost of benefits beyond the normal pension scheme benefits in respect of employees who retire early. It provides in full for this cost when an obligation to pay such costs has been entered into by establishing a provision for the estimated payments discounted by the Treasury discount rate of 6% in real terms. Subsequent annual payments to individuals are set against the provision.
- 🔗 Legal claims from the public for personal injury or damage caused to property.
- 🔗 Compensation for injury to employee's.

12. General Fund

	2002-03 £000	2001-02 £000
Balance brought forward	342,380	343,550
Movement in year:		
Net deficit for the year	(48,357)	(43,229)
Notional cost of capital	26,712	29,354
Cash deficit funded by Forestry Commission	24,872	13,007
Transfers of fixed assets from/to other Forestry Bodies	3	54
Realised revaluation reserve	4,269	–
Non-cash inter-country transfers	(44)	(356)
	7,455	(1,170)
Balance carried forward	349,835	342,380

Non-cash inter-country transfers include transfers of provisions, VAT to the Forestry Commission in England/Great Britain and workers clothing. The net total of the transactions for 2002-03 is £44,000.

Notes to the Accounts (continued)

13. Revaluation Reserve

	2002-03 £000	2001-02 £000
Cumulative revaluation reserve brought forward	145,167	147,361
Revaluation deficit for the year ended 31 March 2003:		
Forest Estate	(92,222)	(10,721)
Land	(1,657)	328
Forest Holidays land	–	(160)
Forest Holidays buildings	202	33
Dwellings and other buildings	5,802	8,456
VME	12	(130)
OME	(19)	–
	(87,882)	(2,194)
Revaluation reserve surplus	(4,269)	–
Revaluation reserve adjustments to income and expenditure account	18	–
Balance carried forward	53,034	145,167

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

	2002-03 £000	2001-02 £000
Other land and buildings	(2,482)	–
Forest Holidays buildings	(1,353)	–
VME	(325)	–
OME	(109)	–
	(4,269)	–

The following adjustments were made to the revaluation reserve and written to the income and expenditure account as described in Note 1B to the Accounts:

	2002-03 £000	2001-02 £000
Forest Estate	18	–
	18	–

14. Capital Commitments

Amounts contracted for but not provided in the accounts amounted to £2,489,000. Of this, £2,036,000 is part of the modernisation programme for Forest Holiday's cabins at Deerpark, Cornwall (£150,000) and Keldy, North Yorkshire (£1,886,000). £155,000 is for the re-building of the Delamere plant and seed nursery after fire damage and £298,000 is for the refurbishment of the Whinlatter visitor centre as part of the Osprey project.

15. Commitments Under Leases

Operating Leases

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

	2002-03	2001-02
	£000	£000
Land and building leases expiring within:		
One year	13	–
Two to five years	–	18
More than five years	97	199
	110	217

The four Forest Enterprise units supplying specialist services have commitments on operating leases rentals for the next year as follows:

	2002-03	2001-02
	£000	£000
Land and building leases expiring within:		
One year	–	–
Two to five years	–	10
More than five years	58	49
	58	59

	2002-03	2001-02
	£000	£000
Other leases expiring within:		
One year	412	–
Two to five years	2,955	3,291
More than five years	19	80
	3,386	3,371

Finance Leases

Obligations under finance leases fall due as follows:

	2002-03	2001-02
	£000	£000
Within one year	86	–
Between two and five years	316	–
In more than five years	1,540	–
	1,942	–

Notes to the Accounts (continued)

16. Other Financial Commitments

There were no other financial commitments as at 31 March 2003.

17. Contingent Liabilities

There were no contingent liabilities at 31 March 2003 (£207,000 at 31 March 2002).

18. Related Party Transactions

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

In addition, Forest Enterprise has had various material transactions with other government departments and other central government bodies. The main entities within government with which Forest Enterprise has had dealings are HM Treasury, Welsh Assembly, Scottish Executive, Paymaster General's Office, Customs and Excise, the Inland Revenue and the Department for Environment, Food and Rural Affairs.

In the year to 31 March 2003, Forest Enterprise entered into the following material transactions involving the non-executive Commissioners of the Forestry Commission:-

Mr Tom Bruce Jones is a director of James Jones & Sons Ltd which purchased approximately 335,770 cubic metres of timber at £4,468,000 and plants and seed at £13,000 from Forest Enterprise. The balance due from Mr Jones at 31 March 2003 was £nil.

19. Losses Statement

Losses totalled £325,000 from 55 cases (£292,000 from 52 cases in 2001-02).

Special payments totalled £152,000 from 42 cases (£61,000 from 26 cases in 2001-02).

20. Financial Instruments

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

Liquidity Risk

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

Interest-rate Risk

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

Foreign Currency Risk

Forest Enterprise in England is not exposed to foreign currency risk.

Fair Values

There is no difference between book value and fair value for the cash at bank shown in Note 9. Fair value for the provisions shown in Note 11 is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted by the Treasury rate of 6% in real terms.

Notes to the Accounts (continued)

21. Financial Performance Measures

The financial performance measures set by the Forestry Commissioners for 2002-03 and the actual outturns achieved were:

	Achieved	Target
	£000	£000
Operating deficit	14,218	7,800
Cash deficit	24,872	15,300
Gross receipts from sale of properties	2,754	2,700

The actual operating deficit includes revaluation reserve adjustments and loss on impairment of assets amounting to £18,000 and £4,464,000 respectively which were not included in the target for 2002-03. Without these adjustments, the operating deficit would have been £9,736,000.

Note 2B contains the target and actual rate of return for Forest Holidays.

Accounts Direction

Accounts Direction given by the Treasury in accordance with Section 7 of the Government Resources and Accounts Act 2000

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

David Loweth Head of the Central Accountancy Team HM Treasury 21 May 2002

Schedule 1

Application of the Accounting and Disclosure Requirements of the Companies Act and Accounting Standards

Companies Act

1. The disclosure exemptions permitted by the Companies Act shall not apply to Forest Enterprise unless specifically approved by the Treasury.
2. The Companies Act requires certain information to be disclosed in the Directors' Report. To the extent that it is appropriate, the information relating to Forest Enterprise shall be contained in the foreword.
3. The income and expenditure account shall be in a form which discloses the information described in paragraph 2 of Schedule 2, as the recommended formats described in Schedule 4 to the Companies Act are not appropriate for Forest Enterprise.
4. When preparing its balance sheet, Forest Enterprise shall have regard to the balance sheet format 1 prescribed in Schedule 4 to the Companies Act. The balance sheet totals shall be struck at "Total assets less liabilities".
5. Forest Enterprise is not required to provide the historical cost information described in paragraph 33(3) of Schedule 4 to the Companies Act.
6. The foreword and balance sheet shall be signed by the Accounting Officer and dated.

Accounting standards

7. Forest Enterprise is not required to include a note showing historical cost profits and losses as described in FRS 3.
8. The cash flow statement shall be presented under the indirect method as described in FRS 1.
9. Forest Enterprise shall not adopt the Financial Reporting Standard for Smaller Entities unless specifically approved by the Treasury.

Schedule 2

Additional Disclosure Requirements

Foreword

1. The foreword shall, inter alia:
 - (a) state that the accounts have been prepared in accordance with a direction given by the Treasury in accordance with Section 7 of the Government Resources and Accounts Act 2000;
 - (b) include a brief history of Forest Enterprise and its statutory background.

Income and Expenditure Account

2. The income and expenditure account shall show, inter alia:
 - (a) under "operating income":
 - ☛ sales of timber
 - ☛ other forest sales
 - ☛ other activities
 - (b) under "operating expenditure" (by activity):
 - ☛ harvesting and haulage of timber
 - ☛ restocking after felling
 - ☛ forest roads
 - ☛ forest maintenance and protection
 - ☛ other activities
 - (c) the resulting operating surplus/deficit shall be shown as a separate heading
 - (d) under "recreation, conservation and heritage":
 - ☛ income
 - ☛ expendituregiving operating surplus/deficit net of recreation, conservation and heritage
 - (e) the surplus/deficit arising from the sale of properties and the notional cost of capital
 - (f) the "net surplus/deficit for the year" which shall be transferred to the general fund.
3. Minor changes may be made to the headings in the accounts without the approval of the Treasury.

Notes to the Accounts

4. The notes to the accounts shall show, inter alia:
 - (a) details of the key corporate financial targets for the year and performance achieved against those targets for the year;
 - (b) details of the total income, expenditure and operating result for each of the operations shown within "other activities," together with explanatory notes of the financial objectives set and performance achieved;
 - (c) an analysis of the total staff costs and numbers of employees engaged on Forest Enterprise activities and the relevant disclosure elements of the Greenbury Code.

Forestry Commission National and Conservancy Boundaries



Forest Enterprise Boundaries



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